NOT ALL OF THE YOUNG WOMEN’S CHRISTIAN ASSOCIATION OF
METROPOLITAN ST. LOUIS
HEAD START EXPENDITURES WERE ALLOWABLE

Inquiries about this report may be addressed to the Office of Public Affairs at
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Kay L. Daly
Assistant Inspector General

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

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

BACKGROUND

Title VI of the Omnibus Budget Reconciliation Act of 1981 established Head Start as a Federal discretionary grant program. The major objectives of the Head Start program are to promote school readiness and enhance the social and cognitive development of low-income children by providing educational, health, nutritional, and social services. In 1994, the Head Start program was expanded to establish Early Head Start, which serves children from birth to 3 years of age. We refer collectively to both programs as the Head Start program.

Within the U.S. Department of Health and Human Services, the Administration for Children and Families (ACF), Office of Head Start (OHS), administers the Head Start program. In fiscal year (FY) 2010, Congress appropriated $7.2 billion to fund the Head Start program’s regular operations. ACF uses the Payment Management System (PMS) to manage grant payment requests, funds drawdowns, and disbursement reporting activities.

The Young Women’s Christian Association of Metropolitan St. Louis (YWCA), headquartered in St. Louis, Missouri, is a nonprofit organization that operates federally funded Head Start programs to more than 2,600 preschool-age children through a network of Head Start centers, Child Care Partner sites, and subcontracts with the Urban League of Metropolitan St. Louis (delegate agency). For grant years (GY) 2007 through 2009, OHS awarded YWCA $63,411,820 in Federal funds.

OBJECTIVES

Our objectives were to determine whether YWCA (1) properly accounted for grant funds in accordance with Federal regulations and the terms of the grant, (2) properly safeguarded its grant funds, and (3) had a process to monitor its subcontracts with the delegate agency.

SUMMARY OF FINDINGS

YWCA did not always properly account for grant funds in accordance with Federal regulations and the terms of the grant. In addition, YWCA did not always safeguard its grant funds. YWCA had a process to monitor its subcontracts with the delegate agency.

With respect to its accounting for Head Start grant funds, YWCA:

- improperly used part of its GY 2009 grant award to pay for GY 2008 overspending,
- improperly used interfund transfers to temporarily pay for United States Department of Agriculture (USDA) and State of Missouri program expenditures and improperly allocated Federal Head Start grant funds to fund the non-Federal share of salaries at one of its Head Start centers, and
applied in-kind costs that were not always allowable and were inadequately documented to meet its non-Federal matching share of Head Start program costs.

In addition, YWCA did not always safeguard its Head Start grant funds because it maintained those funds in bank accounts with balances that exceeded the Federal Deposit Insurance Corporation (FDIC)-insured limits.

As a result of these weaknesses, YWCA claimed $337,194 in unallowable expenditures, improperly drew down funds from the PMS that created increased borrowing costs to the Federal Government, increased the risk of loss of grant funds in the event of a bank failure, and may not have met its required 20 percent non-Federal matching share requirement.

YWCA’s policies and procedures were not adequate to ensure that the costs it incurred were allowable.

YWCA had a process to monitor Head Start subcontracts with the delegate agency. Specifically, YWCA hired an independent contractor to collect data to determine whether the delegate agency’s systems and services were implemented and working effectively. The independent contractor provided YWCA with monitoring reports on an annual basis.

RECOMMENDATIONS

We recommend that when monitoring the Head Start funds, OHS consider the information presented in this report in assessing YWCA’s ability to account for and manage Federal funds and to operate its programs and Head Start centers in accordance with Federal regulations and the terms of the grant. Specifically, we recommend that OHS:

- recover the improperly spent grant funds from the GY 2009 award totaling $337,194;
- ensure that YWCA improves its policies and procedures for tracking unobligated balances so that those balances are properly accounted for;
- improve policies and procedures to ensure that the PMS recaptures unobligated balances from YWCA and other grantees in a timely manner;
- ensure that YWCA improves its policies and procedures so that its drawdowns of Head Start grant funds are timed and limited to actual program costs for the execution of approved program activities;
- review and, as necessary, modify policy guidance regarding interfund transfers to ensure that it conforms to Federal regulations;
- ensure that YWCA strengthens and, where necessary, implements policies and procedures to ensure that in-kind donations are allowable and are recognized in the appropriate accounting period, and that YWCA maintains adequate supporting
documentation that identifies the contents and the basis for valuation of in-kind donations; and

- ensure that YWCA improves its policies and procedures so that its account cash balances of Head Start grant funds do not exceed the FDIC-insured limits.

YOUNG WOMEN’S CHRISTIAN ASSOCIATION OF METROPOLITAN ST. LOUIS COMMENTS

In written comments on our draft report, YWCA provided background information for each of our findings and described corrective actions that it had taken or planned to take. However, YWCA questioned our finding on the use of interfund transfers to temporarily pay for USDA program expenditures that should have been covered by USDA program grant funds. YWCA stated that Federal regulations allow the cost of nutritional services not covered by other forms of payment.

YWCA’s comments also addressed the finding in our draft report that it had underspent its GY 2009 grant award.

YWCA’s comments are included in their entirety as Appendix A.

OFFICE OF INSPECTOR GENERAL RESPONSE TO YOUNG WOMEN’S CHRISTIAN ASSOCIATION OF METROPOLITAN ST. LOUIS COMMENTS

YWCA did not provide support, either during our fieldwork or in its comments, that it used Head Start grant funds for only those allowable costs not covered by USDA program grant funds. We therefore continue to recommend that OHS review and, as necessary, modify policy guidance regarding interfund transfers to ensure that it conforms to Federal regulations.

Our draft report included a finding that YWCA had underspent its GY 2009 grant award. After receiving additional information from OHS after issuance of our draft report, we removed this finding from, and modified the associated recommendation in, this final report.

We maintain that all of our remaining findings and recommendations are valid.

