



April 21, 2010

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

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

**SUBJECT:** Results of Limited Scope Review at the Mid-Kansas Community Action Program  
(A-07-09-03133)

The attached final report provides the results of our limited scope review at the Mid-Kansas Community Action Program. This review was requested by the Administration for Children and Families, Office of Head Start, as part of its overall assessment of Head Start grantees that have applied for additional funding under the American Recovery and Reinvestment Act of 2009.

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-07-09-03133 in all correspondence.

Attachment

**Department of Health & Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**RESULTS OF LIMITED SCOPE  
REVIEW AT THE MID-KANSAS  
COMMUNITY ACTION PROGRAM**



**Daniel R. Levinson**  
Inspector General

April 2010  
A-07-09-03133

# *Office of Inspector General*

<http://oig.hhs.gov>

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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 and Families (ACF), Office of Head Start, 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.

Mid-Kansas Community Action Program, Inc. (Mid-CAP), is a non-profit organization which serves economically and socially disadvantaged persons in 13 counties in south-central Kansas. A Board of Directors (Board) governs Mid-CAP, which operates 10 Head Start facilities in this 13-county area.

Mid-CAP's mission is to provide services, assistance, and activities to aid low-income individuals and families by enlarging employment opportunities; by improving human performance, motivation, and productivity; and by bettering the conditions in which people live, learn, and work. Mid-CAP administers the following grants to meet the needs of the area it serves: Home Investment Partnership Program (Community Housing Development Organization), Community Services Block Grant Program, Head Start Program, Juvenile Delinquency Prevention Program, Kansas Emergency Shelter Program, as well as other programs.

During Head Start grant year 2009 (March 1, 2008, through February 28, 2009), ACF directly provided grant funds to Mid-CAP totaling \$2,134,161. In addition, Mid-CAP received Recovery Act grant funding totaling \$164,534 for cost-of living increases and quality improvements.

On September 2, 2008, ACF placed Mid-CAP on high-risk status. On September 24, 2008, ACF notified Mid-CAP that, effective October 1, 2008, it has placed a drawdown restriction on Mid-CAP's ability to request funds from the Federal Government. The high-risk status and drawdown restriction were still in effect at the time of our review.

## **OBJECTIVES**

The objectives of our limited scope review were: (1) to determine whether Mid-CAP is fiscally viable, (2) to assess Mid-CAP's management oversight, and (3) to determine whether Mid-CAP's financial management system adequately managed and accounted for Federal funds.

## **SUMMARY OF FINDINGS**

Based on its current financial condition, Mid-CAP cannot ensure the continuing fiscal viability of the organization. Mid-CAP's liquidity ratios for fiscal years (FY) ending June 30, 2007, and June 30, 2008, indicate that the organization may not have sufficient cash to pay its current liabilities. Although Mid-CAP is actively working to improve its financial viability, it does not appear as though the liquidity ratios will improve to a satisfactory level for the FY ending June 30, 2009. Ongoing fundraising efforts have fallen well short of goals established by the Board.

In addition, Mid-CAP's management oversight has been affected by turnover and vacancies in several key management positions, to include a number of vacancies on the Board.

Finally, Mid-CAP's financial management system did not always adequately manage and account for Federal funds. Specifically:

- Mid-CAP's administrative costs exceeded the allowable 15 percent limit. In part, this condition reflected inadequate policies and procedures for the allocation, approval, and monitoring of administrative costs.
- Although the majority of the year-end expenditures we reviewed demonstrated that Mid-CAP maintained adequate policies and procedures and internal controls relating to accounting and procurement for the grant, it did not always follow these procedures or adequately document its year-end expenditures.
- Moreover, Mid-CAP did not always follow Federal guidelines or its own financial accounting policies and procedures with respect to non-payroll expenditures.

