



January 8, 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 Kings Community Action
Organization, Inc., for the Head Start, Early Head Start, and
Migrant and Seasonal Head Start Programs (A-09-09-00096)

The attached final report provides the results of our limited scope review of Kings Community Action Organization, Inc. (Kings), for the Head Start, Early Head Start, and Migrant and Seasonal Head Start (MSHS) programs. The Administration for Children and Families (ACF), 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) Kings is fiscally viable and (2) Kings' financial management system adequately managed and accounted for Federal funds.

Kings is fiscally viable. However, Kings did not meet the required non-Federal share of 20 percent for its MSHS program for program year 2009 (February 1, 2008, through January 31, 2009). In addition, Kings' financial management system adequately managed and accounted for Federal funds except for its systems and internal controls related to property

management. Specifically, Kings did not perform a physical inventory of its equipment at least once every 2 years as required by Federal regulations, and Kings' equipment inventory records did not contain all required information.

In written comments on our draft report, Kings stated that it did not dispute the validity of the facts in the report.

In determining whether Kings should be awarded additional Head Start and Recovery Act grant funding, we recommend that ACF consider the information presented in this report in assessing Kings' 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. Please refer to report number A-09-09-00096 in all correspondence.

Attachment

cc:
Jan Len
Regional Program Manager
Office of Head Start

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**RESULTS OF LIMITED SCOPE
REVIEW AT KINGS COMMUNITY
ACTION ORGANIZATION, INC., FOR
THE HEAD START, EARLY HEAD
START, AND MIGRANT AND SEASONAL
HEAD START PROGRAMS**



Daniel R. Levinson
Inspector General

January 2010
A-09-09-00096

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:

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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.

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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.

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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 (including Early Head Start and Migrant and Seasonal Head Start (MSHS)) 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. Early Head Start promotes healthy prenatal outcomes, enhances the development of infants and toddlers, and promotes healthy family functioning. MSHS provides services to the children of low-income migrant and seasonal farmworkers.

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.

Kings Community Action Organization, Inc. (Kings), a nonprofit agency, operates the Head Start, Early Head Start, and MSHS programs, which provide education, health, and social services to low-income children and their families at locations throughout Kings County, California. Kings was established in 1965 and has been in sustained operation for 44 years.

Kings is funded primarily through Federal and State grants. According to Kings' financial status reports, Kings received the following ACF grant funds: Head Start and Early Head Start funds totaling \$4,548,216 for program year (PY) 2009 (April 1, 2008, through March 31, 2009) and MSHS funds totaling \$1,401,248 for PY 2009 (February 1, 2008, through January 31, 2009).

Kings was awarded Recovery Act grant funds for the budget period July 1, 2009, through September 30, 2010, totaling \$394,809 for cost-of-living increases and quality improvement.

OBJECTIVES

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

SUMMARY OF FINDINGS

Kings is fiscally viable. However, Kings did not meet the required non-Federal share of 20 percent for its MSHS program for the year ended January 31, 2009. In addition, Kings' financial management system adequately managed and accounted for Federal funds except for its systems and internal controls related to property management. Specifically, Kings did not perform a physical inventory of its equipment at least once every 2 years as required by Federal regulations, and Kings' equipment inventory records did not contain all required information.

RECOMMENDATION

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

KINGS COMMENTS

In written comments on our draft report, Kings stated that it did not dispute the validity of the facts in the report. Kings' comments are included in their entirety as the Appendix.

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 KINGS COMMUNITY ACTION ORGANIZATION, INC., COMMENTS

INTRODUCTION

BACKGROUND

Head Start Program

Pursuant to Public Law 110-134, Improving Head Start for School Readiness Act of 2007, Head Start (including Early Head Start and Migrant and Seasonal Head Start (MSHS)) 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 programs.

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. Early Head Start promotes healthy prenatal outcomes, enhances the development of infants and toddlers, and promotes healthy family functioning. MSHS provides services to the children of low-income migrant and seasonal farmworkers. 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.

Kings Community Action Organization, Inc.

Kings Community Action Organization, Inc. (Kings), a nonprofit agency, operates the Head Start, Early Head Start, and MSHS programs, which provide education, health, and social services to low-income children and their families at locations throughout Kings County, California. Kings also operates child development, youth services, energy and housing, and emergency services and crisis support programs. Kings was established in 1965 pursuant to the Economic Opportunity Act of 1964 and has been in sustained operation for 44 years.

