Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

NEWARK PRESCHOOL COUNCIL, INC., DID NOT ALWAYS COMPLY WITH HEAD START REQUIREMENTS

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

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Office of Inspector General

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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

Newark Preschool Council, Inc., did not always comply with Head Start program requirements, resulting in its receiving approximately $10 million of excess Head Start funds during a 17-month period. In addition, Newark did not monitor its partner agencies' operations to ensure that children at these facilities received Head Start services.

WHY WE DID THIS REVIEW

The Improving Head Start for School Readiness Act of 2007 required the U.S. Department of Health and Human Services (HHS), Administration for Children and Families (ACF), Office of Head Start (OHS), to develop a Designation Renewal System in which a grantee determined not to be providing a high-quality and comprehensive Head Start program would be not be automatically renewed and subject to an open competition for a new Head Start grant. On January 14, 2013, OHS notified Newark Preschool Council, Inc. (Newark), that because of noncompliance with program requirements, it would be required to compete with other entities in its community for Head Start funding. On September 10, 2013, OHS notified Newark that its Head Start grant would end on June 30, 2014. OHS requested that we conduct an independent assessment of Newark's financial activities for use by OHS in completing its grant closeout process.

The objectives of our review were to determine whether Newark (1) maintained its funded enrollment level; (2) used Head Start funds for allowable costs; (3) provided ongoing monitoring of its Head Start operations; and (4) used Federal funds to acquire, construct, or renovate facilities where Head Start services were provided.

BACKGROUND

Title IV of the Omnibus Budget Reconciliation Act of 1981, as amended, establishes Head Start as a Federal discretionary grant program. Head Start provides grants to local public and private nonprofit and for-profit agencies to provide 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. Within ACF, OHS administers Head Start.

Newark is a nonprofit organization that provided childcare services throughout Newark, New Jersey. For the period February 1, 2013, through June 30, 2014, ACF awarded $26,335,064 in Head Start grant funds to Newark to provide services to 2,459 enrolled children. During this period, Newark provided services at 35 of its own facilities. In addition, Newark had contractual agreements in place with 11 neighboring childcare facilities (partner agencies). The Head-Start-eligible children attending partner agency facilities were considered enrolled in Newark's Head Start program. On October 19, 2016, after the issuance of our draft report to Newark, the grantee filed for bankruptcy under Chapter 7 of the Bankruptcy Code.

Title 45, part 74, of the Code of Federal Regulations establishes uniform administrative requirements governing HHS grants and agreements awarded to nonprofit organizations. As a nonprofit organization in receipt of Federal funds, Newark must comply with Federal cost principles in 2 CFR part 230, *Cost Principles for Non-Profit Organizations*. These cost principles require that grant expenditures submitted for Federal reimbursement be reasonable, allocable, and otherwise allowable.

Head Start Program Performance Standards (45 CFR §§ 1301 through 1311) establish regulations applicable to program operations, administration, and grants management. Specifically, grantees are required to maintain funded enrollment levels (45 CFR § 1305.7(b)), establish written personnel policies (45 CFR § 1301.31(a)), and implement procedures for the ongoing monitoring of their Head Start operations (45 CFR § 1304.51(i)(2)).

HOW WE CONDUCTED THIS REVIEW

We performed this audit in response to a request from ACF. We did not perform an overall assessment of Newark's internal control structure. Rather, we reviewed only the internal controls that pertained directly to our objectives. Our audit period covered the 17-month period February 2013 through June 2014, when Newark's grant ended.

We compared Newark's Head Start funded enrollment with its enrollment records. In addition, we reviewed general and administrative expenses charged to the Head Start grant, salary payments made to Newark's former executive director, expenditures paid in February 2013 to determine whether Newark used current-period funds to pay current-period expenditures, and Newark's procedures for monitoring its Head Start operations. Finally, we requested documentation from Newark and ACF related to the use of Federal funds to acquire, construct, or renovate Newark's Head Start facilities.

