

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**THE ADMINISTRATION FOR CHILDREN
AND FAMILIES REGION VI DID NOT
ALWAYS RESOLVE HEAD START
GRANTEES' SINGLE AUDIT FINDINGS
IN ACCORDANCE WITH FEDERAL
REQUIREMENTS**

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



Gloria L. Jarmon
Deputy Inspector General
for Audit Services

September 2017
A-06-16-00019

Office of Inspector General

<https://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 <https://oig.hhs.gov>

Section 8M of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG website.

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.

Report in Brief

Date: September 2017
Report No. A-06-16-00019

U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES
OFFICE OF INSPECTOR GENERAL



Why OIG Did This Review

Head Start grantees are required to have Single Audits conducted in accordance with Office of Management and Budget Circular A-133 (also known as A-133 audits) for fiscal years beginning before December 26, 2014, in accordance with 45 CFR section 74.26(a). The Administration for Children and Families (ACF) is responsible for following up on recommendations made to grantees in A-133 audit reports. We conducted this review to ensure that ACF has an effective and timely audit resolution process.

Our objective was to determine whether ACF had a process in place to ensure a timely response to, and that corrective action was taken on Head Start grantees' A-133 audit findings. Specifically, we determined whether ACF Region VI resolved recurring audit findings in accordance with Federal requirements and ACF policies and procedures.

How OIG Did This Review

We reviewed Federal Audit Clearinghouse (FAC) data for Head Start grantees in ACF Region VI that submitted A-133 audit reports during Federal fiscal years 2013 through 2015. We reviewed these reports to identify those with findings related to Head Start. For those reports for which ACF was responsible for resolution, we identified 31 reports that had recurring audit findings and reviewed the actions that ACF took to resolve those findings.

ACF Region VI Did Not Always Resolve Head Start Grantees' Single Audit Findings in Accordance With Federal Requirements

What OIG Found

ACF had a process in place to ensure that Head Start grantees took corrective action on A-133 audit findings. However, for Region VI Head Start grantees that submitted audit reports to the FAC, ACF did not always resolve recurring audit findings in accordance with Federal requirements and ACF policies and procedures. Specifically, ACF did not issue Audit Determination Letters (letters) for 20 of the 31 audit reports we reviewed within 6 months after receiving the reports. In addition, although ACF provided the grantees with letters stating that the corrective actions planned or taken should prevent recurrence of the findings, ACF did not establish specific dates for grantees to correct all deficiencies noted in the audit reports. Finally, ACF did not always follow up with grantees to ensure that they actually took corrective actions to resolve audit findings. The prompt resolution of audit findings helps ensure that Federal funds are effectively and efficiently used to carry out the activities for which they were authorized.

What OIG Recommends

We recommend that ACF (1) ensure that management decisions are issued to Head Start grantees within the required 6-month timeframe, (2) consider providing training to Head Start grantees on preparing corrective action plans, (3) include in the letters sent to Head Start grantees specific dates for correcting deficiencies, (4) monitor Head Start grantees to ensure that grantees implement corrective actions, and (5) review its staffing levels to ensure that the audit resolution process is conducted in accordance with Federal requirements.

In written comments on our draft report, ACF concurred with our first, second, and fifth recommendations. ACF did not concur with our third recommendation and stated that it follows Uniform Guidance rather than its External Audit Resolution Manual, as it had not been updated to reflect ACF's current practice. In addition, ACF did not concur with the fourth recommendation and stated it would ensure that the requirements for audit followup are met in accordance with the Uniform Guidance. According to ACF, assessing a grantee's implementation of corrective action can be accomplished through using subsequent years' Single Audits, which ACF believes satisfies the objective of recommendation four. After reviewing ACF's comments, we maintain that our recommendations are valid.

