Why OIG Did This Audit
The Improving Head Start for School Readiness Act of 2007 required the U.S. Department of Health and Human Services, Administration for Children and Families (ACF), Office of Head Start (OHS), to develop the Designation Renewal System to ensure that it would not automatically renew a Head Start grant for a grantee that has not provided a high-quality and comprehensive Head Start program. Instead, the Head Start grant would be subject to an open competition. In 2013, OHS notified Pathways for Children, Inc. (Pathways) that because of noncompliance with program requirements, it would be required to compete for Head Start funding. Pathways applied to compete for the Head Start funding and was awarded the grant again as the sole applicant. On the basis of its noncompliance, we selected Pathways for this audit.

Our objective was to determine whether Pathways’ Head Start program complied with Federal requirements.

How OIG Did This Audit
We reviewed $677,450 of the Head Start costs that Pathways claimed for the period May 11, 2016, through March 31, 2018. These costs included nonstatistically selected direct, administrative, non-Federal share, and salary expenses. We also reviewed written policies and evaluated various aspects of Pathway’s management of its Head Start program.

Pathways for Children Needs To Strengthen Documentation Requirements

What OIG Found
Pathways claimed some Head Start costs that did not meet Federal regulations. Specifically, we found that Pathways did not meet its required non-Federal share match amount by $296,982 because it could not provide documentation that showed the expenses associated with Local Education Agencies (LEA) to provide Individualized Education Program (IEP) services to children enrolled at Pathways were allowable and because it claimed fundraising expenses for which the proceeds from the fundraising effort benefitted the entire organization and were not used for the sole purpose of meeting Head Start program objectives. We also found that Pathways claimed $44,655 in Head Start capital expenditures for general purpose equipment without ACF’s prior written approval.

Pathways claimed unallowable non-Federal share expenses because it was not aware that LEAs billed other Federal sources for IEP services and it did not have policies and procedures in place to request documentation from LEAs as to whether LEAs billed other Federal sources. Pathways claimed unallowable non-Federal share fundraising expenses in error because it (1) considered these expenses to be allowable non-Federal share expenses and (2) did not ensure that non-Federal share fundraising expenses were claimed in accordance with the relative benefits received. In addition, Pathways did not request written prior approval for certain capital expenditures because it initially intended to fund the project using private funds.

What OIG Recommends and Pathways Comments
We recommend that Pathways (1) refund to the Federal Government $296,982 for fiscal year 2017 unallowable non-Federal share expenses or provide documentation showing that Federal sources were not billed for IEP services and (2) refund to the Federal Government $44,655 for fiscal year 2017 capital expenditures that lacked prior written approval from ACF and work with ACF to determine the amount of fiscal year 2016 Head Start funds that were drawn down without proper prior approval and refund that amount. We also make procedural recommendations to improve the Pathway’s Head Start program.

In written comments on our draft report, Pathways stated that it understands the findings and will work with ACF to come to a resolution.