

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**NEIGHBORHOOD HOUSE ASSOCIATION
CLAIMED ALLOWABLE HEAD START
COSTS BUT DID NOT MAINTAIN
ADEQUATE INTERNAL CONTROLS
RELATED TO PERSONNEL, FACILITIES,
AND SUBCONTRACTS**

*Inquiries about this report may be addressed to the Office of Public Affairs at
Public.Affairs@oig.hhs.gov.*



Lori A. Ahlstrand
Regional Inspector General

February 2013
A-09-11-01015

Office of Inspector General

<https://oig.hhs.gov>

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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

The grantee Neighborhood House Association claimed allowable Head Start costs for the year ended June 30, 2010, and maintained adequate internal controls related to procurement to administer federally funded projects. However, it did not maintain adequate controls related to personnel, facilities, and subcontracts.

WHY WE DID THIS REVIEW

The Office of Head Start (OHS) requested that we perform this review of the grantee Neighborhood House Association (NHA), which has received \$1.1 billion in Head Start funding since 1989. For the period July 1, 2009, through June 30, 2010, OHS awarded NHA \$71,691,713 in Head Start funds (the award). We reviewed \$26,762,944, focusing primarily on personnel and facilities costs.

Our objectives were to determine whether NHA (1) claimed Head Start costs that were allowable in accordance with the terms of the award and applicable Federal requirements and (2) maintained adequate internal controls related to personnel, procurement, facilities, and subcontracts to administer federally funded projects.

BACKGROUND

Head Start is a Federal discretionary grant program that promotes school readiness and enhances 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), OHS, administers Head Start.

NHA, a nonprofit agency, provides health and social services to Head Start–eligible children and their families in and around San Diego, California. During the award period, NHA contracted with subrecipients, known as delegate agencies and partners, to provide some Head Start services. By accepting the award, NHA agreed to comply with Federal regulations governing the administration of the award, including compliance with various cost principles. As a nonprofit agency, NHA is subject to 45 CFR part 74.

WHAT WE FOUND

Of the \$26,762,944 of costs we reviewed, the entire amount was allowable in accordance with the terms of the award and applicable Federal requirements. Additionally, NHA maintained adequate internal controls related to procurement to administer federally funded projects. However, NHA did not maintain adequate internal controls related to personnel, facilities, and subcontracts:

- Of 22 selected employees, 17 had been employed before NHA obtained required criminal record checks. Although NHA obtained criminal record checks for the 17 employees after they were hired, it did not obtain checks for 12 of these employees until our audit.

In addition, none of the 22 employees had an adequate signed statement regarding criminal history.

- Of six selected facilities, one of three facilities required to have a Notice of Federal Interest (notice) did not have a notice recorded. Federal regulations require grant recipients to record appropriate notices to indicate that real property has been acquired with Federal funds. In addition, of 18 notices recorded, 17 did not meet all of the applicable Federal regulations for the type of facility.
- Of six selected subrecipients, one did not provide an audit report to NHA, and NHA did not know whether an audit had been performed in accordance with Federal regulations.

These conditions occurred because NHA (1) did not have written policies and procedures to ensure that it complied with Federal requirements for criminal record checks, did not consider certain employees to be subject to these requirements, and believed that its signed statements regarding criminal history were adequate; (2) did not know that a notice was required for one of its facilities and used a template provided by ACF that did not meet all of the applicable Federal regulations; and (3) did not adequately monitor all of its subrecipients to ensure that audits were performed in accordance with Federal regulations.

WHAT WE RECOMMEND

We recommend that OHS require NHA to:

- develop written policies and procedures to comply with Federal requirements for criminal record checks, obtain criminal record checks before employing individuals, and obtain adequate signed statements regarding criminal history;
- record notices for all real property for which the Federal Government has an interest; and
- monitor all of its subrecipients to ensure that audits are performed in accordance with Federal regulations.

NEIGHBORHOOD HOUSE ASSOCIATION COMMENTS

In its written comments on our draft report, NHA provided additional information in response to our findings and described actions that it had taken or planned to take to address our findings.

