Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

PATHWAYS FOR CHILDREN NEEDS TO STRENGTHEN DOCUMENTATION REQUIREMENTS

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Office of Inspector General

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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: November 2019
Report No. A-01-18-02503

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

Pathways for Children Needs To Strengthen Documentation Requirements

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.

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.

The full report can be found at https://oig.hhs.gov/oas/reports/region1/11802503.asp.

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INTRODUCTION

WHY WE DID THIS AUDIT

The Improving Head Start for School Readiness Act of 2007[1] (Head Start Act) required the U.S. Department of Health and Human Services (HHS), Administration for Children and Families (ACF), Office of Head Start (OHS), to develop the Designation Renewal System (DRS) 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. On January 14, 2013, OHS notified Pathways for Children, Inc. (Pathways) that because of noncompliance with program requirements, it would be required to compete with other entities in its community for Head Start funding. Pathways applied to compete for the Head Start funding and was awarded the grant again as the sole applicant. In general, if ACF chooses not to renew a grant for which the grantee was the sole applicant, it has limited options for ensuring the continuity of Head Start services. On the basis of its noncompliance with program requirements and being awarded the grant as the sole applicant, we selected Pathways for this audit.

OBJECTIVE

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

BACKGROUND

Head Start Program

Title VI of the Omnibus Budget Reconciliation Act of 1981, as amended, establishes Head Start as a Federal discretionary grant program. In 1994, the Head Start program was expanded to establish Early Head Start. Head Start and Early Head Start programs (hereafter, collectively referred to as "Head Start" unless otherwise noted) support the comprehensive development of children from birth to age 5 to promote school readiness by enhancing the cognitive, physical, behavioral, and social-emotional development of children through the provision of educational, health, nutritional, social, and other services to enrolled children and families.

The Head Start Act required ACF to begin awarding 5-year grants for Head Start and to require grantees that ACF determines are not providing a high-quality and comprehensive Head Start program to "recompete." ACF developed the DRS, which provides a structure for identifying lower performing programs that are required to compete for continued funding. Grantees that fall short on quality benchmarks, including classroom quality, health and safety, financial accountability, and program-management standards, are designated for competition.

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[1] The Improving Head Start for School Readiness Act of 2007 (P.L. No. 110-134, codified at 42 U.S.C. § 9831 et. seq.).

In fiscal year 2017, the Head Start programs received funding of approximately $9.3 billion and served 899,374 children and pregnant women in centers, family homes, and in family childcare homes in communities throughout the country. Within HHS, ACF, OHS administers Head Start.

Pathways for Children

Pathways, based in Gloucester, Massachusetts, is a nonprofit entity providing education and care programs to over 500 children and their families from 14 communities in Massachusetts (Beverly, Boxford, Danvers, Essex, Gloucester, Hamilton, Ipswich, Manchester-by-the-Sea, Middleton, Peabody, Salem, Topsfield, Rockport, and Wenham). Pathways provides year-round programs serving children from birth to age 13, including Head Start and Early Head Start, family and school age childcare, and community outreach and comprehensive wrap-around services to families.

During our audit period, Pathways was awarded Head Start grants covering two service areas including the Cape Ann grant, which provided $3.2 million for the period July 1, 2016, through June 30, 2018, and the North Shore grant, which provided $4.9 million for the period May 1, 2016, through April 30, 2018, a total of $8.1 million of Head Start grant funds.[2]

To receive the full grant amount, Pathways must meet its required non-Federal share match amount. Pathways uses a variety of sources to meet its non-Federal share amount including individualized educational program (IEP) services provided by local education agencies (LEAs), donated goods and services, the value of time spent at committee meetings, and the value of time for community volunteers. All the above funding sources are allowable to be used as non-Federal share provided that other Federal funds are not used to pay for the services.

HOW WE CONDUCTED 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,[3] and salary expenses. We also reviewed written policies and evaluated various aspects of Pathway's management of its Head Start program.

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.

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[2] The Cape Ann Head Start grant covers the Essex, Gloucester, Ipswich, Manchester, and Rockport service area. The North Shore grant covers the Beverly, Boxford, Danvers, Hamilton, Middleton, Peabody, Salem, Topsfield, and Wenham service area.

