Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

OPPORTUNITIES FOR WILLIAMSON AND BURNET COUNTIES HAD INEFFECTIVE ACCOUNTING CONTROLS AND USED UNAPPROVED OR QUESTIONABLE COST ALLOCATION METHODS

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

Amy J. Frontz
Deputy Inspector General
for Audit Services

February 2020
A-06-18-02002

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.

Why OIG Did This Audit

Oversight and management of grant programs is crucial to the U.S. Department of Health and Human Services' (HHS) mission and to the health and well-being of the public. Audits of Head Start and other HHS grantees have found deficiencies in the way grantees claim and account for grant funds.

The objective of our audit was to determine whether Opportunities for Williamson and Burnet Counties (Opportunities) claimed and accounted for HHS grant funds in accordance with Federal requirements.

How OIG Did This Audit

From December 2016 through November 2017, Opportunities claimed $7.4 million in Head Start grant costs. From January through December 2017, Opportunities claimed $653,867 in Low Income Home Energy Assistance Program (LIHEAP) costs and $442,773 in Community Service Block Grant program (CSBG) costs. We limited our audit to a judgmental sample of 108 Head Start, LIHEAP, and CSBG general ledger transaction line items totaling $359,056.

Opportunities for Williamson and Burnet Counties Had Ineffective Accounting Controls and Used Unapproved or Questionable Cost Allocation Methods

What OIG Found

Opportunities did not always account for costs in accordance with Federal regulations. Specifically, Opportunities drew down grant funds without an immediate cash need; did not track expenses in a way that provided for accurate, current, and complete disclosure of the financial results of each Federal program; did not maintain internal controls necessary to provide reasonable assurance that expenses were approved in accordance with internal policies; used unapproved methods to allocate shared costs; and did not allocate indirect costs to programs relative to the benefits received. In addition, Opportunities claimed some unallowable costs.

What OIG Recommends

We recommend that Opportunities (1) implement procedures designed to ensure that Federal funds are drawn down only in the amounts needed to meet the immediate cash requirements of its CSBG and LIHEAP-related activities; (2) work with Cost Allocation Services to either be released from the existing indirect cost rate or negotiate a current indirect cost rate for claiming future indirect costs; (3) develop and implement a reasonable basis to allocate meal costs, kitchen salaries and central office expenses between the Head Start and Senior Nutrition programs in accordance with the benefits received; and (4) refund $3,207 in unallowable costs.

We also made other procedural recommendations in the full report.

In written comments on our draft report, Opportunities agreed with our findings and recommendations. Opportunities also provided information on corrective actions it has taken to address our recommendations and stated that these actions are intended to "mitigate the risk of noncompliance in the future."

The full report can be found at https://oig.hhs.gov/oas/reports/region6/061802002.asp.

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INTRODUCTION

WHY WE DID THIS AUDIT

Oversight and management of grant programs is crucial to the U.S. Department of Health and Human Services' (HHS) mission and to the health and well-being of the public. Prior audits of Head Start and other HHS grantees have found deficiencies in the way grantees claim and account for grant funds. We conducted this audit because Opportunities for Williamson and Burnet Counties (Opportunities), a recipient of multiple sources of HHS grant funding, had these types of issues in its 2015 and 2016 Single Audit reports, specifically cost allocation issues.

OBJECTIVE

The objective of our audit was to determine whether Opportunities claimed and accounted for HHS grant funds in accordance with Federal requirements.

BACKGROUND

Opportunities for Williamson and Burnet Counties

Established in 1966 as the official Community Action Agency for Williamson and Burnet Counties in Texas, Opportunities has administered a wide range of social service and economic opportunity programs benefiting many thousands of low- and moderate-income persons. Opportunities' current programs include Head Start, Senior Nutrition,[1] and Low Income Home Energy Assistance Program (LIHEAP) services, as well as other community services such as adult education and budget counseling.