OFFICE OF HEAD START COMMENTS

In written comments on our draft report, OHS generally agreed with our findings and recommendations. Our draft report contained a finding and associated recommendation about a drawdown of unobligated balances from GY’s prior to GY 2009. OHS did not agree with this finding and provided additional information to us, including verification that the PMS recaptured prior GY unobligated balances. OHS also stated that YWCA drew down its entire GY 2009 grant award and improperly used part of it to improperly pay for overspending that occurred in GY 2008.
OFFICE OF INSPECTOR GENERAL RESPONSE TO OFFICE OF HEAD START COMMENTS

After reviewing the information that OHS provided to us and discussing this information with YWCA officials, we revised our final report to reflect the information that OHS provided to us. We maintain that our remaining findings and recommendations are valid.
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INTRODUCTION

BACKGROUND

Head Start Program

Title VI of the Omnibus Budget Reconciliation Act of 1981 established Head Start as a Federal discretionary grant program. The major objectives of the Head Start program are to promote school readiness and enhance the social and cognitive development of low-income children by providing educational, health, nutritional, and social services. In 1994, the Head Start program was expanded to establish Early Head Start, which serves children from birth to 3 years of age. We refer collectively to both programs as the Head Start program.

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

Payment Management System

ACF uses the Payment Management System (PMS), a centralized grants payment and cash management system that provides awarding agencies and grant recipients tools to manage grant payment requests, funds drawdowns, and disbursement reporting activities. Federal agencies can use the PMS to pay grant recipients and obtain their Federal Financial Reports. The HHS Program Support Center, Division of Payment Management, administers the PMS and assists grant recipients on behalf of the grantor agencies in establishing and maintaining their PMS accounts, obtaining grant funds, and complying with Federal Financial Report requirements. The Division of Payment Management provides these services for HHS and several other Federal agencies outside of HHS, such as the Departments of Labor, Agriculture (USDA), and Interior.

Young Women’s Christian Association of Metropolitan St. Louis

The Young Women’s Christian Association of Metropolitan St. Louis (YWCA), headquartered in St. Louis, Missouri, is a nonprofit organization that operates federally funded Head Start programs. For grant years (GY) 2007 through 2009, OHS awarded YWCA $63,411,820 in Federal funds.

YWCA provides services to more than 2,600 preschool-age children through a network of Head Start centers, Child Care Partner sites,¹ and subcontracts with the Urban League of Metropolitan St. Louis (delegate agency). YWCA allocated approximately $16 million to the delegate agency to operate some of its Head Start centers.

¹ These are privately owned childcare facilities with which YWCA contracts to provide services for qualified Head Start families.
As the recipient of Federal grant funds, YWCA is accountable for the performance of the program and the expenditure of funds under the award by all parties. Thus, the delegate agency was subject to monitoring by YWCA under the provisions of Federal grant administration regulations and YWCA’s Fiscal Policies and Procedures Manual.

**Federal Regulations for Head Start Grantees**

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

Grantees must maintain financial management systems in accordance with 45 CFR § 74.21. Pursuant to 45 CFR § 74.21(b)(6), grantees must maintain financial management systems that contain written procedures for determining the allowability of costs in accordance with applicable Federal cost principles and the terms and conditions of the award. Grantees also must maintain accounting records that are supported by source documentation (45 CFR § 74.21(b)(7)) and financial systems that provide for accurate and complete reporting of grant-related financial data (45 CFR § 74.21(b)(1)). Grantees must have effective controls and safeguards in place to ensure accountability over funds, property, and other assets (45 CFR § 74.21(b)(3)) and to maintain records that sufficiently identify the source and application of funds for HHS awards (45 CFR § 74.21(b)(2)).

**OBJECTIVES, SCOPE, AND METHODOLOGY**

**Objectives**

Our objectives were to determine whether YWCA (1) properly accounted for grant funds in accordance with Federal regulations and the terms of the grant, (2) properly safeguarded its grant funds, and (3) had a process to monitor its subcontracts with the delegate agency.

**Scope**

We performed our review based on a limited scope request from OHS; our stated objectives reflect the areas on which OHS asked us to focus. Therefore, we did not perform an overall assessment of YWCA’s internal control structure. We reviewed only the internal controls that pertained directly to our objectives. Our review period was GYs 2008 and 2009 (April 1, 2007, through March 31, 2009).

We performed our fieldwork at YWCA’s office in St. Louis, Missouri.
Methodology

To accomplish our objectives, we:

- reviewed relevant Federal laws, regulations, and guidance;
- reviewed OHS program and policy announcements for the Head Start program;
- reviewed the Excluded Parties List System\(^2\) to confirm that YWCA was eligible to receive Federal funds;
- reviewed Federal grant award documentation to determine YWCA’s Head Start grant funding;
- interviewed OHS regional staff to gain an understanding of the Head Start program and OHS’s role in overseeing awards to grantees;
- reviewed YWCA’s bylaws, Board of Director meeting minutes, and organizational chart;
- interviewed YWCA’s Board of Directors, management, and staff to gain an understanding of YWCA’s policies and procedures pertaining to its financial management systems;
- reviewed the PMS for GYs 2003 through 2010 to determine whether it had recaptured unobligated balances in a timely manner;
- reviewed YWCA’s procedures related to accounting documentation and preparation of financial reports;
- reviewed YWCA’s financial statements for FYs 2007 through 2010;\(^3\)
- reviewed YWCA’s cost allocation policies and procedures, as well as its monthly general ledger transactions and supporting documentation;
- reviewed YWCA’s Fiscal Policies and Procedures manual and its associated monitoring policies for funds allocated to its delegate agency; and

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\(^2\) This database includes information regarding entities debarred, suspended, proposed for debarment, excluded or disqualified under the nonprocurement common rule, or otherwise declared ineligible from receiving Federal contracts, certain subcontracts, and certain Federal assistance and benefits. The website is [https://www.epls.gov/](https://www.epls.gov/) (accessed September 19, 2012).

\(^3\) Although our audit scope was on a GY basis, YWCA’s financial statements were on an FY basis. YWCA’s FY ran from January 1 to December 31.
• conducted an exit conference and discussed audit findings with OHS and YWCA staff on February 27, 2012.

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 RECOMMENDATIONS

YWCA did not always properly account for grant funds in accordance with Federal requirements and the terms of the grant. In addition, YWCA did not always safeguard its grant funds. YWCA had a process to monitor its subcontracts with the delegate agency.

With respect to its accounting for Head Start grant funds, YWCA:

• improperly used part of its GY 2009 grant award to pay for GY 2008 overspending,
• improperly used interfund transfers to temporarily pay for USDA and State of Missouri program expenditures and improperly allocated Federal Head Start grant funds to fund the non-Federal share of salaries at one of its Head Start centers, and
• applied in-kind costs that were not always allowable and were inadequately documented to meet its non-Federal matching share of Head Start program costs.