## **RECOMMENDATION**

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

## **AUDITEE COMMENTS**

In written comments on our draft report, Mid-CAP neither agreed nor disagreed with our findings regarding its fiscal viability, management oversight, and financial management system. However, Mid-CAP provided information as to corrective actions and improvements that it has implemented or is undertaking, as well as additional information related to some of our findings.

Mid-CAP's comments are attached as the Appendix. We are excluding attachments totaling 59 pages because of their volume. We are providing ACF with Mid-CAP's comments in their entirety.

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

Mid-CAP's written comments provided additional information as to corrective actions and improvements that it has implemented or is undertaking, but we did not verify the validity of the additional information provided. Accordingly, nothing in Mid-CAP's comments has caused us to change our findings or our recommendation to ACF.

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## **INTRODUCTION**

### **BACKGROUND**

#### **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 (HHS), the Administration for Children and Families (ACF), Office of Head Start, 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.

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#### **Mid-Kansas Community Action Program, Inc.**

Mid-Kansas Community Action Program, Inc. (Mid-CAP), is a non-profit organization which serves economically and socially disadvantaged persons in 13 counties in south-central Kansas. A Board of Directors (Board) governs Mid-CAP, which operates 10 Head Start facilities in this 13-county area.

Mid-CAP's mission is to provide services, assistance, and activities to aid low-income individuals and families by enlarging employment opportunities; by improving human performance, motivation, and productivity; and by bettering the conditions in which people live, learn, and work. Mid-CAP administers the following grants to meet the needs of the area it serves: Home Investment Partnership Program (Community Housing Development Organization), Community Services Block Grant (CSBG) Program, Head Start Program, Juvenile Delinquency Prevention Program, Kansas Emergency Shelter Program, as well as other programs.

During Head Start grant year 2009 (March 1, 2008, through February 28, 2009), ACF directly provided grant funds to Mid-CAP totaling \$2,134,161. In addition, Mid-CAP received Recovery Act grant funding totaling \$164,534 for cost-of living increases and quality improvements.

On September 2, 2008, ACF placed Mid-CAP on high-risk status. On September 24, 2008, ACF notified Mid-CAP that, effective October 1, 2008, it has placed a drawdown restriction on Mid-CAP's ability to request funds from the Federal Government. The high-risk status and drawdown restriction were still in effect at the time of our review.

## **Requirements for Federal 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. Grantees are also required to compare outlays with budget amounts for each award and may use grant funds only for authorized purposes. In addition, pursuant to 45 CFR § 1301.11, Head Start agencies shall make arrangements for bonding officials and employees authorized to disburse program funds.

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

### **Objectives**

The objectives of our limited scope review were: (1) to determine whether Mid-CAP is fiscally viable, (2) to assess Mid-CAP's management oversight, and (3) to determine whether Mid-CAP's financial management system adequately managed and accounted for Federal funds.

### **Scope**

We performed our review based upon a limited scope request from ACF. Therefore, we did not perform an overall assessment of Mid-CAP's internal control structure. Rather, we reviewed only the internal controls that pertained directly to our objectives. Our review period was fiscal years (FY) 2007 through 2009.

### **Methodology**

To accomplish our objectives, we:

- reviewed relevant Federal laws, regulations, and guidance;
- met with ACF staff from Region VII, to understand ACF's role in the review, approval, and oversight of Head Start grant applications and funds and also to obtain information specifically related to Mid-CAP;
- reviewed information related to Mid-CAP developed jointly by ACF's Office of Head Start and the Office of Inspector General (OIG);
- reviewed Mid-CAP's accounting and financial policies and procedures manual (accounting manual);
- obtained Federal and local government grant award documentation to determine the sources and amounts of Mid-CAP's funding;
- reviewed Mid-CAP's audited financial statements for FYs 2007 and 2008;