Head Start Program

Title VI of the Omnibus Budget Reconciliation Act of 1981 established Head Start as a Federal discretionary grant program. The program was most recently reauthorized by the Improving Head Start for School Readiness Act of 2007 (Head Start Act).[2] The major program objectives include promoting school readiness and enhancing the social and cognitive development of low-income children 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

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[1] Opportunities' Senior Nutrition program provides meals at select Opportunities locations as well as home-delivered meals to those whose mobility is limited.

[2] P.L. No. 110-134, codified at 42 U.S.C. 9801 et. seq.

needed to be successful in school. Head Start engages parents in their children's learning and emphasizes parental involvement in administering local Head Start programs.

Within HHS, the Administration for Children and Families (ACF), Office of Head Start, administers the Head Start program.

Low Income Home Energy Assistance Program

Authorized by the Low-Income Home Energy Assistance Act of 1981,[3] the LIHEAP provides assistance to low-income households to meet their immediate home energy needs. LIHEAP helps keep families safe and healthy through initiatives that assist families with energy costs such as weatherization and energy-related home repair needs. Also, LIHEAP helps families through programs that reduce the risk of health and safety problems that arise from unsafe heating and cooling practices.

Within HHS, the ACF Office of Community Services (OCS) administers LIHEAP. In Texas, the Texas Department of Housing and Community Affairs (TDHCA) acts as the lead agency for carrying out State-level activities for LIHEAP.

Community Services Block Grant Program

Authorized by the Community Opportunities, Accountability, and Training and Educational Services Act of 1998,[4] the Community Services Block Grant program (CSBG) provides funds to alleviate the causes and conditions of poverty in communities. CSBGs fund a State-administered network of more than 1,000 local community action agencies that create, coordinate, and deliver programs and services to low-income households. Grantees are required to provide services and activities addressing employment, education, housing, nutrition, emergency services, health, and better use of available income.

Within HHS, ACF OCS administers the CSBG. In Texas, TDHCA acts as the lead agency for carrying out State-level activities for the CSBG.

HOW WE CONDUCTED THIS AUDIT

From December 2016 through November 2017, Opportunities claimed $7.4 million in Head Start grant costs. From January through December 2017, Opportunities claimed $653,867 in LIHEAP costs and $442,773 in CSBG costs.[5] We limited our audit to a judgmental sample of 108

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[3] P.L. No. 97-35 (enacted as Title XXVI of the Omnibus Budget Reconciliation Act of 1981).

[4] P.L. No. 105-285.

[5] Our audit period spanned 13 months because the Head Start grant covered Opportunities' fiscal year (December 1, 2016, through November 30, 2017), whereas the LIHEAP and CSBG grants' fiscal years were calendar years.

Head Start, LIHEAP, and CSBG general ledger transaction line item costs totaling $359,056. We also reviewed Opportunities' allocation methodology and basis for allocating administrative costs, food and kitchen supply costs, kitchen salaries, and central office costs to multiple programs. We did not perform an overall assessment of Opportunities' internal control structure. Rather, we reviewed only the internal controls that related to accounting and procurement.

We conducted our fieldwork at Opportunities' central office in Georgetown, Texas, from June through September 2018.

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.

FINDINGS

Opportunities did not account for costs in accordance with Federal regulations. Specifically, Opportunities:

- drew down grant funds without an immediate cash need;
- did not track expenses in a way that provided for accurate, current, and complete disclosure of the financial results of each Federal program;
- did not maintain internal controls necessary to provide reasonable assurance that expenses were approved in accordance with internal policies;
- used unapproved methods to allocate shared costs; and
- did not allocate indirect costs to programs relative to the benefits received.

In addition, Opportunities claimed some unallowable costs.

Opportunities' executive director, chief financial officer (CFO), and accounting staff positions turned over at least once during our audit period, which led to some of our accounting-related findings.