In addition, YWCA did not always safeguard its Head Start grant funds because it maintained those funds in bank accounts with balances that exceeded the Federal Deposit Insurance Corporation (FDIC)-insured limits.

As a result of these weaknesses, YWCA claimed $337,194 in unallowable expenditures, improperly drew down funds from the PMS that created increased borrowing costs to the Federal Government, increased the risk of loss of grant funds in the event of a bank failure, and may not have met its required 20 percent non-Federal matching share requirement.

YWCA’s policies and procedures were not adequate to ensure that the costs it incurred were allowable.

YWCA had a process to monitor Head Start subcontracts with the delegate agency. Specifically, YWCA hired an independent contractor to collect data to determine whether the delegate agency’s systems and services were implemented and working effectively. The independent contractor provided YWCA with monitoring reports on an annual basis.
GRANT FUNDS NOT PROPERLY SPENT

Improper Use of Current Grant Year Funds to Pay for Prior Grant Year Overspending

Federal Requirements and Policy Guidance Concerning Unobligated Balances

Federal regulations (45 CFR § 74.21(b)(2)) state that recipients’ financial management systems shall provide for, among other things, “[r]ecords that identify adequately the source and application of funds for HHS-sponsored activities. These records shall contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest.”

Federal regulations (45 CFR § 74.28) also state that “[w]here a funding period is specified, a recipient may charge to the award only allowable costs resulting from obligations incurred during the funding period.…”

The 2007 HHS Grants Policy Statement (the manual), Appendix B (p. B-10), defines an unobligated balance as “[t]he portion of funds authorized by the Federal agency that has not been obligated by the recipient.” The manual, Appendix B (p. B-7), defines an obligation as the “amount of orders placed, contracts and subawards, goods and services received, and similar transactions by a recipient during a budget period that will require payment during the same or a future budget period.” Any portion of the approved grant award that has not been obligated to meet program objectives by the end of the GY becomes the unobligated balance for that GY.

The manual (Part II, “Requesting OPDIV Prior Approval, Exhibit 5,” p. II-50) states that unless the recipient receives expanded authority from the OPDIV, the recipient is required to request prior OPDIV approval before carrying over unobligated balances from one GY to the next. This section of the manual also states that requests for carryover of unobligated balances should be initiated once the actual unobligated balance is known. Failure to make a timely request and obtain prior approval from the cognizant Federal agency may result in the disallowance of costs.

The manual (Part I, “Roles and Responsibilities of OPDIV Staff Members and Other HHS Offices”) also describes the roles and responsibilities of cognizant Federal OPDIVs and agencies, to include post-award monitoring of project/program performance. The manual (Part I, “Roles and Responsibilities of Recipients and Their Principals”) also states that the responsibilities of the recipient organization include accountability both for the appropriate use of funds awarded and for the performance of the grant-supported project or activities as specified in the approved application (p. I-6).

Grant Year 2009 Grant Funds Improperly Spent

YWCA improperly used GY 2009 grant funds to pay for overspending that occurred during the prior GY. During GY 2008, YWCA spent more than its grant award for that year using corporate funds. These corporate funds approximated the amount of a GY 2003 unobligated balance that had not been deobligated by OHS and therefore remained in the PMS. In addition, YWCA discovered that approximately $60,000 in grant funds from prior GYs remained in the
PMS, and YWCA spent a portion of those funds. However, the PMS recaptured the GY 2003 unobligated balance before YWCA drew down the funds from the PMS. YWCA subsequently drew down its entire GY 2009 grant award and, contrary to 45 CFR § 74.28, used part of it to pay for overspending that occurred during GY 2008.

YWCA officials told us that YWCA spent those funds in part because its staff during the GY 2008 grant award period believed that the GY 2003 unobligated balance represented funds that needed to be spent. YWCA officials explained that its staff that was in place before GY 2008 knew that this was not the case, but the staff lost that level of institutional knowledge and understanding through heavy personnel turnover during GY 2008.

Along these lines, OHS officials told us that the PMS can take up to 5 years to recapture unobligated balances. However, the GY 2003 unobligated balance was not recaptured for nearly 6 years after GY 2003 had ended. The following table shows information about YWCA’s unobligated balances and dates of recapture from GY 2003 through GY 2009.

<table>
<thead>
<tr>
<th>Grant Year</th>
<th>Unobligated Balance</th>
<th>End of Grant Year</th>
<th>Date PMS Recaptured</th>
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<tbody>
<tr>
<td>2007</td>
<td>60,429c</td>
<td>3/31/2008</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>0</td>
<td>3/31/2010</td>
<td></td>
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a: The amounts shown as the yearly unobligated balances are not cumulative totals.

b: The end-of-grant-year date represents the last day YWCA could obligate grant funds for each GY.

c: YWCA stated that these unobligated balances were the basis for its overspending during GY 2008. YWCA overspent its GY 2008 grant award using corporate funding in an amount that approximated the total unobligated balances for GYs 2003 and 2007 ($337,194).

The improper spending occurred because YWCA’s policies and procedures were not sufficient to ensure that it did not use current GY award funds to pay for expenditures incurred in a previous grant award period. Furthermore, YWCA’s policies and procedures were insufficient to provide adequate instructions for the accounting of the prior-year unobligated balances or to ensure that its staff was aware that the unobligated balances were not available to spend in future periods without prior OHS approval.
In addition, OHS’s policies and procedures were not sufficient to ensure that OHS reviewed the PMS to track the unobligated balances and ensure that they were deobligated in a timely manner. As a result, YWCA improperly spent GY 2009 grant funds totaling $337,194.

**Interfund Transfers and Grant Fund Allocations**

*Federal Requirements and Policy Guidance Concerning Interfund Transfers and Allocation of Federal Grant Funds*

Federal regulations (45 CFR § 74.22(b)(2)) state:

> Unless inconsistent with statutory program purposes, cash advances to a recipient organization shall be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual disbursements by the recipient organization for direct program or project costs and the proportionate share of any allowable indirect costs.

Federal regulations (45 CFR § 74.21(b)(3)) state that the grantee’s financial management systems shall provide “[e]ffective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes.”

Federal regulations (45 CFR § 74.21(b)(6)) state that grantees are required to maintain financial management systems that contain “[w]ritten procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award.”

