

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**CENLA COMMUNITY ACTION
COMMITTEE'S
FINANCIAL MANAGEMENT
PRACTICES AND SYSTEMS DID
NOT ALWAYS MEET FEDERAL
REQUIREMENTS**

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



Patricia Wheeler
Regional Inspector General

August 2012
A-06-11-00032

Office of Inspector General

<http://oig.hhs.gov>

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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.



DEPARTMENT OF HEALTH AND HUMAN SERVICES

OFFICE OF INSPECTOR GENERAL



OFFICE OF AUDIT SERVICES, REGION VI
1100 COMMERCE STREET, ROOM 632
DALLAS, TX 75242

August 17, 2012

Report Number: A-06-11-00032

Ms. Kimberly Chalk
Regional Program Manager, Region VI
Office of Head Start
Administration for Children and Families
U.S. Department of Health and Human Services
1301 Young Street, Suite 937 West
Dallas, TX 75202

Dear Ms. Chalk:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled *Cenla Community Action Committee's Financial Management Practices and Systems Did Not Always Meet Federal Requirements*. We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

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>.

If you have any questions or comments about this report, please do not hesitate to call me at (214) 767-8414 or contact Sylvie Witten, Audit Manager, at (512) 339-3071 or through email at Sylvie.Witten@oig.hhs.gov. Please refer to report number A-06-11-00032 in all correspondence.

Sincerely,

/Patricia Wheeler/
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Ms. Kimberly Chalk
Regional Program Manager, Region VI
Office of Head Start
Administration for Children and Families
U.S. Department of Health and Human Services
1301 Young Street, Suite 937 West
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cc:

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EXECUTIVE SUMMARY

BACKGROUND

Title VI of the Omnibus Budget Reconciliation Act of 1981 established Head Start as a Federal discretionary grant program. The major program objectives include promoting school readiness and enhancing the social and cognitive development of low-income children by providing educational, health, nutritional, and social services. Pursuant to P.L. No. 110-134, Improving Head Start for School Readiness Act of 2007, Early Head Start is a national program designed to promote healthy prenatal outcomes for pregnant women, enhance the development of very young children, and promote healthy family functioning.

Within the U.S. Department of Health and Human Services, the Administration for Children and Families, Office of Head Start (OHS), administers the Head Start program. In fiscal year (FY) 2010, Congress appropriated \$7.2 billion to fund Head Start's regular operations.

The American Recovery and Reinvestment Act of 2009 (Recovery Act), P.L. No. 111-5, provided an additional \$2.1 billion for the Head Start program during FYs 2009 and 2010. These funds were intended for activities such as expanding enrollment, funding cost-of-living wage increases for grantees, upgrading centers and classrooms, and bolstering training and technical assistance.

Cenla Community Action Committee, Inc. (Cenla), a nonprofit agency, operates an Early Head Start program and a Head Start program that together serve children from 6 months to age 5 and pregnant women and families at locations in Rapides Parish, Louisiana. Cenla is funded primarily through Federal Government grants. During FY 2010 (April 1, 2009, through March 31, 2010), OHS provided Head Start and Early Head Start funds to Cenla totaling \$7,317,615, which included \$829,500 in Recovery Act funds. Cenla also received funds from the U.S. Department of Agriculture, the Community Services Block Grant program, and the Home Energy Assistance Program.

OBJECTIVE

Our objective was to determine whether Cenla's financial management practices and systems met Federal requirements.

SUMMARY OF FINDINGS

Cenla's financial management practices and systems did not always meet Federal requirements. Specifically, Cenla:

- claimed consultant costs without an adequate contractual agreement;
- did not ensure that joint costs were allocated properly among various programs administered by Cenla;

- had not tagged equipment for identification and inventory purposes;
- did not accurately record equipment in the inventory log, resulting in the log containing serial and tag numbers that did not reconcile with the numbers on the equipment;
- did not conduct physical inventories every 2 years and completed inventories without adequate segregation of duties;
- did not follow written procurement procedures by purchasing items without the required purchase requisitions/orders, obtaining the required bids, or obtaining the required approvals;
- claimed unallowable and excessive volunteer services as non-Federal share;
- secured loans using Head Start-purchased real property as collateral without proper approval;
- did not comply with its credit card policy; and
- did not adequately safeguard and manage checks.

RECOMMENDATIONS

We recommend that OHS:

- impose special award conditions to address the shortcomings of Cenla’s financial system and to ensure that Cenla conforms to Federal requirements and the terms and conditions of the grant award;
- ensure that Cenla’s contractual agreements are adequate and that it maintains records for fixed-fee contracts sufficient to demonstrate that the fixed fee is reasonable;
- work with Cenla to determine whether the fixed fee for the consultant is reasonable and whether future payments on the contract should be made;
- review Cenla’s cost allocation plan to determine appropriateness and coverage;
- work with Cenla to determine the amount of joint costs, identified in the body of the report under “Cost Allocation,” that were not properly allocated to the Head Start program and require Cenla to refund that amount; and
- provide Cenla technical assistance and guidance to ensure that it:
 - allocates costs according to cost allocation plans,
 - accurately maintains property records,

- follows its policies for performing a physical inventory at least once every 2 years and that it segregates duties so that individuals who maintain property records are not the same individuals who perform the physical inventory,
- requires employees to follow its written procedures for procurement,
- claims non-Federal share only for volunteer services and parent/child home activities that are necessary and reasonable to properly and efficiently accomplish program objectives,
- does not use real property purchased with Head Start funds as collateral on loans without proper approval,
- requires employees to follow its written credit card policy, and
- develops more robust policies and procedures for safeguarding and managing checks (including having upper management oversee those who are responsible for handling checks).

CENLA COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, Cenla agreed with five findings, disagreed with eight findings, and did not address three findings. Cenla described the corrective actions that it planned to take to address some of the findings with which it disagreed and those with which it concurred. Cenla's comments are included in their entirety as Appendix A. Nothing in Cenla's comments caused us to change our findings or recommendations.