WHAT WE FOUND

Newark did not always comply with Head Start program requirements. Specifically, Newark did not maintain its funded enrollment level and, as a result, received an excess of $7,989,360 in Head Start funds. In addition, Newark used Head Start funds for unallocable general and administrative costs ($1,465,683), unauthorized purposes ($449,764), and salary paid to its former executive director that did not comply with Newark's policies ($45,749). Further, Newark did not monitor its partner agencies' operations to ensure that children at these facilities received Head Start services. We were unable to determine the Federal funds used to acquire, construct, or renovate facilities where Head Start services were provided because of a lack of information from Newark and ACF.

WHAT WE RECOMMEND

We recommend that ACF:

- request Newark to refund $9,950,556 to the Federal Government for unallowable costs applicable to underenrollment ($7,989,360), general and administrative expenses ($1,465,683), unauthorized purposes ($449,764), and salary payments ($45,749);

- use the information presented in this report to complete the closeout process for Newark's Head Start grant;

- if Newark is awarded a Head Start grant in the future, ensure that Newark maintains its funded enrollment level, properly monitors partner agencies, and follows its policies and procedures relating to salary payments and cash management for any future grant awards; and

- retain information related to Federal funds used to acquire, construct, or renovate its grantees' properties, in accordance with Departmental requirements.

GRANTEE COMMENTS

Newark did not provide comments on our draft report.

ADMINISTRATION FOR CHILDREN AND FAMILIES COMMENTS

In written comments on our draft report, ACF generally concurred with our recommendations and stated that, given the history of serious and systematic failures in Newark's oversight and management of ACF grant funds, ACF would not consider awarding Newark a new grant in the foreseeable future.

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INTRODUCTION

WHY WE DID THIS REVIEW

The Improving Head Start for School Readiness Act of 2007 required the U.S. Department of Health and Human Services (HHS), Administration for Children and Families (ACF), Office of Head Start (OHS), to develop a Designation Renewal System in which a grantee determined not to be providing a high-quality and comprehensive Head Start program not be automatically renewed and subject to an open competition for a new Head Start grant.[1] On January 14, 2013, OHS notified Newark Preschool Council, Inc. (Newark), that because of noncompliance with program requirements, it would be required to compete with other entities in its community for Head Start funding. On September 10, 2013, OHS notified Newark that its Head Start grant would end on June 30, 2014. OHS requested that we conduct an independent assessment of Newark's financial activities for use by OHS in completing its grant closeout process.

OBJECTIVES

The objectives of our review were to determine whether Newark (1) maintained its funded enrollment level; (2) used Head Start funds for allowable costs; (3) provided ongoing monitoring of its Head Start operations; and (4) used Federal funds to acquire, construct, or renovate facilities where Head Start services were provided.

BACKGROUND

The Head Start Program

Title IV of the Omnibus Budget Reconciliation Act of 1981, as amended, (Head Start Act) establishes Head Start as a Federal discretionary grant program.[2] The major program objectives include promoting school readiness and enhancing the social and cognitive development of children from low-income families by providing educational, health, nutritional, and social services. Head Start provides grants to local public and private nonprofit and for-profit agencies to provide 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. Within ACF, OHS administers Head Start.

Newark Preschool Council, Inc.

Newark is a nonprofit organization that provided childcare services throughout Newark, New Jersey. For the period February 1, 2013, through June 30, 2014, ACF awarded $26,335,064 in

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[1] Under recompetition, OHS would terminate the existing Head Start grant and issue a Request for Proposal inviting grantees (including the current grantee) to apply for a new Head Start grant. P.L. No. 110-34 § 641(c) (Dec. 12, 2007).

[2] The Head Start program was most recently reauthorized by the Improving Head Start for School Readiness Act of 2007. P.L. No. 97-35 (Aug. 13, 1981).