The cost principles at 2 CFR part 230, Appendix A, section A.4.a., state:

> 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. Is incurred specifically for the award.

2. Benefits both the award and other work and can be distributed in reasonable proportion to the benefits received, or

3. Is necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown.
The manual (Part I, “Post-Award Administration,” p. I-39) states: “The recipient, as the direct and primary recipient of HHS grant funds, is responsible for managing the day-to-day operations of grant-supported activities and is accountable to the OPDIV for the performance of the project, program, or activity; the appropriate expenditure of grant funds by all parties; and all other obligations of the recipient.”

OHS guidance included in an information memorandum (ACYF-IM-HS-01-06, dated March 8, 2001) states that if a grantee addresses cost-sharing and/or reimbursement arrangements in its grant application, then the use of Federal Head Start grant funds to pay for other program services costs may be allowable.

Grant Funds Used to Temporarily Fund Non-Federal Head Start Programs

YWCA used interfund transfers of Federal Head Start grant funds to temporarily fund other programs without obtaining prior approval from OHS. Specifically, YWCA improperly used its Head Start grant to temporarily fund USDA nutrition and State of Missouri Extended Care programs.

For example, YWCA incurred and paid for expenditures of $85,718 for the USDA nutrition program for the month of February 2009. YWCA submitted a claim for these expenditures to USDA on March 5, 2009, and was reimbursed for the entire claimed amount on March 23, 2009.

In another instance, YWCA incurred and paid for expenditures of $17,251 for the State of Missouri Extended Care program for the period of September through December 2007. YWCA submitted a claim for these expenditures to the State of Missouri on January 3, 2008, and was reimbursed for the entire claimed amount on January 11, 2008.

YWCA officials stated that because YWCA is sometimes not reimbursed for these expenses for 2 weeks or longer, it uses Head Start funds to supplement program expenses. For this reason, YWCA drew down and used Head Start grant funds to temporarily fund the USDA and State of Missouri Extended Care program expenditures until it received reimbursement from the appropriate funding agencies for these expenditures.

Further, YWCA officials stated that, in making the interfund transfers, YWCA was following OHS guidance included in the information memorandum (ACYF-IM-HS-01-06, dated March 8, 2001) mentioned above, which states that if a grantee addresses cost-sharing and/or reimbursement arrangements in its grant application, then the use of Federal Head Start grant funds to pay for other program services costs (in other words, the use of interfund transfers in the way that we have described above) may be allowable. However, YWCA did not include any request for interfund transfers in its grant applications to OHS. Moreover, this OHS guidance may not conform to the requirements of 45 CFR part 74, which specifies that “[t]he timing and amount of cash advances shall be as close as is administratively feasible to the actual

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4 ACYF-IM-HS-01-06 is currently under review by OHS.
disbursements by the recipient organization for direct program or project costs and the proportionate share of any allowable indirect costs.”

These interfund transfers occurred because YWCA did not follow Federal requirements to safeguard Federal assets and to ensure that the assets were used only for authorized purposes. In addition, YWCA did not follow Federal regulations requiring it to draw down only those amounts necessary in carrying out the purpose of the approved program or project. As a result of these drawdowns of Federal Head Start grant funds, the Federal Government may have incurred increased borrowing costs.

**Improperly Allocated Costs**

YWCA also made an accounting error by improperly allocating Federal grant funds to pay the non-Federal share of salaries at one of its Head Start centers that was operating under a cost-sharing program—an error that YWCA subsequently self-reported and corrected. Specifically, for GY 2008 YWCA incorrectly allocated Head Start grant funds to pay for the entire salary costs of its Educare Center. Because only half of the Educare Center’s operations were allocable to the Head Start grant, YWCA should have charged only 50 percent of the Educare Center’s salary costs to that grant. However, YWCA drew down Federal Head Start grant funds totaling $157,362 to pay for the non-Federal portion of the Educare Center’s salary costs, an amount that should have been paid from YWCA’s other funding sources.

YWCA’s policies and procedures were not sufficient to ensure that the Head Start grant was charged its share of the salary costs associated with the Educare Center. Specifically, those policies and procedures were not sufficiently detailed to clarify appropriate methods of drawing down Head Start grant funds and properly allocating them to YWCA’s Head Start program. As a result of YWCA’s improper drawdown of Head Start grant funds, the Federal Government incurred increased borrowing costs.

After making this improper allocation, YWCA self-reported this error and, to correct it, withdrew funds from its investment account and wrote checks to its own Head Start account. We reviewed these transactions and determined that YWCA appropriately used these funds to pay grant-related obligated costs during the GY 2008 liquidation period. In addition, YWCA closed the Educare Center in 2009, and we verified that YWCA’s remaining Head Start centers enrolled only those recipients who were Head Start-subsidy eligible.

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5 Head Start policy guidance permits obligated GY funds to be expended up to 90 days after the end of the GY. This time period is commonly referred to as the “liquidation period.” See discussion on OHS website [http://eclkc.ohs.acf.hhs.gov/hslc/tta-system/operations/Fiscal/Narrative%20Discussions/ObligationandEx.htm](http://eclkc.ohs.acf.hhs.gov/hslc/tta-system/operations/Fiscal/Narrative%20Discussions/ObligationandEx.htm) (accessed October 25, 2012).
**In-Kind Match**

*Federal Requirements Concerning In-Kind Match*

Federal regulations require grantees to provide 20 percent of the total costs of the Head Start program unless a waiver has been granted. This proportion of costs is referred to as the non-Federal share, and it must come from non-Federal sources. Federal requirements make provisions for grantees to meet some or all of the 20-percent non-Federal share through in-kind contributions from such sources as volunteer services, personal services, office and classroom supplies, materials, equipment, buildings, and land. To be accepted, the grantee’s non-Federal share, including cash and third-party in-kind, shall be verifiable from the grantee’s records.

Federal regulations (45 CFR § 1301.20(a)) state: “Federal financial assistance … for a Head Start program shall not exceed 80 percent of the total costs of the program…” unless an exception applies. Moreover, 45 CFR § 1301.20(b) states that “[t]he non-Federal share will not be required to exceed 20 percent of the total costs of the program.”

Federal regulations (45 CFR §§ 74.23(a)(3), (4), (6) and (7)) also state that, to be accepted, all cost-sharing or matching contributions, including cash and third-party in-kind, must be, among other things, necessary and reasonable for proper and efficient accomplishment of project or program objectives; be allowable under the applicable cost principles; be provided for in the approved budget; and conform to other provisions of this regulation, as applicable.

