



February 22, 2010

**TO:** Yvette Sanchez Fuentes  
Director, Office of Head Start  
Administration for Children & Families

**FROM:** /Lori S. Pilcher/  
Assistant Inspector General for Grants, Internal Activities,  
and Information Technology Audits

**SUBJECT:** Results of Limited Scope Review of Centro de la Familia de Utah Head Start Program (A-07-09-02768)

The attached final report provides the results of our limited scope review of Centro de la Familia de Utah Head Start Program. This review was requested by the Administration for Children & Families, Office of Head Start, as part of its overall assessment of Head Start grantees that have applied for additional funding under the Recovery Act.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that the Office of Inspector General (OIG) post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://oig.hhs.gov>.

Please send us your final management decision, including any action plan, as appropriate, within 60 days. If you have any questions or comments about this report, please do not hesitate to contact me at (202) 619-1175 or through email at [Lori.Pilcher@oig.hhs.gov](mailto:Lori.Pilcher@oig.hhs.gov). Please refer to report number A-07-09-02768 in all correspondence.

Attachment

cc:  
Ross Weaver  
Regional Program Manager, Region VIII  
Office of Head Start  
[ross.weaver@acf.hhs.gov](mailto:ross.weaver@acf.hhs.gov)

Department of Health & Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**RESULTS OF LIMITED SCOPE  
REVIEW OF CENTRO DE LA  
FAMILIA DE UTAH  
HEAD START PROGRAM**



Daniel R. Levinson  
Inspector General

February 2010  
A-07-09-02768

# *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 & Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

## *Office of Audit Services*

The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

## *Office of Evaluation and Inspections*

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

## *Office of Investigations*

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

## *Office of Counsel to the Inspector General*

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

# *Notices*

---

**THIS REPORT IS AVAILABLE TO THE PUBLIC**  
at <http://oig.hhs.gov>

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

## **OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS**

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

## **EXECUTIVE SUMMARY**

### **BACKGROUND**

Pursuant to the Improving Head Start for School Readiness Act of 2007, P.L. No. 110-134, Head Start is a national program that promotes school readiness by enhancing the social and cognitive development of children through the provision of educational, health, nutritional, social and other services to enrolled children and families. Within the U.S. Department of Health & Human Services, the Administration for Children & Families, Office of Head Start (OHS), administers the Head Start program. The Head Start program provides grants to local public and private non-profit and for-profit agencies to provide comprehensive child development services to economically disadvantaged children and families.

Under the American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), enacted February 17, 2009, ACF received \$1 billion, including nearly \$354 million to help improve staff compensation and training, upgrade Head Start Centers and classrooms, increase hours of operation, and enhance transportation services. An additional \$356 million was allocated to award all Head Start grantees a nearly five percent cost-of-living increase and to bolster training and technical assistance activities.

Centro de la Familia de Utah (CDLF) is a non-profit agency, incorporated in 1975, whose mission is to strengthen the immigrant and Latino community in the State of Utah. In 1991, CDLF began its Migrant Head Start program to serve children from migrant and seasonal farmworking families. In addition, CDLF has administered a regular Head Start program since 2001. CDLF provides a comprehensive set of services, which includes full-day childcare, health and dental care, nutrition, and educational and social services, to children from birth to five years old and to their families.

CDLF is funded primarily through Federal and local government grants. OHS awarded \$4,706,200 in Federal Migrant Head Start funds to CDLF for the 2009–2010 grant year (April 1, 2009, through March 31, 2010) to provide services to 402 children in three facilities it operates. On June 24, 2009, CDLF's Migrant Head Start program received \$257,907 in Recovery Act funding for cost of living allowances and quality improvements.

In addition, OHS awarded \$1,624,700 in Federal Head Start funds to CDLF for the 2009–2010 grant year to provide services to 128 children in two other facilities it operates. On June 29, 2009, CDLF's Head Start program also received \$76,689 in Recovery Act funding for cost of living allowances and quality improvements.

### **OBJECTIVES**

The objectives of our limited scope review were to determine whether: (1) CDLF is fiscally viable and (2) CDLF's financial management system adequately managed and accounted for Federal funds.

