

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**GATEWAY COMMUNITY ACTION  
PARTNERSHIP CLAIMED  
UNALLOWABLE COSTS, DID NOT  
COMPLY WITH FEDERAL  
REGULATIONS ON CONSTRUCTION AND  
MAJOR RENOVATIONS, AND DID NOT  
ACCURATELY ACCOUNT FOR  
GRANT FUNDS**

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**May 2021  
A-02-18-02011**

# ***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.

## Report in Brief

Date: May 2021

Report No. A-02-18-02011

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



### Why OIG Did This Audit

As part of its oversight activities, OIG is conducting a series of audits of recipients of multiple HHS grants. We selected Gateway Community Action Partnership (Gateway) for this audit because it received multiple HHS Administration for Children and Families (ACF) grants, including Hurricane Sandy Disaster Relief Act grants totaling \$19.7 million, and grants to operate childcare programs at more than 50 locations.

Our objective was to determine whether Gateway claimed and accounted for HHS grant funds in accordance with Federal requirements.

### How OIG Did This Audit

Gateway officials provided accounting records that detailed the expenditures claimed for the ACF grants for our March 2015 through January 2018 audit period. From these records, we judgmentally selected and reviewed 100 transactions, totaling \$5.5 million. Based on the results of our analysis, we reviewed additional transactions related to indirect costs, certain credits, playground contract procurement, and company vehicles.

We also reviewed Gateway's construction of a new Head Start facility and major renovations to two facilities to determine whether Gateway complied with Federal requirements related to construction and major renovations.

## Gateway Community Action Partnership Claimed Unallowable Costs, Did Not Comply with Federal Regulations on Construction and Major Renovations, and Did Not Accurately Account for Grant Funds

### What OIG Found

Gateway did not account for HHS grant funds in accordance with Federal requirements. Specifically, Gateway claimed \$932,607 of unallowable costs and did not comply with Federal regulations on construction and renovations. These deficiencies occurred because Gateway did not have all necessary procedures in place and did not adhere to Federal procurement requirements, and ACF's monitoring did not ensure that Gateway complied with Federal requirements related to construction and renovations. Further, some expenditures were not properly allocated. Finally, ACF relied on Gateway's documentation and did not thoroughly review it for consistency and accuracy.

### What OIG Recommends and Gateway and ACF Comments

We recommend that Gateway refund \$932,607 and ensure compliance with Federal requirements and the accuracy of information submitted to ACF. We also recommend that ACF ensure that Gateway complies with Federal requirements and verify information submitted by Gateway to support Gateway's grant award applications, including requesting Gateway to obtain independent analyses of cost comparisons for Head Start facility construction and major renovations.

Gateway partially concurred with our first recommendation and agreed to refund \$29,523. Gateway did not indicate concurrence or nonconcurrence with our remaining recommendations. Gateway contended that it updates and follows its procedures to ensure compliance with Federal requirements.

ACF did not concur with our recommendation that it should ensure Gateway complies with Federal regulations and verify submitted information. ACF stated that it took steps to ensure Gateway complied with Federal requirements and verified information submitted by Gateway supported its grant applications.

After reviewing Gateway and ACF's comments, we maintain that our findings and recommendations are valid because neither Gateway nor ACF provided sufficient evidence of compliance with Federal requirements related to the transactions we audited, including construction and renovation costs.

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## INTRODUCTION

### WHY WE DID THIS AUDIT

As part of its oversight activities, the Office of Inspector General (OIG) is conducting a series of audits of recipients of multiple Department of Health and Human Services (HHS) grants.<sup>1</sup> We selected Gateway Community Action Partnership (Gateway)<sup>2</sup> for this audit because it received multiple HHS Administration for Children and Families (ACF) grants, including Hurricane Sandy Disaster Relief Act<sup>3</sup> grants totaling \$19.7 million, and grants to operate childcare programs at more than 50 locations.

### OBJECTIVE

Our objective was to determine whether Gateway claimed and accounted for HHS grant funds in accordance with Federal requirements.

### BACKGROUND

#### Gateway Community Action Partnership

Gateway, a nonprofit organization based in Bridgeton, New Jersey, operates early childhood education and social services programs throughout southern New Jersey, including Head Start, Early Head Start, and Early Head Start Child Care Partnership (EHS-CCP) programs. For the period March 1, 2015, through January 31, 2018 (audit period), Gateway received 10 grants totaling \$67.9 million in ACF grant funding, including \$19.7 million in Disaster Relief Act grant funding.<sup>4, 5</sup> Appendix B includes a list of Gateway's ACF grants and funds claimed for each grant during our audit period.

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<sup>1</sup> As of December 2020, two reports have been issued as part of this series of audits: 1) *The Next Door Foundation Claimed Unallowable Indirect Costs and Did Not Document the Funding Source of Program Expenditures in Accordance With Federal Requirements* ([A-05-18-00008](#)) September 27, 2019, and 2) *Opportunities for Williamson and Burnet Counties Had Ineffective Accounting Controls and Used Unapproved or Questionable Cost Allocation Methods* ([A-06-18-02002](#)) February 7, 2020.

<sup>2</sup> Tri-County Community Action Agency, Inc., is the official name of the entity; however, it does business as Gateway Community Action Partnership.

<sup>3</sup> On January 29, 2013, the President signed the Disaster Relief Act, formally known as the Disaster Relief Appropriations Act of 2013, into law. The Disaster Relief Act, in part, provided funding for disaster response and recovery and other expenses directly related to Hurricane Sandy. ACF allocated \$95 million of the Disaster Relief Act funds to assist Head Start and Early Head Start programs impacted by Hurricane Sandy.

<sup>4</sup> This was the most recent grant period at the start of our fieldwork.

<sup>5</sup> The total does not include Federal funds received indirectly through State and local government grants.