The cost principles at 2 CFR part 230, Appendix A, section A.2.g, state that to be allowable under a grant award, costs must be adequately documented. Also, Appendix A, section A.3., states: “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.” Further, 2 CFR part 230, Appendix B, section 14, states: “Costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable.”

Federal regulations (45 CFR § 74.21 (b)(7)) require “[a]ccounting records, including cost accounting records, that are supported by source documentation.”

OHS has provided additional policy guidance concerning cost-sharing and in-kind contributions on its Web site. While this guidance does not carry the force of regulations, it is relevant not only for its content but also because of the ease with which it is accessible to grantees. The relevant guidance from OHS’s Web site states: “A good gauge of whether something would be allowable as non-federal share is whether it could be justified as a federal cost charged to your
grant.\(^6\) The guidance also states: “In-kind match is counted for the period when the services are provided or when the donated goods are received and used.”\(^7\)

**Unallowable Entertainment Costs Claimed As In-Kind Match**

YWCA used unallowable entertainment costs in an effort to meet its non-Federal share. Specifically, for GYs 2007 and 2008, YWCA used the costs of donated tickets to shows ($3,250), concerts ($3,250), and sporting events ($1,630) as part of a parent/child involvement program. As a nonprofit organization, the grantee is subject to the provisions of 2 CFR part 230, which explicitly prohibit (Appendix B, section 14) donated tickets and other entertainment costs for use as in-kind contributions to the grantee’s 20-percent non-Federal share. YWCA did not provide either us or OHS with any documentation as support that these donated tickets benefitted the children or furthered the goals of the Head Start program.

YWCA’s policies and procedures were not adequate to ensure that it did not include entertainment costs as part of its non-Federal share or that it claimed only those donated items whose costs would be incurred by a reasonable and prudent person under the terms of the grant agreement.

**In-Kind Match Claimed But Not Used In Same Grant Year**

YWCA claimed non-Federal share for items that were donated at the end of one GY but were not used until the subsequent GY. Specifically, YWCA received a donation valued at over $100,000 during the last week of GY 2008. YWCA claimed the entire amount of the donation to meet its GY 2008 non-Federal share even though the donation was not distributed to YWCA’s Head Start centers for use until several weeks into GY 2009.

Furthermore, the over-$100,000 donation claimed by YWCA for its non-Federal share included unallowable items such as tiaras (38 cases totaling $10,096); party blowers (58 cases totaling $7,705); party banners (16 cases totaling $5,913); gift bags (16 cases totaling $4,143); charm bracelets (8 cases totaling $2,298); confetti (8 cases totaling $1,793); and note cards (22 cases totaling $1,778). YWCA had no documentation that these donations benefitted the children or furthered the goals of the Head Start program.

YWCA’s policies and procedures were not sufficient to ensure that YWCA claimed only those donated items (a) that had been used in the GY in which they were donated and (b) whose costs would be incurred by a reasonable and prudent person under the terms of the grant agreement.

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Inadequate Documentation

For GYs 2007 through 2009, YWCA did not always maintain adequate documentation regarding the identity and value of donated items claimed for non-Federal share requirements. Specifically, YWCA’s donation forms did not always describe the donated item or state the value of the donated goods. YWCA’s policies and procedures were not adequate to ensure that it obtained and maintained supporting documentation for in-kind donations. Without maintaining adequate supporting documentation, YWCA could not support that it had properly valued, or that it had actually received, the in-kind donations.

As a result of improperly claiming in-kind donations and not maintaining adequate documentation to support its in-kind match, YWCA may not have provided its 20-percent non-Federal share of the total costs of its Head Start program for GYs 2007 through 2009 as required by Federal regulations.

GRANT FUNDS NOT ALWAYS SAFEGUARDED

Federal Requirements Concerning Federal Deposit Insurance Corporation Limits

Federal regulations (45 CFR § 74.22(i)(2)) state: “Advances of Federal funds shall be deposited and maintained in insured accounts whenever possible.” In addition, Federal regulations regarding the FDIC (12 CFR § 330) state that deposits owned by a corporation, partnership, or unincorporated associations are insured up to the standard maximum deposit insurance amount\(^8\) at a single bank.

In addition, the manual states:

Federal Funds advanced to the recipient should be fully disbursed (checks written, signed, and issued to the payees) by the close of business the next work day after receipt of the funds. The potential for excessive Federal cash on hand exists each time the recipient does not disburse Federal funds timely. The recipient is responsible for determining when the Federal funds have been deposited into its bank account for each drawdown, ensuring that the funds are fully disbursed by the close of business the next work day after they are received, and immediately returning undisbursed cash on hand to the PMS.

\(^8\) The standard maximum deposit insurance amount changed midway through our audit period. This amount was $100,000 from April 1, 2007, through October 2, 2008. For the period October 3, 2008, through March 31, 2009, the standard maximum deposit insurance amount was increased to $250,000.
Bank Account Balances in Excess of Federal Deposit Insurance Corporation Limits

YWCA had instances in which its Head Start account cash balances exceeded the FDIC-insured limits. For example, we found a period of 8 consecutive days during December 2007 in which YWCA’s Head Start account exceeded the FDIC-insured limit of $100,000 and another period of 7 consecutive days during March 2009 in which YWCA’s Head Start account exceeded the FDIC-insured limit of $250,000.

This weakness occurred because YWCA did not have written cash management policies and procedures to ensure that cash balances did not exceed federally insured limits. In addition, YWCA did not have sufficient policies and procedures to ensure that it limited its funds drawdowns to the amounts required for it to meet its immediate cash disbursement needs.

During our fieldwork, YWCA officials stated that its Head Start account exceeded the FDIC-insured limits because YWCA had to draw down approximately $340,000 in funds from the PMS to pay each biweekly payroll.

However, as shown in the examples cited above, these funds could remain in YWCA’s bank account for several days before being disbursed. Cash balances that exceed FDIC-insured limits are subject to an increased risk of loss in the event of a bank failure.