TABLE OF CONTENTS

INTRODUCTION.....	1
Why We Did This Review	1
Objective	1
Background	2
Single Audits.....	2
Federal Agencies’ Resolution of A-133 Audit Findings.....	2
ACF’s Resolution of A-133 Audit Findings.....	3
How We Conducted This Review	3
FINDINGS.....	4
ACF Did Not Issue Audit Determination Letters in a Timely Manner	4
ACF Did Not Establish Specific Dates for Grantees To Correct All Deficiencies Noted in Audit Reports.....	6
ACF Did Not Always Follow Up With Grantees To Ensure That They Took Corrective Actions To Resolve Audit Findings.....	7
CONCLUSION.....	7
RECOMMENDATIONS	7
ACF COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE	8
ACF Comments.....	8
Office of Inspector General Response	8
APPENDICES	
A: Audit Scope and Methodology	9
B: ACF Comments.....	11

INTRODUCTION

WHY WE DID THIS REVIEW

Head Start grantees are required to have Single Audits conducted in accordance with Office of Management and Budget (OMB) Circular A-133 (also known as A-133 audits) for fiscal years beginning before December 26, 2014, in accordance with 45 CFR § 74.26(a).¹ These audits ensure that recipients of Federal awards have complied with applicable Federal requirements related to management and use of funds. Because the Administration for Children and Families (ACF) is responsible for following up on recommendations made to grantees in A-133 audit reports, we conducted this review to ensure that ACF has an effective and timely audit resolution process. This review of ACF Region VI, which covers Head Start grantees in Arkansas, Louisiana, New Mexico, Oklahoma, and Texas, is one of several reviews of ACF regions nationwide.²

OBJECTIVE

Our objective was to determine whether ACF had a process in place to ensure a timely response to, and that corrective action was taken on, Head Start grantees' A-133 audit findings. Specifically, for Head Start grantees that submitted audit reports to the Federal Audit Clearinghouse (FAC) for Federal fiscal years (FFYs) 2013 through 2015, we determined whether ACF Region VI resolved recurring audit findings³ in accordance with Federal requirements and ACF policies and procedures.

¹ OMB Circular A-133 has been superseded by 45 CFR Part 75, Subpart F, for audits of fiscal years beginning on or after December 26, 2014. A review of 45 CFR Part 75, Subpart F, determined that the audit recommendations in this report are still valid.

² *The Administration for Children and Families Region IX Resolved Head Start Grantees' Single Audit Findings in Accordance With Federal Requirements (A-09-16-01003, issued August 2017).*

³ As used in this report, "recurring audit findings" were those that appeared in A-133 audit reports for at least 2 years.

BACKGROUND

Single Audits

OMB Circular A-133 requires that non-Federal entities (such as Head Start grantees) that expend \$500,000⁴ or more in Federal awards in a year⁵ have a Single Audit.^{6,7} These A-133 audits, conducted by independent auditors, are conducted in accordance with generally accepted government auditing standards and OMB Circular A-133. These audits include an examination of the entity's financial records and financial statements, testing of the entity's internal controls, and a review of the entity's compliance with requirements related to expenditures of selected Federal awards. The final audit report contains comments from the recipient, including corrective actions planned or taken to address the findings.

The recipient transmits the A-133 audit report to the FAC.⁸ The Office of Inspector General's National External Audit Review Center (NEAR) receives A-133 audit reports from the FAC. NEAR performs a desk review of each audit report to determine whether there are any issues with the report and whether the report meets generally accepted government auditing standards and OMB Circular A-133 requirements. NEAR prepares a transmittal letter and attachment that summarizes the audit findings and recommendations and identifies the Federal agency responsible for resolution. NEAR then distributes the transmittal letter and attachment to the grantee and the Federal agency responsible for resolution.

Federal Agencies' Resolution of A-133 Audit Findings

OMB Circular A-133 states that the Federal awarding agency is responsible for issuing a written management decision to the auditee, within 6 months after receipt of the audit report, for audit findings related to the agency's awards (§ __.405(d)). A management decision is the evaluation of the audit findings and the auditee's corrective action plan and includes a decision on what corrective action is necessary.

⁴ The expenditure level for Federal awards was raised to \$750,000 for fiscal years beginning on or after December 26, 2014 (45 CFR § 75.501(a)).