OFFICE OF HEAD START COMMENTS

In its written comments on our draft report, OHS agreed with our findings and stated that it will work with NHA to ensure that a corrective action plan is implemented.

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INTRODUCTION

WHY WE DID THIS REVIEW

The Office of Head Start (OHS) requested that we perform this review of the grantee Neighborhood House Association (NHA), which has received \$1.1 billion in Head Start funding since 1989. For the period July 1, 2009, through June 30, 2010, OHS awarded NHA \$71,691,713 in Head Start funds (the award). We reviewed \$26,762,944, focusing primarily on personnel and facilities costs.

OBJECTIVES

Our objectives were to determine whether NHA (1) claimed Head Start costs that were allowable in accordance with the terms of the award and applicable Federal requirements and (2) maintained adequate internal controls related to personnel, procurement, facilities, and subcontracts to administer federally funded projects.

BACKGROUND

Head Start Program: Purpose and Administration

Title VI of the Omnibus Budget Reconciliation Act of 1981 established Head Start as a Federal discretionary grant program. The major objectives of the program are to promote school readiness and enhance the social and cognitive development of children from families with low incomes by providing educational, health, nutritional, and social services.¹ Head Start provides grants to local public and private nonprofit and for-profit agencies to deliver comprehensive child development services, with a special focus on helping preschoolers develop the early reading and math skills needed to be successful in school. Within the U.S. Department of Health and Human Services (HHS), the Administration for Children and Families (ACF), OHS, administers Head Start.

Neighborhood House Association: A Head Start Grantee

NHA, a nonprofit agency, provides health and social services to Head Start–eligible children and their families in and around San Diego, California. NHA is funded primarily through Federal, State, and local government grants. For the period July 1, 2009, through June 30, 2010, OHS awarded NHA \$71,691,713 in Head Start funds to provide services to 8,085 children. NHA expended \$71,631,010 of the award. The remaining \$60,703 was not expended and was returned to OHS.

During the award period, NHA contracted with subrecipients, known as delegate agencies and partners, to provide some Head Start services. As subrecipients of Federal grants, delegate agencies and partners were responsible for meeting the program, administrative, financial, and

¹ 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 to both programs as “Head Start.”

reporting requirements of the grant, including those necessary to ensure compliance with all applicable Federal regulations.

Federal Requirements for Grantees

By accepting the award, NHA agreed to comply with Federal regulations governing the administration of the award, including compliance with various cost principles. As a nonprofit agency, NHA is subject to 45 CFR part 74. The regulations at 45 CFR § 74.27(a) state that the allowability of costs will be determined in accordance with 2 CFR part 230 (Office of Management and Budget Circular A-122). In addition, regulations at 45 CFR § 74.21 require nonprofit agencies to maintain financial management systems that meet various requirements.

The Head Start Program Performance Standards, found at 45 CFR §§ 1301 through 1311, establish regulations applicable to program operations, administration, and grants management for all grants awarded under the Improving Head Start Act for School Readiness Act of 2007 (Head Start Act).

HOW WE CONDUCTED THIS REVIEW

OHS requested that we review NHA. In response to OHS's request, we reviewed \$26,762,944 of the \$71,631,010 of Head Start costs that NHA claimed during the award period (July 1, 2009, through June 30, 2010), focusing primarily on personnel and facilities costs. We did not review fringe benefit, travel, or contractual costs.

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.

See Appendix A for the details of our audit scope and methodology and Appendix B for the Federal requirements related to our findings.

FINDINGS

Of the \$26,762,944 of costs we reviewed, the entire amount was allowable in accordance with the terms of the award and applicable Federal requirements. (See Appendix C for the costs claimed and the results of our audit.) Additionally, NHA maintained adequate internal controls related to procurement to administer federally funded projects. However, NHA did not maintain adequate internal controls related to personnel, facilities, and subcontracts:

- Of 22 selected employees, 17 had been employed before NHA obtained required criminal record checks. Although NHA obtained criminal record checks for the 17 employees after they were hired, it did not obtain checks for 12 of these employees until our audit. In addition, none of the 22 employees had an adequate signed statement regarding criminal history.