## **SUMMARY OF FINDINGS**

Based on its current financial condition, CDLF has improved its financial viability over the past 5 years. However, CDLF's financial flexibility<sup>1</sup> is impaired due to the lack of short-term liquidity and an unrestricted net asset deficit that has caused it to rely on a line of credit with its bank. Also, CDLF's financial management system did not adequately manage Federal funds used for administrative costs and indirect costs. Furthermore, CDLF's matching share in-kind costs were not always allowable or reasonable. As a result,

- we were unable to verify, for program year 2008–2009, that development and administrative costs did not exceed 15 percent of the total Head Start program costs;
- development and administrative costs reported on CDLF's Financial Status Reports to ACF were not based on actual costs;
- the Migrant Head Start program may be paying more than its fair share of indirect and dual benefit payroll costs; and
- CDLF may not have provided 20 percent of the total costs of the Head Start program.

## **RECOMMENDATION**

In determining whether CDLF should be awarded additional Head Start and Recovery Act grant funding, we recommend that ACF consider the information presented in this report in assessing CDLF's financial condition.

## **AUDITEE COMMENTS**

In written comments on our draft report, CDLF stated that it accepted our findings “as useful improvements to the fiscal operations” of the agency. CDLF added that it has implemented procedures to correct the issues identified in our findings, and offered narrative comments to demonstrate its commitment to improving the financial viability of the organization and the establishment of controls in the areas in which we reported control deficiencies. However, in commenting on that portion of our findings that dealt with indirect costs, CDLF disagreed with our inclusion of the U.S. Department of Agriculture (USDA) grant in the cost pool to which indirect costs could be allocated.

CDLF's comments are included in their entirety as the Appendix.

## **OFFICE OF INSPECTOR GENERAL RESPONSE**

CDLF did not provide evidence that it was authorized to exclude USDA funds from its cost allocation plan. The regulations for both the Head Start and USDA Child and Adult Care Food

---

<sup>1</sup>Per Financial Accounting Standards Board (FASB) Statement No. 117, financial flexibility is the ability of an entity to take effective actions to alter amounts and timing of cash flows so it can respond to unexpected needs and opportunities.

Programs state that the allowability of costs incurred by non-profit organizations is determined in accordance with the provisions of Office of Management and Budget (OMB) Circular A-122, *Cost Principles for Non-Profit Organizations*. Exclusions to the cost principles are typically negotiated when formulating an indirect cost rate agreement. However, CDLF has not secured such an agreement and has not been authorized by the U. S. Department of Health & Human Services to exclude the USDA funds from the provisions of OMB Circular A-122. Therefore, we maintain that the USDA funds need to be included in CDLF's cost allocation plan.

**TABLE OF CONTENTS**

	<u>Page</u>
<b>INTRODUCTION.....</b>	<b>1</b>
<b>BACKGROUND .....</b>	<b>1</b>
Federal Head Start Program.....	1
Centro de la Familia de Utah .....	1
Federal Regulations for Head Start Grantees.....	2
<b>OBJECTIVES, SCOPE, AND METHODOLOGY .....</b>	<b>2</b>
Objectives .....	2
Scope .....	2
Methodology .....	2
<b>FINDINGS AND RECOMMENDATION.....</b>	<b>3</b>
<b>FINANCIAL VIABILITY .....</b>	<b>3</b>
Short-Term Liquidity .....	4
Unrestricted Net Asset Deficit .....	4
<b>FINANCIAL MANAGEMENT SYSTEM .....</b>	<b>4</b>
Administrative Costs.....	5
Indirect and Dual Benefit Cost Allocation.....	5
<b>IN-KIND MATCH.....</b>	<b>6</b>
Allowability of Parent Involvement Activities .....	6
Allowability of Parent Transportation .....	7
Reasonableness of Parent Involvement Activities.....	8
Reasonableness of Donated Supplies.....	8
<b>CONCLUSION .....</b>	<b>9</b>
<b>RECOMMENDATION .....</b>	<b>9</b>
<b>AUDITEE COMMENTS.....</b>	<b>9</b>
<b>OFFICE OF INSPECTOR GENERAL RESPONSE .....</b>	<b>10</b>
 <b>APPENDIX</b>	
<b>AUDITEE COMMENTS</b>	

## **INTRODUCTION**

### **BACKGROUND**

#### **Federal Head Start Program**

Pursuant to the Improving Head Start for School Readiness Act of 2007, P.L. No. 110-134, Head Start is a national program that promotes school readiness by enhancing the social and cognitive development of children through the provision of educational, health, nutritional, social and other services to enrolled children and families. Within the U.S. Department of Health & Human Services, the Administration for Children & Families, Office of Head Start (OHS), administers the Head Start program.