- reviewed the current unaudited financial records for FY 2009;
- reviewed the liquidity disclosure statements in the 2007 and 2008 audited financial statements, reviewed the Board's minutes, and interviewed Mid-CAP staff to determine Mid-CAP's plans to address its poor financial health;
- reviewed Mid-CAP's expense accounts and the Financial Status Reports (standard form 269) (SF-269) which it used to report the status of grant funds to ACF;
- reviewed supporting documentation for a judgmentally selected sample of 30 unusual/large transactions from the expenditures for the final month of the grant year, to determine whether (1) proper procedures were followed according to Mid-CAP's accounting manual and (2) the expenses were reasonable, allowable, and allocable to the Head Start Program;
- reviewed a judgmentally selected sample of 30 non-payroll expenditures to determine whether (1) proper procedures were followed according to Mid-CAP's accounting manual and (2) the expenses were reasonable, allowable, and allocable to the Head Start Program;
- reviewed approved Board minutes for meetings held from January 22, 2008, through May 26, 2009, as well as unapproved Board minutes for the August 6, 2009, meeting;
- reviewed Mid-CAP's organization chart;
- reviewed bank reconciliations for Mid-CAP's checking accounts for the year ended June 30, 2009;
- reviewed source documentation for expenditures for the 2010 grant year;
- reviewed cash receipts for grant year 2010; and
- discussed our findings with Mid-CAP's staff, its financial consultant, and its independent auditor.

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, Mid-CAP cannot ensure the continuing fiscal viability of the organization. Mid-CAP's liquidity ratios for FYs ending June 30, 2007, and June 30, 2008, indicate that the organization may not have sufficient cash to pay its current

liabilities. Although Mid-CAP is actively working to improve its financial viability, it does not appear as though the liquidity ratios will improve to a satisfactory level for the FY ending June 30, 2009. Ongoing fundraising efforts have fallen well short of goals established by the Board.

In addition, Mid-CAP's management oversight has been affected by turnover and vacancies in several key management positions, to include a number of vacancies on the Board.

Finally, Mid-CAP's financial management system did not always adequately manage and account for Federal funds. Specifically:

- Mid-CAP's administrative costs exceeded the allowable 15 percent limit. In part, this condition reflected inadequate policies and procedures for the allocation, approval, and monitoring of administrative costs.
- Although the majority of the year-end expenditures we reviewed demonstrated that Mid-CAP maintained adequate policies and procedures and internal controls relating to accounting and procurement for the grant, it did not always follow these procedures or adequately document its year-end expenditures.
- Moreover, Mid-CAP did not always follow Federal guidelines or its own financial accounting policies and procedures with respect to non-payroll expenditures.

## **UNCERTAIN FISCAL VIABILITY**

Based on its current financial condition, Mid-CAP cannot ensure the continuing fiscal viability of the organization. Mid-CAP's liquidity ratios for FYs ending June 30, 2007, and June 30, 2008, indicate that the organization may not have sufficient cash to pay its current liabilities. Although Mid-CAP is actively working to improve its financial viability, it does not appear as though the liquidity ratios will improve to a satisfactory level for the FY ending June 30, 2009. Ongoing fundraising efforts have fallen well short of goals established by the Board.

### **Short-Term Liquidity**

We obtained the Statement of Financial Position from the audited financial statements for FYs ending June 30, 2007, and June 30, 2008, and recalculated the liquidity ratios: current and quick.<sup>1</sup> The current ratio (current assets/current liabilities) measures whether there is sufficient cash to pay bills as they come due over the next year. The quick ratio (cash + accounts receivable/current liabilities) measures whether there is sufficient cash available to pay bills due in the immediate future.

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<sup>1</sup> At year end, Mid-CAP's independent auditor converts Mid-CAP's accounting basis from a cash basis to an accrual basis. At the time of our fieldwork, the independent auditor had not yet done the adjustments for the FY ending June 30, 2009. Those adjustments will impact the computation of the current and quick ratios for the FY ending June 30, 2009.