- Of six selected facilities, one of three facilities required to have a Notice of Federal Interest (notice) did not have a notice recorded. Federal regulations require grant recipients to record appropriate notices to indicate that real property has been acquired with Federal funds. In addition, of 18 notices recorded, 17 did not meet all of the applicable Federal regulations for the type of facility.
- Of six selected subrecipients, one did not provide an audit report to NHA, and NHA did not know whether an audit had been performed in accordance with Federal regulations.

These conditions occurred because NHA (1) did not have written policies and procedures to ensure that it complied with Federal requirements for criminal record checks, did not consider certain employees to be subject to these requirements, and believed that its signed statements regarding criminal history were adequate; (2) did not know that a notice was required for one of its facilities and used a template provided by ACF that did not meet all of the applicable Federal regulations; and (3) did not adequately monitor all of its subrecipients to ensure that audits were performed in accordance with Federal regulations.

CRIMINAL RECORD CHECKS AND CRIMINAL HISTORY STATEMENTS DID NOT COMPLY WITH FEDERAL REQUIREMENTS

NHA did not obtain criminal record checks for all of its employees before their hire dates and did not have adequate signed statements regarding criminal history for all of its employees.

Criminal Record Checks Were Not Obtained for All Employees Before Hire Dates

The Head Start Act states that, before a Head Start agency employs an individual, it must obtain a Federal, State, or tribal criminal record check covering all jurisdictions where the grantee provides Head Start services to children (section 648A (g)). Moreover, regulations and ACF guidance required every Head Start program to ensure that background checks were conducted on all employees hired before the enactment of the statutory requirement.²

Of 22 selected employees, 17 were employed before criminal record checks had been obtained.³ Although NHA eventually obtained criminal record checks for the 17 employees, checks for 12 of these employees were not obtained until our audit.⁴

² Employees hired before the statutory requirement went into effect (December 12, 2007) were subject to criminal record checks required by 45 CFR § 1301.31(b)(1)(iii) and ACF's Program Instruction ACF-PI-HS-08-02, issued April 14, 2008 (now superseded).

³ The 17 employees consisted of 5 employees paid through direct costs, 11 employees paid through an indirect cost pool, and 1 employee, the chief executive officer (CEO), who did not receive pay from Head Start.

⁴ The 12 employees consisted of 11 employees paid through an indirect cost pool and the CEO.

Criminal History Statements Were Inadequate

Federal regulations state that grantee agencies must require that all current and prospective employees sign a declaration before employment that lists all pending and prior criminal arrests and charges related to child sexual abuse and their disposition (45 CFR § 1301.31(b)(2)(i)).

Of the 22 selected employees, none had signed statements regarding criminal history that complied with Federal regulations. The statements did not list all pending and prior criminal arrests and charges related to child sexual abuse and their disposition.

Policies and Procedures Did Not Exist and Federal Requirements Were Misinterpreted

NHA did not have written policies and procedures to ensure that it complied with Federal requirements for criminal record checks and did not consider employees paid through an indirect cost pool to be subject to criminal record checks (for example, employees who did not work onsite at a licensed child-care facility). Additionally, NHA believed that its signed statements regarding employees' criminal history complied with Federal regulations. Because NHA did not maintain adequate internal controls related to personnel, there was an increased risk to the safety of children in its care and of misuse of Federal funds.

NOTICES FOR PROPERTY FOR WHICH THE FEDERAL GOVERNMENT HAS AN INTEREST WERE NOT RECORDED OR IMPROPERLY RECORDED

NHA did not record notices for all of its facilities acquired with Federal funds, and most of the notices that it recorded were not adequate.

Notice of Federal Interest Was Not Recorded for One Facility

Federal regulations state that the Federal Government has an interest in all real property acquired with grant funds for use as a Head Start facility (45 CFR § 1309.21(a)).⁵ A grant recipient must record an appropriate notice of record to indicate that real property has been acquired with Federal funds (45 CFR § 74.37), and, except for certain modular units, the notice must be recorded in the appropriate official records for the jurisdiction where a facility is located immediately upon its purchase (45 CFR § 1309.21(d)(2)).