Head Start funds to Newark to provide services to 2,459 enrolled children.[3] During this period, Newark provided services at 35 of its own facilities. In addition, Newark had contractual agreements in place with 11 neighboring childcare facilities (partner agencies). While the individual contracts varied slightly, Newark agreed to monitor, evaluate, and report on the health and safety, social services, education, nutrition, special services, and facilities of the partner agencies. The partner agencies agreed to comply with the Head Start program performance standards and to perform and provide services as would be expected of any Newark site. The Head-Start-eligible children attending partner agency facilities were considered enrolled in Newark's Head Start program.[4]

On October 19, 2016, after the issuance of our draft report to Newark, the grantee filed for bankruptcy under Chapter 7 of the Bankruptcy Code.

Federal Requirements

Title 45, part 74, of the Code of Federal Regulations establishes uniform administrative requirements governing HHS grants and agreements awarded to nonprofit organizations. As a nonprofit organization in receipt of Federal funds, Newark must comply with Federal cost principles in 2 CFR part 230, *Cost Principles for Non-Profit Organizations*.[5] These cost principles require that grant expenditures submitted for Federal reimbursement be reasonable, allocable, and otherwise allowable.

Head Start Program Performance Standards (45 CFR §§ 1301 through 1311) establish regulations applicable to program operations, administration, and grants management.[6] Specifically, grantees are required to maintain funded enrollment levels (45 CFR § 1305.7(b)), establish written personnel policies (45 CFR § 1301.31(a)), and implement procedures for the ongoing monitoring of their Head Start operations (45 CFR § 1304.51(i)(2)).

[3] This excludes enrollment and funding for Early Head Start recipients.

[4] The partner agencies were not "delegate agencies," as defined in § 637(3) of the Head Start Act. This means that Newark did not delegate any of its responsibilities for the operation of a Head Start program to the partner agencies. The Notices of Award for our audit noted that Newark operated with no delegate agencies.

[5] The Office of Management and Budget Circular No. A-122, *Cost Principles for Non-Profit Organizations*, was relocated to 2 CFR part 230 and made applicable by 45 CFR § 74.27(a). Although not applicable to this audit, HHS promulgated new grant regulations at 45 CFR part 75. The new regulation applies only to awards made on or after December 26, 2014.

[6] Revised Head Start Performance Standards were issued in September 2016 (81 FR 61293, Sept. 6, 2016). These revised standards were not in effect during our audit period.

HOW WE CONDUCTED THIS REVIEW

We performed this audit in response to a request from ACF. We did not perform an overall assessment of Newark's internal control structure. Rather, we reviewed only the internal controls that pertained directly to our objectives. Our audit period covered the 17-month period February 2013 through June 2014,[7] when Newark's grant ended.

We compared Newark's Head Start funded enrollment with its enrollment records. In addition, we reviewed (1) general and administrative expenses charged to the Head Start grant, (2) salary payments made to Newark's former executive director, (3) expenditures paid in February 2013 to determine whether Newark used current-period funds to pay current-period expenditures, (4) Newark's procedures for monitoring its Head Start operations, and (5) selected case files of children served by the Head Start program at Newark's partner agencies. Finally, we requested documentation from Newark and ACF related to the use of Federal funds to acquire, construct, or renovate Newark's Head Start facilities.

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

Newark did not always comply with Head Start program requirements. Specifically, Newark did not maintain its funded enrollment level and, as a result, received an excess of $7,989,360 in Head Start funds. In addition, Newark used Head Start funds for unallocable general and administrative costs ($1,465,683), unauthorized purposes ($449,764), and salary paid to its former executive director that did not comply with Newark's policies ($45,749). Further, Newark did not monitor its partner agencies' operations to ensure that children at these facilities received Head Start services. We were unable to determine the Federal funds used to acquire, construct, or renovate facilities where Head Start services were provided because of a lack of information from Newark and ACF.

