



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Office of Audit Services, Region VI
1100 Commerce Street, Room 632
Dallas, TX 75242

November 7, 2011

Report Number: A-06-11-00033

Ms. Debra Hamilton
Director
Bossier Office of Community Services
700 Benton Road
Bossier City, LA 71171

Dear Ms. Hamilton:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled *Results of Limited Scope Review at Bossier Office of Community Services*. 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-06-11-00033 in all correspondence.

Sincerely,

/Antonio Wilkinson for/
Patricia Wheeler
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

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

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**RESULTS OF LIMITED SCOPE REVIEW
AT BOSSIER OFFICE OF COMMUNITY
SERVICES**



Daniel R. Levinson
Inspector General

October 2011
A-06-11-00033

Office of Inspector General

<http://oig.hhs.gov>

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

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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

Title VI of the Omnibus Budget Reconciliation Act of 1981 established Head Start as a Federal discretionary grant program. The major objectives of the Head Start program are to promote school readiness and to enhance the social and cognitive development of low-income children by providing educational, health, nutritional, and social services.

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 employees of Head Start grantees, upgrading centers and classrooms, and bolstering training and technical assistance.

Bossier Office of Community Services, Inc. (BOCS), a nonprofit agency, operates Head Start and Early Head Start programs that provide educational and support services to low-income and disabled children from birth to 5 years of age at six locations in Bossier Parish, Louisiana. BOCS is funded primarily through Federal Government grants. For program year 2011 (February 1, 2010, through January 31, 2011), OHS provided grant funds to BOCS totaling \$2,996,575. BOCS also receives other Federal funding.

OBJECTIVE

Our objective was to assess BOCS's financial viability and capacity to manage and account for Federal funds and to operate a Head Start program in accordance with Federal requirements.

SUMMARY OF FINDINGS

BOCS generally is financially viable and has the capacity to manage and account for Federal funds and to operate a Head Start program in accordance with Federal requirements. However, we identified a number of noncompliance issues. Specifically, BOCS:

- did not have a board of directors member with a background and expertise in fiscal management or accounting,
- did not promptly record bank deposits or transfers between accounts,
- had inaccurate equipment inventory records,
- did not consistently report capital assets in its financial statements and equipment inventory,

- had inadequate policies and procedures related to the hiring of consultants, and
- did not use a current independent appraisal to establish the fair rental value of donated space and did not properly allocate the value of its central office.

These issues occurred because BOCS did not have adequate controls over its property and financial management systems. As a result of the last issue noted above, BOCS claimed \$48,996 in unallowable in-kind contributions.

RECOMMENDATIONS

We recommend that BOCS:

- implement policies and procedures to ensure that its board contains a member who has fiscal management or accounting background expertise,
- record all financial transactions promptly,
- update its equipment inventory records to ensure that they are accurate and implement policies and procedures to ensure that the equipment inventory records are maintained accurately,
- ensure that its inventory policies and procedures are consistent with its asset capitalization policy for financial statement purposes,
- implement consultant policies and procedures that include requirements to use a selection process to secure the most qualified individual available and to ensure that the fee is reasonable, and
- adjust the value of its donated space based on current independent appraisals and allocate the value of its central office according to its cost allocation plan.

BOSSIER OFFICE OF COMMUNITY SERVICES COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, BOCS concurred with three of our findings and described its corrective action plans to address them. However, BOCS did not agree with our findings related to board members' qualifications, consultant policies and procedures, and in-kind valuation and reporting. BOCS provided an independent appraisal of the fair rental value of its central office along with its comments. We used this appraisal to revise our calculation of the unallowable in-kind contributions. Nothing in BOCS's comments caused us to change any of the other findings or recommendations. BOCS's comments are included in their entirety as the Appendix.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
BACKGROUND	1
Head Start Program.....	1
Bossier Office of Community Services, Inc	1
Federal Requirements	1
OBJECTIVE, SCOPE, AND METHODOLOGY	1
Objective	1
Scope.....	2
Methodology.....	2
FINDINGS AND RECOMMENDATIONS	3
BOARD MEMBERS’ QUALIFICATIONS	3
FINANCIAL SYSTEMS	3
EQUIPMENT INVENTORY RECORDS	4
EQUIPMENT INVENTORY POLICIES AND PROCEDURES	4
CONSULTANT POLICIES AND PROCEDURES	4
IN-KIND VALUATION AND REPORTING	5
RECOMMENDATIONS	5
BOSSIER OFFICE OF COMMUNITY SERVICES COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE	6
APPENDIX	
BOSSIER OFFICE OF COMMUNITY SERVICES COMMENTS	