NHA did not record notices for all of its facilities acquired with Federal funds. Of six selected facilities, one of three facilities required to have a notice did not have one recorded. Federal interest was created in the facility when Federal funds were used to pay mortgage interest on a loan used to acquire the facility.

⁵ "Acquire" means to purchase or construct in whole or in part with Head Start grant funds through payments made in satisfaction of a mortgage agreement (both principal and interest), as a downpayment, and for professional fees, closing costs, and any other costs associated with the purchase or construction of the property that are usual and customary for the locality (45 CFR § 1309.3).

Notices of Federal Interest Were Inadequate

For property sited on land not owned by the grantee, notices must contain information that (1) the grant incorporated conditions that included restrictions on the use of the property and (2) the property was not to be used for any purpose inconsistent with that authorized by the Head Start Act and applicable regulations, among other requirements (45 CFR § 1309.21(d)(3)). For modular units purchased with grant funds, notices must contain specific language outlined at 45 CFR § 1309.31(b), which provides for the continued Federal interest in the property.

Of 18 notices that NHA recorded, 17 did not meet all of the applicable requirements of 45 CFR § 1309.21(d)(3) and 45 CFR § 1309.31(b) for the respective type of facility. For example, the notices for property sited on land not owned by the grantee did not contain information that (1) the grant incorporated conditions that included restrictions on the use of the property or (2) the property was not to be used for any purpose inconsistent with that authorized by the Head Start Act and applicable regulations. In addition, the notices for modular units did not have the specific language required for modular units as outlined in Federal regulations.

Federal Requirements Were Misinterpreted and ACF Template Was Inadequate

NHA was not aware that a Federal interest was created when Head Start paid mortgage interest on a loan used to acquire a NHA facility; as a result, it did not record a notice for the facility. In addition, NHA officials said that they had completed notices in accordance with the format prescribed by ACF. The ACF template did not meet the requirements of 45 CFR § 1309.21(d)(3) because the template was for modular units and did not document information required for property sited on land not owned by the grantee. In addition, the template did not meet the requirements of 45 CFR § 1309.31(b) for modular units because it did not contain the specific language required for modular units as outlined in Federal regulations.

Without adequate internal controls for facilities, the Federal interest in a property may not be protected, which may result in unauthorized transfer of the property or use of the facility for activities other than those for which the facility was funded.

SUBRECIPIENT DID NOT PROVIDE AUDIT REPORT TO NEIGHBORHOOD HOUSE ASSOCIATION

Federal regulations require that an independent auditor conduct an audit of the Head Start program covering the prior budget period of each Head Start agency and its delegate agencies. Head Start agencies must either include delegate agency audits as part of their own audits or provide for separate independent audits of their delegate agencies (45 CFR § 1301.12(a)). Grantees are responsible for managing and monitoring each subaward supported by the award (45 CFR § 74.51(a)).

Of six selected NHA subrecipients, one did not provide to NHA an audit report for our audit period, and NHA did not know whether an audit had been performed in accordance with Federal regulations. Although NHA's contracts with subrecipients required them to have audits of their

Head Start programs, NHA's monitoring of subrecipients was not adequate to ensure that all of its subrecipients had audits performed in accordance with Federal regulations. Without adequate internal controls over subrecipients, there is an increased risk of subrecipient fraud, and Federal grants are at risk for misappropriation.

RECOMMENDATIONS

We recommend that OHS require NHA to:

- develop written policies and procedures to comply with Federal requirements for criminal record checks, obtain criminal record checks before employing individuals, and obtain adequate signed statements regarding criminal history;
- record notices for all real property for which the Federal Government has an interest; and
- monitor all of its subrecipients to ensure that audits are performed in accordance with Federal regulations.

NEIGHBORHOOD HOUSE ASSOCIATION COMMENTS

In its written comments on our draft report, NHA provided additional information in response to our findings and described actions that it had taken or planned to take to address our findings. NHA's comments are included in their entirety as Appendix D.