## **Head Start, Early Head Start, and Early Head Start Child Care Partnership Programs**

Within HHS, ACF is the agency responsible for promoting the economic and social well-being of families, children, individuals, and communities. ACF awards grants to local public and private agencies to promote the school readiness of children from low-income families by enhancing their cognitive, social, and emotional development. Within ACF, the Office of Head Start, administers the Head Start, Early Head Start, and EHS-CCP programs.

The Head Start program provides 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, through grants made to local public and private nonprofit and for-profit agencies.<sup>6</sup> The Early Head Start program provides similar services, but they are tailored for the unique needs of infants and toddlers.<sup>7</sup> The EHS-CCP program supports communities to expand high-quality early learning opportunities in the years before preschool.

Non-Federal entities are required to adhere to the cost principles contained in the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for HHS Awards (Uniform Guidance).<sup>8</sup> These cost principles require grant expenditures submitted for Federal reimbursement to be reasonable, allocable, and otherwise allowable.<sup>9</sup>

### **HOW WE CONDUCTED THIS AUDIT**

Gateway officials provided accounting records that detailed the expenditures claimed for the ACF grants for our audit period. From these records, we judgmentally selected and reviewed 100 transactions, totaling \$5.5 million. The expenditure categories included, among others, salaries, fringe benefits, equipment, rent, consultants, travel, and training. Based on the results of our analysis, we reviewed additional transactions related to indirect costs, certain credits, playground contract procurement, and use of company vehicles.

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<sup>6</sup> 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 (P.L. No. 110-134, codified at 42 U.S.C. 9801 et. seq.). The Head Start program's major objectives include promoting school readiness and enhancing the social and cognitive development of low-income children by providing education, health, nutritional, and social services.

<sup>7</sup> Early Head Start programs promote the physical, cognitive, social, and emotional development of infants and toddlers through safe and developmentally enriching caregiving.

<sup>8</sup> 45 CFR Part 75.

<sup>9</sup> 45 CFR § 75.403(c).



We also reviewed Gateway's construction of a new Head Start Facility and major renovations to two facilities to determine whether Gateway complied with Federal requirements related to construction and major renovations.<sup>10</sup>

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 A contains the details of our audit scope and methodology.

## **FINDINGS**

Gateway did not claim and account for HHS grant funds in accordance with Federal requirements. Specifically, Gateway claimed unallowable costs totaling \$932,607 and did not comply with Federal regulations on facility construction and major renovations. These deficiencies occurred because Gateway did not have all necessary procedures in place and did not adhere to Federal procurement requirements, and ACF's monitoring was not adequate to ensure that Gateway complied with Federal requirements related to new construction and major renovations. Additionally, some of Gateway's expenditures were not properly allocated as a result of human error. Finally, ACF relied on documentation submitted by Gateway and did not thoroughly review it for consistency and accuracy.

### **GATEWAY CLAIMED UNALLOWABLE COSTS**

Gateway claimed \$932,607 in unallowable costs related to: (1) indirect costs (\$356,121), (2) credits received from vendors (\$338,363), (3) equipment that was not purchased in accordance with Federal open competition procurement regulations (\$208,600), and (4) use of company vehicles (\$29,523).

### **Gateway Did Not Adjust Estimated Indirect Costs to Actual Indirect Costs**

Federal regulations require grantees to use estimated rates, known as provisional rates, for claiming indirect costs on Federal awards pending the establishment of a final cost rate.<sup>11, 12</sup>

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<sup>10</sup> Prior to Nov. 7, 2016, a major renovation was defined as a structural change or extensive alteration of an existing facility (45 CFR § 1309.3). Effective Nov. 7, 2016, per 45 CFR § 1305.2, major renovations are defined as any individual or collection renovation that has a cost equal to or exceeding \$250,000. Gateway applied for funding for major renovations in 2015.

<sup>11</sup> A provisional indirect cost rate is applicable to a specified period to be used for funding interim reimbursements until a final cost rate is determined.

<sup>12</sup> 45 CFR Part 75, Appendix IV §§ C.1.e and C.2.b.

Final indirect cost rates are applicable to a specified past period based on actual costs for the period.<sup>13</sup> If provisional rates are not adjusted prior to end of the fiscal year (FY), a final rate will be established and adjustments will be made based on the actual allowable costs incurred for the period involved.<sup>14</sup>

Gateway did not adjust its indirect costs claimed based on its *provisional* rate to reflect its *final* rate. As a result, Gateway claimed an excess of \$356,121 applicable to our audit period.<sup>15</sup> This occurred because Gateway did not correctly interpret the Federal regulations and believed that policies and procedures regarding adjustments for the final indirect rate are not necessary. According to Gateway officials, the excess costs were offset by allowable costs that Gateway did not claim for reimbursement.

### **Gateway Did Not Credit Head Start Grant Awards for Credits Received From Vendor**

Credits from vendors must be credited to Federal awards either as a cost reduction or cash refund.<sup>16</sup> The Federal Communications Commission (FCC) offers reimbursements for a percentage of schools' telecommunications bills, known as an E-Rate discount, to enable schools (including Head Start programs) affordable access to telecommunication. ACF issued an Information Memorandum in 2012 requiring grantees to account for the E-Rate discount as a credit and not to consider it to be program income.<sup>17</sup>

Gateway received reimbursement checks related to the FCC's E-Rate; however, it did not credit its Head Start grant through cost reductions or cash refunds. Instead, Gateway treated the reimbursements as additional Head Start revenue. This occurred because Gateway officials interpreted the ACF guidance to allow these reimbursements to be considered as additional income. As a result, Gateway received \$338,363 of funds in excess of its approved Federal awards.

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<sup>13</sup> 45 CFR Part 75, Appendix IV § C.1.d.

<sup>14</sup> 45 CFR Part 75, Appendix IV § C.2.f.