The Head Start program provides grants to local public and private non-profit and for-profit agencies to provide comprehensive child development services to economically disadvantaged children and families, with a special focus on helping preschoolers develop the early reading and math skills needed to be successful in school. Head Start programs engage parents in their children's learning and emphasize parental involvement in the administration of local Head Start programs.

Under the American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), enacted February 17, 2009, ACF received \$1 billion, including nearly \$354 million to help improve staff compensation and training, upgrade Head Start centers and classrooms, increase hours of operation and enhance transportation services. An additional \$356 million was allocated to award all Head Start grantees a nearly five percent cost-of-living increase and to bolster training and technical assistance activities.

#### **Centro de la Familia de Utah**

Centro de la Familia de Utah (CDLF) is a non-profit agency, incorporated in 1975, whose mission is to strengthen the immigrant and Latino community in the State of Utah. In 1991, CDLF began its Migrant Head Start program to serve children from migrant and seasonal farmworking families. In addition, CDLF has administered a regular Head Start program since 2001. CDLF provides a comprehensive set of services, which includes full-day childcare, health and dental care, nutrition, and educational and social services, to children from birth to five years old and to their families.

CDLF is funded primarily through Federal and local government grants. OHS awarded \$4,706,200 in Federal Migrant Head Start funds to CDLF for the 2009–2010 grant year (April 1, 2009, through March 31, 2010) to provide services to 402 children in three facilities it operates. On June 24, 2009, CDLF's Migrant Head Start program also received \$257,907 in Recovery Act funding for cost of living allowances and quality improvements.

In addition, OHS awarded \$1,624,700 in Federal Head Start funds to CDLF for the 2009–2010 grant year to provide services to 128 children in two other facilities it operates. On

June 29, 2009, CDLF's Head Start program also received \$76,689 in Recovery Act funding for cost of living allowances and quality improvements.

### **Federal Regulations for Head Start Grantees**

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.

## **OBJECTIVES, SCOPE AND METHODOLOGY**

### **Objectives**

The objectives of our limited scope review were to determine whether: (1) CDLF is fiscally viable and (2) CDLF's financial management system adequately managed and accounted for Federal funds.

### **Scope**

We performed our review based upon a limited scope request from ACF, dated April 13, 2009. Therefore, we did not perform an overall assessment of CDLF's internal control structure. Rather, we reviewed only the internal controls that pertained directly to our objectives. Our review period was July 1, 2008, through June 30, 2009.

We performed our fieldwork at CDLF's administrative office in South Salt Lake, Utah, during July and August 2009.

### **Methodology**

To accomplish our objectives, we:

- reviewed relevant Federal laws, regulations and guidance;
- reviewed CDLF's fiscal procedures related to accounting documentation and preparation of financial reports;
- obtained Federal grant award documentation to determine CDLF's Federal funding;
- reviewed CDLF's financial statements for fiscal years (FY) 2005 through 2009;<sup>1</sup>
- reviewed CDLF's monthly general ledger transactions;

---

<sup>1</sup>We reviewed CDLF's audited financial statements for FYs 2005 through 2008 as well as CDLF's FY 2009 financial statement, which had not been finalized by the time we conducted our fieldwork.

- performed liquidity and stability analyses of CDLF's finances; and
- interviewed officials at CDLF's bank to determine the status of CDLF's line of credit.

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.

## **FINDINGS AND RECOMMENDATION**

Based on its current financial condition, CDLF has improved its financial viability over the past 5 years. However, CDLF's financial flexibility<sup>2</sup> is impaired due to the lack of short-term liquidity and an unrestricted net asset deficit that has caused it to rely on a line of credit with its bank. Also, CDLF's financial management system did not adequately manage Federal funds used for administrative costs and indirect costs. Furthermore, CDLF's matching share in-kind costs were not always allowable or reasonable. As a result,

- we were unable to verify, for program year 2008–2009, that development and administrative costs did not exceed 15 percent of the total Head Start program costs;
- development and administrative costs reported on CDLF's Financial Status Reports (standard form 269) (SF-269) to ACF were not based on actual costs;
- the Migrant Head Start program may be paying more than its fair share of indirect and dual benefit payroll costs; and
- CDLF may not have provided 20 percent of the total costs of the Head Start program.