OPPORTUNITIES DID NOT ACCOUNT FOR COSTS IN ACCORDANCE WITH FEDERAL REGULATIONS

Drawdowns Made Without an Immediate Cash Need

Federal regulations state that grantees' financial cash advances must be timed in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project (2 CFR § 200.305(b)).[6]

Throughout 2017, Opportunities drew down CSBG and LIHEAP funds from TDHCA's Community Affairs Contract System[7] for which there was not an immediate cash need. As reflected in the figure on the following page, total cash available for both programs was significantly higher than monthly expenses on a consistent basis in 2017.

Drawing down funds without immediately expending them increases the risk that they will be used for purposes unrelated to the funded programs.

Opportunities' current CFO stated that there were no formal procedures to project monthly expenses, and she believed that accounting staff did not anticipate immediate cash requirements correctly because of inexperience.

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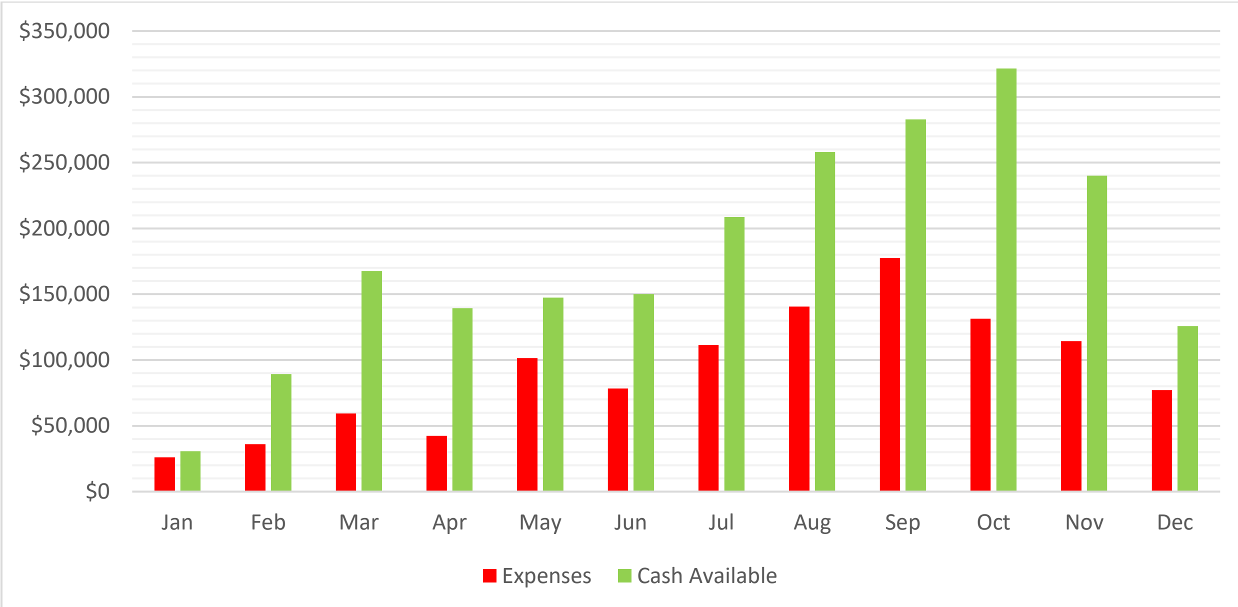
[6] Under Texas law, subgrantees receiving Federal LIHEAP and CSBG funds, like Opportunities, must administer those funds in accordance with 2 CFR part 200, including part 200's Fiscal and Program Management Standards (10 Texas Admin. Code §§ 6.1 and 1.402).

[7] TDHCA's Community Affairs Contract System is the system TDHCA uses for disbursing grant funds. The system allows subrecipients of community services and energy assistance programs to sign and view their contracts and financial reports through the web.