<sup>15</sup> To calculate this amount, we applied the difference between Gateway's provisional and final rates to its base costs. Gateway's provisional rate during our audit period was 19 percent for FY 2016, 17.8 percent for FY 2017, and 18.2 percent for FY 2018. Gateway's final rate during our audit period was 15.5 percent for FY 2016, 17.2 percent for FY 2017, and 15.8 percent for FY 2018.

<sup>16</sup> 45 CFR § 75.406(a).

<sup>17</sup> "E-Rate Discount Options," ACF-IM-HS-12-09, issued November 30, 2012.

## **Gateway Claimed Costs for Equipment That Was Not Procured In Accordance With Open Competition Regulations and Was Not Necessary and Reasonable**

All procurement transactions must be conducted in a manner providing full and open competition.<sup>18</sup> Further, solicitations should include a clear and accurate description of the requirements for the material, product, or service to be procured. Additionally, costs charged to a Federal grant must be necessary and reasonable in order to be allowable.<sup>19</sup>

In June 2015, Gateway solicited bids for the installation of playground equipment previously purchased with Federal funds (and stored in a warehouse owned by Contractor A, which Gateway has awarded more than \$1 million in playground-related contracts since 2011). According to documentation provided by Gateway, four contractors, including Contractor A, inquired about the contract; however, only Contractor A submitted a bid (for \$25,000) for it. According to Gateway, the remaining contractors did not submit bids because the profit margin on installation-only services is not lucrative. In May 2017, Gateway paid Contractor A \$233,600 for the installation *and purchase* of new playground equipment. This violated the Federal procurement open competition requirement because the June 2015 solicitation did not include supplying new equipment—only the installation of the playground equipment that Gateway already owned. Further, Gateway’s payment (\$233,600) violated Federal cost principles because Gateway already owned playground equipment in storage; therefore, the purchase of \$208,600 in new playground equipment (\$233,600 less \$25,000) was not necessary and reasonable.<sup>20, 21</sup>

Gateway stated that it believed that purchasing new equipment from Contractor A did not warrant soliciting new bids. As a result, Gateway might not have received the most cost-efficient contract for the purchase of the playground equipment. In addition, Gateway unnecessarily used funds intended to serve Head Start children for new playground equipment rather than using equipment that it had in storage.

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<sup>18</sup> 45 CFR § 75.328(a).

<sup>19</sup> 45 CFR §§ 75.403(a) and 404.

<sup>20</sup> As of December 2019, the playground equipment was still in storage but was in the process of being moved to other Gateway Head Start facilities in New Jersey.

<sup>21</sup> Gateway did not provide a copy of the final contract. Since Contractor A bid \$25,000 for installation, this amount was subtracted from the \$233,600 total invoice price to calculate the cost of the new playground equipment.

## **Gateway Claimed Costs Related to Inappropriate Use of Company Vehicles**

Federal grantees are not allowed to charge non-business use of company vehicles to a Federal grant as a direct or indirect expenditure.<sup>22</sup> Grantees are required to maintain records to a level adequate to prove compliance with all applicable regulations.<sup>23</sup>

Gateway included lease payments, gas, and insurance costs related to the use of two company vehicles in its indirect cost pool. However, Gateway did not maintain an adequate level of supporting documentation (e.g., mileage logs) to document that the vehicles were used only for business purposes. As a result, Gateway claimed \$29,523 of unallowable costs.<sup>24</sup>

## **GATEWAY DID NOT COMPLY WITH FEDERAL REQUIREMENTS RELATED TO NEW CONSTRUCTION AND MAJOR RENOVATIONS OF ITS HEAD START FACILITIES**

Gateway did not comply with Federal requirements related to new construction and major renovations of its Head Start facilities. Gateway inappropriately used Disaster Relief Act funds, did not establish that it had a lack of suitable facilities, and submitted an unreliable cost comparison for the construction of a \$22 million facility.<sup>25</sup> In addition, Gateway requested and received funds for major renovations based on a cost estimate that was neither accurate nor prepared by an architect or engineer, as required by Federal regulations. Lastly, Gateway did not adhere to Federal regulations and ACF requirements related to filing Federal interest and annual real property status reports.

## **Gateway Did Not Comply With Federal Requirements for Constructing a New Facility**

Gateway did not comply with Federal requirements for constructing a new facility. Specifically, Gateway expended emergency funds to construct a new facility in Atlantic City, New Jersey, although it had operated in leased facilities during the nearly 5-year period after the emergency (Hurricane Sandy) damaged its Head Start program space. Gateway claimed to ACF that there were no suitable facilities available for lease and submitted conflicting cost comparisons to ACF that concluded that a 20-year lease at alternative sites was more expensive than it was to construct a new facility. This occurred because ACF did not adequately monitor Gateway to verify compliance with Federal requirements, including verifying the accuracy of documentation submitted by Gateway.

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<sup>22</sup> 45 CFR § 75.431(f).

<sup>23</sup> 45 CFR §§ 75.302(a) and (b)(3).

<sup>24</sup> The \$29,523 was calculated by subtracting the total unallowable vehicle costs (\$68,618) from the indirect cost pool to determine revised indirect cost rate. The revised indirect cost rate was applied to base salary costs to calculate the allowable indirect costs.

<sup>25</sup> The \$22 million is composed of funds from three Disaster Relief Act grants included in our audit period, as well as funds totaling \$2,913,420 from a fourth grant awarded by ACF prior to our audit period.