<b>Fiscal Year End</b>	<b>Current Ratio</b>	<b>Quick Ratio</b>
June 30, 2007	0.29	0.28
June 30, 2008	0.26	0.24

The results indicate that there is a danger that Mid-CAP may not have sufficient cash to pay its current liabilities. In addition, Mid-CAP's independent auditor stated that he does not believe the current ratios will improve for the FY 2009 audit.

Moreover, Head Start Program shortfalls for the grant year ended February 28, 2008, were \$95,859 according to Mid-CAP's liquidity disclosure note in the year ending June 30, 2008, audited financial statements. In this context, \$34,208 of the CSBG was used to cover program shortfalls for the current grant period ending March 31, 2009. There are no current written plans to cover the remaining \$61,651 (that is, \$95,859 less \$34,208) in shortfalls.

### **Short-Term Efforts to Improve Liquidity**

Mid-CAP obtained a \$40,000 line of credit from an accredited local banking institution; however, this is only a temporary solution. The line of credit would only add to Mid-CAP's debt if used, and it would not improve the liquidity ratios discussed above.

Mid-CAP has made an effort to improve its short-term liquidity by attempting to sell a home in Arkansas City, Kansas. That home is currently being rented at a rate of \$500 per month. Additionally, on May 7, 2009, ACF gave Mid-CAP approval to sell two properties located in Newton, Kansas, with the stipulation that Mid-CAP return the Federal Government's interest in the properties. The Federal Government's interest has not been determined, thereby placing the sale of these properties on hold.

Due to the uncertainties associated with the potential sale of these properties and the net proceeds Mid-CAP might realize, we are unable to state what impact these efforts may have on improvements to Mid-CAP's short-term liquidity.

### **Status of Fundraising Efforts**

At its September 23, 2008, meeting, the Board increased Mid-CAP's fundraising goal to \$150,000. As of the end of our fieldwork, that goal was far from being reached. According to the March 19, 2009, Board minutes, only \$6,300 had been raised. The April 28, 2009, Board minutes indicated that there had not yet been a follow-up fundraising meeting, but it was anticipated one would be scheduled. Minutes of the Board's May 26, 2009, meeting made no mention of fundraising efforts. The Board Chairman stated in a July 22, 2009, written response, ". . . with the downturn of the economy and the many issues currently facing the agency the board may want to consider resetting the goal amount and deadlines. The board should maintain plans to continue with the fund drive letter which already has been developed and to aggressively work toward obtaining more board members and other parties who could assist in this fund drive."

## **Long-Term Financial Planning**

Mid-CAP was also undertaking to update the organization's Strategic Plan with the assistance of Wichita State University (the University). The University facilitated community meetings that were part of the strategic planning process. However, as of the last day of our fieldwork, the Board had not adopted the updated Strategic Plan. Mid-CAP officials stated that they expect to receive the final results of the collaborative efforts of Mid-CAP and the University soon. Mid-CAP plans to use the results to finalize its revised Strategic Plan.

These short- and long-term measures indicate that there has been some positive movement in the efforts to improve Mid-CAP's liquidity ratios, but based upon the issues noted above, it does not appear as though the liquidity ratios will improve to a satisfactory level for the fiscal year ending June 30, 2009.

## **WEAKNESSES IN MANAGEMENT OVERSIGHT**

Mid-CAP's management oversight has been affected by turnover and vacancies in several key management positions, to include a number of vacancies on the Board.

### **Management Turnover and Vacancies**

Mid-CAP has experienced a number of changes in several key management positions. Its current Executive Director joined Mid-CAP in May 2009; the Head Start Director and the Human Resources Specialist joined Mid-CAP in August 2009. Since September 2008, Mid-CAP has been using the services of a financial consultant to perform the duties of the Fiscal Director.

The Executive Director of a Head Start agency is considered a key position that requires ACF prior approval of the hiring. Mid-CAP did not obtain ACF's prior approval for the May 2009 hiring of its new Executive Director, but has requested a retroactive prior approval from ACF.