[3] Non-Federal share is the portion of the total program costs provided by Pathways in the form of donations or cash match received from third parties or contributed by the agency.

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

FINDINGS

Pathways' Head Start program generally complied with Federal requirements. However, 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 (1) could not provide documentation that showed the expenses associated with LEAs to provide IEP services to children enrolled at Pathways were allowable and (2) 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 and

- 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.

Because Pathways claimed these expenses without proper documentation, it received $341,637[4] in overpayments from the Head Start program.

PATHWAYS CLAIMED SOME HEAD START COSTS THAT DID NOT MEET FEDERAL REQUIREMENTS

Pathways Claimed Unallowable Non-Federal Share Expenses

Federal Requirements

ACF awards grantees 80 percent of their costs, and each program must supply the remaining 20 percent from non-Federal contributions (Head Start Act § 640(b)). If the grantee fails to obtain

[4] The total overpayment amount is calculated by taking the $44,655 of capital expenditures lacking prior written approval and adding the $296,982 non-Federal share disallowance amount calculated at Appendix B, table 3.

or adequately document the required 20 percent non-Federal share (or other approved match), ACF may take a disallowance.

According to ACF, it can require a grantee to contribute more than a 20 percent non-Federal share if provided for in the grantee's notice of grant award. For Pathways Cape Ann grant, Pathways was required to contribute 21.11 percent non-Federal share. For its North Shore grant, Pathways was required to contribute 23 percent non-Federal share.

Non-Federal contributions may be in cash or in kind (Head Start Act § 640(b)). In-kind contributions may consist of the value of real property and equipment and the value of goods and services. Cash and in-kind contributions are allowable and may count towards the matching requirement only if they are (1) not included as contributions for any other Federal award; (2) not paid by the Federal Government under another Federal award, except where expressly allowed in statute; and (3) allowable under Federal cost principles (45 CFR § 75.306(b)(2), (4), (5)).

Further, a non-Federal entity must have a financial management system that keeps records that identify adequately the source and application of funds for federally-funded activities. These records must be supported by source documentation (45 CFR §75.302(b)(3)).

A cost is allocable to a particular Federal award if the goods or services involved are assignable to that Federal award in accordance with the relative benefits received (45 CFR § 75.405(a)).

Unallowable Non-Federal Share Expenses

Pathways claimed unallowable non-Federal share expenses for IEP services, committee meetings, and a fundraising item during fiscal year (FY) 2017 that did not meet the Federal requirement for non-Federal share expenses. As a result, Pathways did not meet its required non-Federal share match amount.

Pathways could not provide documentation showing that non-Federal share expenses for IEP services[5] were allowable. Pathways partners with LEAs who provide IEP services for children enrolled at Pathways. The LEAs report to Pathways the number of hours of IEP services provided to each child and the hourly rate for services. Pathways calculates the total value of IEP services and claims this amount as part of its non-Federal share. Although the LEAs report the number of hours of service and the hourly rate, the LEAs do not report or provide documentation as to whether the LEAs bill Medicaid or other Federal grants for the services provided. According to the LEAs, LEAs bill Medicaid or other Federal grants for IEP services. As a result, Pathways cannot use those same IEP service expenses as part of its non-Federal share match because the expenses were already paid for by the Federal Government under another Federal award and a State government as part of its required Medicaid match. In FY 2017, all

[5] Examples of IEP services include speech and language therapy, occupational and physical therapy, and social work.

children for which Pathways claimed IEP services for non-Federal share were Medicaid eligible; therefore, their IEP service expense may have been billed to Medicaid or other Federal grants. Since Pathways was unable to provide adequate documentation from the LEAs showing what IEP services were paid by Medicaid or other Federal grants, we could not determine if IEP service expenses were allowable. As a result, Pathways claimed $435,710 in unallowable IEP services in FY 2017.

