



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

June 13, 2012

**TO:** Nancy Hutchins  
Regional Program Manager  
Administration for Children and Families

**FROM:** /Lori A. Ahlstrand/  
Regional Inspector General for Audit Services

**SUBJECT:** First A.M.E. Child Development Center's Head Start Program Governance Was Not Fully in Accordance With Federal Requirements (A-09-11-01003)

The attached final report provides the results of our review of First A.M.E. Child Development Center's governance of its Head Start program. We performed this review in response to a request from the Administration for Children and Families.

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>.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact Doug Preussler, Audit Manager, at (415) 437-8360 or through email at [Doug.Preussler@oig.hhs.gov](mailto:Doug.Preussler@oig.hhs.gov). We look forward to receiving your final management decision within 6 months. Please refer to report number A-09-11-01003 in all correspondence.

Attachment

cc:

Ann Linehan  
Deputy Director of Office of Head Start  
Administration for Children and Families

Yolanda Wise  
Head Start Program Specialist  
Administration for Children and Families

Janice L. Samuel  
Director of Office of Financial Services  
Administration for Children and Families

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**FIRST A.M.E. CHILD  
DEVELOPMENT CENTER'S  
HEAD START PROGRAM  
GOVERNANCE WAS NOT FULLY  
IN ACCORDANCE WITH  
FEDERAL REQUIREMENTS**



Daniel R. Levinson  
Inspector General

June 2012  
A-09-11-01003

# *Office of Inspector General*

<http://oig.hhs.gov>

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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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# *Notices*

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

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

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

## **EXECUTIVE SUMMARY**

### **BACKGROUND**

Title VI of the Omnibus Budget Reconciliation Act of 1981 established Head Start as a Federal discretionary grant program. The major program objectives include promoting school readiness and enhancing the social and cognitive development of children from families with low incomes by providing educational, health, nutritional, and social services.

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 and Early Head Start programs. We refer collectively to both programs as the Head Start program. In fiscal year (FY) 2010, Congress appropriated \$7.2 billion to fund Head Start's regular operations.

The American Recovery and Reinvestment Act of 2009 (Recovery Act), P.L. No. 111-5, provided an additional \$2.1 billion for the Head Start program during FYs 2009 and 2010. These funds were intended for activities such as expanding enrollment, funding cost-of-living wage increases for grantees, upgrading centers and classrooms, and bolstering training and technical assistance.

First A.M.E. Child Development Center (the Center), a nonprofit organization founded in 1980, promotes child and family development services in the central area and Rainier Valley of Seattle, Washington. For the period November 1, 2009, through October 31, 2011, OHS awarded \$3,760,556 in Federal Head Start funds to the Center to provide services for 264 children. On July 1, 2009, the Center received \$149,109 in Recovery Act funding.

The Head Start Act requires that the governing body of a Head Start agency have legal and fiscal responsibility for administering and overseeing Head Start programs, including the safeguarding of Federal funds; adopt practices that ensure active, independent, and informed governance; and fully participate in the development, planning, and evaluation of Head Start programs.

### **OBJECTIVE**

Our objective was to determine whether the Center's Head Start program governance was in accordance with Federal requirements.

### **SUMMARY OF FINDING**

The Center's Head Start program governance was not fully in accordance with Federal requirements. A majority of board members, including the licensed attorney, did not attend all of the board of directors meetings. Because of the board members' lack of participation, the governing body may not have ensured active and informed governance of the Center or fully participated in the development, planning, and evaluation of the Center's Head Start programs.

## **RECOMMENDATION**

We recommend that ACF take steps to ensure that the Center has adequate Head Start program governance. Specifically, ACF should ensure that a majority of the Center's board members, including the licensed attorney, attend board of directors meetings.

## **FIRST A.M.E. CHILD DEVELOPMENT CENTER COMMENTS**

In its written comments on our draft report, the Center concurred with our finding and provided information on actions taken to ensure adequate Head Start program governance. The Center's comments are included in their entirety as Appendix A.