⁵ Some State and local governments that are required by constitution or statute, in effect January 1, 1987, to be audited less frequently than annually are permitted to undergo audits biennially. Nonprofit organizations also are allowed to have biennial audits under certain conditions.

⁶ Commercial entities that met the \$500,000 threshold during the audit period could elect to conduct either an A-133 audit or a financial-related audit (45 CFR § 74.26(d)(i)).

⁷ OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (June 26, 2007). Accessed at https://www.whitehouse.gov/sites/default/files/omb/assets/a133/a133_revised_2007.pdf on April 8, 2016.

⁸ The FAC operates on behalf of OMB to disseminate A-133 audit reports to Federal agencies.

In resolving A-133 audit findings, a Federal agency's audit followup official is responsible for ensuring that (1) systems of audit followup, resolution, and corrective action are documented and in place; (2) timely responses are made to all audit reports; (3) disagreements are resolved; and (4) corrective actions are actually taken by grantees (OMB Circular A-50 § 7.c.).⁹

ACF's Resolution of A-133 Audit Findings

ACF's Office of Administration is responsible for the overall management and coordination of ACF external audits, such as A-133 audits of Head Start grantees. Action officials are responsible for resolution of audit findings for ACF programs. After resolving audit findings, ACF issues a management decision in an Audit Determination Letter (letter) sent to the grantee and issues a clearance document to OIG.

The *ACF External Audit Resolution Manual* (March 29, 2006) (the Manual) provides policies and procedures for ACF to follow in resolving audit findings. Audit resolution is complete after a final decision on the amount of any monetary recovery has been reached; a satisfactory plan of corrective action has been developed and transmitted to the grantee, including a time schedule to correct all deficiencies established; and the audit report has been cleared from the Department of Health and Human Services (HHS) tracking system by submission and acceptance of an OIG Clearance Document (the Manual § 4-20-00).

The ACF action official should attempt to reach an agreement, in writing, with the grantee on any actions necessary to correct disclosed deficiencies. The letter to the grantee must describe each specific deficiency, its basis, the corrective action necessary, and the date by which the action will be completed (the Manual § 4-30-04). In cases where a grantee is unwilling or unable to correct deficiencies within a reasonable period of time, the action official must take appropriate action to institute safeguards to protect Federal funds. The action official is responsible for resolving all audit findings and must maintain documentation to support the resolution of the findings. The action official is also expected to follow up on actions taken to correct financial or management deficiencies disclosed in an audit report.

HOW WE CONDUCTED THIS REVIEW

We reviewed FAC data for Head Start grantees in ACF Region VI that submitted A-133 audit reports for FFYs 2013 through 2015 (October 1, 2012, through September 30, 2015). We identified audit reports containing qualified or adverse opinions, going-concern paragraphs,¹⁰

⁹ The guidance on Single Audit Act follow-up in OMB Circular A-50 has been superseded by 45 CFR Part 75, Subpart F, for fiscal years beginning on or after December 26, 2014. A review of 45 CFR Part 75, Subpart F, determined that the audit recommendations in this report are still valid.

¹⁰ A going-concern paragraph is included in an audit report when there is substantial doubt about an entity's ability to continue operations. AU Section 341, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*. Accessed at <https://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AU-00341.pdf> on May 10, 2017.

reportable conditions or significant deficiencies in the financial statements, material weaknesses in the financial statements, questioned costs, and current-year findings.

We reviewed the audit reports to identify those with findings related to the Head Start program and then reviewed the NEAR transmittal letters to determine which agency was assigned responsibility for audit resolution. For those reports for which ACF was responsible for resolution, we identified 31 reports that had recurring audit findings and reviewed the actions that ACF took to resolve the findings in those reports.

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 objectives.

The Appendix contains the details of our audit scope and methodology.