For the remaining unallowable non-Federal share, Pathways claimed unallowable costs for committee meetings to discuss fundraising activities and for the value of a fundraising item for which the proceeds were used to benefit the entire agency, including the following:

- Pathways claimed $537 in non-Federal share related to volunteers' time for participating in merchandising meetings. The merchandising meetings supported the development of "Kids Cards," which are notecards that feature the artwork of school-aged children. The Kids Cards were sold at merchants throughout the community and the proceeds from the cards went into the agency's unrestricted donations account to support the overall agency instead of solely benefitting the Head Start program.

- Pathways claimed $100 for the value of donated baskets that were raffled off during an event. The proceeds from the raffle went into the agency's unrestricted donations account to support the overall agency instead of solely benefitting the Head Start program.

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.

For FY 2017, Pathways claimed $436,347 in unallowable non-Federal share expenses. Based on the amount of allowable non-Federal share expenses, Pathways was entitled to receive $3,673,861 of Federal Head Start grant funds. However, Pathways actually received $3,970,843 resulting in an overpayment of $296,982 for unallowable non-Federal share expenses claimed, as shown in Appendix B.

Pathways Did Not Obtain Prior Written Approval From ACF for Certain Capital Expenditures

Federal Requirements

"Capital expenditures for general purpose equipment, buildings, and land are unallowable as direct charges, except with the prior written approval of the HHS awarding agency or passthrough entity," state Federal requirements (45 CFR § 75.439(b)(1)). Capital expenditures means expenditures to acquire capital assets or expenditures to make additions, improvements, modifications, replacements, rearrangements, reinstallations, renovations, or alterations to capital assets that materially increase their value or useful life. Capital assets means tangible or intangible assets used in operations having a useful life of more than one year which are capitalized in accordance with generally accepted accounting principles. Capital assets can include, among other things, intellectual property and software. General purpose equipment means equipment which is not limited to research, medical, scientific or other technical activities. Examples include office equipment and furnishings, modular offices, telephone networks, information technology equipment and systems (45 CFR § 75.2).

Lacking Prior Written Approval for Capital Expenditures

Pathways did not obtain prior written approval from ACF for certain capital expenditures. In 2014, Pathways engaged in contracts with two vendors to design and guide implementation of an information technology system to maintain program management data including admissions and enrollment, health, social services, transportation, and education. The total amount of the contracts was $231,548, and Pathways expected the asset to be used for 5 years. Although Pathways originally expensed project payments as incurred, it later capitalized the project payments because the project was to provide benefits for multiple years. Pathways did not request prior written approval from ACF before engaging in the contracts or capitalizing the contract payments. In FY 2017, Pathways discontinued the project and expensed the remaining capital expenditures to its programs including the Head Start program.

According to Pathways officials, Pathways did not request prior written approval because they initially intended to use private funds. Also, Pathways existing policies and procedures did not specify that prior approval was necessary for capital expenditures.

Since Pathways did not obtain the required prior written approval from ACF, the $44,655 expensed in FY 2017 to the Head Start program was not allowable. We noted Pathways expensed similar capital expenditures in FY 2016, although this timeframe was outside our scope of audit.

RECOMMENDATIONS

We recommend that Pathways for Children, Inc.:

- refund to the Federal Government $296,982 for FY 2017 unallowable non-Federal share expenses or provide documentation showing that Federal sources were not billed for IEP services,

- refund to the Federal Government $44,655 for FY 2017 capital expenditures that lacked prior written approval from ACF and work with ACF to determine the amount of FY 2016

Head Start funds that were drawn down without proper prior approval and refund that amount,

- implement policies and procedure to require that LEAs provide documentation to Pathways showing that IEP services were not paid by Federal funds,

- implement policies and procedures to ensure that revenue generated from non-Federal match fundraising expenses are allocated to Head Start program in accordance with the relative benefits received, and

- implement policies and procedures to request prior written approval from ACF before purchasing capital assets.

PATHWAYS FOR CHILDREN COMMENTS

In written comments on our draft report, Pathways stated that it understands the findings and will work with ACF to come to a resolution. Pathways also stated that it plans to establish a system with its various LEAs that differentiates the expenses incurred by the LEAs' specialists on behalf of Pathway's Head Start children that are reimbursed by any Federal Government source and the portion covered by the school districts' annual budgets. Pathways said it has thoroughly reviewed its non-Federal share contributions and has established a system and schedule to assure its process is and remains consistent with ACF's standards. Pathways stated it will review the accounting for the multiyear project with ACF to determine an appropriate resolution.