The Disaster Relief Act (DRA) provided emergency funding for disaster response and recovery expenses directly related to Hurricane Sandy. Grantees are required to comply with DRA requirements when using DRA funds for the construction of a new facility.<sup>26</sup> ACF required Head Start grantees applying for DRA funding for new facility construction and/or major renovations to comply with 45 CFR Part 1309.<sup>27</sup> Head Start grantees are required to obtain approval from ACF to construct a Head Start facility before incurring any expenditures.<sup>28, 29</sup>

### *Construction Not Directly Related to Damage From Hurricane Sandy*

DRA funding may only be used for disaster response and recovery expenses directly related to Hurricane Sandy. To assess whether an expense was directly related to Hurricane Sandy, ACF considered whether it was necessary for the grantee to incur the expense on account of the damage caused by Hurricane Sandy.<sup>30</sup>

After Hurricane Sandy, Gateway was able to make minor repairs to some facilities that incurred Hurricane Sandy damage. Classrooms in facilities that were more significantly damaged were relocated to other facilities.<sup>31</sup> As a result, the Head Start program successfully continued operating in leased facilities in Gateway's service area for nearly 5 years, including 3 years during which Gateway awaited the completion of the construction for its new facility. Gateway did not establish that it was necessary to incur the expenses of a new building when it was able to successfully lease other facilities for use by Head Start grantees. Therefore, the new construction was not necessary and not *directly related* to Hurricane Sandy. As such, these costs were not justified.<sup>32</sup> Further, the funds could have been used toward recovery, relief, and resiliency efforts.

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<sup>26</sup> Disaster Relief Act, Title X, Chapter 8.

<sup>27</sup> "Hurricane Sandy Emergency Relief Funds," ACF-PI-HS-13-02, issued April 13, 2013.

<sup>28</sup> Section 644 of the Head Start Act; 42 U.S.C. § 9839(g), 45 CFR Part 1309.

<sup>29</sup> Effective November 7, 2016, ACF revised and reorganized Head Start regulations. The regulations were also relocated from 45 CFR part 1309 to 45 CFR part 1303, Subpart E. We cite to the regulations at 45 CFR part 1309 because they were in effect for the relevant portions of our findings.

<sup>30</sup> ACF articulated this standard in its response to a previous OIG audit of Hurricane Sandy funds (*Visiting Nurse Service of New York Budgeted Costs That Were Not Appropriate and Claimed Some Unallowable Hurricane Sandy Disaster Relief Act Funds* (A-02-14-02012) December 1, 2016).

<sup>31</sup> Gateway was selected to provide Head Start services in Atlantic and Cape May counties in September 2013, about 11 months after Hurricane Sandy impacted Atlantic City, New Jersey.

<sup>32</sup> Construction of Gateway's new facility was not completed until May 2017.

### *Lack of Suitable Facilities*

Before submitting an application for the construction of a new facility, Head Start grantees are required to establish that there is a lack of suitable facilities in their service area.<sup>33</sup>

Gateway claimed to ACF that there were no suitable facilities available for lease in its service area. However, in its documentation submitted to ACF, Gateway included a report from a Realtor that contradicted Gateway's assertion. Specifically, the report stated there was an abundant supply of office space in Gateway's service area available for lease. Further, Gateway and its predecessors operated Head Start programs in leased facilities that suited the programs' needs in the service area for nearly 5 years after Hurricane Sandy.

### *Cost Comparisons*

Head Start grantees requesting construction funding are required to submit a cost comparison to ACF showing that their anticipated construction costs are less expensive than leasing facility space over a 20-year period.<sup>34</sup>

Gateway submitted cost comparisons with conflicting cost data that concluded it was more expensive to lease space for Gateway's Head Start program than it was to construct a new facility. Specifically:

- First cost comparison: In May 2014, Gateway submitted a cost comparison to ACF that estimated the cost of constructing a 5-story, 70,000 square-foot building at \$20,847,851 (\$298 per square foot). The estimated cost to lease similar space was \$22,164,329 (\$317 per square foot).
- Second cost comparison: In January 2015, Gateway reduced the proposed size for a new facility to a 3-story, 48,221 square-foot building and provided a revised cost comparison.<sup>35</sup> The cost comparison estimated construction costs totaling \$20,647,481 (\$428 per square foot), a 44 percent increase per square foot over Gateway's initial cost proposal. The estimated cost to lease similar space was \$21,003,251 (\$436 per square foot), a 38 percent increase over Gateway's initial cost proposal.

The cost data are conflicting because there was a significant reduction of space with minimal reduction of construction costs and a significant increase of estimated leased costs between the first and second cost proposals. Despite the 31 percent reduction in square footage in the

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<sup>33</sup> 45 CFR § 1309.4(b).

<sup>34</sup> 45 CFR § 1309.10(c) and 45 CFR § 1309.11.

<sup>35</sup> Gateway revised its proposal because New Jersey licensing requirements do not allow Head Start classrooms to be located higher than two floors.

second cost comparison, the estimated construction cost decreased by only 1 percent and the cost of leasing was increased by 38 percent. However, Gateway did not provide an explanation or justification for the dramatic increase in the per-square-foot estimate of construction or lease costs. Further, the increase in the leasing cost was contradicted by a local Realtor's report that Gateway submitted to ACF in January 2015 as part of its supporting documentation for its funding application. In that report, the Realtor indicated that commercial real estate prices were in decline due to numerous casino closures in the Atlantic City area and other factors.

An awarding agency can direct a grantee to obtain independent analyses of the grantee's cost comparisons as part of its application process.<sup>36</sup> Therefore, ACF could have directed Gateway to engage the services of a qualified, independent expert to conduct a written independent analysis of Gateway's cost comparisons. Since this was a \$22 million construction project, it would have been prudent for ACF to exercise this option prior to approving funding. Instead, ACF staff accepted Gateway's analyses.

Based on Gateway's documentation to establish the lack of suitable facilities and its cost comparison, Gateway did not adequately support that new construction was needed. In addition, ACF did not thoroughly review the documents for consistency and accuracy.

