

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**THE ADMINISTRATION FOR CHILDREN  
AND FAMILIES REGION IX RESOLVED  
HEAD START GRANTEE'S SINGLE AUDIT  
FINDINGS IN ACCORDANCE WITH  
FEDERAL REQUIREMENTS**

*Inquiries about this report may be addressed to the Office of Public Affairs at  
[Public.Affairs@oig.hhs.gov](mailto:Public.Affairs@oig.hhs.gov).*



**Gloria L. Jarmon  
Deputy Inspector General  
for Audit Services**

**August 2017  
A-09-16-01003**

# *Office of Inspector General*

<https://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 nation-wide 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 <https://oig.hhs.gov>

Section 8M 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.

## Report in Brief

Date: August 2017

Report No. A-09-16-01003

U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES  
**OFFICE OF INSPECTOR GENERAL**



### Why OIG Did This Review

Head Start grantees are required to have Single Audits conducted in accordance with the Office of Management and Budget Circular A-133 (also known as A-133 audits) for fiscal years beginning before December 26, 2014, in accordance with 45 CFR § 74.26(a). Because the Administration for Children and Families (ACF) is responsible for following up on recommendations made to grantees in A-133 audit reports, we conducted this review to ensure that ACF has an effective and timely audit resolution process.

Our objective was to determine whether ACF had a process in place to ensure a timely response to, and that corrective action was taken on, Head Start grantees' A-133 audit findings. Specifically, we determined whether ACF Region IX resolved recurring audit findings in accordance with Federal requirements and ACF policies and procedures.

### How OIG Did This Review

We reviewed Federal Audit Clearinghouse data for Head Start grantees in ACF Region IX that submitted A-133 audit reports for Federal fiscal years 2013 through 2015. (Region IX covers Arizona, California, Hawaii, and Nevada.) We reviewed these reports to identify those with findings related to Head Start. For those reports for which ACF was responsible for resolution, we identified two reports that had recurring audit findings and reviewed the actions that ACF took to resolve those findings.

## The Administration for Children and Families Region IX Resolved Head Start Grantees' Single Audit Findings in Accordance With Federal Requirements

### What OIG Found

ACF had a process in place to ensure that (1) it responded in a timely manner to Head Start grantees' A-133 audit findings by issuing management decisions on those findings within the required 6 months and (2) Head Start grantees took corrective action on A-133 audit findings. Specifically, for Region IX Head Start grantees that submitted audit reports to the Federal Audit Clearinghouse, ACF resolved recurring audit findings in accordance with Federal requirements and ACF policies and procedures.

### What OIG Recommends

This report contains no recommendations.

**TABLE OF CONTENTS**

INTRODUCTION..... 1

    Why We Did This Review ..... 1

    Objective ..... 1

    Background ..... 1

        Single Audits..... 1

        Federal Agencies’ Resolution of A-133 Audit Findings ..... 2

        ACF’s Resolution of A-133 Audit Findings..... 2

How We Conducted This Review ..... 3

RESULTS OF REVIEW ..... 4

APPENDIX

    Audit Scope and Methodology ..... 5

## INTRODUCTION

### WHY WE DID THIS REVIEW

Head Start grantees are required to have Single Audits conducted in accordance with the Office of Management and Budget (OMB) Circular A-133 (also known as A-133 audits) for fiscal years beginning before December 26, 2014, in accordance with 45 CFR § 74.26(a).<sup>1</sup> These audits ensure that recipients of Federal awards have complied with applicable Federal requirements related to management and use of funds. Because the Administration for Children and Families (ACF) is responsible for following up on recommendations made to grantees in A-133 audit reports, we conducted this review to ensure that ACF has an effective and timely audit resolution process. This review of ACF Region IX, which covers Head Start grantees in Arizona, California, Hawaii, and Nevada, is one of several reviews of ACF regions nation-wide.

### OBJECTIVE

Our objective was to determine whether ACF had a process in place to ensure a timely response to, and that corrective action was taken on, Head Start grantees' A-133 audit findings. Specifically, for Head Start grantees that submitted audit reports to the Federal Audit Clearinghouse (FAC) for Federal fiscal years (FFYs) 2013 through 2015, we determined whether ACF Region IX resolved recurring audit findings<sup>2</sup> in accordance with Federal requirements and ACF policies and procedures.

