



January 7, 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 Kids and Company of  
Linn County's Head Start Program (A-09-09-00095)

The attached final report provides the results of our limited-scope review of Kids and Company of Linn County's (Kidco Head Start) Head Start program. The Administration for Children and Families, Office of Head Start, requested this review 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 (Recovery Act).

President Obama signed the Recovery Act into law on February 17, 2009. The Recovery Act includes measures to modernize our Nation's infrastructure, enhance energy independence, expand educational opportunities, preserve and improve affordable health care, provide tax relief, and protect those in greatest need.

At the President's direction, Federal agencies are taking critical steps to carry out the Recovery Act effectively. All Federal agencies and Departments receiving Recovery Act funds must maintain strong internal controls and implement oversight mechanisms and other approaches to meet the accountability objectives of the Recovery Act.

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

Kidco Head Start is fiscally viable. In addition, Kidco Head Start's financial management system adequately managed and accounted for Federal funds except for its systems and internal controls related to accounting and personnel.

In written comments on our draft report, Kidco Head Start provided information on actions that it had taken to address the findings. With respect to the policies and procedures for the use of

Page 2 – Yvette Sanchez Fuentes

consultants, Kidco Head Start should ensure that they specifically cover the requirements stated in Federal regulations.

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

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-09-09-00095 in all correspondence.

Attachment

cc:

Nancy Hutchins  
Regional Program Manager  
Office of Head Start

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**RESULTS OF LIMITED SCOPE  
REVIEW AT KIDS AND COMPANY  
OF LINN COUNTY'S  
HEAD START PROGRAM**



Daniel R. Levinson  
Inspector General

January 2010  
A-09-09-00095

# ***Office of Inspector General***

<http://oig.hhs.gov>

---

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

## ***Office of Audit Services***

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

## ***Office of Evaluation and Inspections***

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

## ***Office of Investigations***

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

## ***Office of Counsel to the Inspector General***

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

# *Notices*

---

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

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

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

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

## **EXECUTIVE SUMMARY**

### **BACKGROUND**

Pursuant to Public Law 110-134, Improving Head Start for School Readiness Act of 2007, Head Start is a national program that promotes school readiness by enhancing the cognitive, social, and emotional development of children through the provision of health, educational, nutritional, social, and other services to enrolled children and families. Within the U.S. Department of Health and Human Services, the Administration for Children and Families (ACF) administers the Head Start program. Head Start provides grants to local public and private nonprofit and for-profit agencies to deliver comprehensive child development services to economically disadvantaged children and families.

Under the American Recovery and Reinvestment Act of 2009 (Recovery Act), P.L. No. 111-5, 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 5-percent cost-of-living increase and bolster training and technical assistance activities.

Kids and Company of Linn County (Kidco Head Start), a nonprofit corporation, operates a Head Start program that provides comprehensive early childhood development services for disadvantaged preschool children and their families at locations throughout Linn, Benton, and Marion Counties in Oregon. Kidco Head Start was established in 1977.

Kidco Head Start is funded through Federal and State grants and local community contributions and was awarded ACF grant funds for Head Start totaling \$2,511,183 for calendar year 2009. In addition, Kidco Head Start was awarded Recovery Act grant funds for the budget period July 1, 2009, through September 30, 2010, totaling \$214,042 for cost-of-living increases and quality improvement.

### **OBJECTIVES**

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

### **SUMMARY OF FINDINGS**

Kidco Head Start is fiscally viable. In addition, Kidco Head Start's financial management system adequately managed and accounted for Federal funds except for its systems and internal controls related to accounting and personnel. Specifically, Kidco Head Start did not (1) adequately segregate cash management duties, (2) segregate property inventory duties, (3) have adequate personnel on its board of directors, and (4) have written policies and procedures for the use of consultants.

## **RECOMMENDATION**

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

## **KIDCO HEAD START COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE**

In written comments on our draft report, Kidco Head Start provided information on actions that it had taken to address the findings. Kidco Head Start's comments are included in their entirety as the Appendix.

With respect to the policies and procedures for the use of consultants, Kidco Head Start should ensure that they specifically cover the requirements stated in Federal regulations.