OFFICE OF HEAD START COMMENTS

In its written comments on our draft report, OHS agreed with our findings and stated that it will work with NHA to ensure that a corrective action plan is implemented. OHS's comments are included in their entirety as Appendix E.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

Scope

We reviewed \$26,762,944 of the \$71,631,010 of Head Start costs that NHA claimed during the award period (July 1, 2009, through June 30, 2010). We did not review fringe benefit, travel, or contractual costs.

We did not review the overall internal control structure of NHA. We reviewed only the internal controls that directly related to our audit objectives.

We conducted our audit from November 2011 to May 2012 and performed fieldwork at NHA's corporate office in San Diego, California.

Methodology

To accomplish our objectives, we:

- reviewed applicable Federal laws, regulations, and guidance;
- reviewed NHA's Head Start grant applications, Federal grant award documentation, and Federal Financial Status Reports (SF-269);⁶
- interviewed ACF officials to gain an understanding of their fiscal and program monitoring procedures for the Head Start program;
- interviewed NHA officials to gain an understanding of the costs claimed under the award and NHA's policies and procedures related to budgeting, claiming, and reporting costs;
- reviewed NHA's board of directors' meeting minutes;
- reviewed NHA's policies and procedures related to personnel, procurement, facilities, and subcontracts;
- reviewed an OHS onsite evaluation report of NHA;
- reviewed NHA's audited financial statements for the period July 1, 2009, through June 30, 2010;
- reviewed NHA's indirect cost agreement from the HHS Division of Cost Allocation;
- reconciled the costs that NHA claimed under the award with its general ledger;

⁶ Effective February 1, 2011, for expenditure reporting, HHS replaced the SF-269 with the SF-425.

- analyzed NHA’s general ledger and examined, on a test basis, evidence supporting selected transactions for claimed costs to determine their allowability (focusing primarily on personnel and facilities costs);
- reviewed NHA’s cost allocation methodologies for shared costs;
- reviewed NHA’s employee personnel files to determine whether NHA complied with Federal requirements for criminal record checks and criminal history statements;
- analyzed records for facilities used by Head Start to determine whether there was a Federal interest in the properties;
- reviewed NHA’s contracts with its subrecipients and reviewed five subrecipients’ audit reports; and
- discussed our findings with ACF and NHA officials.

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.

APPENDIX B: FEDERAL REQUIREMENTS FOR HEAD START GRANTEES

CRIMINAL RECORD CHECKS

According to section 648A (g) of the Head Start Act, P.L. No. 110-134 (42 U.S.C. § 9843a(g)), before a Head Start agency employs an individual, the agency must obtain a State, tribal, or Federal criminal record check covering all jurisdictions where the grantee provides Head Start services to children; a State, tribal, or Federal criminal record check as required by law of the jurisdiction where the grantee provides Head Start services; or a criminal record check as otherwise required by Federal law. Prior to the effective date of the enactment of the statutory requirement (December 12, 2007), regulations at 45 CFR § 1301.31(b)(1)(iii) required grantee and delegate agencies to conduct a State or national criminal record check, as required by State law or administrative requirement, before an employee was hired.

ACF's Program Instruction ACF-PI-HS-08-02, issued April 14, 2008 (now superseded), stated:

Every Head Start program is required to assure background checks have been conducted on all Head Start employees. If there are any employees for whom background checks have not been conducted, they must be done immediately. Any Head Start grantee found not to have conducted background checks for all of its permanent Head Start employees will be designated a deficient grantee.

Federal regulations (45 CFR § 1301.31(b)(2)) state that grantee and delegate agencies must require that all current and prospective employees sign a declaration before employment that lists (1) all pending and prior criminal arrests and charges related to child sexual abuse and their disposition; (2) convictions related to other forms of child abuse and neglect; and (3) all convictions of violent felonies.

NOTICES OF FEDERAL INTEREST

Federal regulations (45 CFR § 1309.21(a)) state that the Federal Government has an interest in all real property and equipment acquired or upon which major renovations have been undertaken with grant funds for use as a Head Start facility. Regulations (45 CFR § 74.37) also state that grant recipients must record liens or other appropriate notices of record to indicate that real property has been acquired or constructed or, where applicable, improved with Federal funds, and that use and disposition conditions apply to the property.