Figure: Monthly Expenses Compared to Cash on Hand for Calendar Year 2017
Community Services Block Grant and Low-Income Home Energy Assistance Act Combined



Expenses Not Tracked by Grant Year To Ensure Accurate, Current, and Complete Disclosure of Financial Results

Federal regulations state that grantees' financial management systems must provide for accurate, current, and complete disclosure of the financial results of each Federal award or program, as well as records that adequately identify the source and application of funds for federally funded activities (45 CFR § 75.302(b)(2) and (3);[8] 2 CFR 200.302(b)(2) and (3)).

Opportunities tracked revenues and expenses by fund type (i.e., Head Start, LIHEAP, or CSBG); however, it did not track most revenues and expenses by grant year. In its 2017 general ledger, Opportunities only tracked 4 percent of its CSBG expense transactions, 1 percent of its LIHEAP expense transactions, and 2 percent of its Head Start expense transactions by grant year. Opportunities' chart of accounts contained a grant year program code; however, Opportunities rarely used it.

Furthermore, during our audit period CSBG and LIHEAP funding rolled over from grant year 2016 into 2017. Because Opportunities did not track the 2016 or 2017 revenues and expenses

[8] Head Start funds must be administered in accordance with 45 CFR part 75 (45 CFR § 1303.3).

by grant year, we could not accurately identify the application of the different grant year revenues and expenses and were unable to reconcile the CSBG and LIHEAP grant awards.[9, 10]

Tracking expenses by program year is integral to providing accurate, current, and complete disclosure of the financial results of each Federal award.

Opportunities' current CFO told us the inconsistent use of the grant year program code occurred because new finance employees were not trained to use the code.

Expenses Were Not Approved in Accordance With Internal Policies

A non-Federal entity must establish and maintain effective internal control over Federal awards that provides reasonable assurances that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal awards (45 CFR § 75.303(a)).

According to Opportunities' internal policies, (1) board approval is required for contracts in excess of $50,000 (Opportunities' Fiscal Policies and Procedures Manual), (2) all invoices must be approved by the manager of the department for which the expense was incurred (Opportunities' Fiscal Policies and Procedures Manual), and (3) trips must be approved in advance using the Request to Attend form (Opportunities Employee Handbook).

Contrary to both the Federal requirement to maintain effective internal controls over Federal awards and Opportunities' internal policies, approval was not obtained for the following three sampled Head Start costs totaling $37,425: (1) the board of directors did not approve costs totaling $35,100 associated with a contract for building renovations,[11] (2) a department head did not approve an invoice for pump station repairs totaling $1,714, and (3) no one approved a Request to Attend form for the Head Start director's conference-related hotel expenses of $611.

Unapproved expenses put program funds at risk of use for unallowable purposes, including misappropriation of funds.

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[9] We were able to reconcile Head Start because funds did not roll over into the following grant year.

[10] We were able to determine revenues and expenses by month, but we could not tie the expenses to a specific grant year. For example, some expenses in March 2017 could have been paid with funds from either a 2016 or 2017 grant.

[11] The total contract was for $65,000. Our two sample items were for payments made on the contract totaling $35,100.

Opportunities lacked documentation to demonstrate that the building renovations contract was presented to the board for approval. The pump station repairs were approved by a maintenance technician rather than a department head.

The current CFO stated that these issues occurred because Opportunities had an interim executive director, its CFO position was vacant, and it had a consultant serving as an acting accounting manager. In addition, the accounts payable clerk had only been in her position for a few months.

Unapproved Methods Used To Allocate Indirect Costs

Opportunities' HHS Nonprofit Rate Agreement (Rate Agreement)[12] states that Opportunities had a cost rate of 8.8 percent applicable to all programs effective December 1, 2009, "until amended" (Rate Agreement, section I: Indirect Cost Rates). Furthermore, the Rate Agreement states that changes require prior approval from HHS CAS.[13]

Opportunities did not use the approved indirect cost rate from its Rate Agreement during our audit period (December 1, 2016, through December 31, 2017) to allocate indirect costs to its cost objectives. Instead, Opportunities used a cost allocation plan, which was developed internally in 2011, to charge those costs directly to its cost objectives. Furthermore, Opportunities did not obtain prior approval from CAS before it stopped using its indirect cost rate.