**TABLE OF CONTENTS**

**INTRODUCTION**..... 1

**BACKGROUND** ..... 1

        Head Start Program..... 1

        Kids and Company of Linn County ..... 1

        Requirements for Federal Grantees ..... 1

**OBJECTIVES, SCOPE, AND METHODOLOGY** ..... 2

        Objectives ..... 2

        Scope..... 2

        Methodology..... 2

**FINDINGS AND RECOMMENDATION**..... 3

**INADEQUATE SYSTEMS AND INTERNAL CONTROLS FOR ACCOUNTING AND PERSONNEL** ..... 3

        Inadequate Segregation of Cash Management Duties ..... 3

        Lack of Segregation of Property Inventory Duties ..... 3

        Inadequate Personnel on Board of Directors ..... 4

        Lack of Policies and Procedures for Use of Consultants ..... 4

**RECOMMENDATION** ..... 4

**KIDCO HEAD START COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE** ..... 4

**APPENDIX**

**KIDS AND COMPANY OF LINN COUNTY COMMENTS**

## **INTRODUCTION**

### **BACKGROUND**

#### **Head Start Program**

Pursuant to Public Law 110-134, Improving Head Start for School Readiness Act of 2007 (Head Start Act), Head Start is a national program that promotes school readiness by enhancing the cognitive, social, and emotional development of children through the provision of health, educational, nutritional, social, and other services to enrolled children and families. Within the U.S. Department of Health and Human Services, the Administration for Children and Families (ACF) administers the Head Start program.

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

Under the American Recovery and Reinvestment Act of 2009 (Recovery Act), P.L. No. 111-5, 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 5-percent cost-of-living increase and bolster training and technical assistance activities.

#### **Kids and Company of Linn County**

Kids and Company of Linn County (Kidco Head Start), a nonprofit corporation, operates a Head Start program that provides comprehensive early childhood development services for disadvantaged preschool children and their families at locations throughout Linn, Benton, and Marion Counties in Oregon. Kidco Head Start was established in 1977.

Kidco Head Start is funded through Federal and State grants and local community contributions and was awarded ACF grant funds for Head Start totaling \$2,511,183 for calendar year 2009. In addition, Kidco Head Start was awarded Recovery Act grant funds for the budget period July 1, 2009, through September 30, 2010, totaling \$214,042 for cost-of-living increases and quality improvement.

#### **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 in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award. 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.

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

### **Objectives**

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

### **Scope**

We conducted our audit for the limited purpose described in the objectives; thus, the audit would not necessarily have disclosed all material weaknesses. Accordingly, we do not express an opinion on Kidco Head Start's overall system of internal accounting controls. We performed limited tests and other auditing procedures on Kidco Head Start's financial management system to assess its ability to administer federally funded projects.

We conducted our fieldwork in August 2009, which included visits to Kidco Head Start's administrative office in Lebanon, Oregon.

### **Methodology**

To accomplish our objectives, we:

- reviewed relevant Federal laws, regulations, and guidance;
- reviewed Kidco Head Start's fiscal procedures related to accounting documentation and preparation of financial reports;
- reviewed selected Federal grant award documentation to determine Kidco Head Start's Federal funding;
- reviewed Kidco Head Start's audited financial statements for calendar years 2006 through 2008;
- reviewed Kidco Head Start's expense accounts and unaudited financial statements for the 5-month period ended May 31, 2009; and
- performed liquidity and stability analyses of Kidco Head Start's financial records.

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**

Kidco Head Start is fiscally viable. In addition, Kidco Head Start's financial management system adequately managed and accounted for Federal funds except for its systems and internal controls related to accounting and personnel.

### **INADEQUATE SYSTEMS AND INTERNAL CONTROLS FOR ACCOUNTING AND PERSONNEL**

Kidco Head Start did not (1) adequately segregate cash management duties, (2) segregate property inventory duties, (3) have adequate personnel on its board of directors, and (4) have written policies and procedures for the use of consultants.

#### **Inadequate Segregation of Cash Management Duties**

Kidco Head Start did not adequately segregate cash management duties. Both 45 CFR § 74.21(b)(3) and Office of Management and Budget (OMB) Circular A-110 (2 CFR part 215), subpart C, section \_\_.21(b)(3), state that the recipient's financial management systems shall provide for effective control over and accountability for all funds, property, and other assets.