## **FINANCIAL VIABILITY**

Based on its current financial condition, CDLF is a fiscally viable organization. However, CDLF's financial flexibility is impaired due to the lack of short-term liquidity and an unrestricted net asset deficit that has caused it to rely on a line of credit with its bank.

To determine whether CDLF is financially viable, we performed liquidity and stability analyses of CDLF's finances for FY 2009 and, for background information, we reviewed CDLF's financial history for FYs 2005–2008.

---

<sup>2</sup>Per Financial Accounting Standards Board (FASB) Statement No. 117, financial flexibility is the ability of an entity to take effective actions to alter amounts and timing of cash flows so it can respond to unexpected needs and opportunities.

## **Short-Term Liquidity**

We performed a liquidity analysis—the relationship of current assets to current liabilities—to determine CDLF’s ability to pay its current obligations. Generally, for an organization to be considered fiscally sound, its current assets should be valued more than its current liabilities. Our analysis indicated that CDLF’s current liabilities exceeded its current assets (the current assets-to-liabilities ratio was 0.71 at fiscal year end (FYE) 2009).<sup>3</sup> In addition, CDLF’s working capital—current assets (\$318,814) less current liabilities (\$450,683)—was negative (-\$131,871) at FYE 2009.<sup>4</sup> Positive working capital is a common measure of an organization’s liquidity, efficiency, and overall health. Negative working capital shows the inverse.

## **Unrestricted Net Asset Deficit**

Unrestricted net assets are similar to retained earnings or owners’ equity in business enterprises. Unrestricted net assets usually accumulate over several years, and are available for use by the organization at the discretion of the board of directors. CDLF had an unrestricted net asset deficit since FY 2005, if not longer. Consequently, CDLF has had to rely on a line of credit with its bank to fund its operating shortfalls. CDLF had an unrestricted net asset deficit of \$148,000 at FYE 2009 (unaudited). CDLF has reduced the deficit by 66 percent from FY 2005 (\$433,000) to FY 2009 (\$148,000).

The bank became concerned with CDLF’s line of credit when the unrestricted net asset deficit exceeded \$300,000 in FY 2005, and it required CDLF to bring its operating deficits under control. These financial difficulties threatened CDLF’s fiscal viability. CDLF’s Board of Directors addressed this crisis by hiring a new Chief Executive Officer in September 2006, in part to instill stronger fiscal responsibility and eliminate CDLF’s operating deficits. Accordingly, CDLF assessed its programs and shut down two facilities that it could no longer feasibly maintain. Bank officials told us that the bank is satisfied with CDLF’s progress to date. CDLF is considering additional cost-cutting measures that include reducing the lease cost on its administrative office by moving to a smaller space. CDLF’s financial condition has improved under the new leadership.

To ensure the continuing viability of the organization as a going concern, CDLF needs to strengthen its financial flexibility by improving liquidity and increasing unrestricted net assets.

## **FINANCIAL MANAGEMENT SYSTEM**

CDLF’s financial management system did not adequately manage Federal funds used for administrative costs and indirect costs.

---

<sup>3</sup>This ratio means that for every \$1 owed in short-term obligations, CDLF only has 71 cents to cover each dollar’s worth of obligations. The assets-to-liabilities ratios for FYEs 2007 and 2008 were .41 and .55, respectively.

<sup>4</sup>The working capital at FYEs 2007 and 2008 was (-\$378,718) and (-\$261,860), respectively.

## **Administrative Costs**

Federal regulations (2 CFR § 215.21(b)(1)) state that a grantee's financial management systems must provide "accurate, current, and complete disclosure of the financial results of each federally sponsored project or program." In addition, 45 CFR § 1301.32(a) stipulates that development and administrative costs of a Head Start program must not exceed 15 percent of the total approved program costs. Further, 45 CFR § 74.52(a)(1)(i) states that Federal Head Start grantees are required to submit SF-269s at least annually. The grantee certifies on the SF-269 that the obligations and expenses included on the reports are complete and correct.