### **Gateway Requested and Received Funds for Major Renovations Based on an Inaccurate Cost Estimate That Was Not Prepared by an Architect or Engineer**

Head Start grantees are required to submit a written estimate prepared by an architect or engineer of all costs associated with proposed major renovations.<sup>37</sup>

In a proposal to ACF to make major renovations of a separate facility located in Vineland, New Jersey intended to be used for its EHS-CCP program, Gateway estimated that renovation costs would total \$442,000. To show that renovating the facility was less expensive than leasing alternate suitable space in the service area, Gateway also provided a cost comparison indicating that leasing similar space over a 20-year period would cost \$1,205,150 (almost three times the cost of renovating). Based on Gateway's proposal, ACF approved the major renovations, through a Notice of Award amendment. However, the cost estimate underestimated the cost of renovating the facility and Gateway required an additional \$821,050 to complete the renovations, bringing its total ACF-funded project costs to \$1,263,050.<sup>38</sup>

This occurred because Gateway did not include all necessary costs in its cost estimate and did not have policies that required cost estimates for major renovations to be prepared by an architect or engineer. In addition, ACF relied on Gateway's cost estimate even though it did not

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<sup>36</sup> 45 CFR §§1309.44 (a) and (b).

<sup>37</sup> 45 CFR § 1309.10(b).

<sup>38</sup> The total cost of renovations was \$1,663,050. However, Gateway contributed \$400,000 of its own funds toward the major renovations, reducing the cost paid by ACF.

include all necessary costs and was not prepared by an architect or engineer. Had Gateway provided an accurate cost estimate for its major renovations and opted to lease a facility, it could have saved about \$58,000 in Head Start program funds (\$1,263,050 in ACF-funded project costs less \$1,205,150 in leasing costs). These funds could have been used to operate Gateway's EHS-CCP program, which did not provide services at this location while it was being renovated.

### **Gateway Did Not Adhere to Federal Regulations and ACF Requirements Related to Filing Federal Interest and Annual Real Property Status Reports**

Head Start grantees are required to record a Notice of Federal Interest immediately upon commencing major renovation of a facility or construction of a facility.<sup>39</sup> In addition, ACF requires grantees to disclose facilities that have undergone major renovations with ACF grant funds on their annual Real Property Status Report.<sup>40</sup>

Gateway did not file a Notice of Federal Interest related to \$353,000 of major renovations (i.e., new classrooms, bathrooms, and office space) and did not disclose the renovations on its annual Real Property Status Report to ACF, as required. This occurred because Gateway lacked written policies and procedures related to filing Notices of Federal Interest. The failure to disclose the Federal Government's interest in a property could put that interest at risk.

### **GATEWAY DID NOT ALWAYS PROPERLY ALLOCATE EXPENDITURES AMONG BENEFITING AWARDS**

Costs charged to awards must be necessary and reasonable for the performance of the Federal award and be appropriately allocated.<sup>41</sup> A cost is allocable if the goods or services involved are charged in accordance with relative benefits received. Any cost allocable to a particular Federal award may not be charged to other Federal awards to overcome fund deficiencies.<sup>42</sup>

Gateway did not always allocate common costs to all benefiting Federal awards. For 10 of 100 sampled grant transactions, Gateway did not allocate expenditures in accordance with the relative benefits received by the specific Federal award because of human error. For example, a Gateway employee allocated 100 percent of lodging expenses related to Head Start training to one of Gateway's Head Start programs instead of allocating the expenses among its four primary Head Start and Early Head Start grants. As a result, Gateway charged expenses to ACF awards in a manner that was disproportionate to the relative benefits received. Therefore,

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<sup>39</sup> 45 CFR § 1309.21(d)(2).

<sup>40</sup> ACF-IM-HS-15-01, issued January 27, 2015.

<sup>41</sup> 45 CFR § 75.403(a).

<sup>42</sup> 45 CFR §§ 75.405(a) and (c).



Head Start funds intended to serve children in one geographic area may have been used to serve children in another geographic area.

## **RECOMMENDATIONS**

We recommend that Gateway Community Action Partnership:

- refund \$932,607 in unallowable costs;
- update and follow its procedures to ensure compliance with all Federal requirements and the accuracy of cost information, including cost proposals, submitted to ACF; and
- ensure that costs are allocated to Federal awards in accordance with the relative benefits received.

We also recommend that the Administration for Children and Families ensure that Gateway complies with Federal requirements and verify information submitted by Gateway to support Gateway's grant award applications, including requesting Gateway to obtain independent analyses of cost comparisons for Head Start facility construction and major renovations.

## **GATEWAY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE**

In written comments on our draft report, Gateway partially concurred with our first recommendation (financial disallowance) and related finding. However, it did not indicate concurrence or nonconcurrence with our second and third recommendations. Specifically, Gateway agreed that it did not document the use of company vehicles and agreed to refund the related costs (\$29,523) but it did not agree that it overclaimed indirect costs, improperly accounted for vendor credits, and violated open competition requirements. Gateway contended that it updates and follows its procedures to ensure compliance with Federal requirements. Gateway also described its mission, the services it provides, and its "continued process for quality improvements."

Gateway partially concurred with our findings related to its construction of a new Head Start facility. Specifically, Gateway agreed that the cost comparisons it submitted to ACF included conflicting cost data. However, Gateway stated that it successfully established that there were no other suitable facilities in the service area. Gateway did not indicate concurrence or nonconcurrence regarding whether its construction project was directly related to damages from Hurricane Sandy but noted that its leased facilities sustained damages from the hurricane. Gateway did not concur that it received \$1,263,050 for renovations based on an inaccurate cost estimate that was not prepared by an architect or engineer.

In addition, Gateway concurred that it failed to file the required Notice of Federal Interest for a \$353,000 major renovation for one its Head Start facilities; however, it did not concur that it

failed to disclose this renovation on the Annual Real Property Status Report. Finally, Gateway stated that it properly allocated common costs to all benefiting Federal awards.