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 objectives of the Head Start program are to promote school readiness and to enhance the social and cognitive development of low-income children by providing educational, health, nutritional, and social services.

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Bossier Office of Community Services, Inc.

Bossier Office of Community Services, Inc. (BOCS), a nonprofit agency, operates Head Start and Early Head Start programs that provide educational and support services to low-income and disabled children from birth to 5 years of age at six locations in Bossier Parish, Louisiana. BOCS is funded primarily through Federal Government grants. For program year (PY) 2011 (February 1, 2010, through January 31, 2011), OHS provided grant funds to BOCS totaling \$2,996,575. BOCS also receives other Federal funding.

Federal Requirements

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

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to assess BOCS's financial viability and capacity to manage and account for Federal funds and to operate a Head Start program in accordance with Federal requirements.

Scope

We performed this review based on a request from OHS. We did not perform an overall assessment of BOCS's internal control structure. We reviewed only those internal controls directly related to our audit objective. Our review period was BOCS's PY 2011.

We performed our fieldwork at BOCS's administrative office in Bossier City, Louisiana, during March and April 2011.

Methodology

To accomplish our objective, we:

- reviewed relevant Federal laws, regulations, and guidance;
- reviewed BOCS's accounting, budgeting, personnel, procurement, property control, and financial reporting procedures and interviewed BOCS officials to gain an understanding of those procedures;
- reviewed Federal Government grant award documentation for PY 2011 to determine BOCS's Head Start and Recovery Act funding;
- reviewed BOCS's audited financial statements for calendar years 2007, 2008, and 2009;
- performed ratio analysis from the audited financial statements for calendar years 2007 through 2009 to assess BOCS's financial position;
- reviewed BOCS's general ledger, timesheets, invoices, bank reconciliations, and other supporting documentation;
- reviewed BOCS's property records and performed a physical inventory of 20 items at 2 facilities;
- reviewed BOCS's non-Federal share summary reports and supporting documentation for PY 2011; and
- reviewed the qualifications of BOCS'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

BOCS generally is financially viable and has the capacity to manage and account for Federal funds and to operate a Head Start program in accordance with Federal requirements. However, we identified a number of noncompliance issues. Specifically, BOCS:

- did not have a board of directors member with a background and expertise in fiscal management or accounting,
- did not promptly record bank deposits or transfers between accounts,
- had inaccurate equipment inventory records,
- did not consistently report capital assets in its financial statements and equipment inventory,
- had inadequate policies and procedures related to the hiring of consultants, and
- did not use a current independent appraisal to establish the fair rental value of donated space and did not properly allocate the value of its central office.

These issues occurred because BOCS did not have adequate controls over its property and financial management systems. As a result of the last issue noted above, BOCS claimed \$48,996 in unallowable in-kind contributions.

BOARD MEMBERS' QUALIFICATIONS

Pursuant to section 642(c)(1)(B) of the Head Start Act, the governing body of Head Start grant recipients should have at least one member with a background and expertise in fiscal management or accounting.

BOCS's board of directors did not have a board member with a background and expertise in fiscal management or accounting. This occurred because BOCS did not have policies and procedures to ensure that an individual who had fiscal management or accounting background expertise was appointed to the board. Therefore, the board of directors was not adequately qualified to provide oversight on financial matters.

FINANCIAL SYSTEMS

Regulations (45 CFR § 74.21(b)(3)) state that grantees' financial management systems must provide effective control over and accountability for all funds, property, and other assets so that recipients can adequately safeguard all such assets and assure that they are used solely for authorized purposes.