OFFICE OF HEAD START COMMENTS

In written comments on our draft report, OHS concurred with all of our recommendations. OHS's comments are included in their entirety as Appendix B.

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INTRODUCTION

BACKGROUND

Head Start Program

Title VI of the Omnibus Budget Reconciliation Act of 1981 established Head Start as a Federal discretionary grant program. The major program objectives include promoting school readiness and enhancing the social and cognitive development of low-income children by providing educational, health, nutritional, and social services. Pursuant to P.L. No. 110-134, Improving Head Start for School Readiness Act of 2007, Early Head Start is a national program designed to promote healthy prenatal outcomes for pregnant women, enhance the development of very young children, and promote healthy family functioning.

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Cenla Community Action Committee, Inc.

Cenla Community Action Committee, Inc. (Cenla), a nonprofit agency, operates an Early Head Start program and a Head Start program that together serve children from 6 months to age 5, pregnant women, and families at locations in Rapides Parish, Louisiana. Cenla is funded primarily through Federal grants. During FY 2010 (April 1, 2009, through March 31, 2010), OHS provided Head Start and Early Head Start funds to Cenla totaling \$7,317,615, which included \$829,500 in Recovery Act funds. Cenla also received funds from the U.S. Department of Agriculture, the Community Services Block Grant program, and the Home Energy Assistance Program.

Federal Requirements

Federal regulations (45 CFR § 1301.10(a)) state that nonprofit Head Start and Early Head Start grantees are subject to the uniform grant administrative requirements under 45 CFR part 74. Pursuant to 45 CFR § 74.27(a), the allowability of costs is to be determined in accordance with the Federal cost principles applicable to the entity incurring the costs. For nonprofit organizations, the provisions of 2 CFR part 230, *Cost Principles for Non-Profit Organizations* (Office of Management and Budget (OMB) Circular A-122), are applicable. These cost principles state that costs must meet to be allowable.

Grantees must maintain financial management systems in accordance with 45 CFR § 74.21. Pursuant to 45 CFR § 74.21(b)(6), grantees must maintain financial management systems that

contain written procedures for determining the allowability of costs in accordance with applicable Federal cost principles and the terms and conditions of the award. Grantees also must maintain accounting records that are supported by source documentation (45 CFR § 74.21(b)(7)) and financial systems that provide for accurate and complete reporting of grant-related financial data (45 CFR § 74.21(b)(1)). Grantees must have effective controls and safeguards in place to ensure accountability over funds, property, and other assets (45 CFR § 74.21(b)(3)) and to maintain records that sufficiently identify the source and application of funds for HHS awards (45 CFR § 74.21(b)(2)).

Special Award Conditions

Pursuant to 45 CFR § 74.14, OHS may impose additional requirements if a grant recipient has a history of poor performance, is not financially stable, does not have a financial management system that meets Federal standards, has not conformed to the terms and conditions of a previous award, or is not otherwise responsible.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether Cenla's financial management practices and systems met Federal requirements.

Scope

We performed this review based on a request from OHS. Therefore, we did not perform an overall assessment of Cenla's internal control structure. Rather, we reviewed only the internal controls that pertained directly to our objective. Our review period was FY 2010.

We performed our fieldwork at Cenla's administrative office in Alexandria, Louisiana.

Methodology

To accomplish our objective, we:

- reviewed relevant Federal laws, regulations, and guidance;
- reviewed Cenla's financial procedures related to accounting, procurement, property, personnel, consultants, and budget;
- reviewed grant award documentation to determine Cenla's Federal funding;
- interviewed Cenla's management to gain an understanding of internal control procedures related to accounting, procurement, and property;
- reviewed Cenla's property records and observed a physical inventory at two facilities;

- selected a judgmental sample of purchases and traced them through Cenla's procurement process;
- reviewed documentation supporting Cenla's non-Federal share amounts for FY 2010 and February 2011; and
- reviewed the composition of Cenla's board of directors and the board meeting minutes.

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

Cenla's financial management practices and systems did not always meet Federal requirements. Specifically, Cenla:

- claimed consultant costs without an adequate contractual agreement;
- did not ensure that joint costs were allocated properly among various programs administered by Cenla;
- had not tagged equipment for identification and inventory purposes;
- did not accurately record equipment in the inventory log, resulting in the log containing serial and tag numbers that did not reconcile with the numbers on the equipment;
- did not conduct physical inventories every 2 years and completed inventories without adequate segregation of duties;
- did not follow written procurement procedures by purchasing items without the required purchase requisitions/orders, obtaining the required bids, or obtaining the required approvals;
- claimed unallowable and excessive volunteer services as non-Federal share;
- secured loans using Head Start-purchased real property as collateral without proper approval;
- did not comply with its credit card policy; and
- did not adequately safeguard and manage checks.

FIXED-FEE CONTRACT FOR CONSULTANT

Cost principles (2 CFR part 230, Appendix B, paragraph 37) state that the reasonableness and allowability of costs for consultant services are determined by multiple factors, including: (1) the nature and scope of the service rendered in relation to the service required; (2) the necessity of contracting for the service, considering the nonprofit organization's capability in the particular area; (3) whether the service can be performed more economically by employees rather than contractors; and (4) the adequacy of the contractual agreement (e.g., description of the service, estimate of the time required, rate of compensation, and termination provisions).

Federal regulations (45 CFR § 74.44) require grantees to have written procurement procedures that provide for sufficient controls and safeguards over the procurement process. Regulations (45 CFR § 74.45) require the grantee to document the cost or price analysis in the procurement file for each procurement action.

According to Cenla's procurement policy on contracts, the financial manager should maintain records sufficient to detail the "significant history of procurement." These records should include information on the rationale for the method of procurement, selection of the contract type, contractor selection or rejection, and basis for the cost or price.

We were unable to determine whether \$4,098 claimed for a computer consultant was reasonable.¹ While the contract described the types of technical support services to be rendered and the fixed monthly fee, it did not contain an estimate of the time required for services. The contract provides for the consultant to receive a fixed monthly fee regardless of the number of service hours provided. The contractual agreement is effective for 61 months (January 2010 through January 2015) and does not include a termination provision. Additionally, Cenla did not bid fixed-fee contracts or have support in the procurement file showing the basis for the price.