Pathways comments are included in their entirety as Appendix D.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

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.

We did not review the overall internal control structure of Pathways. Rather, we reviewed only those controls related to our objective.

We performed fieldwork at Pathways office in Gloucester, Massachusetts, from August 1, 2018, to February 20, 2019.

METHODOLOGY

To accomplish our objective, we:

- reviewed Federal laws, regulations, and guidance;

- reviewed Pathways Head Start grant applications and grant award documents;

- interviewed Pathways employees;

- reviewed Pathways policies and procedures for the operation of its Head Start program;

- reviewed Pathways' financial statements and the results of its A-133 audits[6] for fiscal years 2016 and 2017;

- obtained Pathways' general ledger and performed data reliability testing including: (1) performing validation testing to determine if the general ledger conformed to our data request, (2) tracing 40 judgmentally selected transactions to source documentation to determine if the general ledger transactions existed and were accurate, and (3) reconciling the general ledger operating cash account to Pathway's schedule of drawdowns provided by ACF to determine if the general ledger transactions existed and were complete;

[6] An A-133 audit is an organization-wide financial statement and federal awards' audit of a non-federal entity that expends $750,000 or more in federal funds in one year. It is intended to provide assurance to the Federal Government that a non-federal entity has adequate internal controls in place and is generally in compliance with program requirements. Non-federal entities typically include states, local governments, Indian tribes, universities, and non-profit organizations.

- performed testing of Pathway's internal controls including: (1) reviewing board of directors qualifications to determine if board members had the proper qualifications, (2) comparing the dates of Federal financial reports to the required due dates to determine if financial reports were submitted timely, and (3) reviewing bank reconciliations to determine if bank accounts were reconciled timely and that the reconciliations were approved by the CFO;

- selected a nonstatistical sample of 121 general ledger transactions totaling $255,468 to determine whether costs were adequately supported and allowable for reimbursement or non-Federal share matching (based on our review of the 121 sample items, we expanded our audit by 91 general ledger transactions totaling $421,982); and

- discussed our preliminary findings with Pathways and 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.

APPENDIX B: NON-FEDERAL SHARE OVERPAYMENT CALCULATION

Non-Federal share contributions may be in cash or in kind. In-kind contributions may consist of the value of real property and equipment and the value of goods and services. Cash and in-kind contributions are allowable and may count towards the matching requirement only if they are (1) not included as contributions for any other Federal award; (2) not paid by the Federal Government under another Federal award, except where expressly allowed in statute; and (3) allowable under Federal cost principles.

For FY 2017, Pathways' required non-Federal share match was $1,136,674,[7] but Pathways actually claimed $1,191,474 in non-Federal match ($54,800 more than the minimum required amount). Of the $1,191,474 non-Federal share amount that Pathways claimed, we found that $436,347 was not allowable because Pathways could not provide documentation showing that the expenses were allowable and for 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. As a result, Pathways claimed $755,127 in allowable non-Federal share (see table 1).

Table 1: Fiscal Year 2017 Allowable Non-Federal Share

Period	Non-Federal Share Claimed	Non-Federal Share Not Allowable	Non-Federal Share Allowable
Cape Ann Grant			
07/01/2016-06/30/2017	$ 521,366	$ 261,598	$ 259,768
North Shore Grant			
05/01/2016-09/15/2017	$ 670,108	$ 174,749	$ 495,359
Total	**$ 1,191,474**	**$ 436,347**	**$ 755,127**

Based on the $3,970,843 Federal amount expended in FY 2017 and the $755,127 allowable non-Federal share amount, we calculated the actual Head Start grant amount, $4,725,970, by adding the Federal amount received to the allowable non-Federal share amount. With an actual grant amount of $4,725,970, Pathways would be responsible to provide approximately 20 percent of the grant amount and would be entitled to receive approximately 80 percent of the grant amount from Head Start.[8] As a result, Pathways was entitled to receive $3,673,861 from Federal sources (see table 2).