BOCS did not record deposits or transfers between bank accounts in the accounting system as they occurred. For example, in January 2011, BOCS made 10 deposits totaling \$399,682 and 5 transfers totaling \$166,459. BOCS did not record these transactions as they occurred. The

finance director stated that when he started working at BOCS, the bookkeeper was behind in her work. To help her, the finance director recorded deposits and transfers between bank accounts in the accounting system each month when the bank statements arrived. Thus, BOCS's general ledger did not always reflect the correct checking account balances. In addition, because some transactions were recorded in bulk and did not show the dates of the individual transactions, the general ledger did not provide an accurate trail of cash deposits and transfers. As a result, BOCS faced an increased risk that loss or theft of funds could have occurred and not been detected in a timely manner.

EQUIPMENT INVENTORY RECORDS

Regulations (2 CFR § 215.34) state that Federal grantees' equipment records should be maintained accurately and should include the location of the equipment.

While BOCS's equipment inventory records included location fields, those fields were sometimes inaccurate. Specifically, during a physical inventory of 20 items at 2 locations, 2 instruments used for hearing tests with acquisition costs totaling \$1,470 were not in the locations indicated on the equipment inventory records. Additionally, we could not locate seven items with acquisition costs totaling \$12,141. These items consisted of kitchen equipment, computers, and playground equipment. These errors occurred because BOCS did not have adequate policies and procedures to ensure that its inventory records were accurate.

EQUIPMENT INVENTORY POLICIES AND PROCEDURES

Regulations (2 CFR part 230, Appendix B, 15(a)(2)) state that equipment is nonexpendable, tangible personal property having a useful life of more than 1 year and an acquisition cost that equals or exceeds the lesser of the capitalization level established by the nonprofit organization for financial statement purposes or \$5,000.

BOCS's equipment inventory included only assets with an acquisition cost of \$5,000 or more. However, for financial statement purposes, it capitalized assets with an acquisition cost of \$500 or more. Thus, not all capital assets reported on its financial statements were included in its equipment inventory.

CONSULTANT POLICIES AND PROCEDURES

Regulations (2 CFR part 230, Appendix B, paragraph 37, (b)(7)) state that in determining the allowability of costs of consultant services, the qualifications of the individual rendering the service and the fees charged are relevant. Additionally, regulations (45 CFR § 74.21) state that grantees should maintain financial management systems that contain written procedures for determining the reasonableness of costs.

BOCS did not have a written policy describing the selection process for securing the most qualified individual available when selecting consultants. Further, BOCS had inadequate policies and procedures for ensuring that fees were reasonable when it selected consultants. BOCS's consulting policy required competitive bids only for services expected to cost between

\$500 and \$2,000. In BOCS's grant application for PY 2012 (February 1, 2011, through January 31, 2012), it budgeted \$20,990 for consulting fees.

IN-KIND VALUATION AND REPORTING

Pursuant to 45 CFR § 1301.20, grantees are to provide 20 percent of the total cost of the program through non-Federal share. Regulations (45 CFR § 74.23(h)(3)) state: "The value of donated space shall not exceed the fair rental value of comparable space as established by an independent appraisal of comparable space and facilities in a privately-owned building in the same locality."

BOCS did not use a current independent appraisal to establish the fair rental value of in-kind donated space claimed for PY 2011. BOCS obtained independent appraisals during 2010 but did not properly adjust the amounts reported as non-Federal share to reflect the new appraisals. Also, BOCS reported the full rental value of its central office as non-Federal share rather than following its cost allocation plan and allocating only the percentage of the central office used by Head Start and Early Head Start. As a result, BOCS claimed \$48,996 in unallowable in-kind contributions. However, we are not recommending repayment because BOCS had in-kind contributions in excess of its required matching funds.