UNREASONABLE COSTS

Funded Enrollment Level Not Met

Federal regulations define a child "enrolled" in a Head Start program as a child who has been accepted into the Head Start program and has attended at least one class, has received at least one home visit, or has received at least one direct service during the enrollment application process (45 CFR § 1305.2). OHS assigns each Head Start grantee a specific number of recipients, known as the "funded enrollment," that the grantee is required to serve during a fiscal year, as indicated on the grant award. Grantees are required to report on a monthly basis their "actual

[7] The grant initially ended January 31, 2014 (the end of Newark's fiscal year), and was subsequently extended by ACF through June 30, 2014.

enrollment," defined as the actual number of children enrolled by the agency in a given month. (If OHS determines that the grantee's actual enrollment is less than its funded enrollment, the grantee must give a reason for this shortfall.)[8,9]

To be allowable under an award, costs must be reasonable to the performance of an award (2 CFR § 230, App. A, § A.2.a). A cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs (2 CFR § 230, App. A, § A.2.g). In determining the reasonableness of a given cost, consideration shall be given to these factors, among others: whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award, and whether the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the organization, its members, employees, and clients, the public at large, and the Federal Government (2 CFR § 230, App. A, §§ A.3.a, A.3.c).

Newark's funded enrollment for the grant period ended June 30, 2014, was 2,459 children. In its official monthly reports to OHS for this period, Newark's reported enrollment ranged from 2,271 to 2,497 children, an average of 84 children (or 3.4 percent) below its funded enrollment. We reviewed Newark's supporting documentation and determined that its reported monthly enrollment figures were inaccurate. Specifically, according to its own records, Newark's actual enrollment ranged from 779 to 2,089 children, an average of 868 children (or 35 percent) below its funded enrollment.

Newark stated that it did not meet its funded enrollment because of increased competition from neighboring public schools, charter schools, and daycare facilities. When we asked Newark about its reported enrollment numbers, Newark officials stated that they believed that OHS allowed for all children whose families were contacted about Head Start services to be included in enrollment reports, regardless of enrollment status. Newark's reported enrollment included <u>all</u> children contacted by Newark, regardless of whether they were subsequently determined to be eligible for enrollment in the Head Start program. Newark also included children who had left the program and were no longer enrolled.

Newark charged excess costs to its Head Start award because of significant underenrollment. To calculate the amount of excess federal funding that Newark received, we multiplied direct costs ($22,826,743) by the average underenrollment percentage calculated during our audit period (35 percent). See Table 1 (next page) for direct costs included in this calculation. The resulting figure ($7,989,360) represents only costs that directly related to children whom Newark was funded to serve, but who in fact were not. The amount does not include indirect costs, such as executive salaries and rental costs, which would have remained the same regardless of the

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[8] Sections 641A(h)(1)(A), 641A(h)(2)(A), and 641A(h)(2(B) of the Head Start Act.

[9] After developing a plan and providing technical assistance, OHS may take action against a grantee if its funded enrollment level is not reached. Section 641A(h)(5)(A) of the Head Start Act lays out a process in which a grantee may be determined to be "chronically under-enrolled" and its base grant adjusted moving forward. This does not affect OHS's ability to disallow funds already awarded and used improperly because of underenrollment and claiming unreasonable costs.

number of children served. The calculation reflects actual costs claimed on behalf of children not enrolled by Newark.[10]

Table 1: Newark Preschool Council, Inc., Excessive Costs for the Period February 1, 2013, Through June 30, 2014