We acknowledge Gateway's history of providing Head Start services, and its statements regarding its mission and quality improvement processes. Head Start services are significant to the community because they promote school readiness of children from low income families through educational, health, social, and other services. Nevertheless, after reviewing Gateway's comments, we maintain that our findings and recommendations are valid. Our detailed responses to Gateway's comments are provided below. Gateway's comments are included in their entirety as Appendix C.

## **GATEWAY CLAIMED UNALLOWABLE COSTS**

### **Gateway Did Not Adjust Estimated Indirect Costs to Actual Indirect Costs**

#### *Gateway Comments*

Gateway did not concur with our finding that it did not adjust estimated indirect costs to actual indirect costs. Gateway stated that OIG "backed into a calculation" using provisional and final rates and ignored Gateway's actual base of direct salaries. It further stated that OIG did not account for eligible salaries in the indirect cost base and erroneously assumed that Gateway blanketly claimed its approved provisional rate without any regard to possible variances. According to Gateway, OIG's methodology would result in drawing down more Head Start funding than what is entitled, resulting in removing much needed funding from the Head Start program and holding cash, which is not allowed.

Gateway stated that it analyzes its indirect costs to ensure any variances projected between the provisional and final rates are adjusted in real time. Gateway specified that its internal analysis demonstrated that an adjustment to its final rate was not necessary and a refund is not warranted. Gateway noted that, in its financial reports to ACF, it included administrative expense schedules that outline the indirect cost rate charged, matching the actual rate, and the salary base for which indirect costs were charged.

#### *Office of Inspector General Response*

We maintain that Gateway did not adjust estimated indirect costs to actual indirect costs as required under 45 CFR Part 75, Appendix IV § C.1.d. We did not "back into" our calculation. Rather, we used Gateway's own methodology to calculate indirect costs claimed by Gateway. Specifically, we used the same Head Start direct salaries used in Gateway's calculation except that, in our calculation, we substituted the provisional rate with the final cost rate to determine the excess (i.e., unallowable) costs claimed.

The administrative expense schedules referenced in Gateway’s comments do not provide any evidence that Gateway analyzed and adjusted costs to its final indirect cost rate. Head Start administrative costs are not allowed to exceed 15 percent of total program costs.<sup>43</sup> It appears that the purpose of these schedules is to document that Gateway’s Head Start and non-Federal matching funds did not exceed this ceiling. The Head Start indirect costs listed on these schedules match Gateway’s claimed costs and are based on *provisional* indirect cost rates.

### **Gateway Did Not Credit Head Start Grant Awards for Credits Received From Vendor**

#### *Gateway Comments*

Gateway stated that E-Rate reimbursements were credited to its Federal awards through a “cost reduction” to its Head Start grant. Specifically, Gateway stated that E-Rate reimbursements and associated expenses were excluded from its Head Start grant awards. Further, Gateway stated that all funds received through E-Rate reimbursements were applied to additional expenditures that aligned with the goals and objectives of ACF’s Head Start Program Performance Standards.

#### *Office of Inspector General Response*

We maintain that Gateway did not credit its E-Rate reimbursements as a cost reduction to its Head Start grant or a refund to the Federal Government, as required. Gateway provided no support for its assertion that E-Rate reimbursements were credited to its Federal awards. Federal regulations do not include an option for Head Start grantees to spend E-Rate reimbursements [applicable credits] on additional Head Start expenses.

### **Gateway Claimed Costs for Equipment That Was Not Procured In Accordance With Open Competition Regulations and Was Not Necessary and Reasonable**

#### *Gateway Comments*

Gateway stated that it did not concur with our finding related to its procurement of playground equipment. Specifically, Gateway stated that it solicited for an installation-only contract that resulted in one bidder. A year and half later, Gateway stated that it decided to change its planned playground design to include some new equipment. According to Gateway, a team including its architect, contractor, engineer, and staff, and families raised concerns regarding fall zones safety, color, playing surfaces, and equipment. As a result, Gateway decided not to use playground equipment previously purchased with Federal funds. According to Gateway, its old equipment was inconsistent with the new building design. Therefore, Gateway decided to purchase new equipment.

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<sup>43</sup> 45 CFR § 1301.32(a)(1). Effective November 7, 2016, this regulation was redesignated to 45 CFR § 1303.5(a)(1).

## *Office of Inspector General Response*

We maintain that Gateway claimed costs for equipment that was not procured in accordance with open competition regulations and was not necessary and reasonable. We note that, after the issuance of our draft report, Gateway sent ACF a request for retroactive prior approval for its non-solicited purchase of new playground equipment. In its request, Gateway stated that it failed to solicit bids due to an oversight and that, due to time constraints, a solicitation was not possible. In its comments on our draft report, Gateway contended that it was not aware that it needed all new equipment until a year and a half after its June 2015 solicitation for installation-only bids. However, contrary to its stated timeline, Gateway included \$250,000 for new playground equipment in an application for Federal funds for this same property in July 2015 (1 month after it solicited bids for the installation of the previously owned playground equipment). ACF approved the cost of the new equipment in its Notice of Award to Gateway for quarter ended September 2015 and the equipment was installed in May 2017. Therefore, it is evident that Gateway intended to purchase new playground equipment within 1 month of its solicitation of installation-only bids.

### **GATEWAY DID NOT COMPLY WITH FEDERAL REQUIREMENTS RELATED TO NEW CONSTRUCTION AND MAJOR RENOVATIONS OF ITS HEAD START FACILITIES**

#### **Gateway Did Not Comply With Federal Requirements for Constructing a New Facility**

##### *Construction Not Directly Related to Damage From Hurricane Sandy*

##### Gateway Comments

Gateway did not indicate concurrence or nonconcurrence for this finding. However, it contended that the construction of its new facility was justified and that, along with ACF and the former (i.e., transitional) Head Start grantee, it visited all Head Start facilities that were leased or immediately available and reviewed reports on two former Head Start sites. Gateway stated that all of these sites were damaged by Hurricane Sandy or had significant environmental issues. In collaboration with the former Head Start grantee, Gateway stated that the two parties agreed that children and families would benefit most from a centralized early education center. Further, Gateway asserted that it demonstrated the cost savings that a new facility would provide, allowing it to focus its funding on providing high quality staff and curriculum-based learning materials.