RECOMMENDATIONS

We recommend that BOCS:

- implement policies and procedures to ensure that its board contains a member who has fiscal management or accounting background expertise,
- record all financial transactions promptly,
- update its equipment inventory records to ensure that they are accurate and implement policies and procedures to ensure that the equipment inventory records are maintained accurately,
- ensure that its inventory policies and procedures are consistent with its asset capitalization policy for financial statement purposes,
- implement consultant policies and procedures that include requirements to use a selection process to secure the most qualified individual available and to ensure that the fee is reasonable, and
- adjust the value of its donated space based on current independent appraisals and allocate the value of its central office according to its cost allocation plan.

BOSSIER OFFICE OF COMMUNITY SERVICES COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, BOCS concurred with three of our findings and described its corrective action plans to address them. However, BOCS did not agree with our findings related to board members' qualifications, consultant policies and procedures, and in-kind valuation and reporting. BOCS provided an independent appraisal of the fair rental value of its central office along with its comments. We used this appraisal to revise our calculation of the unallowable in-kind contributions. Nothing in BOCS's comments caused us to change any of the other findings or recommendations. BOCS's comments are included in their entirety as the Appendix.

Board Members' Qualifications

BOCS's Comments

BOCS stated that three board members have a background and expertise in financial management or accounting. BOCS stated that all three board members have an undergraduate business degree and employment experience that qualifies them as fiscal management experts.

Office of Inspector General Response

The three board members' undergraduate business degrees do not qualify them as financial management experts. BOCS provided no information on their employment experience.

Consultant Policies and Procedures

BOCS's Comments

BOCS stated that it has written policies and procedures to ensure the reasonableness, allocability, and allowability of consultant costs. BOCS also stated that it utilizes the Area Occupational Employment and Wage Estimates from the Bureau of Labor to ensure the reasonableness of the costs. BOCS stated that it had reviewed the grant application for PY 2012 and that it did not find a consulting fee budgeted for \$20,990.

Office of Inspector General Response

BOCS's policies and procedures require competitive bidding only for services expected to cost between \$500 and \$2000. BOCS has no written policies or procedures describing the selection process for securing the most qualified consultant available. Thus, BOCS's policies and procedures are inadequate. The budgeted consulting fees totaling \$20,990 are included in the "Training and Technical Assistance Plan" section of the grant proposal.

In-Kind Valuation and Reporting

BOCS's Comments

BOCS stated that it used a current independent appraisal to establish the fair rental value of donated space, and it included the appraisal with its comments. BOCS also stated that, in its opinion, the full rental value of the central office could be reported as non-Federal share because only three small office spaces are not occupied by Head Start or Early Head Start staff. It further stated that the staff members who use these three offices provide services to the community, which includes Head Start families. BOCS also stated that all BOCS staff collaborate and coordinate with each other to help meet the needs of the Head Start families, and, as such, all space is utilized for Head Start services.

Office of Inspector General Response

The appraisal document BOCS provided with its comments states that the effective date of the appraisal was January 25, 2011, and that the appraisal letter was dated June 30, 2011. We reviewed BOCS's in-kind contributions for PY 2011, which ended five months before the appraisal was completed. Thus BOCS did not use the appraisal to calculate in-kind contributions for PY 2011. However, we followed up with BOCS and obtained a copy of the full appraisal, which we used to revise our calculation of the unallowable in-kind contributions.

In addition, BOCS is incorrect in asserting that the full rental value of its central office space should be allocated to the Head Start and Early Head Start programs. Because BOCS operates other, non-Federal programs in addition to the Head Start and Early Head Start programs, it developed a cost allocation plan for allocating costs shared by its various programs. According to the plan, BOCS allocates 55 percent of central office space and utilities costs to the Head Start and Early Head Start programs. BOCS calculated the rate based on the central office square footage used by each program.

APPENDIX

APPENDIX: BOSSIER OFFICE OF COMMUNITY SERVICES COMMENTS



BOSSIER OFFICE OF COMMUNITY SERVICES
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*Executive Director
Debra Hamilton*

September 15, 2011

Report Number: A-06-11-00033

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

Dear Ms. Wheeler:

Bossier Office of Community Services, Inc. comments on the U.S. Department of Health and Human Services, Office of Inspector General (OIG), draft report entitled Results of Limited Scope Review at Bossier Office of Community Services.