COST ALLOCATION

Federal Requirements

Pursuant to 45 CFR § 74.21, grantees are required to maintain financial management systems that contain written procedures for determining the allowability of costs in accordance with applicable Federal cost principles and the terms and conditions of the award. 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 also are required to compare outlays with budget amounts for each award, must maintain records sufficient to identify the source and application of funds for HHS awards, and may use grant funds only for authorized purposes.

Cost principles (2 CFR part 230, Appendix A, § D.4) state that joint costs must be prorated using a base which accurately measures the benefits provided to each award. The base must be established in accordance with reasonable criteria and be supported by current data.

¹ The contractual agreement called for monthly fixed payments of \$1,366. Three months of the contract fell within our audit period, accounting for \$4,098 in payments.

Cost principles (2 CFR part 230, Appendix B, §§ 8.b and 8.m) state that for salaries and wages to be allowable for Federal reimbursement, grantees must maintain an after-the-fact certification of the actual activity for each employee working on Federal awards. The certification must be signed by the employee or a supervisory official having firsthand knowledge of the employee's activities, be prepared monthly, coincide with one or more pay periods, and account for the total activity of the employee. Budget estimates determined before the services are performed do not qualify as support for charges to awards.

Administration Salaries

Cenla's cost allocation plan states that "personnel services cost allocation will be reflected by payroll timesheets." In addition, Cenla will make yearly evaluations to correct and/or adjust budget line items if there are significant changes reflected by time usage in "work reports." The plan requires each central office employee to complete a daily or hourly attendance report for each pay period. All programs should then be charged directly for the time each staff member spent on them.

We verified that administration staff salaries were allocated to the various programs Cenla administers. However, Cenla was unable to provide support for the percentages it used to allocate the salaries. The financial manager told us that salaries were allocated based on budgeted amounts, not timesheets or timestudies. In addition, Cenla employee timesheets documented only the number of hours employees worked each day; they did not reflect the programs on which the employees worked. An independent auditor had previously informed Cenla that its cost allocation plan was not sufficient.²

Mortgages

Cenla's cost allocation plan did not address the allocation of costs associated with mortgages. The financial manager told us that building costs were allocated based on square footage; however, Cenla did not provide floor plans or breakdowns of square footage. Our review identified the following:

- Cenla paid the entire central office monthly mortgage payment of \$2,078 (\$24,936 for FY 2010) with its Head Start funds even though Cenla also administers a Community Services Block Grant (CSBG), a Child and Adult Care Food Program, a Home Energy Assistance Program, and a Senior Citizens Program from this building.

² Cenla's current independent auditor had not reported any findings related to cost allocation. However, Cenla's previous independent auditor reported findings related to cost allocation in its 2003, 2004, and 2005 audit reports. For example, the 2005 report stated that "certain employees' time is allocated to more than one program. For some of those employees, the allocation among programs was not documented on the timesheets or otherwise documented to substantiate the allocation of pay to the various programs." In addition, the previous auditor noted that the agency's cost allocation plan had not been updated in several years and recommended that the agency review and update its cost allocation plan regularly.

- Cenla had two mortgages on the Miss Muffett Head Start facility, one for renovation and the second for financing overages related to the renovation. This facility also is used to administer the CSBG program; however, Cenla used Head Start funds to pay the entire monthly mortgages of \$4,558 and \$1,825. Cenla paid a portion of the utilities for this facility with CSBG funds.

Internet Service

Cenla's cost allocation plan did not address the allocation of Internet service costs. Cenla used Head Start funds to pay the entire amount charged for Internet services during February 2011 at the central office (\$325) and the Miss Muffett facility (\$379).³ Cenla's central office houses some functions of all Cenla programs; the Miss Muffett facility houses both Head Start and the CSBG program.

Travel

According to Cenla's cost allocation plan, travel costs incurred by central office staff should be charged to the benefitting program. We identified one instance in which Cenla used \$543 in Early Head Start Recovery Act funds for two employees who worked exclusively on the CSBG to attend a conference related to the CSBG. As a result of our review, Cenla reimbursed the Early Head Start Recovery Act account.

Other Costs

Cenla's *Financial Procedures Manual* states that common costs benefiting more than one grant or contract should be allocated among the benefitting grants and contracts. The manual also states that the financial manager should maintain in writing a common-costs allocation procedure that should be approved by the executive director.

Cenla used \$10,929 in Head Start and Early Head Start funds to pay for a server the finance department used. The finance department performs functions for all programs Cenla administers. However, the financial manager stated that Cenla did not allocate the server's cost among various programs because it would have had to submit budget justifications to the other programs for approval.

PROPERTY RECORDS

Pursuant to 45 CFR § 74.34(f), grantees are required to maintain accurate records for equipment acquired with Federal funds. The records should include information such as a description of the equipment; the manufacturer's serial number, model number, Federal stock number, national stock number, or other identification number; the source of the equipment, including the award number; whether the title vests in the recipient or the Federal Government; the acquisition date; the location and condition of the equipment; the unit acquisition cost; and ultimate disposition data. Also, pursuant to 45 CFR § 74.21(b)(3), grantees are required to have effective controls

³ The \$379 Miss Muffett Internet charge was for 2 months because Cenla did not pay the bill for the previous month.

and safeguards in place to ensure accountability over funds, property, and other assets to protect against loss and to ensure that assets are used solely for authorized purposes.

Cenla did not consistently tag equipment for identification and inventory purposes. Also, the property records had inaccurate serial and model numbers, locations, and equipment condition information. For example, during our observation of the physical inventory that a Cenla employee conducted of 82 items at 2 locations, we found that property records did not include Cenla tag numbers for 38 items, had incorrect tag numbers for 6 items, and had inaccurate serial and model numbers for 7 items. Maintaining inaccurate property records creates opportunities for the misappropriation of assets.