Opportunities may have charged more indirect costs to its Federal grant awards than was allowable under its rate agreement.

The current CFO and accounting staff were hired after Opportunities stopped using its negotiated indirect cost rate and were not aware that Opportunities had an approved indirect cost rate.

Costs Not Allocated Relative to Benefits Received

Food and Kitchen Supply Costs Were Not Allocated Relative to the Benefits Received

To be allowable under an award, a cost must be allocable to the award (45 CFR § 75.403(a)). A cost is allocable to a particular cost objective in accordance with the relative benefits received (45 CFR § 75.405(a)). If a cost benefits two or more projects or activities in proportions that can

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[12] A Nonprofit Rate Agreement is a contract between HHS Cost Allocation Services (CAS) and a grantee that sets an indirect cost rate to be used with all Federal grants, regardless of the agency in which the grant originates, for the indirect costs described within the Nonprofit Rate Agreement.

[13] Rate Agreement, section III: (General), Part B: Accounting Changes.

be determined without undue effort or cost, the cost must be allocated to the projects based on the proportional benefit (45 CFR § 75.405(d)).

Opportunities did not always allocate food and kitchen supply costs to its Head Start and Senior Nutrition programs in accordance with the relative benefits received. In 2017 Opportunities allocated food and kitchen supplies for 7 months of the year to the Head Start and Senior Nutrition programs based on the number of meals served during October 2015 and April 2016 for the 2015–2016 school year.[14] This allocation method allocated 60 percent of food and kitchen supply costs to the Senior Nutrition program and 40 percent to the Head Start program.

Opportunities' allocation method was not reasonable because it did not account for variations in program enrollment or fluctuations in the number of meals served for each program. We calculated allocation percentages using the number of meals served for each program during the 7 months in which costs were allocated. Those percentages were 45 percent to Senior Nutrition and 55 percent to Head Start, which is 15 percentage points different from Opportunities' allocation. As a result, costs were allocated to the Senior Nutrition program for food and kitchen supplies that were not associated with that program. Opportunities could have determined these allocations without undue effort or cost.

The CFO stated that when Opportunities created its allocation rates, there had been significant turnover in the accounting/finance department. As a result, the Head Start director developed the allocation rates.

Kitchen Salaries Were Not Allocated Relative to the Benefits Received

To be allowable under an award, a cost must be allocable to the award and adequately documented (45 CFR § 75.403(a) and (g)). Federal regulations state that a cost is allocable to a Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received (45 CFR part 75.405(a)).

We determined that salaries for 31 kitchen employees totaling $363,691 were not allocated to the Head Start and Senior Nutrition programs in accordance with relative benefits received. Three of Opportunities' four kitchens were used to prepare meals for both the Head Start and the Senior Nutrition programs. Each of the 31 kitchen employees' salaries were charged 100 percent to either the Head Start program or the Senior Nutrition program, even though many of the employees worked on both programs.

Prior to our audit period, Opportunities consolidated most of its Head Start and Senior Nutrition kitchens to achieve better efficiency. However, it continued charging kitchen salaries

[14] Opportunities chose the 2 months when the Head Start and Senior Nutrition programs each had their highest meal counts.

at 100 percent to either the Head Start program or the Senior Nutrition program and did not create a methodology to allocate kitchen salaries.

Central Office Costs May Not Have Been Allocated Relative to the Benefits Received

To be allowable under an award, a cost must be allocable to the award and adequately documented (45 CFR § 75.403(a) and (g)). Federal regulations state that a cost is allocable to a Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received (45 CFR part 75.405(a)). A non-Federal entity's financial management system must provide for records that adequately identify the source and application of funds for federally funded activities. These records must be supported by source documentation (45 CFR § 75.302(b)(3)).