Federal regulations (45 CFR § 1309.3) state that "acquire" means to purchase or construct in whole or in part with Head Start grant funds through payments made in satisfaction of a mortgage agreement (both principal and interest), as a downpayment, and for professional fees, closing costs, and any other costs associated with the purchase or construction of the property that are usual and customary for the locality.

Federal regulations (45 CFR § 1309.21(d)(2)) state that the grantee must record the notice in the appropriate official records for the jurisdiction where a facility is or will be located immediately upon purchasing a facility or land on which a facility is to be constructed; receiving permission

to use funds to continue purchase of a facility; or commencing major renovation of a facility or construction of a facility.⁷

Federal regulations (45 CFR § 1309.21(d)(3)) state that the notice for property sited on land not owned by the grantee must include the following information: (1) the date of the award of grant funds for the acquisition or major renovation of the property to be used as a Head Start facility and the address and legal description of the property to be acquired or renovated; (2) that the grant incorporated conditions that included restrictions on the use of the property and provide for a Federal interest in the property; (3) that the property may not be used for any purpose inconsistent with that authorized by the Head Start Act and applicable regulations; (4) that the property may not be mortgaged or used as collateral, sold, or otherwise transferred to another party, without the written permission of the responsible HHS official; (5) that these grant conditions and requirements cannot be altered or nullified through a transfer of ownership; and (6) the name (including signature) and title of the person who completed the notice for the grantee agency and the date of the notice.

Federal regulations (45 CFR § 1309.31(b)) state that modular units purchased with grant funds and that are not permanently affixed to land or that are affixed to land not owned by the grantee must have posted in a conspicuous place the following notice:

On (date), the Department of Health and Human Services (DHHS) awarded (grant number) to (Name of grantee). The grant provided Federal funds for conduct of a Head Start program, including purchase of this modular unit. The grant incorporated conditions which included restrictions on the use and disposition of this property, and provided for a continuing Federal interest in the property. Specifically, the property may not be used for any purpose other than the purpose for which the facility was funded, without the express written approval of the responsible DHHS official, or sold or transferred to another party without the written permission of the responsible DHHS official. These conditions are in accordance with the statutory provisions set forth in 42 U.S.C. 9839; the regulatory provisions set forth in 45 CFR part 1309, 45 CFR part 74 and 45 CFR part 92; and Administration for Children and Families' grants policy.

AUDITS OF SUBRECIPIENTS

Federal regulations (45 CFR § 1301.12(a)) state that an audit of the Head Start program covering the prior budget period of each Head Start agency and its delegate agencies, if any, must be made by an independent auditor to determine (1) whether the agency's financial statements are accurate; (2) whether the agency is complying with the terms and conditions of the grant; and (3) whether appropriate financial and administrative procedures and controls have been installed and are operating effectively. Head Start agencies must either include delegate agency audits as part of their own audits or provide for separate independent audits of their delegate agencies.

Federal regulations (45 CFR § 74.51(a)) state that grant recipients are responsible for managing and monitoring each project, program, subaward, function, or activity supported by the award.

⁷ Except as required under § 1309.31 for certain modular units.

**APPENDIX C: COSTS CLAIMED AND RESULTS OF AUDIT FOR THE PERIOD
JULY 1, 2009, THROUGH JUNE 30, 2010**

Cost Category	Claimed	Allowable	Unallowable	Not Reviewed
Personnel	\$15,109,622	\$15,109,622	\$0	\$0
Fringe Benefits	5,102,816	0	0	5,102,816
Travel	64,717	0	0	64,717
Supplies ⁸	1,243,997	1,243,997	0	0
Contractual	39,700,533	0	0	39,700,533
Facilities/Construction	163,249	163,249	0	0
Other ⁹	4,404,839	4,404,839	0	0
Indirect Costs	5,841,237	5,841,237	0	0
Total	\$71,631,010	\$26,762,944	\$0	\$44,868,066

⁸ The Supplies cost category included certain equipment expenditures (costs totaling less than \$5,000) that had been expensed during the award period.