INEFFECTIVE EQUIPMENT INVENTORY CONTROL PROCEDURES

Federal Requirements

Pursuant to 45 CFR § 74.21(b)(3), a recipient's financial management system shall provide for effective control over and accountability for all funds, property, and other assets. Recipients shall adequately safeguard all such assets and ensure that they are used solely for authorized purposes.

Pursuant to 45 CFR § 1304.50(g)(2), grantee agencies must ensure that appropriate internal controls are established and implemented to safeguard Federal funds in accordance with 45 CFR § 1301.13.

Pursuant to 45 CFR § 74.34(f), grantees are required to take a physical inventory of equipment every 2 years and reconcile the results with the equipment records.

Inventory Not Completed Every Two Years

Cenla did not take an inventory during the 2 years prior to our audit.⁴ While discussing inventory procedures with the assistant financial manager, she decided to take inventory, which we observed at two Cenla facilities. During this inventory, we found:

- 18 items that were included on the inventory list (an audiometer, a laminator machine, 3 printers, and 13 computers) were missing;
- 12 items that were listed as equipment on the inventory list of the 2 facilities were located at other facilities; and
- 6 items that were not included on the inventory list (e.g., 3 computers and a printer purchased before 2008).

⁴ Cenla's current independent auditor had not reported any findings related to inventory. However, the previous independent auditor noted in its 2004 and 2005 audit reports that Cenla had not performed a physical inventory during the 2 years before the reports. The previous auditor recommended that the agency perform a physical inventory at least once every 2 years and reconcile the results of the physical inventory to the equipment records.

Inadequate Segregation of Duties

According to Cenla's fixed-assets policy:

- The finance department should prepare and maintain the initial fixed-assets listing.
- The purchasing department should ensure that all fixed assets are properly marked with the appropriate identifying tag, take a physical inventory of all fixed assets and ensure that the inventory is accurate, and report any loss to the financial manager.
- The facility supervisors and/or the component managers should notify the purchasing department in writing when any fixed assets are moved to other locations and notify the purchasing department in all cases of the loss, damage, or destruction of fixed assets.

The policy further states that the fixed assets should be recorded in each program's general ledger by the financial manager, who will reconcile the amounts recorded in the general ledger with the fixed-asset records annually.

Cenla did not follow Federal requirements or its fixed-assets policy and did not have adequate segregation of duties for conducting physical inventories. We observed the assistant financial manager prepare, update, and perform the annual inventory rather than share those duties with others. In addition, the assistant financial manager told us that the finance department is the only department currently preparing, updating, and performing an annual inventory. Allowing the same individual to perform all functions increases the opportunity for that individual to divert assets.

PROCUREMENT PROCEDURES

Federal regulations (45 CFR § 74.44) require grantees to have written procurement procedures that provide for sufficient controls and safeguards over the procurement process. Pursuant to 45 CFR § 74.45, grantees are required to document the cost or price analysis in the procurement file for each procurement action.

According to Cenla's procurement and cash disbursement procedures, to purchase goods an employee must complete a purchase requisition, submit it to the program director for approval, have it initialed by the executive director, and submit it to the finance department for approval. Upon receipt of a completed purchase requisition, the purchasing department should prepare a purchase order. Additionally, purchases of more than \$500 but less than \$2,500 require at least three informal bids.

Cenla did not always follow its written procedures. For example, we found that items:

- did not have purchase requisitions (17 items) and/or purchase orders (11 items),
- lacked the required bids (2 items), and

- were not approved by the executive director (5 items) and/or the finance department (9 items).

NON-FEDERAL SHARE

Federal regulations (45 CFR § 1301.20) require grantees to provide 20 percent of the total costs of the Head Start program through non-Federal share.

Pursuant to 45 CFR § 74.23(a), to be acceptable, matching contributions must be necessary and reasonable to properly and efficiently accomplish program objectives and be verifiable from the recipient's records. Pursuant to 45 CFR § 74.23(d), volunteer services furnished by professional and technical personnel, consultants, and other skilled and unskilled labor may be counted as cost sharing or matching if the service is an integral and necessary part of an approved project or program.

OHS required Cenla to provide \$1,622,088 in non-Federal share. Cenla provided support for \$2,575,575. Cenla included \$70,282 in non-Federal share for parent involvement, such as parent meetings and parent attendance at proms, pageants, and parades. These activities do not constitute goods or services that benefit the program and qualify as in-kind contributions. Cenla included \$1,730,784 in non-Federal share for parent/child activities such as "Reading at Home," "Attending Meet Your Teacher," and "Donations." We identified many instances in which in-kind contributions included for "Reading at Home" were improbable. For example, some parents reported in-kind contributions for "Reading at Home" in excess of 500 hours per month, an average of 17 to 18 hours per day. The executive director and the social services manager agreed that this was excessive. During FY 2010, we identified 362 instances of parents claiming to have provided more than 100 hours of in-kind contributions during a month.

REAL PROPERTY ACQUIRED OR IMPROVED WITH GRANT FUNDS

Regulations (45 CFR § 1309.21(a)) establish a Federal interest in all equipment acquired with grant funds, as well as in real property acquired or upon which major renovation has been undertaken with grant funds.

Regulations (45 CFR § 1309.21(b)) state: "Facilities acquired with grant funds may not be mortgaged or used as collateral ... without the written permission of the responsible HHS official."

Regulations (45 CFR § 74.37) state: "Real property, equipment, intangible property and debt instruments that are acquired or improved with Federal funds shall be held in trust by the recipients ... and shall not be encumbered without the approval of the HHS awarding agency."

Cenla acquired four loans for which it used Head Start-purchased real property as collateral without the written permission of the responsible HHS official. Cenla obtained one loan to refinance its central office. Cenla used the central office and the Diddle Diddle Head Start facility as collateral for this loan. Two loans were for the Miss Muffett Head Start facility, one for renovating the building and the second for cost overruns related to the renovation. Cenla used the Miss Muffett facility as collateral for both loans. Cenla acquired a fourth loan to

purchase the Fairchild Head Start facility and used the central office and the Diddle Diddle and Fairchild facilities as collateral. By obtaining a loan for which Federal property is held as collateral, Cenla put Federal funds at risk. If a grantee defaults on an encumbered loan, its Head Start program could lose access to equipment or property that was purchased with taxpayer funds.