We determined that six sampled costs totaling $14,280 were potentially unallowable because Opportunities allocated them using a methodology that was not documented. According to the current CFO, no current Opportunities employee understands the logic behind this allocation method because of the 100-percent turnover in Opportunities' accounting/finance department.

Opportunities' accounting software utilizes a system edit called the "central office distribution code," which allocates costs as follows: 51 percent to an allocation pool, 45 percent to Head Start, 2 percent to CSBG, and 2 percent to LIHEAP. At the end of each month, the accounting software further allocates the costs in the allocation pool to various programs in proportion to the total monthly labor hours charged to each program. The current CFO agreed that this allocation method is flawed. Sampled costs allocated using this methodology included contract labor, copier expenses, kitchen supplies, and ground maintenance expenses.

Opportunities' estimated total costs of $1.2 million may not have been allocated in accordance with relative benefits received.

OPPORTUNITIES CLAIMED UNALLOWABLE COSTS

To be allowable under an award, a cost must be allocable to the award (45 CFR § 75.403(a)). Federal regulations state that a cost is allocable to a Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received (45 CFR part 75.405(a)).

We determined that three sampled costs totaling $3,207 were unallowable because they did not directly benefit the Head Start program. These unallowable costs included supplies and travel expenses related to the Senior Nutrition program and a community outreach center lease payment miscoded to the Head Start program.

According to the current CFO, these costs were charged to the Head Start grant because Opportunities had an interim executive director, its CFO position was vacant, and it had a consultant serving as an acting accounting manager. In addition, the accounts payable clerk had only been in her position for a few months.

RECOMMENDATIONS

We recommend that Opportunities for Williamson and Burnet Counties:

- implement procedures designed to ensure that Federal funds are drawn down only in the amounts needed to meet the immediate cash requirements of its CSBG and LIHEAP-related activities;
- instruct and train its finance employees to use the grant year program code built into the accounting software to identify revenues and expenses by specific grant year for all Head Start, CSBG, and LIHEAP general ledger transactions;
- train employees to follow existing policies and procedures for approval of expenses;
- work with CAS to either be released from the existing indirect cost rate or negotiate a current indirect cost rate for claiming future indirect costs;
- develop and implement a reasonable basis to allocate meal costs, kitchen salaries, and central office expenses between the Head Start and Senior Nutrition programs in accordance with the benefits received; and
- refund $3,207 in unallowable costs.

OPPORTUNITIES FOR WILLIAMSON AND BURNET COUNTIES COMMENTS

In written comments on our draft report, Opportunities agreed with our findings and recommendations. Opportunities also provided information on corrective actions it has taken to address our recommendations and stated that these actions are intended to "mitigate the risk of noncompliance in the future." We commend Opportunities for taking corrective actions, although we note that we have not formally reviewed those actions.

Opportunities' comments are included in their entirety as Appendix B. We have excluded eight attachments referenced in Opportunities' response because they contained proprietary information.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

From December 2016 through November 2017, Opportunities claimed $7,434,643 in Head Start grant costs. From January through December 2017, Opportunities claimed $653,867 in LIHEAP costs and $442,773 in CSBG costs.[15] We limited our audit to a judgmental sample of 108 Head Start, LIHEAP, and CSBG general ledger transaction line items totaling $359,056.

We did not perform an overall assessment of Opportunities' internal control structure. Rather, we reviewed only the internal controls that related to our objective.

We conducted our fieldwork at Opportunities' central office in Georgetown, Texas, from June through September 2018.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and guidance;
- reviewed Opportunities' written internal control procedures related to accounting and procurement;
- interviewed Opportunities' management to gain an understanding of internal control procedures related to accounting and procurement;
- reviewed Opportunities' fiscal years 2015 through 2017 financial statements and its Single Audit reports for 2016 and 2017[16];
- reconciled Opportunities' 2017 Head Start Federal Financial Report to its general ledger;
- attempted to reconcile LIHEAP and CSBG TDHCA Grant Expenditure Reports for calendar year 2017 to Opportunities' general ledger;

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[15] Our audit period spanned 13 months because the Head Start grant covered Opportunities' fiscal year (December 1, 2016, through November 30, 2017), whereas the LIHEAP and CSBG grants' fiscal years are calendar years.