##### Office of Inspector General Response

We maintain that the justification for the construction of the new facility was not directly related to damage from Hurricane Sandy. Although some previously leased facilities sustained damages from Hurricane Sandy, children's classes were successfully relocated, and children continued to receive Head Start services. Specifically, Gateway was able to continue its Head Start program at leased facilities from 2013 through 2017 while it waited for its new building to

be constructed. Although leasing these facilities would not have resulted in a centralized early education center, we maintain that Gateway's construction of a new facility was not the direct result of Hurricane Sandy.

### *Lack of Suitable Facilities*

#### Gateway Comments

Gateway stated that it did not agree with our finding that its Realtor's report contradicted its assertion to ACF that no suitable facilities were available for lease. Gateway stated that although there were available facilities for lease in the service area, the facilities were not necessarily suitable for a Head Start facility. Gateway stated that its Realtor's report indicated that many of the sites had water or structural damage from Hurricane Sandy and that structures without heavy damage had to meet stringent Federal Emergency Management Agency and State regulations. Gateway stated that it was unable to find suitable facilities to fit children's needs.

#### Office of Inspector General Response

We maintain that Gateway did not provide adequate documentation to support its assertion that there was a lack of suitable facilities. As noted in our report, Gateway was able to continue the Head Start program at leased facilities for several years while it waited for its new building to be constructed. This contradicts Gateway's contention that there were no suitable facilities in the service area.

Although Gateway refers to a Realtor's report in its comments, we note that it submitted two Realtor reports to ACF that were dated 8 months apart. The purpose of the first report, referred to in Gateway's response, was to establish that there was a lack of suitable facilities in the service area. In that report, the Realtor stated that many sites had water or structural damage from Hurricane Sandy. However, in its second report, the Realtor stated that there was an abundant supply of office space in the service area due to an economic decline in the local market. Such office space potentially could have been renovated to suit Gateway's Head Start needs.

### *Cost Comparisons*

#### Gateway Comments

Gateway concurred with our finding that it submitted conflicting cost comparisons of construction-versus-lease costs to ACF. According to Gateway, its first cost comparison was based on the Head Start program's lease rates as of May 2014. For its second cost comparison, Gateway stated that it used the same cost estimate for its occupied space [approximately 23,000 square feet] but used a higher cost estimate for additional space [approximately 25,000 square feet] to compensate for initial renovation and higher market rate costs. Gateway

contended that the second cost comparison provided a more accurate estimate of the cost of leasing multiple facilities over 20 years. Gateway did not comment on the significant increase of construction costs per square foot included on the second cost comparison.

#### Office of Inspector General Response

Gateway's comments do not adequately address why its second cost comparison concluded that it was more expensive to lease space for its Head Start program than it was to construct a new facility. Although Gateway addressed why its estimated cost of leasing facilities increased 38 percent over its initial cost proposal, it did not justify why there was only a minimal reduction of construction costs despite a 31 percent reduction of space (from 70,000 square-feet to 48,221 square-feet).

#### **Gateway Requested and Received Funds for Major Renovations Based on an Inaccurate Cost Estimate That Was Not Prepared by an Architect or Engineer**

##### *Gateway Comments*

Gateway did not concur with our finding that it requested and received funds for major renovations based on an inaccurate cost estimate that was not prepared by an architect or engineer. Gateway attributed the significant difference in actual renovation costs from its estimated renovation costs to unforeseen issues, such as environmental remediations, that arose after entering into a fixed-price construction contract. Gateway stated that these costs would not have been included in an initial cost estimate by an architect. Further, Gateway stated that it followed an ACF preaward checklist for all required documents and approvals. According to Gateway, the checklist only requires architectural drawings and specifications—not cost estimates by an architect or engineer.

##### *Office of Inspector General Response*

We maintain that Gateway requested and received funds for major renovations based on an inaccurate cost estimate that was not prepared by an architect or engineer, as required by Federal regulations.<sup>44</sup> Gateway is responsible for complying with all Federal requirements—including required cost estimates for proposed construction—regardless of whether they are explicitly listed on an ACF checklist. Further, a cost estimate by an architect or engineer may have provided more accurate cost information on construction costs, including environmental remediations.

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<sup>44</sup> 45 CFR § 1309.10(b).

## **Gateway Did Not Adhere to Federal Regulations and ACF Requirements Related to Filing Federal Interest and Annual Real Property Status Reports**

### *Gateway Comments*

Gateway concurred that it did not file a Notice of Federal Interest related to \$353,000 of major renovations and stated that it will update its policies and procedures to ensure that Notices of Federal Interest are timely filed. However, Gateway did not concur that the related renovations were not disclosed on its Annual Real Property Status Reports to ACF. According to Gateway, prior renovations at the same Head Start property were properly disclosed on one of its Annual Real Property Status Reports; therefore, Federal interest in the property was not at risk.

### *Office of Inspector General Response*

We acknowledge that prior federally funded renovations at the property, totaling \$178,237, were properly recorded as Federal Interest and included on one of Gateway's Annual Real Property Status Reports. However, since the \$353,000 renovation was not recorded as Federal interest or disclosed on Annual Real Property Status Reports, the Federal interest in the property *was* at risk.

## **GATEWAY DID NOT ALWAYS PROPERLY ALLOCATE EXPENDITURES AMONG BENEFITING AWARDS**

### **Gateway Comments**

Gateway did not concur with our finding that it did not always properly allocate expenditures among benefiting awards. Gateway stated that it uses an approved cost allocation plan to categorize and allocate expenses based on what is reasonable. Referring to an example in our report, Gateway stated that it is not reasonable to allocate immaterial expense amounts because it would cause undue effort to determine allocable proportions to each award.