CREDIT CARD POLICY

According to Cenla's credit card policy, credit cards should be used in emergency situations and must be signed out in the log book. When signed back in, the credit cards must be accompanied by the actual receipts and approved purchase requests and purchase orders.

Cenla did not comply with its credit card policy. We identified 36 instances in which the credit cards were not signed in or out of the log book. In addition, two of the items sampled from the credit card statements were not accompanied by the actual receipts. The grantee's noncompliance with its credit card policy could have resulted in unauthorized purchases.

FISCAL CONTROL AND ACCOUNTABILITY

Pursuant to 45 CFR § 74.21(b)(3), a recipient's financial management system shall provide for effective control over and accountability for all funds, property, and other assets. Recipients shall adequately safeguard all such assets and ensure that they are used solely for authorized purposes.

According to Cenla's *Financial Procedures Manual*, the finance department is responsible for all blank checks. All blank checks should be stored in a cabinet in the finance department, and the door to the department should be locked. The manual also states that all voided checks must be marked "VOID" in ink on the front of the check and filed in the check copy file.

We identified two voided checks that Cenla had not maintained in the check copy file. Cenla did not produce the voided checks when we requested them. A Cenla official later faxed us copies of the voided checks. However, for each check we noticed that the check number located in the magnetic ink character-recognition strip at the bottom of the checks did not match the check numbers located in two other locations on the check, raising concerns that the checks may have been altered. Upon inquiry with Cenla's financial institution, a bank official agreed that the two voided checks appeared to have been altered. Failure to properly maintain checks in accordance with the written procedures presents a serious risk to the fiscal controls and accountability over Federal funds and limits Cenla's ability to ensure that such assets are used solely for authorized purposes.

RECOMMENDATIONS

We recommend that OHS:

- impose special award conditions to address the shortcomings of Cenla's financial system and to ensure that Cenla conforms to Federal requirements and the terms and conditions of the grant award;

- ensure that Cenla’s contractual agreements are adequate and that it maintains records for fixed-fee contracts sufficient to demonstrate that the fixed fee is reasonable;
- work with Cenla to determine whether the fixed fee for the consultant is reasonable and whether future payments on the contract should be made;
- review Cenla’s cost allocation plan to determine appropriateness and coverage;
- work with Cenla to determine the amount of joint costs, identified in the body of the report under “Cost Allocation,” that were not properly allocated to the Head Start program, and require Cenla to refund that amount; and
- provide Cenla technical assistance and guidance to ensure that it:
 - allocates costs according to cost allocation plans,
 - accurately maintains property records,
 - follows its policies for performing a physical inventory at least once every 2 years and that it segregates duties so that individuals who maintain property records are not the same individuals who perform the physical inventory,
 - requires employees to follow its written procedures for procurement,
 - claims non-Federal share only for volunteer services and parent/child home activities that are necessary and reasonable to properly and efficiently accomplish program objectives,
 - does not use real property purchased with Head Start funds as collateral on loans without proper approval,
 - requires employees to follow its written credit card policy, and
 - develops more robust policies and procedures for safeguarding and managing checks (including having upper management oversee those who are responsible for handling checks).

CENLA COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, Cenla agreed with five findings, disagreed with eight findings, and did not address three findings. Cenla described the corrective actions that it planned to take to address some of the findings with which it disagreed and those with which it concurred. In addition, Cenla stated that the Office of Inspector General (OIG) does not have the authority to conduct reviews of HHS grantees. Cenla’s comments are summarized below and included in their entirety as Appendix A. Nothing in Cenla’s comments caused us to change our findings or recommendations.

Office of Inspector General's Statutory Authority

Cenla Comments

Cenla stated that section 9(a)(2) of the Inspector General Act prohibits the transfer of programmatic duties from HHS to OIG. Cenla said that the audit replaced HHS's statutory reviews under section 641A(c) of the Head Start Act. The grantee said that OIG's duty is to review HHS's performance of its duties and that OIG should not perform HHS's duties as a surrogate.

Office of Inspector General Response

Under the Inspector General Act of 1978 (the Act), as amended, 5 U.S.C. Appendix 3, sections 1-13, the OIG is responsible for conducting audits and investigations to detect and prevent fraud, waste, and abuse in HHS's programs and operations. This responsibility includes conducting audits and investigations of HHS's operations, its employees, contractors, grantees, and other recipients of Federal funds.

Section 2 of the Act states that OIG is "to conduct ... audits and investigations relating to the programs and operations" of HHS. Head Start is an HHS program. Cenla is a Head Start grantee in receipt of Federal funds provided to carry out the purposes of the program within the Federal framework provided under the Head Start Act and other relevant Federal requirements. A review of how grantees account for and expend funds is one of the ways OIG safeguards HHS's programs and detects fraud, waste, and abuse. There is no question as to whether we have authority to audit Federal funds awarded by HHS and received and administered by Cenla.

We also note that the audit was performed in accordance with the Act and did not replace the regular monitoring reviews that HHS undertakes as part of its oversight process, which is set forth in section 641A(c) of the Head Start Act.

Claimed Consultant Costs Without an Adequate Contractual Agreement

Cenla Comments

Cenla disagreed with our finding, stating that it conducted a cost-benefit analysis and determined that its method was reasonable and cost effective. Cenla also said that it had based its decision to contract with this consultant on fees charged by a former technology consultant that charged much more.

Office of Inspector General Response

We were not provided supporting documentation of a cost-benefit analysis or any documentation to support that the fixed fee was reasonable. When we asked the financial manager to explain how the fixed fee was determined, we were informed that Cenla does not bid fixed-fee contracts and that there was not any additional documentation in the procurement records for the contractor.