[16] A non-Federal entity that expends $750,000 or more in Federal awards during the non-Federal entity's fiscal year must have a Single Audit that includes an examination of the entity's financial statements, testing of the entity's internal controls, and a review of the entity's compliance with requirements related to expenditures of selected Federal awards (2 CFR §§ 200.501(b) and 200.514).

- reconciled Opportunities' drawdowns from the HHS Payment Management System to its Head Start general ledger for our audit period;

- reviewed Opportunities' board minutes for our audit period;

- reviewed Opportunities' board of directors' qualifications;

- selected and reviewed a judgmental sample of 108 general ledger transaction line item costs (with an emphasis on high-dollar line item costs, type of cost,[17] and unusual expense descriptions) totaling $359,056;

- reviewed Opportunities' allocation methodology and basis for claiming administrative costs, food and kitchen supply costs, kitchen salaries, and central office costs to multiple programs;

- met with ACF and CAS officials to discuss Opportunities' indirect cost rate agreement; and

- discussed the results of our audit with Opportunities 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.

[17] We wanted to review a wide range of costs, including program, professional, interest, supplies, occupancy, maintenance and repairs, insurance, conference/training, printing and copying, dues and subscriptions, automobile and travel, and equipment.

APPENDIX B: OPPORTUNITIES FOR WILLIAMSON AND BURNET COUNTIES COMMENTS

Opportunities for Williamson & Burnet Counties

December 17, 2019

Report Number: A-06-18-02002

Patricia Wheeler
OIG Office of Audit Services, Region VI
1100 Commerce Street, Room 632
Dallas, TX 75242

Dear Ms. Wheeler:

We received your letter dated November 18, 2019 and draft audit report for December 2016 through November 2017. Your will find our written comments regarding each finding below. I have also included SOP's that have been developed as part of our corrective action plan for your review.

OPPORTUNITIES DID NOT ACCOUNT FOR COSTS IN ACCORDANCE WITH FEDERAL REGULATIONS

1. **Finding:**
   Opportunities drew down grant funds without an immediate cash need.

   Recommendation:
   Implement procedures designed to ensure that Federal funds are drawn down only in the amounts needed to meet the immediate cash requirements of its CSBG and LIHEAP related activities.

   Management Response:
   Management agrees with the recommendation and has developed a process to ensure compliance with federal requirement: The monthly request for reimbursement is prepared based upon the prior month expense plus projected expense for the following period if deemed necessary. As part of the monthly reporting, a report out of the SHAH client management system is run to determine funds committed to pay utility assistance for the following reporting period. The amount that is committed per the report is the amount that is entered into the 'projected' section on the request for reimbursement. In addition, the projected funds are recorded to deferred revenue and a reconciliation is completed each period to verify that the projected funds were spent in a timely manner.

   Responsible staff: Chief Financial Officer, Accounting Manager, Director of Community Services
   Implementation date: 08.31.18
   Attachments: #1 CEAP Monthly Reporting, #1 Sample TDHCA Expenditure Report

MEALS ON WHEELS HEAD START COMMUNITY SERVICES AFFORDABLE HOUSING

604 High Tech Drive • Georgetown, Texas 78626
(512) 763-1400 • Fax (512) 763-1411 • OWBC-TX.org

2. **Finding:**

Opportunities did not track expenses in a way that provided for accurate, current, and complete disclosure of the financial results of each Federal program.

Recommendation:

Instruct and train its finance employees to use the grant year program code built into the accounting software to identify revenues and expenses by specific grant year for all Head Start, CSBG, and LIHEAP general ledger transactions.