Summary of Findings:

- **Did not have a Board of Directors Member with a background and expertise in Fiscal Management or Accounting**

BOCS Comment: Non Concurrence

Reason for Non-Concurrence: Pursuant to Section 642 (c)(1)(B) of the Head Start Act, Bossier Office of Community Services has three (3) members of the Board of Directors that have a background and expertise in Fiscal Management or Accounting. One (1) member has a BS Degree in Organizational Management; One (1) member has a Bachelors Degree in Business Administration and one (1) member has a BS Degree in General Business. Each degree includes in its curriculum some Fiscal Management and/or Accounting courses. Also, their past and/or present employment provides experience/expertise in the area of Fiscal Management.

Additionally, the Triennial On-Site Monitoring Review of Bossier Office of Community Services' Head Start/Early Head Start Programs was conducted in March, 2010. The area of Board Members' Qualifications was found to be in compliance with regulations.

EQUAL OPPORTUNITY EMPLOYER / PROGRAM

"Auxiliary Aids and Services are available upon request to individuals with disabilities."

Page 2 – OIG Draft Report : A-06-11-00033

- **Did not promptly record bank deposits or transfers between accounts**

BOCS Comment: Concurrence

Corrective Action Plan: Bossier Office of Community Services ensures that all financial transactions (bank deposits, transfers between accounts, etc.) will be promptly recorded. Persons responsible: Finance Director, Bookkeeper

- **Had inaccurate equipment inventory records**

BOCS Comment: Concurrence

Corrective Action Plan: BOCS equipment has been updated and is being maintained accurately. Person Responsible: Finance Director

- **Did not consistently report capital assets in its Financial Statements and equipment inventory.**

BOCS Comment: Concurrence

Corrective Action Plan: BOCS will ensure that its Equipment Inventory Policy is consistent with the Capital Assets Policy in the Financial Statement. Person Responsible: Finance Director.

- **Had inadequate policies and procedures related to hiring of consultants**

BOCS Comment: Non-Concurrence

Reason for Non-concurrence:

Pursuant to Regulations 2 CFR Part 230, Appendix B, paragraph 37, (b)(7) and 45 CFR, 74.21, Bossier Office of Community Services have Policies and procedures in place for Reasonableness, Allocability and Allowability of Cost (included in the Financial Policies and Procedures Manual written in accordance with PART 74.21 (b)(6). Consultants are recruited and selected in accordance with these policies and procedures.

BOCS utilizes the Area Occupational Employment and Wage Estimates from the Bureau of Labor to ensure the reasonableness of cost. Additionally, a review of the Grant Application for PY 2012 (February 1, 2011 – January 31, 2012) did not reveal a Consulting Fee budgeted for \$20,990.

Page -3 OIG Draft Report : A-06-11-00033

- **Did not use a current independent appraisal to establish the Fair Rental Value of donated space and did not properly allocate the value of its' Central Office.**

BOCS Comments: Non-concurrence

Reason for Non-concurrence: BOCS did use a current independent appraisal to establish the Fair Rental value of donated space. (Appraisal attached). Also, it is our opinion that the full-rental value of our Central Office may be reported as Non-Federal Match due to the fact that only three (3) small office spaces are not occupied by Head Start or Early Head Start Staff. However, the three (3) office spaces occupied by other BOCS Program Staff is used to provide other services (emergency assistants, information, referrals, etc.) to the community which includes our Head Start/Early Head Start families.

In addition, all BOCS staff collaborate and coordinate with each other to help meet the needs of Head Start/Early Head Start families. Therefore, every office space is utilized for Head Start/Early Head Start services in accordance with 1304.40 (b)(1) and 1304.40(b)(1)(i) of Head Start Regulations and Guidance.

Respectfully,

Debra Hamilton
Executive Director

DH/jhg

Enclosure: Appraisal Summary of Central Office
700 Benton Road, Bossier city, Louisiana