Did Not Ensure That Joint Costs Were Allocated Among Various Programs Administered by Cenla

Administration Salaries

Cenla Comments

Cenla disagreed with our finding, stating that it had performed a desk audit in the past that documented the amount of time employees worked on various programs.

Office of Inspector General Response

We were never provided with the desk audit and were told by the financial manager that salaries were allocated based on budgeted amounts, not timesheets or timestudies. Additionally, Cenla's cost allocation plan states that "personnel services cost allocation will be reflected by payroll timesheets." Cenla's timesheets documented only the number of hours employees worked each day; they did not reflect the programs on which the employees worked.

Mortgages

Cenla Comments

Cenla concurred with our finding on the allocation of the Central Office's mortgage. Cenla disagreed with our finding on the allocation of the Miss Muffett mortgages. Cenla stated that because the Miss Muffett facility required renovations to meet Class A licensing standards and Head Start performance standards, all costs incurred were paid with Head Start funds.

Office of Inspector General Response

Although the Miss Muffett mortgages were for renovations required to meet Head Start requirements, the renovation of a building would benefit all occupants, and Cenla did not provide any documentation indicating that the CSBG program did not benefit from this renovation.

Internet Service

Cenla Comments

Cenla concurred with our finding.

Travel

Cenla Comments

Cenla stated that it disagreed with our finding, noting, as did our report, that its cost allocation plan specifies that travel costs incurred by central office staff be charged to the benefiting program. However, Cenla agreed with our report that the travel costs in question were erroneously charged to the Head Start program and reimbursed as a result of our review.

Other Costs

Cenla Comments

Cenla concurred with our finding, stating that future costs will be allocated among all benefitting programs.

Did Not Tag Equipment for Identification and Inventory Purposes

Cenla Comments

Cenla disagreed with the finding, stating that it has ensured that effective controls and safeguards are in place for funds, property, and other assets to protect against loss and to ensure that assets are used solely for authorized purposes. Cenla further stated that it will consistently tag equipment for identification and inventory purposes.

Office of Inspector General Response

During our review, we identified several instances in which equipment was not properly tagged.

Did Not Accurately Record Equipment in the Inventory Log

Cenla Comments

Cenla disagreed with the finding; however, Cenla stated that equipment that needs to be deleted from the inventory list will be taken off and disposed of properly.

Office of Inspector General Response

During our review, the records indicated that there were items that should have been removed from the list and items that were not included on the inventory list that should have been. Therefore, Cenla did not accurately record equipment in the inventory log.

Did Not Conduct Physical Inventory Every Two Years

Cenla Comments

Cenla did not comment on our finding.

Completed Inventories Without Adequate Segregation of Duties

Cenla Comments

Cenla did not comment on our finding.

Did Not Follow Written Procurement Procedures

Cenla Comments

Cenla did not comment on our finding.

Claimed Unallowable and Excessive Volunteer Services as Non-Federal Share

Cenla Comments

Cenla disagreed with our finding, stating that even though it agreed that some of its non-Federal share was excessive and unallowable, the bulk was enough to satisfy its matching requirement.

Office of Inspector General Response

Cenla should ensure that it includes as Federal share only volunteer services and parent/child activities that are necessary and reasonable to properly and efficiently accomplish program objectives.

Secured Loans Using Head Start-Purchased Real Property as Collateral Without Proper Approval

Cenla Comments

Cenla disagreed with our finding, stating that each time it had submitted its re-funding proposal, it had included the installment loans. Cenla stated that because the proposals were approved, the loans were approved.

Office of Inspector General Response

Cenla acquired the loans using Head Start-purchased real property as collateral. As such, Cenla was required to obtain written permission from the responsible HHS official. Cenla did not provide support showing that it had obtained approval to use the Head Start-purchased property as collateral for the loans.

Did Not Comply With Its Credit Card Policy

Cenla Comments

Cenla concurred with our finding, stating that its credit card policy was unrealistic and that it has been revised to reflect what actually occurs.

Did Not Adequately Safeguard and Manage Checks

Cenla Comments

Cenla concurred with our finding, stating that corrective action has been taken to ensure that checks are properly maintained.

OFFICE OF HEAD START COMMENTS

In written comments on our draft report, OHS concurred with all of our recommendations. OHS's comments are included in their entirety as Appendix B.

APPENDIXES

APPENDIX A: CENLA COMMENTS



CENLA COMMUNITY ACTION COMMITTEE, INC. (CCAC)

1335 Jackson Street
Alexandria, Louisiana 71301-6930
Phone (318) 487-5878 Fax (318) 484-2176

Von Jennings
President, Board of Directors

Joan A. Lee
Executive Director

VIA Federal Express Overnight Mail
Tracking #: 7984 6747 6428

June 4, 2012

Ms. Patricia Wheeler
Regional Inspector General for Audit Services
Department of Health and Human Services
Office of Inspector General
Office of Audit Services, Region VI
1100 Commerce Street, Suite 632
Dallas, Texas 75242

Re: Report Number: A-06-11-00032

Dear Ms. Wheeler:

Enclosed you will find Cenla Community Action Committee's comments on the U.S. Department of Health and Human Services Office of Inspector General (OIG) Draft Report entitled *Cenla Community Action Committee's Financial Management Practices and Systems Did Not Always Meet Federal Requirements*.

General Exceptions:

In your draft dated May 21, 2012, you noted that Section 8L of the Inspector General Act, 5 U.S.C. App., requires that the OIG post its publicly available reports on the OIG Web site. Under Section 9 (a) (2) of the IGA 5 U.S.C., which is equally or more important than the Section you referenced that states that HHS cannot transfer or direct the OIG to carry out its programmatic duties. The findings listed below and the monitoring done by the OIG are statutory duties of HHS. Please see the Head Start Act Sec. 641A (c). This review should have been performed by HHS or its representative. As stated, OIG is barred from performing programmatic duties of HHS.