FINDINGS

ACF had a process in place to ensure that Head Start grantees took corrective action on A-133 audit findings. However, for Region VI Head Start grantees that submitted audit reports to the FAC, ACF did not always resolve recurring audit findings in accordance with Federal requirements and ACF policies and procedures. Specifically, ACF did not issue letters for 20 of the 31 audit reports we reviewed within 6 months after receiving the reports from NEAR.¹¹ In addition, although ACF provided the grantees with letters stating that the corrective actions planned or taken should prevent recurrence of the findings, ACF did not establish specific dates for grantees to correct all deficiencies noted in the audit reports. Finally, ACF did not always follow up with grantees to ensure that they actually took corrective actions to resolve audit findings.

ACF DID NOT ISSUE AUDIT DETERMINATION LETTERS IN A TIMELY MANNER

The Federal awarding agency is required to issue a management decision on audit findings within 6 months after receipt of the audit report and to ensure that the recipient takes appropriate and timely corrective action (OMB Circular A-133 § __.400(c)(5)).

ACF did not issue letters, which include management decisions on audit findings, to Head Start grantees in a timely manner. Specifically, ACF did not issue the letters for 20 of the 31 audit reports we reviewed within 6 months after receiving the reports from NEAR (Table 1).

¹¹ According to the new grants rule, which applies to audits of fiscal years beginning on or after December 26, 2014, the HHS awarding agency or pass-through entity responsible for issuing a management decision must do so within 6 months of acceptance of the audit report by the FAC (45 CFR § 75.521(d)).

Table 1: Timeliness of Issuance of Audit Determination Letters

Amount of Time To Issue Letter	Number of Audit Reports
Under 6 months	11
6–9 months	10
9–12 months	7
12–15 months	2
Over 15 months	1

According to ACF officials, the letters were not always issued within 6 months primarily because of a lack of grants staff (Table 2). According to an ACF official, there were only 8 grant management specialists at ACF to handle the 250 Head Start grants in Region VI. Additionally, grantees submitted to ACF insufficient information, requiring additional communication with the grantees to resolve the audit findings.

Table 2: Reasons Why Audit Determination Letters Were Not Issued in a Timely Manner

ACF Explanation	Number of Audit Reports
Lack of grants staff	13
Insufficient information received from grantee initially	3
Insufficient information received from grantee, after repeated requests for information; resolved with site visit	2 ¹²
Enrollment finding—grantee had to recompete for award; finding resolved after new grant awarded	1
Backlog of reports	1

When Region VI assigns a grants management specialist to an external audit, such as an A-133 audit, the audit information is entered into an internal audit tracking system.¹³ A fiscal support specialist reviews the audit report to determine whether it includes the grantee’s description of corrective action planned or taken and contacts the grantee if additional information is needed. The grantee has 30 days to respond to the request for additional information. ACF followed its policy that required contacting grantees that had provided insufficient information. For one of the three grantees who initially provided insufficient information, ACF received a response to the request for additional information within 30 days; however, a letter was still not issued within 6 months.

¹² ACF conducted a site visit at one Head Start grantee that was unresponsive to requests for information and had two audit reports with recurring findings.

¹³ The internal audit tracking system is an Access database that Region VI ACF uses to track audit information and due dates for grantees.

Some examples of recurring findings in the audit reports were the following:

- Financial reports did not agree with the expenses in the grantee's general ledger.
- The A-133 auditor assisted management in preparing the grantee's financial statements.
- There was a lack of segregation of duties related to financial transactions, including reconciling bank statements and recording all transactions and adjustments in the general ledger.
- Head Start employees did not have time and effort documentation for the second half of the fiscal year.
- The program did not meet its required enrollment.
- The grantee was unable to provide records for review and verification of in-kind activities.

ACF DID NOT ESTABLISH SPECIFIC DATES FOR GRANTEES TO CORRECT ALL DEFICIENCIES NOTED IN AUDIT REPORTS

Federal awarding agencies are required to follow up on audit findings (OMB Circular A-50 § 7.a.) and to ensure that recipients take appropriate and timely corrective action (OMB Circular A-133 § __.400(c)(5)). If an auditee has not completed corrective action, a timetable for followup should be given (OMB Circular A-133 § __.405(a)). Corrective action should be initiated within 6 months after receipt of the audit report and proceed as rapidly as possible (OMB Circular A-133 § __.405(d)).