### BACKGROUND

#### Single Audits

OMB Circular A-133<sup>3</sup> requires that non-Federal entities (such as Head Start grantees) that expend \$500,000<sup>4</sup> or more in Federal awards in a year<sup>5</sup> have a Single Audit. These A-133 audits,

---

<sup>1</sup> OMB Circular A-133 has been superseded by 45 CFR part 75, subpart F, for audits of fiscal years beginning on or after December 26, 2014.

<sup>2</sup> As used in this report, "recurring audit findings" were those that appeared in A-133 audit reports for at least 2 years.

<sup>3</sup> *Audits of States, Local Governments, and Non-Profit Organizations* (June 26, 2007). Accessed at [https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/circulars/A133/a133\\_revised\\_2007.pdf](https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/circulars/A133/a133_revised_2007.pdf) on May 12, 2016.

<sup>4</sup> Commercial entities that met the \$500,000 threshold during the audit period could elect to conduct either an A-133 audit or a financial-related audit (45 CFR § 74.26(d)(1)). The expenditure level for Federal awards was raised to \$750,000 for fiscal years beginning on or after December 26, 2014 (45 CFR § 75.501(a)).

<sup>5</sup> Some State and local governments that are required by constitution or statute, in effect January 1, 1987, to be audited less frequently than annually are permitted to undergo audits biennially. Nonprofit organizations also are allowed to have biennial audits under certain conditions.

generally conducted by certified public accounting firms, are audits of all Federal awards to an entity and examine the recipient's financial records and statements, Federal award transactions and expenditures, internal control systems, and Federal assistance that it received during the audit period. The final audit report contains comments from the recipient, including corrective actions planned or taken to address the findings.

The recipient transmits the A-133 audit report to the FAC.<sup>6</sup> The Office of Inspector General's (OIG's) National External Audit Review Center (NEAR) receives A-133 audit reports from the FAC. NEAR performs a desk review of each audit report to determine whether there are any issues with the report and whether the report meets OMB Circular A-133 and American Institute of Certified Public Accountants guidance requirements. NEAR prepares a transmittal letter and attachment that summarizes the audit findings and recommendations and identifies the Federal agency responsible for resolution. NEAR then distributes the transmittal letter and attachment to the grantee and the Federal agency responsible for resolution.

### **Federal Agencies' Resolution of A-133 Audit Findings**

OMB Circular A-133 states that the Federal awarding agency is responsible for issuing a written management decision to the auditee, within 6 months after receipt of the audit report, for audit findings related to the agency's awards (§ \_\_.405(d)). A management decision is the evaluation of the audit findings and the auditee's corrective action plan and includes a decision on what corrective action is necessary.

In resolving A-133 audit findings, a Federal agency's audit followup official is responsible for ensuring that (1) systems of audit followup, resolution, and corrective action are documented and in place; (2) timely responses are made to all audit reports; (3) disagreements are resolved; and (4) corrective actions are actually taken by grantees (OMB Circular A-50 § 7.c.).<sup>7</sup>

### **ACF's Resolution of A-133 Audit Findings**

ACF's Office of Administration is responsible for the overall management and coordination of ACF external audits, such as A-133 audits of Head Start grantees. Action officials are responsible for resolution of audit findings for ACF programs. After resolving audit findings, ACF issues a management decision in an Audit Determination Letter (letter) sent to the grantee and issues a clearance document to OIG.

The *ACF External Audit Resolution Manual* (Mar. 29, 2006) (the Manual) provides policies and procedures for ACF to follow in resolving audit findings. Audit resolution is complete after a final decision on the amount of any monetary recovery has been reached; a satisfactory plan of

---

<sup>6</sup> The FAC operates on behalf of OMB to disseminate A-133 audit reports to Federal agencies.

<sup>7</sup> OMB Circular A-50 has been superseded by 45 CFR part 75, subpart F, for fiscal years beginning on or after December 26, 2014.

corrective action has been developed and transmitted to the grantee, including a time schedule to correct all deficiencies established; and the audit report has been cleared from the Department of Health and Human Services' tracking system by submission and acceptance of an OIG Clearance Document (the Manual § 4-20-00).