Kings is funded primarily through Federal and State grants. According to Kings' financial status reports (SF-269), Kings received the following ACF grant funds: Head Start and Early Head Start funds totaling \$4,548,216 for program year (PY) 2009 (April 1, 2008, through March 31, 2009) and MSHS funds totaling \$1,401,248 for PY 2009 (February 1, 2008, through January 31, 2009).

Kings was awarded Recovery Act grant funds for the budget period July 1, 2009, through September 30, 2010, totaling \$394,809¹ 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) Kings is fiscally viable and (2) Kings' 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 Kings' overall system of internal accounting controls. We performed limited tests and other auditing procedures on Kings' financial management system to assess its ability to administer federally funded projects.

We conducted our fieldwork from July to August 2009, which included a visit to Kings' administrative office in Hanford, California.

Methodology

To accomplish our objectives, we:

- reviewed relevant Federal laws, regulations, and guidance;
- reviewed Kings' fiscal procedures related to accounting documentation and preparation of financial reports;
- obtained selected Federal grant award documentation to determine Kings' Federal funding;

¹Head Start and Early Head Start program awards totaled \$299,571, and MSHS program awards totaled \$95,238.

- reviewed Kings’ audited financial statements for calendar years 2006 through 2008;
- reviewed Kings’ expense accounts, unaudited financial statements for the 5-month period ended May 31, 2009, Head Start and Early Head Start SF-269 submitted to ACF for PY 2009, and MSHS SF-269 submitted to ACF for PY 2009; and
- performed liquidity and stability analyses of Kings’ 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

Kings is fiscally viable. However, Kings did not meet the required non-Federal share of 20 percent for its MSHS program for the year ended January 31, 2009. In addition, Kings’ financial management system adequately managed and accounted for Federal funds except for its systems and internal controls related to property management. Specifically, Kings did not perform a physical inventory of its equipment at least once every 2 years as required by Federal regulations, and Kings’ equipment inventory records did not contain all required information.

UNMET REQUIREMENT FOR NON-FEDERAL SHARE OF OUTLAYS

Pursuant to 45 CFR § 1301.20(a), “Federal financial assistance granted under the act [Title V of the Economic Opportunity Act of 1964, as amended] for a Head Start program shall not exceed 80 percent of the total costs of the program, unless . . . [a]n amount in excess of that percentage is approved” For the year ended January 31, 2009, Kings did not meet the required non-Federal share of 20 percent for its MSHS program as reported on the SF-269. Also, Kings did not request a waiver from ACF to reduce the required non-Federal share.

For PY 2009, Kings reported to ACF \$1,604,611 of net outlays for its MSHS program on its SF-269, dated April 30, 2009. Of this amount, \$1,401,248 (87.33 percent) was the Federal share of net outlays, and the remaining \$203,363² (12.67 percent) was the non-Federal share. Based on the reported Federal share of \$1,401,248, Kings’ required non-Federal share was \$350,312. Therefore, the unmet non-Federal share was \$146,949.

Kings did not meet the non-Federal share requirement of 20 percent for its MSHS program because, according to Kings’ management, Kings overestimated the in-kind contribution of parent services and failed to request a waiver from ACF to reduce the required non-Federal share before the end of the PY.

²We did not assess the allowability or valuation of the non-Federal share that Kings reported on the SF-269.

Failure to meet the non-Federal share requirement could result in a disallowance of Federal funds. ACF may require Kings to repay \$4 for every \$1 of its unmet non-Federal share,³ or \$587,796 ($\$146,949 \times \$4 = \$587,796$). Kings would have to repay this amount from its own funds, because Federal funds may not be used for repayment. If Kings were required to repay this amount, it could have a severe impact on Kings' financial capability.

Kings' failure to meet the non-Federal share requirement for the MSHS grant was not disclosed in Kings' Single Audit Report dated May 13, 2009, nor in the ACF triennial MSHS grant review report dated August 24, 2009.

For the year ended March 31, 2009, Kings met the required non-Federal share of 20 percent for its Head Start and Early Head Start programs as reported on the SF-269.