Budget Line Item	Direct Costs
Program managers	$965,035
Teachers	4,076,931
Family childcare personnel	993,217
Home visitors	18,660
Teacher aides and other education personnel	3,645,285
Health and mental health services personnel	689,028
Disabilities service personnel	462,908
Nutrition personnel	1,647,838
Other child service personnel	27,646
Program managers and content area experts	586,494
Other family and community partnership personnel	1,242,202
Maintenance personnel	639,425
Transportation personnel	196,171
Other personnel	68,044
Related fringe benefits	5,551,654
Child and family supplies	502,326
Food service	32,962
Other supplies	100,734
Health/disabilities	367,558
Other contracts	383,663
Local travel	41,830
Parent services	126,152
Training	308,528
Other	152,452
Total	**$22,826,743**
Average underenrollment during audit period	35%
Excessive costs	**$7,989,360**

The costs that Newark claimed based on funded enrollment were unreasonable and therefore unallowable. Newark claimed costs based on an average funded enrollment that was 35 percent greater than its actual enrollment during the audit period. Newark violated the terms and conditions of its award, which noted a client population of 2,459 children and claimed costs that

[10] ACF previously attempted to disallow funds from an underenrolled grantee based on a "per child" calculation. However, the HHS Departmental Appeals Board (DAB) reversed the disallowance (*HOPES, Inc.*, DAB No. 1117 (1989)). In its opinion, DAB stated that ACF's "per child" calculation was "too rough a tool to determine the [disallowed] amount," as ACF did not demonstrate that its calculation was sufficient as a measure of the costs the grantee may reasonably have incurred for children who were appropriately served. Therefore, by including all costs in the calculation, ACF likely overstated the impact of the underenrollment. Using a similar methodology in the case of Newark would have resulted in a questioned cost amount of $9,296,280.

were not necessary for the performance of the award. As shown in Table 1, Newark claimed excessive costs that directly depended on the number of children in its care. Newark's average actual enrollment (868 children) would have resulted in approximately 35 percent fewer home visits, meals, teachers, etc. Newark should have acted prudently, considering its responsibilities to the Federal Government and the public at large, and informed OHS of the underenrollment. Newark should have worked with OHS to increase its enrollment or adjust enrollment and funding accordingly, per the Head Start Act. Instead, Newark submitted vastly inflated enrollment numbers to OHS, thus withholding the information that OHS needed to effectively administer the Head Start award.

UNALLOWABLE COSTS

General and Administrative Expenses

To be allowable under an award, costs must be allocable (2 CFR Part 230, App. A, § A.2.a). A cost is allocable to a Federal award if it is incurred specifically for the award and should be charged in accordance with the relative benefits received (2 CFR part 230, App. A, § A.4).

Newark operated a State-funded childcare program in addition to its Head Start program. However, Newark charged all of its general and administrative costs to the Head Start program. We determined that Newark improperly claimed general and administrative costs totaling $1,465,683 to the Head Start grant.[11] This occurred because Newark had not established a methodology for allocating shared costs to all benefiting programs.

Funds Used for Unauthorized Purposes

Grant recipients' financial management systems should ensure that funds are used solely for authorized purposes (45 CFR § 74.21(b)(3)) and that grantees charge only allowable costs resulting from obligations incurred during the funding period and any authorized preaward costs (45 CFR § 74.28).

During February 2013, the first month of the fiscal year, Newark drew down $1,956,366 from the HHS electronic payment system (payment system). Of this amount, Newark improperly used $449,764 ($434,782 for Head Start salary expenses that were incurred in the prior fiscal year and $14,982 for current-period non-Head-Start expenses).

According to its cash management procedures in its Fiscal Operations Manual,[12] Newark drew down funds from the payment system to pay expenditures without regard to whether the expenses were related to the Head Start program. Specifically, to determine the amount to be drawn down, Newark subtracted funds available in its bank account from total expenditures to be

[11] We calculated the ratio of direct Head Start program expenses to total direct program expenses. We then applied this ratio to the general and administrative costs that should have been shared among all benefiting programs to determine the unallowable amount charged to the Head Start program.

[12] Newark determines the amount to be drawn from the payment system by summarizing the total salary and nonsalary expenses to be paid after exhaustion of Head Start and non-Head-Start funds currently in the operating account.

paid. As a result of Newark's poor cash management procedures, Head Start funds were used to pay non-Head-Start expenses.