The Manual states that, as part of completion of audit resolution, a satisfactory plan of corrective action must be developed and transmitted to the grantee, including time schedules to correct all deficiencies established (§ 4-20-00). The letter to the grantee must describe each specific deficiency, its basis, the corrective action necessary, and the date by which the action will be completed (the Manual § 4-30-04).

The letters that ACF issued included the deficiencies noted in the audit reports, the audit recommendations, corrective actions planned or taken by the grantees, and ACF's determinations of whether the corrective actions would resolve the deficiencies. However, none of the 31 letters included specific dates for grantees to correct the deficiencies. This occurred because ACF did not follow its policies and procedures, which required that the corrective action plan include a time schedule for completion. According to ACF officials, ACF does not include specific dates for completion in the letter sent to a grantee because the grantee is in a better position to determine when it can complete a corrective action.

ACF DID NOT ALWAYS FOLLOW UP WITH GRANTEES TO ENSURE THAT THEY TOOK CORRECTIVE ACTIONS TO RESOLVE AUDIT FINDINGS

The audit followup official (also called the action official) is responsible for ensuring that corrective actions are actually taken by grantees (OMB Circular A-50 § 7.c.). Action officials are expected to follow up on actions taken to correct financial or management deficiencies disclosed in audit reports (the Manual § 5-10-01).

ACF did not always follow up with grantees to ensure that they actually took corrective actions to resolve recurring audit findings. As part of its process, ACF reviews a grantee's corrective action plan and requests additional information, if necessary. ACF then issues the letter, which includes a statement that ACF believes that the corrective action planned or taken should prevent the recurrence of the finding in the future. However, ACF does not require the grantee to submit documentation to support that the grantee has implemented corrective actions to resolve the finding. In addition, ACF's policies and procedures do not require ACF to conduct monitoring or site visits to ensure that corrective actions have been implemented by the grantee to resolve the finding. For 22 of the 31 audit reports we reviewed, there was nothing in the letter indicating that ACF took action to ensure that grantees corrected audit findings.

ACF did not follow its policies and procedures requiring it to follow up on actions taken by grantees. ACF also did not initiate appropriate actions to determine why audit findings remained unresolved and when resolution of the findings would be completed.

CONCLUSION

Without resolving A-133 audit findings in a timely manner, establishing specific dates for grantees' corrective actions, and ensuring that grantees take corrective actions, the Head Start program runs the risk that grantees will not comply with Federal requirements and will mismanage Federal funds. The prompt resolution of audit findings helps ensure that Federal funds are effectively and efficiently used to carry out the activities for which they were authorized.

RECOMMENDATIONS

We recommend that ACF:

- ensure that management decisions are issued to Head Start grantees within the required 6-month timeframe;
- consider providing training to Head Start grantees on preparing corrective action plans with sufficient information for ACF to determine whether corrective actions are adequate to resolve audit findings;

- include in the letters sent to Head Start grantees specific dates for correcting deficiencies noted in the audit reports when corrective actions have not been completed;
- strengthen its policies and procedures to include monitoring of Head Start grantees and conducting site visits, when feasible, to ensure that grantees implement corrective actions to resolve audit findings; and
- review its staffing levels and determine whether resources are aligned efficiently, and adjust as needed to ensure that the audit resolution process is conducted in accordance with Federal requirements.

ACF COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

ACF COMMENTS

In written comments on our draft report, ACF concurred with our first, second, and fifth recommendations. ACF did not concur with our third recommendation and stated that it follows Uniform Guidance rather than its External Audit Resolution Manual, as it had not been updated to reflect ACF's current practice. In addition, ACF did not concur with the fourth recommendation and stated it would ensure that the requirements for audit followup are met in accordance with the Uniform Guidance. According to ACF, assessing a grantee's implementation of corrective action can be accomplished through using subsequent years' Single Audits, which ACF believes satisfies the objective of recommendation four.

ACF's comments are included in their entirety as Appendix B.