GRANTEE MONITORING OF DELEGATE AGENCY SUBCONTRACTS

YWCA had a process to monitor its subcontracts with the delegate agency. As specified in its Fiscal Policies and Procedures Manual, YWCA required the delegate agency to submit its financial statements and OMB Circular A-133 reports.9 YWCA also hired an independent contractor to annually review delegate agency Head Start programs and issue a monitoring report. The independent contractor collected data and reviewed the delegate agency’s financial statements and OMB Circular A-133 reports to determine whether the delegate agency’s systems and services were implemented and working effectively.

RECOMMENDATIONS

We recommend that when monitoring the Head Start funds, OHS consider the information presented in this report in assessing YWCA’s ability to account for and manage Federal funds and to operate its programs and Head Start centers in accordance with Federal regulations and the terms of the grant. Specifically, we recommend that OHS:

- recover the improperly spent grant funds from the GY 2009 award totaling $337,194;

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9 OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, sets the standards for obtaining consistency and uniformity among Federal agencies for the audit of non-Federal entities expending Federal awards funds.
• ensure that YWCA improves its policies and procedures for tracking unobligated balances so that those balances are properly accounted for;

• improve policies and procedures to ensure that the PMS recaptures unobligated balances from YWCA and other grantees in a timely manner;

• ensure that YWCA improves its policies and procedures so that its drawdowns of Head Start grant funds are timed and limited to actual program costs for the execution of approved program activities;

• review and, as necessary, modify policy guidance regarding interfund transfers to ensure that it conforms to Federal regulations;

• ensure that YWCA strengthens and, where necessary, implements policies and procedures to ensure that in-kind donations are allowable and are recognized in the appropriate accounting period, and that YWCA maintains adequate supporting documentation that identifies the contents and the basis for valuation of in-kind donations; and

• ensure that YWCA improves its policies and procedures so that its account cash balances of Head Start grant funds do not exceed the FDIC-insured limits.

YOUNG WOMEN’S CHRISTIAN ASSOCIATION OF METROPOLITAN ST. LOUIS COMMENTS

In written comments on our draft report, YWCA provided background information for each of our findings and described corrective actions that it had taken or planned to take. However, YWCA questioned our finding on the use of interfund transfers to temporarily pay for USDA program expenditures that should have been covered by USDA program grant funds. YWCA stated that Head Start Performance Standards (45 CFR § 1304.23(b)(1)(i)) allow the cost of nutritional services not covered by other forms of payment.

YWCA’s comments also addressed the finding in our draft report that it had underspent its GY 2009 grant award.

YWCA’s comments are included in their entirety as Appendix A.

OFFICE OF INSPECTOR GENERAL RESPONSE TO YOUNG WOMEN’S CHRISTIAN ASSOCIATION OF METROPOLITAN ST. LOUIS COMMENTS

The Federal regulations cited by YWCA in its comments (45 CFR § 1304.23(b)(1)(i)) state that Head Start funds may be used to cover those allowable costs not covered by USDA. However, this regulation also states that grantees and other agencies must use USDA program funds as the primary source of payment for meal services. YWCA did not provide support, either during our fieldwork or in its comments, that it used Head Start grant funds for only those allowable costs not covered by USDA program grant funds. Instead, it used Head Start grant funds to
temporarily cover all costs. This type of interfund transfer is not permitted by 45 CFR § 1304.23(b)(1)(i). We therefore continue to recommend that OHS review and, as necessary, modify policy guidance regarding interfund transfers to ensure that it conforms to Federal regulations.

Our draft report included a finding that YWCA had underspent its GY 2009 grant award. After receiving additional information from OHS after issuance of our draft report, we removed this finding from, and modified the associated recommendation in, this final report.

We maintain that all of our remaining findings and recommendations are valid.

OFFICE OF HEAD START COMMENTS

In written comments on our draft report, OHS generally agreed with our findings and recommendations. Our draft report contained a finding and associated recommendation regarding a drawdown of unobligated balances from GYs prior to GY 2009. OHS did not agree with this finding and provided additional information to us, including verification that the PMS recaptured prior GY unobligated balances. OHS also stated that YWCA drew down its entire GY 2009 grant award and improperly used part of it to improperly pay for overspending that occurred in GY 2008.

OHS’s comments are included in their entirety as Appendix B.

OFFICE OF INSPECTOR GENERAL RESPONSE TO OFFICE OF HEAD START COMMENTS

We reviewed the comments and additional information that OHS provided and discussed this information with YWCA officials during a January 25, 2013, meeting. After discussing this information with us, those officials agreed with OHS that YWCA had not actually drawn down and spent the prior GY unobligated balances. YWCA also agreed that it had drawn down its entire GY 2009 grant funds and had improperly used part of those funds to pay for overspending that had occurred in GY 2008.

We therefore agree with OHS’s comments concerning prior GY unobligated balances and YWCA’s drawdowns of GY 2009 grant funds. We have revised our final report to reflect the information that OHS provided to us. We maintain that our remaining findings and recommendations are valid.
APPENDIXES
APPENDIX A: GRANTEE COMMENTS

November 19, 2012

Mr. Patrick J. Cogley
Regional Inspector General for Audit Services
Department of Health and Human Services
Office of Inspector General
Office of Audit Services, Region VII
601 East 12th Street, Room 0429
Kansas City, MO 64106

Dear Mr. Cogley:

Please find the enclosed response to the OIG findings and recommendations dated November 13, 2012.

This letter is to provide background information on the status of the YWCA’s fiscal operations during the periods referenced in the OIG’s report, and to address the discrepancies. In October of 2008, the CFO of the YWCA of Metro St. Louis suddenly passed away. Please note that as a result, the confusion of having a CFO suddenly leave and, hence, temporary CFOs with no historical knowledge of the Payment Management System (PMS), some staff at the YWCA thought the balances in the PMS system were still available for spending and did not realize that the additional dollars being held in the PMS account were unobligated balances from FY 2003 and not available for use in Grant year 2008. Additionally, it was unusual for such unobligated funds from 2003 to have remained in the PMS account for five subsequent grant years. Many areas noted in the findings were corrected many months ago. We are still working out some procedures on the non-federal share functions.

Please note our goal is to prepare children for success, and we share in the desire to follow all Federal Regulations and laws completely.

If you have any questions, please feel free to call John Fraser, CFO, or myself at 314-531-1115. Our email address is jfraser@ywcastlouis.org or abracy@ywcastlouis.org.