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[7] Pathways' required non-Federal share match was calculated by adding the non-Federal share amount in the Cape Ann notice of grant award, $424,053, to the non-Federal share amount in the North Shore notice of grant award, $712,621.

[8] Since Pathways required non-Federal share match amounts are 21.11 percent for the Cape Ann grant and 23 percent for the North Shore grant, Pathways is entitled to receive 78.89 percent (1 - .2111) from Federal sources for the Cape Ann grant and 77 percent (1 - .23) for the North Shore grant.

Table 2: Recalculation of Fiscal Year 2017 Maximum Federal Amount

Period	Federal Amount Received	Non-Federal Share Allowable	Actual Grant Amount	Federal Portion of Grant Amount	Recalculated Maximum Amount Eligible for Reimbursement
Cape Ann Grant					
07/01/2016-06/30/2017	$ 1,584,875	$ 259,768	$ 1,844,643	78.89%	$ 1,455,239
North Shore Grant					
05/01/2016-09/15/2017	$ 2,385,968	$ 495,359	$ 2,881,327	77.00%	$ 2,218,622
Total	**$ 3,970,843**	**$ 755,127**	**$ 4,725,970**		**$ 3,673,861**

Since Pathways received $3,970,843 but was only entitled to receive $3,673,861, Pathways did not meet its required non-Federal match by $296,982 (see table 3). This resulted in Pathways receiving an overpayment of Federal funds.

Table 3: Fiscal Year 2017 Overpayment Calculation

Period	Federal Amount Received	Recalculated Maximum Amount Eligible for Reimbursement	Overpayment
Cape Ann Grant			
07/01/2016-06/30/2017	$ 1,584,875	$ 1,455,268	$ 129,636
North Shore Grant			
05/01/2016-09/15/2017	$ 2,385,968	$ 2,218,672	$ 167,346
Total	**$ 3,970,843**	**$ 3,673,941**	**$ 296,982**

APPENDIX C: SAMPLE SELECTION METHODOLOGY

<u>Direct Expenses</u>: We identified 3,707 direct expense transactions totaling $2,110,709 from the general ledger. From this amount, we eliminated 2,672 transactions totaling $719,846 because they were related to noncash transactions such as depreciation or bad debt expense, or because the transaction was a low risk expense (under $250). As a result, we identified 1,035 transactions totaling $1,390,863 for potential testing.

We judgmentally selected four high dollar transactions totaling $72,097. We then used systematic sampling[9] to select 26 of the remaining 1,031 transactions. In total, we selected 30 transactions totaling $109,137. Based on our review of the sample items, we expanded our audit by 15 transactions totaling $7,355 because these transactions were potentially related to unallowable capital expenditures.

<u>Administrative Expenses:</u> We identified 92 monthly administrative transactions from the general ledger. From this amount, we eliminated 37 transactions that were out of scope or related to reversals or credit amounts. This resulted in 55 remaining monthly administrative transactions totaling $1,372,026. We added transactions for each cost center together to get the total administrative amount for each month-ended. We judgmentally selected the 5 months-ended with the highest administrative amounts. For the 5 selected months, we identified 505 transactions totaling $1,143,071 which was partially allocated to Head Start.

We used systematic sampling to select 30 transactions totaling $81,809 which was partially allocated to Head Start. Based on our review of the sample items, we expanded our audit by four transactions totaling $1,419 which was partially allocated to Head Start because these transactions were potentially related to unallowable capital expenditures.

<u>Non-Federal Share Expenses:</u> We identified 22 non-Federal share transactions, summarized on a quarterly basis by specific cost center, totaling $1,006,233 from the generally ledger. We sorted the 22 non-Federal share transactions by dollar amount from largest to smallest and judgmentally selected the highest dollar non-Federal share transaction (June 30, 2017, cost center 100). We also judgmentally selected the two other non-Federal share transactions associated with the quarter ended June 2017.