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing ACF's comments, we maintain that our recommendations are valid. We understand that ACF will update its Manual to reflect current policy and practice with respect to letters including specific dates for correcting deficiencies noted in the audit reports. However, the Uniform Guidance requires the awarding agency monitor the recipient taking appropriate and timely corrective action. In addition, while we do not disagree that a grantee's corrective action may be assessed through the Single Audit process outlined in the Uniform Guidance, we continue to encourage ACF to take a more active role in monitoring Head Start grantees to ensure that they implement corrective actions to resolve audit findings.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed FAC data for Head Start grantees in ACF Region VI¹⁴ that submitted A-133 audit reports for FFYs 2013 through 2015.

We did not perform a detailed review of ACF's internal controls because our objective did not require us to do so. We limited our internal control review to obtaining an understanding of ACF's policies and procedures related to the resolution of A-133 audit findings for Head Start grantees.

We conducted fieldwork in April 2016 at ACF regional offices in Dallas, Texas.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal laws and regulations;
- reviewed ACF's policies and procedures concerning resolution of A-133 audit findings for Head Start grantees;
- interviewed ACF and Office of Head Start officials to obtain an understanding of the policies and procedures regarding the A-133 audit resolution process for Head Start grantees;
- reviewed FAC data for Head Start grantees in ACF Region VI that submitted A-133 audit reports from FFYs 2013 through 2015;
- identified Head Start grantees with audit reports containing qualified or adverse opinions, going-concern paragraphs, reportable conditions or significant deficiencies in the financial statements, material weaknesses in the financial statements, questioned costs, and current-year findings;
- reviewed the A-133 audit reports for the grantees identified;
- identified grantees with recurring audit findings assigned to ACF for resolution and reviewed the audit reports;
- reviewed ACF's files to determine which actions were taken to resolve the recurring findings;

¹⁴ Region VI covers Arkansas, Louisiana, New Mexico, Oklahoma, and Texas.

- reviewed audit information in ACF’s Audit Resolution Tracking and Monitoring System for those grantees with recurring findings;
- reviewed training and technical assistance records in the Head Start Enterprise System for those grantees with recurring findings; and
- discussed our findings and recommendations with ACF officials.

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 objectives.

APPENDIX B: ACF COMMENTS



ADMINISTRATION FOR **CHILDREN & FAMILIES**

Office of the Assistant Secretary | 330 C Street, S.W., Suite 4034
Washington, D.C. 20201 | www.acf.hhs.gov

Ms. Gloria L. Jarmon
Deputy Inspector General for Audit Services
U.S. Department of Health and Human Services
200 Independence Avenue, SW
Washington, DC 20201

Dear Ms. Jarmon:

The Administration for Children and Families (ACF) appreciates the opportunity to respond to the Office of Inspector General (OIG) report entitled, *The Administration for Children and Families Region VI Did Not Always Resolve Head Start Grantees' Single Audit Findings in Accordance With Federal Requirements (A-06-16-00019)*.

The following are ACF's responses to the OIG's five recommendations:

Recommendation 1:

ACF follow its policies and procedures to ensure that management decisions are issued to Head Start grantees within six months of receiving A-133 audit reports from the National External Audit Review (NEAR) Center.

Response:

ACF concurs with this recommendation and will continue to work toward meeting compliance within the six-month requirement.

Recommendation 2:

ACF consider providing training to Head Start grantees on preparing corrective action plans with sufficient information for ACF to determine whether corrective actions are adequate to resolve findings.

Response:

ACF concurs with this recommendation and agrees that the corrective action plan is an important part of the audit findings follow-up and management decision process. ACF collaborated with the Federal Audit Clearinghouse on its process to reject Single Audit reports that do not have a separate corrective action plan when required. The Uniform Guidance clarifies that the corrective action plan must be a separate document from the auditor's findings. ACF will include corrective action plan training as appropriate in other trainings and contacts with grantees, particularly when the grantee's corrective action plan fails to include the elements required by 45 CFR 75.511(c).

Recommendation 3:

ACF include in the letters to Head Start grantees specific dates for correcting deficiencies noted in the audit reports when corrective actions have not been completed.