### **Board of Directors**

At the time of our fieldwork, there were only six members serving as the Board. Mid-CAP's by-laws, as well as regulations concerning the governing bodies for entities receiving CSBGs, require twelve members. Subsequent to our departure, the Board adopted a Board Recruitment Plan.

Mid-CAP has requested a waiver from the Kansas Housing Resource Corporation (KHRC), the State's CSBG agency, which would allow it additional time to select qualified Board members. KHRC indicated that the Board's approval of this waiver request was needed. Based on the unapproved minutes of the Board's August 6, 2009 meeting, the Board had not approved this waiver request.

There is presently no early childhood education and development representative serving on the Board as required by Mid-CAP's by-laws. Mid-CAP has been relying on a staff member to act as consultant to the Board for early childhood education and development issues pending the

recruitment of a Board member with the necessary background. The use of staff members to serve as consultants to the Board is permissible.

### **Effect on Fiscal Viability**

Weaknesses associated with management oversight, brought on by the turnover and vacancy issues discussed above, have had an impact on Mid-CAP's fiscal viability and on its financial management system (which is discussed in greater detail below). According to Mid-CAP's recently adopted accounting manual, expenditures of up to \$100,000 can be approved by the Executive Director. Board approval is not required for expenditures up to \$100,000. This threshold appeared to be excessively high.

Subsequent to the end of our fieldwork (on July 31, 2009), we were informed that, at its August 6, 2009, meeting, the Board revised this policy to reduce the maximum purchase threshold to \$25,000. The unapproved minutes of the August 6, 2009, Board meeting indicate that the Board changed the threshold to \$25,000, with the exception of payroll taxes which will have a limit of \$50,000. The Board is continuing its review of its accounting manual in order to make adjustments that might be needed based on Mid-CAP's unique circumstances.

### **WEAKNESSES IN FINANCIAL MANAGEMENT AND ASSOCIATED EXPENDITURES**

Mid-CAP's financial management did not always adequately manage and account for Federal funds. Specifically:

- Mid-CAP's administrative costs exceeded the allowable 15 percent limit. In part, this condition reflected inadequate policies and procedures for the allocation, approval, and monitoring of administrative costs.
- Although the majority of the year-end expenditures we reviewed demonstrated that Mid-CAP maintained adequate policies and procedures and internal controls relating to accounting and procurement for the grant, it did not always follow these procedures or adequately document its year-end expenditures.
- Moreover, Mid-CAP did not always follow Federal guidelines or its own financial accounting policies and procedures with respect to non-payroll expenditures.

### **Administrative Costs**

Pursuant to 45 CFR Part 1301.32, allowable costs for developing and administering a Head Start program may not exceed 15 percent of total approved costs, unless the responsible HHS official grants a waiver approving a higher percentage for a specific period of time not to exceed 12 months.

Mid-CAP's administrative costs, as shown on its SF-269 for the period ended February 28, 2009, were 16.82 percent. ACF officials told us that ACF is concerned that Mid-CAP does not adequately monitor administrative costs, as evidenced by the fact that Mid-CAP officials were

not aware that the 15 percent limitation had been exceeded before Mid-CAP submitted the SF-269 for that time period to ACF. We found several instances in which Mid-CAP did not have precise recordkeeping procedures or suitable monitoring of administrative costs:

- Three items totaling \$498 appeared to be directly related to Head Start and therefore should not have been included as administrative costs.
- For two additional items totaling \$183, the accounting code description (Head Start PACT Night) did not agree with the supporting documentation, which stated that the costs were for Policy Council meetings. As such, these costs should not have been included as administrative costs.
- For five other items totaling \$409, supporting documentation could not be located.

Mid-CAP officials stated that the Fiscal Officer (currently a vacant position) and its financial consultant are to review the SF-269 for accuracy prior to submission. Mid-CAP officials also stated that they use a double-calendaring system to ensure the SF-269 is submitted timely. However, there are no written procedures in place to ensure that the SF-269 is submitted accurately and timely.