## **ADMINISTRATION FOR CHILDREN AND FAMILIES COMMENTS**

In its written comments on our draft report, ACF agreed with our finding and recommendation. ACF stated that it would work with the Center to correct the discrepancies through action plans and onsite verification visits. ACF's comments are included in their entirety as Appendix B.

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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 program objectives include promoting school readiness and enhancing the social and cognitive development of children from families with low incomes 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 Head Start's regular operations.

The American Recovery and Reinvestment Act of 2009 (Recovery Act), P.L. No. 111-5, provided an additional \$2.1 billion for the Head Start program during FYs 2009 and 2010. These funds were intended for activities such as expanding enrollment, funding cost-of-living wage increases for grantees, upgrading centers and classrooms, and bolstering training and technical assistance.

#### **First A.M.E. Child Development Center**

First A.M.E. Child Development Center (the Center), a nonprofit organization founded in 1980, promotes child and family development services in the central area and Rainier Valley of Seattle, Washington. The Center's mission is to operate child development programs that will enhance the social, emotional, physical, and intellectual development of preschool children.

For the period November 1, 2009, through October 31, 2011, OHS awarded \$3,760,556 in Federal Head Start funds to the Center to provide services for 264 children. On July 1, 2009, the Center received \$149,109 in Recovery Act funding.

#### **Federal Requirements for Head Start Grantees**

The Head Start Program Performance Standards (45 CFR parts 1301 through 1311) establish regulations applicable to program operations, administration, and grants management for all grants awarded under the Head Start Act. Part 1301 establishes regulations applicable to program administration and grants management for grantees.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

### **Objective**

Our objective was to determine whether the Center's Head Start program governance was in accordance with Federal requirements.

### **Scope**

We performed this review in response to a request from OHS. We reviewed documents related to the Center's organizational structure for the period December 1, 2009, through February 15, 2011. We did not perform an overall assessment of the Center's internal control structure. However, we conducted a limited review of the Center's internal controls as they related to our objective.

We performed fieldwork at the Center's administrative office in Seattle, Washington.

### **Methodology**

To accomplish our objective, we:

- reviewed relevant Federal laws and regulations;
- reviewed the Center's grant award and supporting documentation;
- reviewed the Center's audited financial statements for the FYs ended October 31, 2007, October 31, 2008, and October 31, 2009;
- reviewed the Center's unaudited financial statements for the FY ended October 31, 2010;
- reviewed the Center's board of directors meeting minutes, articles of incorporation, and bylaws; and
- interviewed the Center's interim executive director, finance director, human resources manager, and chair of the board of directors.

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 finding and conclusions based on our audit objective.

## **FINDING AND RECOMMENDATION**

The Center's Head Start program governance was not fully in accordance with Federal requirements. A majority of board members, including the licensed attorney, did not attend all of the board of directors meetings.

### **BOARD MEMBERS DID NOT FULLY PARTICIPATE IN BOARD OF DIRECTORS MEETINGS**

Section 642(c)(1)(B) of the Head Start Act requires that a Head Start agency establish and maintain a formal structure for program governance that includes a governing body composed of, among other required members, not less than one member who is a licensed attorney familiar with issues that come before the governing body.

Section 642(c)(1)(E) of the Head Start Act requires that the governing body (1) have legal and fiscal responsibility for administering and overseeing Head Start programs, including the safeguarding of Federal funds; (2) adopt practices that ensure active, independent, and informed governance of the Head Start agency; and (3) fully participate in the development, planning, and evaluation of Head Start programs.

A majority of the Center's board members did not attend seven of the eight board of directors meetings held during the period December 2009 through February 2011, as required by the Center's bylaws. One board member, the licensed attorney, did not attend any of the eight meetings. Because of the board members' lack of participation, the governing body may not have ensured active and informed governance of the Center or fully participated in the development, planning, and evaluation of the Center's Head Start programs.

### **RECOMMENDATION**

We recommend that ACF take steps to ensure that the Center has adequate Head Start program governance. Specifically, ACF should ensure that a majority of the Center's board members, including the licensed attorney, attend board of director meetings.