Pathways provided a workbook made up of several worksheets that track various types of non-Federal share costs, including IEP meetings and services, parent volunteer hours, classroom donations, committee meeting hours, and board meeting hours. We created a one spreadsheet

[9] Systematic sampling involves creating a list of items that a sample will be drawn from and then selecting items at a given interval across the list. The interval length is calculated by dividing the list length by the target sample size. The first sample item is selected from the first interval in the list and then the interval length is used to select the remaining items. For example, we calculated the interval length of 40 by dividing the list length, 1,031, by the target sample size, 26. We then sampled the third item from the first interval and every 40th transaction from that point until reaching the end of the list.

with each type of non-Federal share transaction. We identified 550 transactions and systematically selected 30 transactions. Since the selection methodology did not select a transaction from the "IEP meetings" type of non-Federal share cost, we judgmentally selected the first "IEP meeting" transaction. In total, we selected 31 non-Federal share transactions totaling $35,573. Based on our review of the sample items, we expanded our audit by 72 transactions totaling $413,029 because these transactions were potentially related to unallowable non-Federal share expenses.

Salary Expenses: We identified 284 salary transactions from the general ledger. From this amount, we eliminated 143 transactions that were related to salary reclassifications, allocations, non-biweekly salary expenses, and time-off adjustments. This resulted in 141 remaining biweekly salary transactions totaling $4,940,423. We added transactions for each cost center together to get the total salary amount for each pay period. In total, we identified 51 biweekly pay periods. We judgmentally selected the 5 biweekly pay periods with the highest salary amounts.

We obtained a listing of all employees who had a portion of their salary charged to Head Start during the 5 selected pay periods. On the list, employees could be listed between 1 and 15 times. An employee would be listed 15 times on this list if an employee worked on the Cape Ann grant, North Shore grant, and Early Head Start in each of the 5 selected months. We used systematic sampling to select 30 transactions totaling $28,949.

APPENDIX D: PATHWAYS FOR CHILDREN COMMENTS

Pathways for children
50 YEARS • 50,000 STORIES
Since 1967

October 31, 2019

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JFK Federal Building
15 New Sudbury Street, Room 2425
Boston, MA 02203

RE: Report #A-01-18-02503

Dear Mr. Lamir:

The principals of Pathways for Children, Inc. ("Pathways"), have read and understand the content of this report. OIG auditors engaged in this audit from April 2018 to July 2019. As indicated in Appendix C to your report, OIG auditors examined 120 transactions totaling $677,450 of Head Start costs, as well as Pathways' fiscal policies and procedures. I believe both parties agree that our mutual relationship and information sharing was one of respect and professionalism.

Pathways has a culture of using data from audits and reviews to inform our commitment to continuous improvement. To that end, we have already engaged in discussions with our Office of Head Start (OHS) regional representatives to review the findings in this draft report. We will await the final report and will then work with our OHS representatives to reach a satisfactory resolution.

Pathways Claimed Unallowable Non-Federal Share Expenses

Response: Pathways understands the findings as laid out in this report and will work with Administration for Children and Families (ACF) and OHS to come to resolution.

That said, we accept that going forward, we will need to establish a system with our various Local Educational Agencies that isolates the expenses incurred by their specialists on behalf of our Head Start children that are reimbursed by any federal government source and the portion covered by the school district's annual budget. The latter will be allowable as we currently understand it. In the meantime, Pathways has thoroughly reviewed its non-federal share contributions and has established a system and schedule to assure our process is and remains consistent with standards established by the OHS.

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Pathways Did Not Obtain Prior Written Approval from ACF for Certain Capital Expenditures

Response: Pathways understands this finding as laid out in this report and will work with ACF and OHS to come to resolution.

This finding pertains to a complex multi-year project funded primarily through funds raised from private charitable foundations. Pathways will review the accounting with OHS to determine an appropriate resolution.

Pathways is accustomed to in-depth audits and federal reviews and has always been proud of our positive results and lack of findings. I want to express my gratitude to our staff for their vigilance and professionalism that assured more potentially critical areas of concern were not identified. I also want to express our leadership's gratitude that the auditors accepted our request for on-going feedback relative to their progress and any areas of concern identified, thus giving us the opportunity to consider in real time rather than waiting for issuance of the final report. Both parties have been mutually respectful, making the demands of this audit more manageable.

Sincerely,

Susan Todd

Susan Todd
President and CEO
Pathways for Children, Inc.