Salary Payments to Former Executive Director

Grantees must establish written personnel policies that include a description of employee benefits (45 CFR § 1301.31(a)(1)). To be allowable, compensation to employees must conform to policies established by the grantee (2 CFR part 230, App. B, § 8(b)(1)). Newark's personnel policy stated that (1) vacation time must be used in the current calendar year and may not be carried over without preapproval, (2) sick time is not payable upon termination of employment, and (3) an employee may only receive pay for observed holidays if the employee works the day before and the day after the holiday.

On December 16, 2013, Newark's executive director terminated her employment contract and retired.[13] Newark subsequently paid the former executive director $45,749 in salary that was unallowable because it did not comply with the grantee's policies. The unallowable salary charges included (1) vacation time carried over but not preapproved ($23,415); (2) sick time ($18,552); and (3) 7 days of holiday pay applicable to the winter recess between Christmas and New Year's Day for which the former executive director was ineligible, per Newark's personnel policy ($3,782).[14]

PARTNER AGENCIES' OPERATIONS NOT MONITORED

Federal regulations require grantees to implement procedures for the ongoing monitoring of their Head Start operations (45 CFR § 1304.51(i)(2)). In addition, grantees must maintain record-keeping systems that document the provision of required Head Start services (45 CFR § 1304.51(g)), including ongoing care (45 CFR § 1304.20(d)), home visits (45 CFR § 1306.32(b)(8)), parent/staff conferences (45 CFR § 1306.32(b)(9)), family partnership agreements (45 CFR § 1304.40(a)(1)(2)), up-to-date dental exams (45 CFR § 1304.20(a)(ii)), and nutritional assessments (45 CFR § 1304.23(a)(1)).

Newark partnered with neighboring childcare agencies to provide Head Start services to approximately 639 children at 11 facilities. However, Newark did not monitor the agencies' operations at the 11 facilities to ensure that children received required Head Start services. Newark officials stated that they thought they were not responsible for monitoring the agencies' operations because the agencies were independently operated. However, the contractual agreements between Newark and the partner agencies stipulated, in varying detail, that Newark

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[13] The executive director's 3-year employment contract, which expired February 28, 2014, stipulated that employment may be "terminated for convenience" by the employee. Because the executive director retired before the end of the contract term, this constituted "termination for convenience." Thus, she was not entitled to payment for unused leave in accordance with Newark's policies.

[14] The policy lists Christmas and New Year's Day as observed holidays but does not mention winter recess. The former executive director did not work the day before, the day after, or the period between these holidays and should not have been paid leave in accordance with Newark's personnel policy.

would monitor, evaluate, and report on the health and safety, social services, education, nutrition, special services and facilities of the partner agencies.

The lack of Newark's monitoring of its partner agencies was evident in the case files we reviewed. Specifically, we reviewed the case files for 15 children who reportedly received Head Start services at 7 of Newark's partner agencies and determined that the children did not receive the following required Head Start services:[15]

- ongoing care (15 children),[16]
- home visit (13 children),
- parent/staff conference (13 children),
- family partnership agreement (12 children),
- up-to-date dental exam (8 children), and
- nutritional assessment (1 child).

INFORMATION RELATED TO FEDERAL FUNDS USED TO ACQUIRE, CONSTRUCT, OR RENOVATE NEWARK'S FACILITIES WAS NOT AVAILABLE

A Head Start grantee must obtain prior written approval from OHS before it can expend Head Start funds for the acquisition (including either construction or purchase), or major renovation of a facility (Head Start Act § 644(f)(2); 45 CFR § 1309). In addition, grantees must retain all records that pertain to the acquisition or major renovation of a facility for the period of the grantee's ownership plus 3 years (45 CFR § 1309.41).