### **FIRST A.M.E. CHILD DEVELOPMENT CENTER COMMENTS**

In its written comments on our draft report, the Center concurred with our finding and provided information on actions taken to ensure adequate Head Start program governance. The Center's comments are included in their entirety as Appendix A.

### **ADMINISTRATION FOR CHILDREN AND FAMILIES COMMENTS**

In its written comments on our draft report, ACF agreed with our finding and recommendation. ACF stated that it would work with the Center to correct the discrepancies through action plans and onsite verification visits. ACF's comments are included in their entirety as Appendix B.

## **OTHER MATTERS**

### **FEDERAL GOVERNMENT DEBT**

For the period November 1, 2010, through October 31, 2011, OHS placed the Center in high-risk status because of an unpaid Federal Government debt for unallowable Head Start costs claimed in a prior period. Because of the high-risk status, OHS limited the Center's Head Start award to \$1,258,259.

The Center's original debt owed to the Federal Government was \$101,477. Starting in May 2007, HHS established with the Center a payment plan of \$3,389 per month. However, the Center was unable to make the required monthly payments. Therefore, in March 2009, HHS reduced the monthly payment to \$1,252, with the debt to be repaid by March 2014. The Center was still unable to make the required monthly payments for the period September 2010 through February 2011. Specifically, the Center did not make payments for 3 months and made partial payments for 3 other months. As of February 2011, the outstanding debt owed to the Federal Government was \$42,061.

### **IN-KIND CONTRIBUTIONS**

The Head Start Act requires that a Head Start agency provide 20 percent of the total costs (i.e., the non-Federal share) of the Head Start program unless ACF waived the requirement. The Head Start Act provides that the non-Federal share may be in the form of in-kind contributions.

Pursuant to 45 CFR § 74.23, all cost sharing or matching contributions, including cash and third-party in-kind contributions, must be verifiable from the recipient's records. Specifically, the value of donated space must not exceed the fair rental value of comparable space as established by an independent appraisal of comparable space and facilities in a privately owned building in the same locality. Volunteer services must be documented and, to the extent feasible, supported by the same methods used by the recipient for its own employees, including time records.

For the period November 1, 2009, through October 31, 2010, the Center claimed \$622,045 for in-kind contributions for funds received under the Head Start program. In addition, for the period July 1, 2009, through September 30, 2010, the Center claimed \$10,871 for in-kind contributions for funds received under the Recovery Act. The table shows the types of in-kind contributions and amounts claimed by the Center.

### The Center's In-Kind Contributions

Type of Contribution	Amount
Volunteer Hours	\$299,885
Rent, Utilities, Maintenance, Parking	298,747
Professional Fees	9,074
Building Depreciation	7,148
Repairs and Maintenance	7,070
Classroom Supplies	6,650
Contractual Services	4,342
<b>Total</b>	<b>\$632,916</b>

We reviewed selected supporting documentation for in-kind contributions and identified the following concerns:

- Of the \$298,747 claimed for rent, utilities, maintenance, and parking, \$214,504 was for donated rental space based on an October 2006 price-per-square-foot appraisal for commercial office spaces. This price per square foot was 19 percent higher than the market price as of April 2011. In addition, the Center claimed \$9,100 for donated monthly parking at one of its centers based on an estimated monthly parking rate. This estimated monthly parking rate was 20 percent higher than the monthly parking rate as of April 2011.
- An approving official did not always certify volunteer hours.