Contrary to the provisions of 2 CFR § 215.21(b)(1), CDLF did not consistently designate, at the transaction level, whether costs charged to the Migrant Head Start grant were programmatic or administrative. As a result, CDLF's accounting system could not be used to identify the actual costs of administering the Migrant Head Start program. CDLF determined administrative costs for the program by using the administrative cost percentages from the Grant Application Budget Instrument. OHS's prescribed limits for administrative costs are intended to be used as guidance for limiting administrative costs in specific expense categories. For example, OHS has a prescribed administrative cost limit of 5 percent for telephone costs. Such limits aim to ensure that Head Start funds expended by a grantee agency like CDLF are used primarily for the delivery of services and not for excessive administrative costs. However, CDLF used the prescribed expense category limits to determine its administrative costs for the expense category regardless of what portion of the actual costs were administrative.

## **Indirect and Dual Benefit Cost Allocation**

The cost principles regarding allocable costs are set forth in Office of Management and Budget (OMB) Circular A-122, *Cost Principles for Non-Profit Organizations*, Appendix A, Basic Consideration No. 4, which states:

A cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received. A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it (1) [i]s incurred specifically for the award; (2) [b]enefits both the award and other work and can be distributed in reasonable proportion to the benefits received, or (3) [i]s necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown.

Furthermore, OMB Circular A-122, Appendix B(8)(m)(1) and (2)(a), states that "[t]he distribution of salaries and wages to awards must be supported by personnel activity reports. . . . The reports must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates (*i.e.*, estimates determined before the services are performed) do not qualify as support for charges to awards."

Contrary to the provisions of OMB Circular A-122, Appendix A, CDLF did not have a cost allocation plan that fairly allocated indirect costs and dual benefit costs to its various funding

sources. CDLF currently allocates indirect costs between the following three programs, based on a percentage of their combined total funding: Migrant Head Start, Head Start and a substance abuse program funded by Salt Lake County. For FY 2009, CDLF received approximately \$5.7 million for the two Head Start programs combined, and over \$91,400 for the substance abuse program. However, CDLF's indirect cost allocation plan did not conform to the provisions of OMB Circular A-122, Appendix A, because that indirect cost allocation plan excluded nine additional programs for the administration of which CDLF received over \$367,200 in FY 2009.

In addition, and contrary to the provisions of OMB Circular A-110, *Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations*, Appendix B, dual benefit payroll costs were allocated based on estimates and not on actual benefits received. For example, an employee at CDLF's Box Elder facility spent time on two different programs. Eighty percent of the employee's time was charged to the Migrant Head Start program and the rest to a program funded through Utah State University. The facility director told us that the employee was not required to keep track of how much time was spent working on each program.

## **IN-KIND MATCH**

CDLF's matching share of the total Migrant Head Start program costs consisted of in-kind costs that were not always allowable, with respect to parent involvement activities and parent transportation, or reasonable, with respect to parent involvement activities and donated supplies.

Federal regulations (45 CFR § 1301.20(a)) require grantees to provide 20 percent of the total costs of the Head Start program unless a waiver has been granted. This matching share must come from non-Federal sources. ACF has not granted CDLF a waiver for the 2009 grant year. CDLF purports that it met the Head Start requirements for the 20 percent matching share through in-kind contributions from parent involvement activities, volunteer services, teacher home visits, transportation costs (miles), donated materials, vendor discounts, and other miscellaneous items. However, as we will discuss below, those matching share in-kind costs were not always allowable or reasonable. Consequently, CDLF may not have provided 20 percent of the total costs of the Head Start program. We selected the January 2009 Migrant Head Start in-kind contributions totaling \$104,265 for review.

## **Allowability of Parent Involvement Activities**

Federal regulations (45 CFR § 74.23(i)(1)) state that "volunteer services shall be documented and, to the extent feasible, supported by the same methods used by the recipient for its own employees, including time records." OHS guidance (OHS-PC-A-006) states that "if a Head Start child's teacher provides the child's parents with written plans or guidance as to the types of activities that need to be done with the child at home in order to support the child's Head Start experience these activities may, when fairly valued, be counted as non-federal share." Further clarification is provided in OHS guidance (OHS-PC-A-077) which states: "A parent involvement activity that primarily benefits the parent and their child is not considered an

allowable cost for an in-kind match. An activity that provides a good or service to benefit the program is considered an allowable cost for an in-kind match.”