Newark owns six buildings in which it provides Head Start services. Throughout our fieldwork we repeatedly requested, both orally and in writing, that Newark provide any documentation related to Head Start funds spent on the acquisition, construction, or major renovations to the facilities. Although not denying that Head Start funds had been used for the purchase, renovation, or construction of these buildings, Newark did not provide us with the requested documentation. Newark stated that it assumed OHS would be using this information to determine the Federal interest[17] and therefore would not provide this information. We did receive a single application to ACF seeking funds for the addition of a classroom for a Newark-

[15] We judgmentally selected children from each partnership agency and requested a total of 30 children's files to review. We were provided with 15 of the 30 files requested. According to Newark and the partnership agencies, the 15 remaining files could not be located.

[16] Ongoing care includes periodic observation, recording of child developmental progress, changes in physical appearance, and emotional and behavioral patterns (45 CFR § 1304.20(d)).

[17] 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 (45 CFR 1309.21(a)).

owned building located at 87-93 St. Francis Street and a Notice of Federal Interest[18] for the amount of $217,000. However, Newark refused to provide any additional documentation related to its six facilities.

HHS Departmental grants policies require Operating Divisions, such as ACF, to maintain award files, including prior approval requests, responses, and other postaward administration correspondence received from grantees or initiated by the Operating Division (HHS Awarding Agency Grants Administration Manual (AAGAM), Chapter 3.06.106-5.B.3.d).[19] In addition, the Operating Division must maintain documentation that allows a third party to follow the "paper trail" beginning with program initiation through closeout of individual awards (AAGAM, Chapter 3.06.106-5.A.3).

We requested ACF to provide any information that could be used to determine the Federal funds used for Newark's six facilities. ACF provided a schedule of award amendments back to 1999, as well as checklists for each facility that included questions related to the Notice of Federal Interest, inspection reports, certificate of insurance, copies of deeds, mortgages and loan information, appraisals, and construction and renovation contracts. ACF also provided a list of mortgages and the associated monthly mortgage amounts.

The information provided by ACF was not sufficient to allow us to determine the Federal funds used for Newark's six facilities. Specifically, the schedule of award amendments did not cover periods prior to 1999;[20] the checklists were completed with "yes," "no," "non-applicable," or question marks and did not include any dollar amounts; and the listing of mortgages did not cover periods prior to 2012.

RECOMMENDATIONS

We recommend that ACF:

- request Newark to refund $9,950,556 to the Federal Government for unallowable costs applicable to underenrollment ($7,989,360), general and administrative expenses ($1,465,683), unauthorized purposes ($449,764), and salary payments ($45,749);

- use the information presented in this report to complete the closeout process for Newark's Head Start grant;

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[18] A grantee must record a Notice of Federal Interest in the appropriate jurisdiction in which a facility is located if it is using Federal funds to purchase, construct, or renovate a building (45 CFR § 1309.21(d)(2)).

[19] During our audit period, Operating Divisions were required to follow the provisions of the AAGAM, which supplemented higher level Grants Policy Directives (GPDs) and provided detailed instruction on how grants were to be administered. On December 31, 2015, the Department released the Grants Policy Administration Manual (GPAM), which supersedes both GPDs and AAGAMs. The relevant GPAM chapters were not in effect during our audit period.

[20] Newark began providing Head Start services in 1965.

- if Newark is awarded a Head Start grant in the future, ensure that Newark maintains its funded enrollment level, properly monitors partner agencies, and follows its policies and procedures relating to salary payments and cash management for any future grant awards; and

- retain information related to Federal funds used to acquire, construct, or renovate its grantees' properties, in accordance with Departmental requirements.

GRANTEE COMMENTS

Newark did not provide comments on our draft report.