After the conclusion of our fieldwork, Mid-CAP implemented a new signature-based check-out process to track financial documents. Mid-CAP believes that this new procedure will help prevent future documentation difficulties by enhancing the recordkeeping system for supporting documentation. Mid-CAP also implemented two separate accounting codes to distinguish between Head Start PACT Night costs and Policy Council meeting costs.

Mid-CAP officials informed us, during our fieldwork, that the organization was in the process of requesting a waiver from ACF for exceeding the 15 percent administrative cap limitation. However, according to the ACF officials with whom we spoke on September 9, 2009 (after the conclusion of our fieldwork), Mid-CAP had not yet made a formal request for such a waiver. These ACF officials also told us that Mid-CAP had instituted a detailed review of its administrative costs account to determine whether any of the costs were incorrectly classified. ACF officials indicated that they believe Mid-CAP will not exceed the 15 percent limitation after completing this detailed review.

### **Year-End Expenditures**

The majority of the year-end expenditures reviewed demonstrated that Mid-CAP maintained adequate policies and procedures and internal controls relating to accounting and procurement for the grant. However, Mid-CAP did not always follow these procedures or adequately document its year-end expenditures. Our review of the 30 judgmentally sampled year-end expenditures revealed several weaknesses:

- For a majority of the items sampled, Mid-CAP did not follow the bid procedures in accordance with its accounting manual. Mid-CAP officials stated that the organization is in the process of updating its bidding process in order to make it easier to execute in practice.

- The supporting documentation for four items sampled could not be located. As mentioned earlier, Mid-CAP has since the conclusion of our fieldwork implemented a new signature-based check-out process to track financial documents. Mid-CAP officials stated that they believe that this new procedure will help prevent future documentation difficulties by enhancing the recordkeeping system for supporting documentation.
- Mid-CAP allocates commercial liability insurance to the Head Start Program based upon the square footage of covered facilities. Although the use of square footage to allocate commercial liability insurance costs is a practical method, there was insufficient audit support for the percentage of square footage allocated to the Head Start Program.

## **Non-Payroll Expenditures**

Mid-CAP did not always follow Federal guidelines or its own financial accounting policies and procedures with respect to non-payroll expenditures. Our review of the 30 judgmentally sampled non-payroll expenditures revealed that, although amounts may have been minor when compared to the total grant, several weaknesses existed:

### *Purchase Requisitions*

Mid-CAP's accounting manual states:

A properly completed purchase requisition shall be required for each purchase decision, with the exception of regularly recurring expenses such as utilities, insurance, etc., and travel advances and expense reimbursements, which require the preparation of a separate form described elsewhere in this manual. A properly completed purchase requisition shall contain the following information, at a minimum: . . . 2. Vendor name.[,] . . . 10. Date purchase order was prepared.

Several of Mid-CAP's purchase requisitions did not conform to the provisions of Mid-CAP's accounting manual. In one case, a purchase requisition was completed for building cleaning services, but it was not prepared until six months after the cleaning services were delivered. In another instance, a purchase requisition for vehicle maintenance was completed for the wrong vendor. As a third example, a purchase requisition was not completed at all for a \$26 hub oiler, an item purchased for vehicle maintenance.

### *Invoice Math Check*

Mid-CAP's accounting manual states, "The following procedures shall be applied to each voucher package by the Accounts Payable Clerk: 1. Check the mathematical accuracy of the vendor invoice."

One Head Start center was undercharged by \$8 for meals provided by the local school district. The school district invoiced the correct price per meal for breakfasts and lunches in accordance with the contract, but the math on the invoice was not correct.

### *Reasonableness of Expenditures*

Office of Management and Budget (OMB) Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and other Non-Profit Organizations*, § 215.43, states:

All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition. . . . Awards shall be made to the bidder or offeror whose bid or offer is responsive to the solicitation and is most advantageous to the recipient, price, quality and other factors considered. . . . Any and all bids or offers may be rejected when it is in the recipient's interest to do so.