CDLF reported, as part of its non-Federal share match, \$3,622 for unallowable hours spent by parents helping their children at home with activities for which we could not determine a benefit to the Head Start program. The ineligible activities included activities that were either not outlined by the teachers or had inadequate or blank descriptions. Ineligible activities not outlined by the teachers included activities such as shopping, going to church, going to the movies, and celebrating a birthday. We concluded that approximately 353 hours from 64 activity reports were not allowable because either the activity was not filled in on the report or the type of activity was ineligible. In addition, we could not always determine whether an activity was allowable because some of the activity descriptions were vague. Additionally, most of the exceptions lacked approval of the volunteers’ time because the center director’s signature was missing from the documentation. The teachers’ signatures were also frequently missing from the volunteer activity forms. Because the activity forms are primarily filled out in Spanish,<sup>5</sup> the accounting personnel rely on the facilities to ensure allowability. In our opinion, the teachers should be performing a more thorough review, because they are in the best position to know whether the parent activities are benefiting the program and to assess the accuracy of the reported hours.

Seventy-seven percent of the exceptions occurred at the Providence facility. CDLF’s Chief Executive Officer stated that staff turnover at the Providence Center Director position contributed to the problem. We spot-checked the June 2009 in-kind contribution forms and found that the Providence facility was doing a better job of documenting the volunteer time and ensuring that activities were allowable.

### **Allowability of Parent Transportation**

OHS guidance (ACF-PI-HS-07-04) states:

[A]s of June 24, 2007 . . . Head Start funds cannot be used to cover the costs of any transportation that is not in a compliant vehicle and, therefore, Head Start grantees cannot claim as non-federal share any costs incurred in transporting Head Start children who are not being transported in compliant vehicles. The costs incurred by parents in transporting their children to and from a Head Start center will no longer be able to be counted as non-federal share.

CDLF reported, as part of its non-Federal share match, unallowable miles for parents transporting their children to and from the Head Start facility. The transportation cost in-kind match totaled approximately \$9,400 in January 2009. Mileage, volunteer time and other donations are tracked using volunteer activity logs. The parents did not always specify a volunteer service on the logs that we reviewed. In some other cases, the reported activity was too vague for us to determine the nature of volunteer work performed. For example, parents would only note that they were visiting the facility. However, staff from two of the facilities told us that the reported mileage sometimes included parents’ mileage for dropping off and picking

---

<sup>5</sup>We had an auditor who is fluent in Spanish review the records.

up their children. We saw several logs in which the reported activity showed pick-up or drop-off; however, due to the inadequate documentation we were unable to determine the frequency of this practice.

### **Reasonableness of Parent Involvement Activities**

Federal regulations (45 CFR § 74.23(a)) state that “[t]o be accepted, all cost sharing or matching contributions, including cash and third party in-kind, . . . [a]re verifiable from the recipient’s records; . . . [a]re necessary and reasonable for proper and efficient accomplishment of project or program objectives; [a]re allowable under the applicable cost principles.”

In some cases the amount of time that parents reported on the activity reports appeared to be unreasonable. As examples:

- A family reported spending over seven hours a day, each day of the week, assisting their child with his/her assigned activities.
- Families turned in two activity reports, one for each parent. For example, in one week, a parent reported spending over 34 hours and the other parent reported spending over 50 hours assisting their child. Both parents reported the same activities.
- A parent signed his/her activity reports as well as the spouse’s reports.
- Parents submitted weekly forms up to three months after the fact.
- The reported time for multiple activities never varied from day to day and week to week.

In most of these cases, it appeared to us that the parents were simply filling out the forms to boost their volunteer services contributions, and that the hours were not based on actual time spent with their children on allowable activities.

### **Reasonableness of Donated Supplies**

Federal regulations (45 CFR § 74.23(f)) state that “Value assessed to donated supplies included in the cost sharing or matching share shall be reasonable and shall not exceed the fair market value of the property at the time of the donation.”