The ACF action official should attempt to reach an agreement, in writing, with the grantee on any actions necessary to correct disclosed deficiencies. The letter to the grantee must describe each specific deficiency, its basis, the corrective action necessary, and the date by which the action will be completed (the Manual § 4-30-04). In cases where a grantee is unwilling or unable to correct deficiencies within a reasonable period of time, the action official must take appropriate action to institute safeguards to protect Federal funds. The action official is responsible for resolving all audit findings and must maintain documentation to support the resolution of the findings. The action official is also expected to follow up on actions taken to correct financial or management deficiencies disclosed in an audit report.

## **HOW WE CONDUCTED THIS REVIEW**

We reviewed FAC data for Head Start grantees in ACF Region IX that submitted A-133 audit reports for FFYs 2013 through 2015 (October 1, 2012, through September 30, 2015). We identified audit reports containing qualified or adverse opinions, going-concern paragraphs,<sup>8</sup> reportable conditions or significant deficiencies in the financial statements, material weaknesses in the financial statements, questioned costs, and current-year findings.

We reviewed the audit reports to identify those with findings related to the Head Start program and then reviewed the NEAR transmittal letters to determine which agency was assigned responsibility for audit resolution. For those reports for which ACF was responsible for resolution, we identified two reports (from one grantee) that had recurring audit findings and reviewed the actions that ACF took to resolve the findings in those reports.

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.

The Appendix contains the details of our audit scope and methodology.

---

<sup>8</sup> A going-concern paragraph is included in an audit report when there is substantial doubt about an entity's ability to continue operations. Statements on Auditing Standards No. 59, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (AU § 341). Accessed at <http://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AU-00341.pdf> on July 3, 2017.

## **RESULTS OF REVIEW**

ACF had a process in place to ensure that (1) it responded in a timely manner to Head Start grantees' A-133 audit findings by issuing management decisions on those findings within the required 6 months and (2) Head Start grantees took corrective action on A-133 audit findings. Specifically, for Region IX Head Start grantees that submitted audit reports to the FAC, ACF resolved recurring audit findings in accordance with Federal requirements and ACF policies and procedures. Accordingly, this report does not contain recommendations.

## APPENDIX: AUDIT SCOPE AND METHODOLOGY

### SCOPE

We reviewed FAC data for Head Start grantees in ACF Region IX<sup>9</sup> that submitted A-133 audit reports for FFYs 2013 through 2015.

We did not perform a detailed review of ACF's internal controls because our objective did not require us to do so. We limited our internal control review to obtaining an understanding of ACF's policies and procedures related to the resolution of A-133 audit findings for Head Start grantees.

We conducted fieldwork in July 2016 at ACF's regional office in San Francisco, California.

### METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal laws and regulations;
- reviewed ACF's policies and procedures concerning resolution of A-133 audit findings for Head Start grantees;
- interviewed ACF and Office of Head Start officials to obtain an understanding of the policies and procedures regarding the A-133 audit resolution process for Head Start grantees;
- reviewed FAC data for Head Start grantees in ACF Region IX that submitted A-133 audit reports from FFYs 2013 through 2015;
- identified Head Start grantees with audit reports containing qualified or adverse opinions, going-concern paragraphs, reportable conditions or significant deficiencies in the financial statements, material weaknesses in the financial statements, questioned costs, and current-year findings;
- reviewed the A-133 audit reports for the grantees identified;
- identified a grantee with recurring audit findings assigned to ACF for resolution and reviewed the audit reports;

---

<sup>9</sup> This review of ACF Region IX covers Arizona, California, Hawaii, and Nevada. Region IX grantees in the Tribal Head Start program for American Indians and Alaska Natives will be covered separately in a nationwide report on Tribal Head Start grantees' A-133 audit findings.

- reviewed ACF's files to determine which actions were taken to resolve the recurring findings;
- reviewed audit information in ACF's Audit Resolution Tracking and Monitoring System for the grantee with recurring findings; and
- discussed the results of our review with ACF 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.