Contrary to this Federal guideline, no quotes were solicited for computer system maintenance work totaling \$1,435.

A similar error appeared in a non-payroll expenditure associated with vehicle maintenance work. Mid-CAP's accounting manual indicates that for purchases less than \$5,000, the required solicitation is two oral bids and approval by the Department Director. However, no verbal or written bids were solicited for vehicle maintenance work totaling \$278 which was performed during the months of February and March 2009.

In addition, OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, section (A)(3), states: "Reasonable costs. A cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs." The payment for a milk expenditure included a \$46 duplicate payment. This amount had previously been paid to the vendor on another check.

### *Allocation of Expenditures to the Head Start Program*

OMB Circular A-122, section (A)(2)(g), states: "Factors affecting allowability of costs. To be allowable under an award, costs must meet the following general criteria: Be adequately documented." OMB Circular A-122, section (A)(4), 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."

Contrary to these Federal guidelines, Mid-CAP did not adequately document the amounts allocated to the Head Start Program for either computer system maintenance or commercial liability insurance.

## **RECOMMENDATION**

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

## **AUDITEE COMMENTS**

In written comments on our draft report, Mid-CAP neither agreed nor disagreed with our findings regarding its fiscal viability, management oversight, and financial management system. However, Mid-CAP provided information as to corrective actions and improvements that it has implemented or is undertaking, as well as additional information related to some of our findings.

Mid-CAP's comments are attached as the Appendix. We are excluding attachments totaling 59 pages because of their volume. We are providing ACF with Mid-CAP's comments in their entirety.

## **OFFICE OF INSPECTOR GENERAL RESPONSE**

Mid-CAP's written comments provided additional information as to corrective actions and improvements that it has implemented or is undertaking, but we did not verify the validity of the additional information provided. Accordingly, nothing in Mid-CAP's comments has caused us to change our findings or our recommendation to ACF.

# **APPENDIX**

**APPENDIX: AUDITEE COMMENTS**



**Helping People Changing Lives**

**MID-KANSAS COMMUNITY ACTION  
PROGRAM, INC**

730 Cliff Drive, Augusta, KS 67010  
(316) 775-3000 or 1-800-281-6373  
Fax (316) 775-2611

*February 3, 2010*

*Patrick J. Cogley  
Office of Inspector General  
Office of Audit Services  
Region VII  
601 East 12<sup>th</sup> Street  
Room 0429  
Kansas City, Missouri 64106*

*Dear Mr. Cogley;*

*Thank you for allowing the agency an extension until February 5, 2010 to review the results of the OIG review and to provide information before the final OIG documents are completed and filed.*

*Included in this packet are responses from Mid Kansas CAP Inc. and a documentation section of information used to determine the Agency's responses to the review.*

*Respectfully*

A handwritten signature in blue ink that reads "Joyce Stockham".

*Joyce Stockham  
Interim Executive Director*



OIG RESPONSE- MID KANSAS COMMUNITY ACTION PROGRAM INC.- REPORT A-07-09-03133

**Page One-** The agency has not had Tenant Based Rental Assistance for several years.

**Page Five- First Paragraph-** The current ratio has improved in the FY 2009 audit to .4812:1 with a quick ratio of .48. A copy of audit page 15 is included in the documentation section of the OIG Response Packet.

**Page Five- Second Paragraph under subset Short-Term Efforts to Improve Liquidity-**

- a. The agency chose not to sell the Ark City, Kansas house. That property is currently rented at \$500.00 per month with all utilities paid by the occupant.
- b. Kansas Housing Resource Corporation will release the rehabilitated Madison Duplex for sale. The duplex is currently listed with a [REDACTED] from RE/MAC and is listed at \$43,000. On January 5, 2009 Kansas Housing Resource Corporation Representative [REDACTED] stated that 10% of sale proceeds may go to administrative costs of the agency and 90% may be used by the housing program for a combination of rental assistance and rehabbing Homes properties. A copy of the letter sent to Mr. [REDACTED] with follow up information is attached.
- c. Mid Kansas CAP Inc. has worked diligently with Regional Head Start to determine the Federal Government's interest in the Newton properties. Sale of the property is near completion. While the Agency does not have a written agreement from Regional Head Start at this time a copy of notes made by the Agency Planner are attached from most recent meeting telephone meeting between the agency and Regional Head Start. There have been additional verbal conversations since that time however no written agreement has been received to date.