CDLF’s financial services specialist told us that the donor usually determines the value of the donations. Because CDLF does not consider the fair market value of the donation when determining the matching share, the donations may not always be reasonably valued. The donated supplies in-kind match totaled over \$2,140 in January 2009. Because the supporting documentation did not adequately describe the donations, we could not determine the reasonableness of the cost.

## **CONCLUSION**

Based on its current financial condition, CDLF has improved its financial viability over the past 5 years. However, CDLF's financial flexibility is impaired due to the lack of short-term liquidity and an unrestricted net asset deficit that has caused it to rely on a line of credit with its bank. Also, CDLF's financial management system did not adequately manage Federal funds used for administrative costs and indirect costs. Furthermore, CDLF's matching share in-kind costs were not always allowable or reasonable. As a result,

- we were unable to verify, for program year 2008–2009, that development and administrative costs did not exceed 15 percent of the total Head Start program costs;
- development and administrative costs reported on the SF-269 were not based on actual costs;
- the Migrant Head Start program may be paying more than its fair share of indirect and dual benefit payroll costs; and
- CDLF may not have provided 20 percent of the total costs of the Head Start program.

## **RECOMMENDATION**

In determining whether CDLF should be awarded additional Head Start and Recovery Act grant funding, we recommend that ACF consider the information presented in this report in assessing CDLF's financial condition.

## **AUDITEE COMMENTS**

In written comments on our draft report, CDLF stated that it accepted our findings “as useful improvements to the fiscal operations” of the agency. CDLF offered narrative comments to demonstrate its commitment to improving the financial viability of the organization and the establishment of controls in the areas in which we reported control deficiencies. However, in commenting on that portion of our findings that dealt with indirect costs, CDLF disagreed with our inclusion of the U. S. Department of Agriculture (USDA) grant in the cost pool to which indirect costs could be allocated.

CDLF also provided information on corrective actions that it said it will undertake. Specifically, CDLF stated that its Board of Directors is committed to eliminating the deficit and increasing unrestricted assets as quickly as possible. To ensure that it is in compliance with the Head Start administrative cost limits, CDLF said that it has modified its accounting software to allow for the functional tracking of each transaction, thereby enabling CDLF to track administrative costs by program and function. CDLF added that its cost allocation plan was amended in September 2009 so that all programs are included in the allocation model, except those as noted above. In addition, CDLF said that it purchased software that will allow employees to charge time directly to various programs on a daily basis. Finally, CDLF said that it has improved controls to ensure

that (a) in-kind contributions are allowable, allocable, and reasonable, and (b) the non-Federal share of total costs of the Head Start program is accounted for correctly.

CDLF's comments are included in their entirety as the Appendix.

#### **OFFICE OF INSPECTOR GENERAL RESPONSE**

CDLF did not provide evidence that it was authorized to exclude USDA funds from its cost allocation plan. The regulations for both the Head Start and USDA Child and Adult Care Food Programs state that the allowability of costs incurred by nonprofit organizations is determined in accordance with the provisions of OMB Circular A-122. Exclusions to the cost principles are typically negotiated when formulating an indirect cost rate agreement. However, CDLF has not secured such an agreement and has not been authorized by the U. S. Department of Health & Human Services to exclude the USDA funds from the provisions of OMB Circular A-122. Therefore, we maintain that the USDA funds need to be included in CDLF's cost allocation plan.

# **APPENDIX**

## APPENDIX: AUDITEE COMMENTS



### **Centro de la Familia de Utah** Developing educational opportunities that empower Latinos.

January 14, 2010

Office of Inspector General  
Office of Audit Services  
Region VII  
601 East 12<sup>th</sup> Street, Room 0419  
Kansas City, Missouri 64106

Subject: Report Number A-07-09-02768

Centro de la Familia de Utah acknowledges receipt of draft report dated January 12, 2010 for the on site visit in July 2009. We appreciate the professionalism of the team assigned for this visit and acknowledge their expertise in the items presented in the draft report.

Centro de la Familia de Utah runs a high quality Head Start program for the children of Migrant agricultural workers in the state of Utah. We are proud of our achievements in meeting the highest standards of educational requirements in our efforts to help the needy children and families we serve. We are continually striving to achieve best practices in every aspect of our program and we accept the findings of the Office of the Inspector General as useful improvements to the fiscal operations of our Agency. Our response is not to excuse or justify any of the items in the report. Our goal is to have a high quality, accountable, and transparent organization. We appreciate the Office of Inspector General's review of our fiscal operations and have implemented procedures to correct the findings mentioned in this report.