⁹ The Other cost category included expenditures related to buildings, including rent, repairs and maintenance, and depreciation and interest expense. Other expenditures included utilities, food subsidy, and insurance. Additionally, there were expenditures for certain equipment (costs totaling more than \$5,000) that had been expensed during the award period.

APPENDIX D: NEIGHBORHOOD HOUSE ASSOCIATION COMMENTS



Chairperson
Gil Johnson

President and CEO
Rudolph A. Johnson, III

November 9, 2012

Ms. Lori Ahlsprand
Regional Inspector General
Office of Audit Services
90 Seventh Street
Suite 3-650
San Francisco, CA 94103

RE: Report Number A-09-11-01015

Dear Ms. Ahlsprand:

Enclosed please find the Neighborhood House Association comments on the U.S. Department of Health and Human Services Office of Inspector General (OIG) Draft Report Number A-09-11-01015. We appreciate the opportunity to respond to the draft report.

Respectfully,

Gil Johnson, Board Chair
Neighborhood House Association

Enclosure

GJ/mk

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www.neighborhoodhouse.org

Neighborhood House Association Written Comments Regarding Draft Report

Number A-09011-01015

Entitled

"Neighborhood House Association Claimed Allowable Head Start Costs but Did Not Maintain Adequate Internal Controls Related to Personnel, Facilities and Subcontracts"

NHA does agree with your finding that for the period of review (July 1, 2009 through June 30, 2010), of the \$26,762,944 of costs reviewed, "the entire amount was allowable in accordance with the terms of the award and applicable Federal requirements." This amount is well over 35% of the total Head Start funds awarded to NHA during this review period. NHA also concurs with your finding that "NHA maintained adequate internal controls related to procurement to administer federally funded projects."

For the three (3) remaining findings and three (3) draft recommendations our additional comments are provided below.

Criminal Record Checks and Criminal History Statements Did Not Comply with Federal Requirements

NHA Response: The Neighborhood House Association operated under the reasonable interpretation that Section 648A (g)(3) of the Head Start Act requiring a "Federal, State or tribal criminal record check covering all jurisdictions where the grantee provides Head Start services to children", properly deferred to State law to determine what constitutes compliance with the criminal record check requirement when operating a State licensed child care facility. NHA only provides Head Start services in California.

The California Department of Social Services, Community Care Licensing Division ("CCL") is the State agency that has been delegated responsibility for enforcement of the regulations governing the licensing and operation of child day care centers. All individuals employed in a licensed child day care center are required to undergo a criminal record check¹.

It has been NHA's practice to comply with CCL procedures which require Form LIC 508 be obtained from all persons prior to being associated with a licensed child day care facility². Prior to working at a NHA licensed child day care facility, all personnel (both administrative and direct care providers) must also receive criminal record check clearance. For person's assigned to a licensed child day care facility, NHA uses a Live Scan fingerprint to conduct a check for any arrests, convictions, or pending charges, related to child sexual abuse and their dispositions; convictions related to other forms of child abuse and neglect; and all convictions of violent felonies.

Child day care services are not provided at the Copley Administrative Headquarters; therefore, employees assigned to that location were not required to undergo a criminal records check clearance. CCL has not cited any Copley Administrative employee with violation of the criminal record check clearance requirements, or for failure to complete Form LIC 508.

¹ California Health and Safety Code Section 1596.8897.

² In order to be licensed, work at, or be present at, a licensed facility, the law requires that you complete a criminal background check. (Health and Safety Code sections 1522, 1568.09, 1569.17 and 1596.871)

NHA has implemented the following new protocols:

1. Revised Written Policies and Procedures. NHA revised HR Admin Policy #102 - Criminal Background Check Policy and Procedures, to now require that all employees (direct, indirect, center-based, admin office based) and certain volunteers must undergo a criminal record check prior to beginning employment.
2. Revised Employment Application. In January 2012, NHA revised its Application for Employment to require disclosure of any arrests or convictions related to child sexual abuse and other forms of child abuse and neglect.
3. Revised Annual Conflict of Interest Questionnaire. Beginning in fiscal year 2011-2012, NHA Senior Staff and other designated staff are required to provide annual update and disclosure of any debarment, pending investigations and civil/criminal convictions.
4. Completed Criminal Record Check. All current employees have received a criminal record check clearance.