**Page Six- subset Long Term Financial Planning-** the current ratio has improved to .4812:1 in the June 30, 2009 audit. A copy of audit page 15 is included in the documentation section of the OIG Response Packet.

**Page Six- subset Board of Directors-**

- a. Community Service Block Grant Program Director [REDACTED] approved a waiver allowing the agency time to meet Community Service Block Grant requirements. A copy of that waiver is included in the documentation section of the OIG Response Packet. A copy of the board minutes

approving the waiver request is included in the documentation section of the OIG Response Packet.

- b. The Board currently consists of nine people ( before January 26, 2010 there were ten board members. Chairperson [REDACTED] resigned immediately preceding the board meeting on that date). On February 1, 2010 Community Service Director [REDACTED] and Community Service Coordinator [REDACTED] addressed the Greenwood County Commissioners requesting a Public Elected Official or their representative for the Mid Kansas CAP board. The Commissioners asked for two weeks to consider who would serve on the Mid Kansas CAP Board. On February 10, 2010 Strategic Planner [REDACTED] Board Member [REDACTED] and Community Service Director [REDACTED] will address the Reno County Commission requesting an elected officials or the representative from that area of the agency's service area. The Board will continue recruitment of either another low income representative or a civic representative.
- c. Mid Kansas CAP Inc. has an Early Childhood consultant to the board. A copy of her resume is included in the documentation section of the OIG Response Packet. The Early Childhood consultant was approved by the board on January 26, 2009 and has also been approved by Regional Head Start.

**Page Seven- subset Effect of Fiscal Viability-**

- a. The unapproved board minutes of August 6, 2009 Board meeting indicate that the board changed the threshold to \$25,000 with the exception of payroll taxes which will have a limit of \$50,000. A copy of the approved minutes are included in the documentation section of the OIG Response Packet.

**Page Eight- Timely Submission of the SF-269**

- a. Mid Kansas CAP has implemented a fiscal calendar that includes all due dates for the agency. A copy of the fiscal calendar is included in the documentation section of the OIG Response Packet.

**Page Nine- Second paragraph – Square Footage-** A copy of the updated square footage of the Augusta Building is enclosed in the documentation section of the OIG Response Packet.

**Page Nine- subset Non-Payroll Expenditures**

- a. A copy of the requisition process is enclosed in the documentation section of the OIG Response Packets. There are three errors listed in the OIG report regarding purchase requisitions. Each of the errors was a product of one staff member who is no longer with the agency.

**Page Nine- Invoice math Checks**

- a. In addition to the Math Check by the Accounts Payable Clerk, the agency now requires that the person responsible for signing voucher packets also double check all requisitions and invoices for mathematical accuracy. Implementation of this process has provided a double check that eliminates or dramatically decreases human error within the system.

**Page Ten- Computer Systems maintenance work**

- a. Information Technology contracts are billed to programs according to the number of computers within that department. A printout of the billing process is included in the documentation section of the OIG Response Packet.

**Page Ten- Allocation of Expenditures to the Head Start Program**

- a. Commercial Liability insurances is disseminated to programs and indirect based on a formula which includes number and size of sites/centers, vehicles belonging to programs, and number of employees. A copy of the monthly payment voucher and spreadsheet are included in the documentation section of the OIG Response Packet .

**Page Ten- Area of Progress-** The Agency now has a full time Fiscal Director and a Strategic Planner.