Kidco Head Start had only one employee responsible for processing cash receipts and petty cash disbursements, preparing deposit slips and performing banking functions, requesting Federal funds, reconciling monthly bank statements, and maintaining custody of the supply of unused checks. In addition, this employee had check-signing authority on the checking account. For internal controls over cash management to be effective, these duties should be segregated among different individuals. Kidco Head Start stated that there was inadequate segregation of duties because the bookkeeper was on maternity leave and indicated that it was in the process of hiring a temporary worker to cover the bookkeeper's responsibilities.

#### **Lack of Segregation of Property Inventory Duties**

Kidco Head Start did not segregate property inventory duties. Both 45 CFR § 74.21(b)(3) and OMB Circular A-110 (2 CFR part 215), subpart C, section \_\_.21(b)(3), state that the recipient's financial management systems shall provide for effective control over and accountability for all funds, property, and other assets.

Kidco Head Start's transportation/facility coordinator performed all duties related to maintaining equipment inventory, including conducting physical inventories, reconciling differences between the actual count and the inventory record, and investigating any discrepancies. For internal controls over property inventory to be effective, these duties should be segregated among different individuals. Kidco Head Start's executive director explained that because Kidco Head Start is a small entity, it is not always possible to segregate duties.

## **Inadequate Personnel on Board of Directors**

Kidco Head Start did not have adequate personnel on its board of directors. Section 642(c) of the Head Start Act requires that all Head Start agencies establish and maintain a formal structure for program governance that includes a governing body composed of not less than one member with a background and expertise in fiscal management or accounting, not less than one member with a background in early childhood education and development, and not less than one member who is a licensed attorney familiar with issues that come before the governing body. If persons with these qualifications are not available to serve as members of the governing body, the governing body must use consultants or other individuals with relevant expertise and background to work directly with the governing body.

Kidco Head Start's board of directors did not have an individual with a background and expertise in fiscal management or accounting. Although Kidco Head Start has been actively working with its bank to recruit a qualified individual, it has not been successful.

## **Lack of Policies and Procedures for Use of Consultants**

Kidco Head Start did not have any written policies and procedures for the use of consultants. OMB Circular A-122 (2 CFR part 230), Attachment B, section 37.b, states that in determining the allowability of consultants' costs, the following factors are relevant: (1) the nature and scope of services, (2) the necessity of contracting for the service, (3) the past pattern of such costs, (4) whether the service can be performed more economically by an employee, (5) the qualifications of the consultant, and (6) the adequacy of the contractual agreement.

Kidco Head Start's executive director explained that because consultants are rarely used, written policies and procedures were unnecessary.

## **RECOMMENDATION**

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

## **KIDCO HEAD START COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE**

In written comments on our draft report, Kidco Head Start provided information on actions that it had taken to address the findings. Kidco Head Start's comments are included in their entirety as the Appendix.

With respect to the policies and procedures for the use of consultants, Kidco Head Start should ensure that they specifically cover the requirements stated in Federal regulations.

# **APPENDIX**



## APPENDIX: KIDS AND COMPANY OF LINN COUNTY COMMENTS

# Kidco Head Start

Administration Office 300 Market St., Suite 200 Lebanon, OR 97355  
 www.kidcoheadstart.org (541) 451-1581 FAX (541) 259-1581

### Sweet Home Sunnyside

44829 Quartzville Rd.  
 Foster, OR 97345  
 (541) 367-8070

### Sweet Home - Crawfordsville

38420 Glass Ave.  
 P.O. Box 202  
 Crawfordsville, OR 97336  
 (541) 367-3361

### Lebanon

Physical: 31575 Sand Ridge Rd.  
 Mailing: 300 Market St. Suite 200  
 Lebanon, OR 97355  
 (541) 259-2227

### Central Albany

Physical: 2526 20<sup>th</sup> Ave SE  
 Mailing: 2532 Santiam Hwy SE #117  
 Albany, OR 97322  
 (541) 928-8690