ADMINISTRATION FOR CHILDREN AND FAMILIES COMMENTS

In written comments on our draft report, ACF generally concurred with our recommendations and stated that, given the history of serious and systematic failures in Newark's oversight and management of ACF grant funds, ACF would not consider awarding Newark a new grant in the foreseeable future. ACF's comments are included in their entirety as Appendix B.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We performed this audit in response to a request from ACF. We did not perform an overall assessment of Newark's internal control structure. Rather, we reviewed only the internal controls that pertained directly to our objectives. Our audit period covered a 17-month period from February 1, 2013, through June 30, 2014, when Newark's grant ended.

We performed our fieldwork at Newark's offices in Newark, New Jersey, from April to July 2015.[21]

METHODOLOGY

To accomplish our objectives, we:

- reviewed relevant Federal requirements;
- reviewed Newark's Head Start application and supporting documentation;
- reviewed Newark's financial policies and procedures;
- reviewed Newark's financial records and reports;
- held discussions with Newark officials to gain an understanding of their policies and procedures related to the enrollment of children in the Head Start program;
- reviewed Newark's supporting documentation for Head Start enrollment reported to ACF;
- reviewed selected Newark's Head Start expenditures for allowability;
- held discussions with officials from Newark's partner agencies to gain an understanding of Newark's monitoring of their operations;
- reviewed a judgmentally selected sample of 15 case files of Head Start recipients enrolled at Newark partner agencies to determine whether required Head Start services were provided;
- requested and reviewed available information related to Federal funds used to acquire, construct, or renovate facilities where Newark provided Head Start services; and

[21] We initially contacted Newark in August 2014, but Newark did not agree to meet with us until February 2015.

- discussed the results of our review with Newark 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: ADMINISTRATION FOR CHILDREN AND FAMILIES COMMENTS

ADMINISTRATION FOR
CHILDREN & FAMILIES
Office of the Assistant Secretary | 330 C Street, S.W., Suite 4034
Washington, DC 20201 | www.acf.hhs.gov

December 20, 2016

Ms. Gloria L. Jarmon
Deputy Inspector General for Audit Services
U.S. Department of Health and Human Services
200 Independence Avenue, SW
Washington, DC 20201

Dear Ms. Jarmon:

The Administration for Children and Families (ACF) appreciates the opportunity to respond to the Office of Inspector General's (OIG) report "Newark Preschool Council, Inc., Did Not Always Comply With Head Start Requirements (A-02-14-02024)." This audit was performed in response to a request from ACF.

The following are ACF's comments to each of the OIG's recommendations:

Recommendation #1:

The OIG recommends that ACF requests Newark to refund $9,950,556 to the Federal Government for unallowable costs applicable to underenrollment ($7,989,360), general and administrative expenses ($1,465,683), unauthorized purposes ($449,764), and salary payments ($45,749).

Response:

ACF concurs with this recommendation.

Recommendation #2:

The OIG recommends that ACF use the information presented in this report to complete the closeout process for Newark's Head Start grant.

Response:

ACF concurs with this recommendation.

Recommendation #3:

The OIG recommends that if ACF award the Head Start grant in the future to Newark Preschool Council, Inc., ACF ensure that Newark maintains its funded enrollment level, properly monitors partner agencies, and follows its policies and procedures relating to salary payments and cash management.

Response:

ACF does not concur with this recommendation because it suggests that ACF may consider funding this agency in the future. Given the long history of serious and systemic failures in oversight and management of its funding, ACF would not consider this agency for a new grant in the forseeable future.

Recommendation #4:

The OIG recommends that ACF retain information related to federal funds used to acquire, construct, or renovate its grantees' properties, in accordance with Departmental requirements.

Response:

ACF concurs with this recommendation.

In closing, ACF understands that the OIG is mandated to perform oversight, accountability, and evaluation of programs, projects, or activities. ACF supports the OIG in these efforts. Please direct any follow-up inquiries to Janice Samuel, Office of Administration, Division of Financial Integrity, at (202) 401-2401.

Sincerely,

Mark H. Greenberg
Acting Assistant Secretary
for Children and Families