It is the duty of the OIG to review the Department of Health & Human Services performance of their duties but not perform the duties as a surrogate. Case in point, the monitoring of fixed assets, cost allocations, in-kind match, eligibility, and etc. cannot lawfully be performed by the OIG.

For me not to raise this issue as part of Senior Management of Cenla would have been paramount to management malpractice. Due to the above exceptions, the report is troubling due to the fact that if the

The Community Action Agency of Rapides Parish
Equal Opportunity Employer/Program
Auxiliary Aids and Services Are Available on Request to Individuals with Disabilities
LA Relay Service @ 18008465377(TDD)

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OIG did not quite understand and properly interpret their own statute, it can be troubling whether or not they can properly apply and understand other rules and regulations.

In addition to demonstrating that the OIG did not have statutory authority to conduct this type of review, we will prove with the following comments; that the findings are lacking proper support and there appears to be a bias toward the current auditor.

Summary of Findings

• **Claimed consultant costs without an adequate contractual agreement**

This finding appears to be arbitrary. According to the narrative, it appears that the members reached the wrong finding. With all respect, according to the rule of law the contract met the basic requirements. The OIG did not state the manner in which the contract was inadequate or list an appropriate citation defining an inadequate agreement. The OIG concluded that they were unable to determine whether the \$4,098 claimed for consultant was reasonable, therefore we concluded that it was reasonable and attached the necessary support. The OIG stated in the narrative that Cenla did not bid fixed-fee contracts or have support in the procurement file showing the basis for the price. This statement appears to be arbitrary because there were no conclusions or findings of any inadequate procurement procedures.

- Non-Concurrence – Cenla conducted a cost benefit analysis and determined that our method is reasonable/cost effective. The following task and rates have been considered.

Task	Rate
Standard Hourly Rate	\$75/hr.
Trip Fee (Service calls over 10 miles)	\$25
Set up new Computer	\$175
Set up Internet and e-mail	\$75
Set up printer, scanner or camera	\$75
Set up a wired or wireless router	\$75
Set up cable modem or DSL service	\$75
Restore a computer to factory specifications, Drivers & updates	\$125
Replace hard disk and restore factory software DVD Burner, etc.	\$150
Video card, memory chip, modem, network card, or power supply	\$65
Remove viruses or spyware	\$100 minimum
Computer Tune-up	\$125
Diagnostic (Fee deducted if repairs are performed)	\$50/hr.
Transfer files between computers	\$50 to \$100

The Technology Consultant is on call to provide services that go beyond one thousand three hundred sixty-six dollars (\$1,366) per month. Additionally, we based our decision to contract with this consultant on fees charged by a former Technology Consultant that charged much more.

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- **Did not ensure that joint costs were allocated properly among various programs administered by Cenla.**

- Non-Concurrence - Cenla Community Action Committee did perform a desk audit in the past for time spent in each program bi-weekly that was indicative of the percentage of time staff spent working in various programs. However, this desk audit will be updated in November prior to
- submission of our refunding proposal to determine if there are significant changes reflective by time usage in work reports.
- Non Concurrence – Note 2 of draft: This note has no probative value unless the OIG is inferring that the current auditor should always issue the same findings as the previous auditor, although the reports predated seven years beyond the statute of limitation. During the current year the current auditor did not find any exceptions based on the items tested. We ask that this footnote be removed. It is the auditor's discretion to issue a management letter, if warranted. Activities and expenditures that occurred three years before the review are barred by statute. Yet the OIG reviewed documents and reports that exceeded the statute. The reports are for the period March 31, 2003, 2004, and 2005. See 45 CFR Sec. 74.53
- Concurrence – Our Cost Allocation Plan for the Central Office monthly mortgage payment is as outlined below with the exception of CACFP. The CACFP is not self-sufficient and expenses that go beyond CACFP budget restraints are picked up by the Head Start/Early Head Start Program.

HS	HS Admin.	EHS Admin.	CSBG	HEA	Total
64.07%	21.17%	1.56%	9.56%	3.63%	100%
\$1,169.24	\$386.38	\$28.56	\$174.54	\$66.34	\$1,825.06

- Non-Concurrence – Miss Muffett located at 1225 Windsor Place was donated to Cenla Community Action Committee by the City of Alexandria and houses Head Start and North Alexandria Neighborhood Service Center staff. The facility did not require renovation to house the Neighborhood Service Center; however Head Start required renovations in order to meet Class A Licensing Standards and Head Start Performance Standards. Therefore, all cost incurred was paid using Head Start funds.
- Concurrence – Cenla's Cost Allocation Plan did not address the allocation of Internet services for the Central Office and Miss Muffett Head Start Center. However, according to our records, Internet services have been paid from Head Start funds for Miss Muffett only one time during this period. All other payments were paid by CSBG.

HS	HS Admin.	EHS Admin.	CSBG	HEA	Total
53.83%	26.87%	2.17%	12.55%	4.67%	100%
\$176.69	\$87.87	\$7.13	\$41.19	\$15.34	\$328.22

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- Non-Concurrence – According to our Cost Allocation Plan, travel costs incurred by Central Office staff are charged to the benefitting program. However, our usage of five hundred forty-three dollars (\$543.00) of Early Head Start Recovery Act funds for CSBG staff to attend a conference was done in error. Further, this error was detected and resolved during the OIG Review.
 - Concurrence – Currently we have a new server that's able to handle both Head Start/Early Head Start and finance transactions. The old server was not adequate to process transactions from all programs. In the future, cost will be allocated among all benefitting programs.
- **Did not tag equipment for identification and inventory purposes, did not accurately record equipment in the inventory log, did not conduct physical inventory every two (2) years and did not follow written procurement procedures.**
 - Non-Concurrence – Cenla has ensured that effective controls and safeguards are in place for accountability of funds, property and other assets to protect against loss and to ensure that assets are used solely for authorized purposes. Cenla will consistently tag equipment for identification and inventory purposes. Further, equipment that needs to be deleted from the inventory list will be taken off and disposed of properly.