### Albany - Riverside

35140 Meadow Lane SW  
 Albany, OR 97321  
 (541) 967-1044

### Corvallis

Physical: 4515 SW West Hills Rd.  
 Mailing: P.O. Box 2750  
 Corvallis, OR 97339  
 (541) 758-1164

### Philomath

1123 Main St.  
 P.O. Box 487  
 Philomath, OR 97370  
 (541) 929-7595

### Central Linn

331 E. Blakely Rm L  
 P.O. Box 582  
 Brownsville, OR 97327  
 (541) 466-3604

### Harrisburg

885 Sommerville Lane  
 P.O. Box 14  
 Harrisburg, OR 97446  
 (541) 995-8270

### Jefferson

615 N. 2<sup>nd</sup> St.  
 P.O. Box 1271  
 Jefferson, OR 97352  
 (541) 327-7924

Lori A. Ahlstrand  
 Department of Health and Human Services  
 Office of Inspector General  
 Office of Audit Services, Region IX  
 90 – 7<sup>th</sup> Street, suite 3-650  
 San Francisco, CA 94103

Re: Report Number A-09-09-00095

November 25, 2009

Dear Ms. Ahlstrand,

The following is our response to the findings indicated in the review report dated November 19, 2009:

### FINDING: Inadequate Segregation of Cash Management Duties

*Response:* Kidco Head Start has a “Separation of Duties” policy between the Bookkeeper and the Financial Coordinator which was approved by the previous independent auditing firm. Since we changed Bookkeepers and with input from the OIG auditors, we have made a few changes to our duty segregation. The changes have been approved by the current independent auditing firm. While the Bookkeeper was on maternity leave, the Financial Coordinator was the only staff in the financial office until a temporary employee could be hired. Although the Financial Coordinator was a signer on the checking account, she had been removed from signing while fulfilling the Bookkeeper’s functions.

### FINDING: Lack of Segregation of Property Inventory Duties

*Response:* Kidco Head Start has added a new procedure for handling property inventory. Transportation/ Facilities Coordinator will maintain the inventory and investigate any discrepancies between the actual count and the inventory record. The Transportation Specialist will conduct a physical inventory every year using the inventory record. Notation of any discrepancies will be noted on the record and it will be signed, dated and given to the Director for monitoring purposes. The Director will ensure that any discrepancies are investigated by the Transportation/ Facilities Coordinator.

### FINDING: Inadequate Personnel on the Board of Directors

*Response:* Kidco Head Start has been actively working to find a qualified individual with expertise in fiscal management or accounting. We currently have an interested individual from the banking industry and have sent him an application for board membership.

November 25, 2009  
Page Two

**FINDING: Lack of Policies and Procedures for use of Consultants**

*Response:* In recent history, Kidco Head Start has only used consultants to cover mental health services. Following is the procedure for hiring and using consultants.

**Procedure for Use of Consultants**

*Consultants are used when the nature of the need does not require a full-time position but does require specific expertise, education, licensure and/or certification as well as meets the criteria for consultant status.*

*Some areas where consultants may be used are as follows:*

- Mental Health – Behavior specialists for classroom management assistance and for individual children and families*
- Health – Nursing services for specific health needs of a child*
- Fiscal – CPA services*
- Legal – Attorney services*
- Education – Experts in disabilities, infants/toddlers, etc.*
- Family Services - Trainers*

*The hiring process is similar to hiring any other position in the program, as follows:*

- \*Need for position is determined, and compensation is decided upon according to past history with the position and budget allowances.*
- Compensation may not be greater than the local market rate.*
- \*Advertisements are placed where people with the expertise are likely to be found*
- \*Completion of an application is required*
- \*Appropriate personnel screen application using qualification criteria listed on the job announcement*
- \*Applicants are interviewed by a committee*
- \*References are checked*
- \*Status on the State of Oregon Criminal History Registry is confirmed*
- \*Court print of driving record is obtained to ensure insurability*
- \*Copy of certification or license is collected where such applies*

*Each consultant has a job description, and a contract indicates the exact services, including location, hours allowed, salary, and reporting requirements.*

Please let me know if you need further information.

Sincerely,

/Jo O'Leary/  
Director