Very truly yours,

Adrian E. Bracy
Chief Executive Officer

Enclosure
Responses To OIG Findings and Recommendations – A-07-11-02762
Review of YWCA of Metro St. Louis Head Start Unit

**Office of Inspector General Note** - The deleted text has been redacted because it is personally identifiable information.

**BACKGROUND:** To provide information regarding the background of the findings discussed in this report: In October of 2008, the CFO of the YWCA of Metro St. Louis suddenly passed away. Please note that as a result, the confusion of having a CFO suddenly leave, and hence temporary CFO's with no historical knowledge of the Payment Management System (PMS), some staff at the YWCA thought the balances in the PMS system were still available for spending and did not realize that the additional dollars being held in the PMS account were unobligated balances from GY 2003-04 and not available for use in Grant year 2009.

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<th>YWCA Response</th>
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<th>Completion Date</th>
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<tr>
<td>1</td>
<td>Improperly carried over and spent unobligated balances from GY's prior to GY 2009.</td>
<td>As a result, the YWCA claimed $337,194 in unallowable expenditures.</td>
<td>1a) Recover the improperly spent unobligated balances from prior GY's totaling $337,194. 1b) Ensure that YWCA reforms its policies and procedures for tracking unobligated balances so that those balances are properly accounted for and are not spent without prior authorization from OIG.</td>
<td>The YWCA did not have a system in place to categorize the amounts in the PMS system by grant year. Additionally, it was unusual for such unobligated funds from 2003 to have remained in the PMS account for five subsequent grant years.</td>
<td>The YWCA did not have a system in place to categorize the amounts in the PMS system by grant year. Additionally, it was unusual for such unobligated funds from 2003 to have remained in the PMS account for five subsequent grant years.</td>
<td>CFO</td>
<td>January 2012</td>
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<td>2</td>
<td>The YWCA under-spent GY 09/10, thus creating another unobligated balance for GY 2009</td>
<td>Reduced services to children by $337,196.</td>
<td>Improve policies and procedures to ensure that the PMS recaptures unobligated balances from YWCA and other grantees in a timely manner.</td>
<td>This finding is directly related to the first finding. As mentioned in the prior finding, the general ledger is checked against the additional spreadsheet. The spreadsheet is updated each time a draw is made. This new process is used to monitor drawdowns. The YWCA policy is to spend the entire GY funding in the appropriate GY to ensure our children are getting the best education and services possible.</td>
<td>This finding is directly related to the first finding. As mentioned in the prior finding, the general ledger is checked against the additional spreadsheet. The spreadsheet is updated each time a draw is made. This new process is used to monitor drawdowns. The YWCA policy is to spend the entire GY funding in the appropriate GY to ensure our children are getting the best education and services possible.</td>
<td>CFO</td>
<td>January 2012</td>
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<td>3</td>
<td>Improperly used interfund transfers to temporarily pay for USDA and State of Missouri program expenditures</td>
<td>Improperly drew down funds from the PMS that created increased borrowing costs to the federal government.</td>
<td>3.1 a) Ensure that the YWCA improves its policies and procedures so that its drawdowns of Head Start grant funds are timely and limited to actual program costs for the execution of approved program activities. 3.1 b) Review and, as necessary, modify policy guidance regarding interfund transfers to ensure that it conforms to federal regulations. We agree that cost objectives should be tracked separately. However, we would question the USDA portion of the finding since the Head Start Performance standards Section 1304.73 paragraph (b)(1)(i) allows the cost of nutritional services not covered by other forms of payment.</td>
<td>The YWCA of Metro St. Louis has an understanding now that each cost center related to Head Start, (whether Federal or not) must manage cash flow on its own as if it were a separate entity. In addition, draws are now specifically limited to those expenses that can be charged to the federal grant, and drawn based on after the fact expenditures are incurred. Cost plan has been updated to reflect complete separation of cost objectives of DHHS, Extended day funded by parent co-pay and State subsidies, and USDA.</td>
<td>The YWCA of Metro St. Louis has an understanding now that each cost center related to Head Start, (whether Federal or not) must manage cash flow on its own as if it were a separate entity. In addition, draws are now specifically limited to those expenses that can be charged to the federal grant, and drawn based on after the fact expenditures are incurred. Cost plan has been updated to reflect complete separation of cost objectives of DHHS, Extended day funded by parent co-pay and State subsidies, and USDA.</td>
<td>CFO</td>
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<td>3-2</td>
<td>Improperly allocated Federal Head Start grant funds to fund the non-Federal share of salaries at one Head Start center</td>
<td>Improperly drew down funds from the PMS that created increased borrowing costs to the Federal government.</td>
<td>3-2 a) Ensure that YWCA improves its policies and procedures so that its drawdowns of Head Start grant funds are timed and limited to actual program costs for the execution of approved program activities. 3-2 b) Review and, as necessary, modify policy guidance regarding interfund transfers to ensure that it conforms to Federal regulations.</td>
<td>The cost centers of the Head Start program are tracked using certain “program codes.” Only the codes assigned to the Federal portion of the program are used to draw down Federal funds. Therefore, this error would not occur in the future.</td>
<td>CFO January 2012</td>
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<td>4</td>
<td>Applied in-kind costs that were not always allowable and were inadequately documented to meet its non-Federal matching share of Head Start program costs.</td>
<td>May not have met its required 20 percent of the total costs of the non-Federal matching share requirement.</td>
<td>Ensure that YWCA strengthens and, where necessary, implements policies and procedures to ensure that in-kind donations are allowable and are recognized in the appropriate accounting period, and that YWCA maintains adequate supporting documentation that identifies the contents and the basis for valuation of in-kind donations.</td>
<td>The YWCA has added this subject matter to its training protocol. Several staff has attended training and has training scheduled. In addition, procedures are being modified to ensure the in-kind is allowable and in the proper period before being entered in the tracking database.</td>
<td>All staff involved in the non-Federal share tracking process has received training on the non-Federal share topic. The YWCA will review and update written policies and procedures to ensure that allocability, reasonableness, and allowableness of all cost sharing requirements, cost principles, prior approval requirements and other rules for allowability. In addition, procedures are in place to ensure adequate supporting documentation is identified with the contents and the basis for valuation of in-kind donations. We have added a Non-Federal Share Administrator position to manage this process.</td>
<td>Non-Federal share administrator</td>
<td>January 1, 2013. With annual updates.</td>
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<td>5</td>
<td>In addition, YWCA did not always safeguard its Head Start grant funds because it maintained those funds in bank accounts with balances that exceeded the Federal Deposit Insurance Corporation (FDIC)-insured limits.</td>
<td>Increased risk of loss of grant funds in the event of a bank failure.</td>
<td>Ensure that YWCA improves its policies and procedures so that its account cash balances of Head Start grant funds do not exceed the FDIC-insured limits.</td>
<td>Certain account payable runs will exceed $250,000. So the amount of Federal dollars exceeding the FDIC limit would be the amount of outstanding checks. In addition, 3 to 2 days after a payroll run, there may be amounts in the account over the $250,000.</td>
<td>The YWCA now has its accounts backed by a Treasury backed sweep account so that even on those days of large check runs or payroll, all funds are insured. Funds are only drawn after the expenditure has occurred. Therefore, there is a very short amount of time the funds are in the account.</td>
<td>CFO</td>
<td>September 2012</td>
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Approval by Authorized Representative:
I have reviewed the above written responses. I hereby approve it as the plan for correcting the Findings/Recommendations identified in the OIG investigation for the Case Number.