Non-Concurrence – Cenla's current independent auditor has not reported any findings related to inventory. This finding, although reported in footnote 4 should not be an integral part of this report. In the event the OIG declines to remove it we take exception that it appears to be arbitrary—no citation or evidence that the current auditor noted that inventory purchased during the year of audit was not properly tagged. The OIG did notice that the triennial review that was performed by HHS did not cite that the Agency did not accurately record equipment in the inventory log or conduct the required inventory.
- **Claimed unallowable and excessive volunteer services as non-federal share.**
 - Non-Concurrence - Pursuant to 45 CFR 74.23(a) Cenla Community Action Committee will provide non-federal share that will be acceptable and matching contributions will be necessary and reasonable to properly and efficiently accomplish program objectives and be verifiable. However, based on the required amount needed, \$1,622,088 in non-federal share, Cenla Community Action Committee provided \$2,575,575 in non-federal share. Some was excessive and unallowable. The bulk amount is adequate to satisfy the requirement of \$1,622,088.
- **Several loans using Head Start funds purchased real property as collateral without proper approval.**
 - Non-Concurrence – Prior to the purchase or renovations, all facilities were submitted to the Regional Office for approval of the purchase or renovation. Funds that were given were not adequate to finance the cost of the purchase or renovation. Therefore, it was necessary to secure loans to purchase the Fairchild and Diddle Diddle Dumplings Head Start facilities, and to renovate the Miss Muffett facility in order to meet Class A Licensing Standards and Performance Standards. Further, each time Cenla submitted its Refunding Proposal, the

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installment loans were included which were approved by the funding source. Therefore, the loans were approved.

- **Did not comply with its credit card policy.**

Concurrence – Cenla’s Credit Card Policy which states the cards should be used for emergency is unrealistic and to have a receipt when the card is signed back is not required. Some vendors do not accept purchase orders and CACFP has strongly recommended that purchases be made by credit card designated solely to CACFP in order for Cenla to have a clear audit trail. Therefore, the policy has been revised to reflect what actually occurs.

- **Did not adequately safeguard and manage checks.**

- Pursuant to 45 CFR 74.21(b)(3), Cenla Community Action Committee financial management system will provide for effective control over and accountability for all funds, property and other assets. Cenla shall adequately safeguard all such assets and ensure that they are used solely for authorized purposes. As a result of failure to properly maintain checks in accordance with written procedures, corrective action has been put in place to ensure similar situations do not re-occur.

If additional information or clarification is needed, please contact me at 318-487-5878, fax 318-484-2176 or email msjoanlee@yahoo.com.

Sincerely,

Joan A. Lee
Executive Director

JAL:ssc

APPENDIX B: OFFICE OF HEAD START COMMENTS

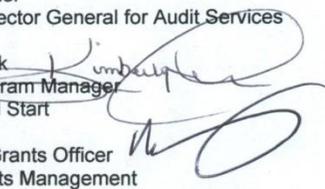


ADMINISTRATION FOR
CHILDREN & FAMILIES

1301 Young Street, Room 937, Region VI, Dallas, Texas 75202 www.acf.hhs.gov

Date: August 10, 2012

To: Patricia Wheeler
Regional Inspector General for Audit Services

From: Kimberly Chalk 
Regional Program Manager
Office of Head Start

Ray Bishop, Grants Officer
Office of Grants Management

Subject: Report Number A-06-11-00032

The Office of Inspector General (OIG), Office of Audit Services, provided the draft audit report for Cenla Community Action, Inc. (Cenla), Common Identification Number (CIN) A-06-11-00032 to the Department of Health and Human Services (DHHS), Administration for Children and Families (ACF), Office of Head Start (OHS) for comments on June 27, 2012. The audit report examined expenditures under grants awarded to Cenla, specifically Grant Numbers 06CH5002 and 06SE5002. The six recommendations identified in the draft audit report are addressed below.

Recommendation 1:

The draft report recommends OHS impose special award conditions to address the shortcomings of Cenla's financial system and to ensure that Cenla conforms to Federal requirements and the terms and conditions of the grant award.

OHS and OGM concur with this recommendation and will follow-up with the grantee to address the shortcomings of their financial system in order to ensure timely correction and compliance with the terms and conditions of the grant award.

Recommendation 2:

The draft report recommends OHS ensure that Cenla's contractual agreements are adequate and that it maintains records for fixed-fee contracts sufficient to demonstrate that the fixed fee is reasonable.

OHS and OGM concur with this recommendation.

Recommendation 3:

The draft report recommends OHS work with Cenla to determine whether the fixed fee for the consultant is reasonable and whether future payments on the contract should be made.

OHS and OGM concur with this recommendation.



ADMINISTRATION FOR
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Recommendation 4:

The draft report recommends OHS review Cenla's cost allocation plan to determine appropriateness and coverage.

OHS and OGM concur with this recommendation.

Recommendation 5:

The draft report recommends OHS work with Cenla to determine the amount of joint costs, identified in the body of the report under "Cost Allocation that were not properly allocated to the Head Start program, and require Cenla to refund that amount."

OHS and OGM concur with this recommendation with the understanding additional field work would be required to make determinations of any potential disallowed costs.

Recommendation 6:

The draft report recommends OHS provide Cenla technical assistance and guidance to ensure that it:

- allocates costs according to cost allocation plans,
- accurately maintains property records,
- follows its policies for performing a physical inventory at least once every 2 years and that it segregates duties so that individuals who maintain property records are not the same individuals who perform the physical inventory,
- requires employees to follow its written procedures for procurement,
- claims non-Federal share only for volunteer services and parent/child home activities that are necessary and reasonable to properly and efficiently accomplish program objectives,
- does not use real property purchased with Head Start funds as collateral on loans without proper approval,
- requires employees to follow its written credit card policy, and
- develops more robust policies and procedures for safeguarding and managing checks (including having upper management oversee those who are responsible for handling checks).



ADMINISTRATION FOR
CHILDREN & FAMILIES

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OHS and OGM concur with providing training and technical assistance resources within 90 days from the issuance of the final OIG Report.

Thank you for the opportunity to comment on the draft report.