Notices for property for which the Federal government has an interest were not recorded or improperly recorded.

NHA Response: NHA agrees that we did not know a notice was required for one of our facilities. Once it had been determined this was required NHA filed a Notice of Federal Interest (NOFI), in August, 2012, on the one facility referenced. The additional properties and facilities requiring these Notices received grant awards between Fiscal Years 1993-1994 and Fiscal Years 2001 - 2002. In 2010, ACF notified NHA of the requirement to record Notices of Federal Interest. NHA put procedures in place and began to work closely with the regional office to meet the requirement of recording the required notices of federal interest. Between March, 2010 and July, 2011 NHA submitted the 18 NOFIs to the ACF Regional Office. NHA was never notified or given any indication the 18 NOFI's submitted were defective. NHA is working with the ACF Regional Office to revise, perfect, record, resubmit the NOFIs and repost them in the facilities as required.

Written policies and procedures for recording notices of federal interest regarding the use or transfer of Head Start facilities or property funded under the applicable requirements of 45 CFR 1309.21 (d)(3) and 45 CFR 1309.31 (b) are currently being finalized.

Sub Recipient Did Not Provide Audit Report to Neighborhood house Association

NHA Response: Per NHA's contractual obligations with the sub recipient, on January 12, 2011, the monitoring unit requested the financial audit from the sub recipient, three months prior to the audit submission deadline. The sub recipient responded in writing by saying they will have the audit soon. When the nine month deadline arrived on March 31, 2011, payment was withheld to the sub recipient until further fiscal review, stating that an audit is required per the sub recipient contractual obligations with NHA.

A letter dated April 29, 2011 was sent to the sub recipient stating the required financial obligations. Subsequently, On May 9, 2011 a meeting was held with the sub recipient to again to discuss and review the regulations, policies and requirements that relate to Federal funds. As a result, a letter dated May 13, 2011 was issued to the sub recipient stating that NHA would not renew their contract that would expire on June 30, 2011.

NHA monitoring of the sub recipient resulted in the nonrenewal of the contract. NHA is amending all sub recipient contracts with language to suspend payments to the sub recipient when the audit is not received in a timely fashion as required by OMB A-133 or nine months after the end of the agency's fiscal year.

In lieu of the audit and in order to secure the Federal funds, NHA did review over 75% of the sub recipient's total disbursements as to allowability and allocability.

APPENDIX E: OFFICE OF HEAD START COMMENTS



DEPARTMENT OF HEALTH & HUMAN SERVICES

ADMINISTRATION FOR
CHILDREN & FAMILIES

Refer to: 09CH7015

Region IX
90 7th Street, Suite 9-100
San Francisco, CA 94103

DATE: January 11, 2013

TO: Lori A. Ahlstrand
Regional Inspector General for Audit Services

FROM: Jan Len /Jan Len/
Regional Program Manager, Region IX

SUBJECT: Neighborhood House Association Claimed Allowable Head Start Costs but Did Not Maintain Adequate Internal Controls Related to Personnel, Facilities, and Subcontracts (A-09-11-01015)

We have carefully reviewed and agree with the findings provided by the Office of Inspector General's report on Neighborhood House Association's (NHA) claimed Head Start costs and internal controls related to personnel, procurement, facilities, and subcontracts to administer federally funded projects. We have reviewed NHA's response to the report as part of appendix D and we will work with NHA providing Training and Technical Assistance (T/TA) to ensure their corrective action plan is implemented timely. We thank you for completing this review on NHA.

cc:

Ann Linehan, Deputy Director, Office of Head Start
Martin Tom, Grants Management Officer, Region IX, Office of Grants Management
Yolanda Wise, Head Start Program Specialist, Office of Head Start