Management Response:

Management agrees with the recommendations. Since 2018 there has been stability in the finance staff at Opportunities resulting in improved processes and a better understanding of how fund and program codes relative to the grants received can be used to segregate transactions within the MIP software system. For Head Start, CSBG and LIHEAP grants, the program code utilized in the GL string for direct costs will reflect the program year associated with the grant expense.

Opportunities is making every effort to ensure that staff are trained regarding compliance with Federal Grant requirements. In addition to training for internal processes, the CFO and Director of Head Start attended federal funding workshops within the past year and the Community Services program staff received training from TDHCA.

Responsible staff: Chief Financial Officer, Accounting Manager, All Program Directors
Implementation date: 12.01.19
No attachments

3. **Finding:**

Opportunities did not maintain internal controls necessary to provide reasonable assurance that expenses were approved in accordance with internal policies.

Recommendation:

Train employees to follow existing policies and procedures for approval of expenses.

Management Response:

Management recognizes that in the absence of executive staff and key finance personnel, approval policies were not always followed. The Fiscal Policies were revised in January 2019 and approved by the Board. A new PO process was developed to ensure that purchases are approved and coded to the proper GL string. Additional trainings for staff including the PO process, procedures for fleet cards, and the revised Request to Attend form occurred during 2019.

Opportunities for Williamson & Burnet Counties

Responsible staff: Chief Financial Officer, Accounts Payable, Program Directors
Implementation date: 01.31.19
Attachments: #3 Purchase Request SOP, #3 Fiscal Policies

4. **Finding:**
Opportunities used unapproved methods to allocate shared costs.

Recommendation:
Work with CAS to either be released from the existing indirect cost rate or negotiate a current indirect cost rate for claiming future indirect costs.

Management Response:
Opportunities worked with Matt Dito, Branch Chief, Cost Allocation Services at the PSC in Dallas, Texas regarding release from the 2009 indirect cost rate. We no longer have an active rate. Going forward, Opportunities will continue to use direct cost allocation to allocate shared costs.

Responsible staff: Chief Financial Officer, Accounting Manager, Director of Community Services
Implementation date: 10.22.19
Attachment: #4 Release from Indirect Cost Rate Correspondence

5. **Finding:**
Opportunities did not allocate indirect costs to programs relative to the benefits received.

Recommendation:
Develop and implement a reasonable basis to allocate meal costs, kitchen salaries, and central office expenses between the Head Start and Senior Nutrition programs in accordance with the benefits received.

Management Response:
During 2016 and 2017, Opportunities combined some kitchens to serve both Head Start and Senior Nutrition programs. This change provided for more efficiency, but no sound methodology was applied to share the costs. Opportunities has developed a worksheet to allocate food costs based upon enrollments and meals served to each program. Before food invoices are paid, the shared costs are entered into the worksheet and the amounts split by location on a pro-rata basis using the enrollments and meals served. In addition, the salaries and payroll added costs for the kitchen staff are shared using the same logic.

The methodology employed in 2017 to allocate central office expenses using a system edit distribution code was discontinued 12.01.17 at the beginning of the agency fiscal year.

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Opportunities
for Williamson & Burnet Counties

Responsible staff: Chief Financial Officer, Director of HS, Director of Meals on Wheels
Implementation date: 10.01.18
Attachment: #5 Food Invoice Process, #5 Meal Enrollments Table, #5 Cost Allocation Plan

OPPORTUNITIES CLAIMED UNALLOWABLE COSTS

1. **Finding:**
   Opportunities claimed unallowable costs that did not directly benefit the Head start program.

   Recommendation:
   Refund $3,207 in unallowable costs.

   Management Response:
   A refund will be processed. Management agrees with the auditor and has taken action to improve our overall processes as described in the responses to the above findings. Improved processes will mitigate the risk of unallowable costs in the future.

Please extend our gratitude to the audit team for their time and patience with our organization. Management has taken action to improve our overall processes as described in the above responses to the findings. Improved processes will mitigate the risk of noncompliance in the future.

Sincerely,

Marco Cruz

Marco Cruz
Executive Director

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