#### Item 1: Financial Viability

Centro de la Familia de Utah has had an overall agency accumulated operating deficit going back to the mid 1990's. This deficit was caused by expenditure overruns in various programs run by the agency. In 2006, new management (Chief Executive Officer and Finance Director) were hired to address the deficit. Since September 2006, the accumulated deficit has shrunk from \$260,000 down to \$85,000 as of the end of November 2009. This reduction in the deficit is reflected in the gradual improvement in the current ratio mentioned in the report. This reduction in the deficit has come from improved margins in the non-Head Start programs run by the agency as well as fund raising efforts by the Board of Directors. The Board of the



## Centro de la Familia de Utah

Developing educational opportunities that empower Latinos.

organization is committed to eliminating this deficit and increasing unrestricted assets as quickly as possible. Progress on the deficit reduction is a mandatory report at every meeting of the Board of Directors and is the goal of ongoing fund raising efforts by the Board. No Head Start funds are used in the deficit reduction fund raising efforts. The calculation of the current ratio is being added to the monthly reports given to the Board of Directors. The funding needs for the agency are augmented through a \$250,000 line of credit loan through our bank. The bank routinely monitors our progress on the deficit elimination and receives a copy of the monthly financial reports given to the Board of Directors.

### Item 2: Financial Management System

**Administrative Costs:** Our accounting software has been modified to allow for functional tracking of each transaction. In the accounting software, each transaction can be allocated among appropriate programs, and also allocated to Head Start defined functions (administrative, education, family partnerships, occupancy, transportation, health, etc.). The report generated from the accounting system therefore tracks administrative costs by program and function, and can be directly tied to the individual supporting transaction. Reporting is available for various sorts and detail levels. This revision to our accounting software was effective beginning Oct 01, 2009. An October 2009 Federal Review by the Office of Head Start issued no findings for our Administrative Cost Limitation tracking system. The December 2010 report shows our administrative costs to be 13.0% of total expenditures.

**Cost Allocation:** Over \$200,000 of the funds not included in our Allocation Model was the meal funding from the USDA. It is our understanding that Head Start has not issued guidance on this question and that Head Start agencies are not required to allocate administrative costs to our USDA funds. In September 2009, our Cost Allocation Plan was amended so that program size (not matter how small) does not determine what is included in the Allocation Model. This new Allocation Model distributes allocable overhead costs based on actual hours worked. We have purchased new time tracking software compatible with our payroll service that allows for employees to charge their hours directly to various programs on a daily basis. An October 2009 Federal Review by the Office of Head Start issued no findings for our revised cost allocation plan

### Item 4: In-Kind Match (Non-Federal Share)

Our procedures for tracking non-federal share donations have been revised and are in the process of implementation. We are requiring Center Managers to be responsible



## Centro de la Familia de Utah

Developing educational opportunities that empower Latinos.

for each volunteer activity form. For Parent Involvement Activities we are requiring the teachers confirming signature that the activity is indeed a curriculum based activity with the appropriate educational objective related to weekly lesson plans. Parent Transportation is not an allowable item unless the parent is coming to the center as a volunteer. Center Managers have been trained in principles of recognition of expenditure allowability, allocability, and reasonableness, including specific documentation of any donated supplies. Such training will be repeated as needed (at least once per year).

We have put in place several checks and balances to ensure that non-federal share is being accounted for correctly. Teachers are responsible for ensuring the Parent Educational Activity forms are directly related to lesson plans. Center managers are responsible for ensuring that donation of goods and services are only counted in the non-federal share calculation if the item or service is something that would otherwise have been purchased by the agency. Central office managers ensure that non-federal share items in each of their areas match the definitions and guidance from the Office of Head Start. Finally, finance management provides ongoing training in conjunction with the Deputy Head Start Director to individual centers and their staff and then performs checks on documentation to ensure compliance with the procedures. Periodic on-site monitoring by the Finance Department and the Deputy Head Start Director is scheduled ongoing throughout the year.

P. Corper James  
President  
Board of Directors  
Centro de la Familia de Utah