Signature: Authorized Representative
Date: [ ]
DHS Review: [ ]
Date: [ ]
Mr. Patrick J. Cogley  
Regional Inspector General for Audit Services  
Department of Health and Human Services  
Office of Inspector General  
Office of Audit Services, Region VII  
601 East 12th Street, Room 0429  
Kansas City, MO 64106  

Dear Mr. Cogley:

Please find the enclosed response to the OIG draft report (Not All of the Young Women’s Christian Association of Metropolitan St. Louis Head Start Expenditures Were Allowable (A-07-11-02762)) findings and recommendations dated December 11, 2012.

If you have any questions, please feel free to contact me at 816-426-2290 or clarence.small@acf.hhs.gov.

Sincerely,

Clarence Small  
Regional Program Manager, Office of Head Start, Region VII

Enclosure
Office of Head Start, Region VII, comments to
“Not All of the Young Women’s Christian Association of Metropolitan St. Louis Head Start Expenditures Were Allowable”
(A-07-11-02762)

Objectives, Scope, and Methodology (Draft Report, page 2)
The Scope references a review period for GYs 2008 and 2009. These grant years covered the period April 1, 2008 through March 31, 2010, rather than April 1, 2007 through March 31, 2009 as listed in the report.

Finding 1: Unobligated Balances (Draft Report, page 5)
We do not concur with the finding that the YWCA improperly carried over and spent unobligated balances from GYs prior to GY 2009. The grantee submitted a final SF-269 report for GY 2003 with an unobligated balance of $276,765. The Payment Management System (PMS) recaptured the GY 2003 unobligated balance from the grantee’s account in October 2009. Planned action: We will review the YWCA’s policies and procedures for tracking unobligated balances and we will work with the PMS to ensure unobligated balances are recaptured in a timely manner.

Finding 2: Funds from Grant Year 2009 Award Underspent (Draft Report, page 7)
We do not concur with the finding that the YWCA did not spend all of its authorized GY 2009 funds, thus creating another unobligated balance. During a risk management meeting with the grantee in January 2011, the grantee explained they had exceeded their GY 2008 budget by approximately $494,000. The grantee used non-federal funds to cover $157,000 of the expenses and drew down approximately $337,000 from GY 2009 funds to cover the balance of the GY 2008 overage. The grantee submitted a final GY 2009 SF-269 report on June 30, 2010 reporting an unobligated balance of $0. A revised final SF-269 report for GY 2009 was submitted November 29, 2010, along with a memo explaining that the YWCA had posted a journal entry prior to filing the original SF-269 in an effort to correct and true up the general ledger. The YWCA was subsequently informed by a consulting firm that prior period adjustments would be considered disallowed expenses for GY 2009, so they reversed the journal entry and amended their final SF-269 report for GY 2009 to reflect an unobligated balance of $337,196. The figures reported on the revised SF-269 report conflict with the information reported by the YWCA to the PMS for GY 2009. The Document Summary of Auth, Disb & Charged Adv Amounts report (included at the end of these comments) indicates that the YWCA was authorized to receive $21,619,299 in GY 2009. In the YWCA’s 6/30/10 quarterly disbursement report to the PMS, the YWCA reported advances of $21,619,299 and disbursements of $21,619,299. These figures do not coincide with the YWCA’s revised final SF-269 report for GY 2009. Planned action: Upon receipt of the OIG report, we will proceed to recover the GY 2009 funds spent outside the period of availability. We will review the YWCA’s policies and procedures to ensure the drawdown of Head Start grant funds are timed and limited to actual program costs for the execution of approved program activities.

Finding 3: Interfund Transfers and Grant Fund Allocations (Draft Report, page 7)
We concur with the finding that the YWCA improperly used interfund transfers to temporarily pay for State of Missouri program expenditures and improperly allocated Federal Head Start
grant funds to fund the non-Federal share of salaries at one of its Head Start centers. We also concur that the YWCA corrected the allocation error related to the Educare Center and used non-federal funds to pay grant-related obligated costs during the liquidation period. Planned action: Upon receipt of the OIG report, the Regional Office will work with the Office of Head Start to review its policy guidance on interfund transfers.

Finding 4: In-Kind Match (Draft Report, page 10)
We concur with the finding that the YWCA applied in-kind costs that were not always allowable and were inadequately documented to meet its non-Federal matching share of Head Start program costs. Planned action: We will review the YWCA’s policies and procedures to ensure in-kind donations are allowable and are recognized in the appropriate period, and that YWCA maintains adequate supporting documentation that identifies the contents and the basis for valuation of in-kind donations.

Grant Funds Not Always Safeguarded (Draft Report, page 12)
ACF concurs with the finding that the YWCA did not always safeguard its Head Start grant funds because it maintained those funds in bank accounts with balances that exceeded the Federal Deposit Insurance Corporation (FDIC)-insured limits. Planned action: ACF will review the YWCA’s policies and procedures to ensure its account cash balances of Head Start grant funds do not exceed the FDIC-insured limits.

Recommendations (Draft Report, pages 13-14)
ACF concurs with the recommendations provided to the Office of Head Start in the Draft Report; however, we would clarify the funds to be recovered are related to charges to the award outside of the allowable funding period, per 45 CFR 74.28.
**INQUIRY**  Document Summary of Auth, Disb & Charged-Adv Amounts  
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