Response:

ACF does not concur with this recommendation. ACF follows the Uniform Guidance, which does not require the audit determination letter (ADL) to include a specific date for correcting deficiencies. ACF evaluates: the grantee's corrective action plan (which is required to include an anticipated completion date); corrective actions already taken; the reasonableness, sufficiency, and schedule for planned actions; and other available information when resolving an audit finding. The ADL includes language appropriate for the circumstances.

ACF acknowledges that the ACF External Audit Resolution Manual (Manual) was not current during the period when the OIG conducted its review and did not reflect ACF's current policy and practice. ACF will make the necessary revisions in the 2018 update of the Manual.

Recommendation 4:

ACF strengthen its policies and procedures to include monitoring of Head Start grantees and conducting site visits, when feasible, to ensure that grantees actually implement corrective actions to resolve audit findings.

Response:

ACF does not concur with this recommendation. However, ACF will ensure that the requirements for audit follow-up are met in accordance with the Uniform Guidance. Assessing a grantee's implementation of corrective action can be accomplished through using subsequent years' Single Audits, which we believe does satisfy the objective of recommendation four.

ACF notes that the following items discussed on page seven in the OIG draft report are not required by ACF policies and procedures nor are they required by the A-133 or the Uniform Guidance.

“However, ACF does not require the grantee to submit documentation to support that the grantee has implemented corrective actions to resolve the finding. In addition, ACF's policies and procedures do not require ACF to conduct monitoring or site visits to ensure that corrective actions have been implemented by the grantee to resolve the finding.”¹

The Single Audit process provides grantee and independent auditor reporting on the status of subsequent conditions and corrective actions. Therefore, site visits solely to ensure corrective actions on audit findings are unnecessary. Additional site visits and other measures to assess implementation of corrective actions would be redundant to the measures prescribed in the Uniform Guidance and result in resource inefficiencies.

ACF uses and relies upon Head Start agencies' annual audits, including the processes required by the Uniform Guidance at 45 CFR 75.511- *Audit findings follow-up* and 45 CFR 75.521 - *Management decision* to follow-up and ensure corrective action on audit findings.² For example, an audit finding in Year One is followed-up on by entity management in Year Two, with reporting in the Summary Schedule of Prior Audit Findings, and also by the auditor as required by 45 CFR 75.514 (e) - *Audit follow-up*, which includes the auditor's review of the grantee's

¹ OIG draft transmitted July 11, 2017, page 7, second paragraph, under title “ACF DID NOT ESTABLISH SPECIFIC DATES FOR GRANTEEES TO CORRECT ALL DEFICIENCIES NOTED IN AUDIT REPORTS.”

² The Uniform Guidance requirements for audit finding follow-up is substantially the same as under OMB Circular A-133 and we have used the Uniform Guidance references to be current.

Summary Schedule of Prior Audit findings. In addition, prior year audit findings are a risk factor in the auditor’s determination of major programs, which often results in the program where the audit finding occurred to be audited as a major program in Year Two. Head Start grants are awarded to entities for multiple years and the Single Audit process tracks and follows audit findings in subsequent years until the underlying conditions putting Federal awards at risk are mitigated. ACF posits that in most cases the Single Audit process is sufficient, recognizing exceptions may be needed for unusually high risk circumstances.

The Office of Management and Budget (OMB) reforms in the Uniform Guidance were intended to reduce administrative burden for non-Federal entities (December 26, 2013, *Federal Register* (78 FR 78590)) and ACF’s reliance on the audit finding follow-up process included in Single Audits is consistent with the OMB reforms.

Recommendation 5:

ACF review its staffing levels and determine whether resources are aligned efficiently, and adjust as needed, to ensure that the audit resolution process is conducted in accordance with Federal requirements.

Response:

ACF concurs with this recommendation and will continue to explore alternative approaches to staffing challenges.

Again, thank you for the opportunity to review this report. Please direct any follow-up inquiries on this response to Scott Logan, Office of Legislative Affairs and Budget, at (202) 401-4529.

Sincerely,

/s/

Steven Wagner