# **APPENDIXES**

**APPENDIX A: FIRST A.M.E. CHILD DEVELOPMENT CENTER COMMENTS**



3201 E. Republican St.  
Seattle, WA 98112

*Dr. Johnnie Cain*  
Director

**Board of Directors**

*Ms. Theresa Marie Floyd*  
Board Chair

*Mr. Ted Howard*  
Treasurer/Secretary

*Ms. Sebrene Burr*

*Mr. Kent McKinney*

*Ms. Rosalyn Robinson*

*Ms. Deborah Cavitt*

*Ms. Cheryl Harris*

*Ms. Lucy Winston*

*First A.M.E. Child  
Development Center is  
a 501 (C)(3) agency of  
the state of  
Washington.*

# TN 91-1127055

April 27, 2012

Lori A. Ahlstrand  
Regional Inspector General for Audit Services  
Office of Audit Services, Region IX  
90 -7<sup>th</sup> Street, Suite 3-650  
San Francisco, CA 94103

Dear Ms. Ahlstrand,

**Report Number: A-09-11-01003**

Enclosed is First A.M.E. Child Development Center's response to your letter dated April 16, 2012.

We have made major strides to correct the findings to ensure that the Federal interest is protected.

If you have any questions, please feel free to contact me at (206) 322-9600 x 26.

Thank you.

Sincerely,

A handwritten signature in cursive script that reads "Johnnie Cain".

Dr. Johnnie Cain  
Director

Enclosure

**First A.M.E. Child Development Center (FAME CDC)  
Summary of Findings  
Report Number: A-09-11-01003**

**Finding**

**First A.M.E. Child Development Center's Head Start Program Governance Was Not Fully In Accordance with Federal Requirements**

**Response**

The Board of Directors concurs with the finding. Although participation has fluctuated, each member is sent reports from all service areas via e-mail, mail, telephone and/or in person. Additionally, the Director meets with the Board of Directors on a monthly basis for agency updates. The Board Chair ensures of the agency's board members participation for all meetings. The board members are actively recruiting new members from the community. Currently, the Board of Directors has seven (7) members.

**Other Matters**

**FEDERAL GOVERNMENT DEBT**

FAME CDC's Board of Directors has entered into a commitment to retire the Federal Government Debt. A committee was established in February 2012 and it comprised of five (5) Board Members and four (4) community partners, paired with Friends of FAME CDC. The purpose of this collaboration is to retire the debt of approximately \$37,500. To date, \$3,500 has been raised through the efforts of the partnership. An additional \$2,900 has been committed to the retirement of the debt. Several activities have been planned to retire the debt. The committee will monitor the debt during its monthly meeting. The following planned activities are as follows:

- Partnership with community leaders
- Seahawks fundraising-June 22, 2012
- Committee pledges of responsibility (\$1,000 each)
- Choir performance

Previous Board Members have agreed to be part of these efforts. Ultimately, our efforts will result in the complete retirement of the Federal Government Debt. A "war chest" of funds is being established or the debt retirement.

**IN-KIND CONTRIBUTIONS**

FAME CDC will acquire an appraisal of the donated parking, office and classroom spaces that includes utilities, maintenance, playground, lunchroom, etc. every three (3) years or as necessary to reflect the current cost of the donations.

FAME CDC policy states that all volunteer hours sign-in sheet must be signed by the volunteer, staff with knowledge of the hours donated and the staff supervisor must affix his/her initial before sending the forms to accounting. Accounting will return all volunteer sign-in sheets that have missing signature/s and can only be counted when properly signed by authorized signors.

## APPENDIX B: ADMINISTRATION FOR CHILDREN AND FAMILIES COMMENTS



DEPARTMENT OF HEALTH & HUMAN SERVICES

Administration for  
Children and Families

2201 Sixth Avenue, MS-76  
Seattle, WA 98121

May 23, 2012

Mr. Doug Preussler  
Audit Manager  
Office of Inspector General

Re: Draft Report A-09-11-01003

Dear Mr. Preussler,

This document provides comments on the draft Office of Inspector General's report (A-09-11-01003) dated May 16, 2012 concerning the First A.M.E. Child Development Center's Head Start (FAME CDC) program. Both the Regional Offices of Head Start and Grants Management agree with the findings and recommendations and we will work with FAME CDC to correct the discrepancies with action plans and on-site verification visits.

Sincerely,

Nancy Gigoux Hutchins, Ph.D.  
Regional Program Manager  
Office of Head Start