INADEQUATE SYSTEMS AND INTERNAL CONTROLS FOR PROPERTY MANAGEMENT

Kings did not maintain adequate systems and internal controls for property management in accordance with 45 CFR § 74.34(f) and OMB Circular A-110 (2 CFR part 215), subpart C, section __.34(f). These regulations identify the following required property management standards for equipment acquired with Federal funds and federally owned equipment:

- accurate equipment records, including a description of the equipment, an identification number, the acquisition date, and the condition of the equipment;
- proper identification of equipment owned by the Federal Government;
- physical inventory and reconciliation of equipment records at least once every 2 years;
- a control system to ensure adequate safeguards to prevent loss, damage, or theft of the equipment;
- adequate maintenance procedures; and
- proper sales procedures, which provide for competition and result in the highest possible return.

Kings did not perform a physical inventory of its equipment at least once every 2 years as required by Federal regulations. Kings stated that the most recent physical inventory of equipment was performed in 2005. In addition, Kings' equipment inventory records did not contain all required information. Specifically, the records did not identify the Federal award number, acquisition date, or condition of the equipment (including the date that this information was reported) for the selected equipment. On its calendar year 2008 audited financial statements, Kings' total equipment expense for its Head Start programs was \$494,840.

³“Non-Federal Share Narrative,” ACF guidance published on the Early Childhood Learning and Knowledge Center Web site, <http://eclkc.ohs.acf.hhs.gov/>. Accessed September 10, 2009.

In general, Kings had policies and procedures to comply with the property management regulations; however, Kings' management did not ensure that these policies and procedures were followed. Because Kings did not perform a physical inventory of equipment at least once every 2 years and maintain adequate equipment management systems, Kings is unable to provide current information about the existence, use, and condition of its federally funded equipment. Kings' failure to perform a physical inventory as required by Federal regulations and maintain adequate equipment inventory records was not disclosed in Kings' Single Audit Report dated May 13, 2009, the ACF triennial Head Start/Early Head Start grant review report dated June 3, 2008, or the ACF triennial MSHS grant review report dated August 24, 2009.

RECOMMENDATION

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

KINGS COMMENTS

In written comments on our draft report, Kings stated that it did not dispute the validity of the facts in the report. Kings' comments are included in their entirety as the Appendix.

APPENDIX

APPENDIX: KINGS COMMUNITY ACTION ORGANIZATION, INC., COMMENTS



Helping People, Changing Lives Since 1965

John Stankovich
Board Chairperson

Melissa Whitten
Vice-Chairperson

David B. Droker, MA
Executive Director

- Child Care Services
- Alternative Payment Program
 - Cal Works Stages I, II, III
 - Preschool Programs
 - Resource & Referral
 - Toy Lending Library

- Emergency Services
- Clothing Closet
 - Food Distribution
 - Senior Nutrition
 - Utility Assistance

- Energy & Housing
- Housing Assistance
 - Weatherization

- Head Start Programs
- Child Care Food Program
 - Early Head Start
 - Healthy Marriage Program
 - Migrant & Seasonal
 - Regional

- Intervention, Prevention & Supportive Services
- Domestic Violence Shelter
 - Homeless Women's Shelter
 - Legal Advocacy
 - Parent Education/Respite
 - Sexual Assault Response Team (SART)
 - SMART Program
 - Teen-Parent Services
 - Victim Services Center

KCAO MISSION

To advocate, educate, and provide a wide range of quality services that empower, promote self-sufficiency, preserve dignity, and improve the quality of life for the individuals and communities of Kings County.

October 2, 2009

Jerry McGee, Audit Manager
Office of Inspector General
Region IX
Office of Audit Services
90-7th Street, Suite 3-650
San Francisco, CA 94103

Re: Report Number: A-09-09-00096

Dear Mr. McGee:

We are writing in response to the U.S. Department of Health and Human Services, Office of Inspector General (OIG) draft report, report number referenced above. Our comments will not dispute the validity of the facts in the report, but are offered as explanation of the facts.

The unmet requirement for non-Federal share for the Migrant Head Start program under contract number 90CM1628/30 is not in dispute. We would like to note that we have requested a reduction in the required non-Federal share for the contract year be retroactively applied and we are awaiting a decision on our request. We have also reviewed and revised the amount of non-Federal share and will report the updated amount to the Office of Head Start. The failure to meet the non-Federal share requirement was not disclosed in the Single Audit Report, but will be disclosed in the report for the year ending December 31, 2009.

We are currently in the process replacing the inventory system and will ensure that the policies and procedures in place will be followed in order to record and maintain a current inventory of federally funded equipment, with all the requisite information.

Thank you for your consideration of this request. Please do not hesitate to contact me if you require any additional information.

Sincerely,

A handwritten signature in black ink, appearing to read "David B. Droker".

David B. Droker
Executive Director