### **Office of Inspector General Response**

We maintain that Gateway did not always properly allocate expenditures among benefiting awards. Gateway should always follow its approved cost allocation plan to prevent deviation from Federal requirements.

Regarding the example referred to in our report, Gateway properly allocated the lodging expense for nine employees who attended a Head Start conference among all four of its Head Start grants. However, for two of its executives who attended the same conference, Gateway charged all \$2,217 in lodging expenses to *one* Head Start grant. We do not believe that treating executives' expenses the same as it treats those of its employees would have caused undue effort.

## **ACF COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE**

### **ACF COMMENTS**

ACF did not concur with our recommendation that it should ensure that Gateway complies with Federal requirements and verify submitted information by Gateway to support Gateway's grant award applications, including requesting Gateway to obtain independent analyses of cost comparisons for Head Start facility construction and major renovations. ACF stated that it took steps to ensure that Gateway complied with Federal requirements and verified information submitted by Gateway supported its grant applications.

Specifically, ACF stated that, in response to Hurricane Sandy, it assembled a Disaster Recovery Team that included facilities experts and members familiar with Gateway and Gateway's service area. ACF stated that the Disaster Recovery Team reviewed Gateway's submitted documentation for compliance with Federal regulations and used written, verbal, and observational information along with their extensive familiarity with Gateway to conclude that new construction was more beneficial to the community than having Gateway lease facilities that did not meet regulatory compliance requirements.

ACF also stated that it will continue to review all grant award applications and associated costs with rigor and will continue to strengthen its policies and procedures to ensure compliance with Federal requirements.

### **OFFICE OF INSPECTOR GENERAL RESPONSE**

We recognize that ACF may have engaged in efforts to determine that Gateway's construction of a new building was more beneficial to the community than having Gateway lease facilities. However, as detailed in the report, ACF did not thoroughly analyze Gateway's grant applications and cost comparisons and did not identify inconsistencies in Gateway's submitted reports on local real estate. Further, ACF did not provide documentation of additional efforts that it may have taken as part of its decision-making process. Additionally, ACF opted not to require Gateway to obtain an independent analysis of cost comparisons for what would become, according to ACF officials, the largest and most expensive Head Start facility in the United States. We maintain that it would have been more prudent for ACF to require such an independent analysis prior to awarding funds for the major construction project.

ACF's comments are included in their entirety as Appendix D.



## **APPENDIX A: AUDIT SCOPE AND METHODOLOGY**

### **SCOPE**

Our audit covered 10 ACF grants for which Gateway claimed \$67,946,367 in costs during the period March 1, 2015, through January 31, 2018. Initially, we judgmentally selected and reviewed 100 general ledger transactions totaling \$5,479,158. Based on this analysis, we expanded our audit to include additional transactions related to indirect costs, applicable credits, playground contract procurement, use of company vehicles, and Head Start facility construction and major renovations.

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

We conducted our audit from October 2018 through November 2020.

### **METHODOLOGY**

To accomplish our objective, we:

- reviewed Federal requirements related to HHS grant awards;
- met with ACF officials to discuss Gateway's grant awards;
- met with Gateway officials to determine Gateway's policies, procedures, and controls related to monitoring and reporting grant funds;
- reviewed Gateway's financial management system and internal controls to determine whether costs that benefited multiple ACF grant funding sources were correctly allocated;
- obtained from ACF a list of grant awards and related documentation made to Gateway for the audit period;
- reconciled costs claimed by Gateway to accounting records for the 10 grant awards included in our audit;
- judgmentally selected and reviewed costs claimed by Gateway for Federal reimbursement;
- reviewed Gateway's compliance with Federal requirements related to new construction and major renovations, including, eligibility, application procedures,

filing of Federal interest, procurement procedures, and other administrative provisions; and

- discussed the results of our audit with ACF and Gateway 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: GATEWAY'S ACF GRANTS**

<b>Grant Number</b>	<b>Grant Title</b>	<b>Grant Period</b>	<b>Funds Claimed</b>
02HP0023-01	Early Head Start - CCP	3/1/2015 - 8/31/2016	\$4,228,703
02HP0023-02	Early Head Start - CCP	9/1/2016 - 8/31/2017	2,031,851
02CH3006-04	Head Start & Early Head Start	2/1/2016 - 1/31/2017	12,528,743
02CH3006-05	Head Start & Early Head Start	2/1/2017 - 1/31/2018	12,591,232
02CH3037-04	Head Start & Early Head Start	2/1/2016 - 1/31/2017	7,823,699
02CH3037-05	Head Start & Early Head Start	2/1/2017 - 1/31/2018	8,159,258
02CH010468-01	Early Head Start	6/1/2017 - 1/31/2018	852,868
02SD0019-01	Disaster Relief	9/1/2015 - 8/31/2017	9,958,885
02SD0021-01	Disaster Relief	9/1/2015 - 4/1/2017	9,216,730
02SD0022-01	Disaster Relief	9/1/2015 - 6/30/2016	554,398
<b>Total</b>			<b>\$67,946,367</b>

## APPENDIX C: GATEWAY COMMENTS



### Gateway Community Action Partnership

RIVER'S EDGE COMMUNITY CAMPUS  
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March 5, 2021

Report Number: A-02-18-02011

Brenda M. Tierney  
Regional Inspector General for Audit Services  
Office of Audit Services, Region II  
Jacob K. Javits Federal Building  
26 Federal Plaza, Room 3900  
New York, NY 10278

Dear Ms. Tierney:

Enclosed is the Gateway Community Action Partnership, Gateway Early Head Start and Head Start report entitled Gateway Community Action Partnership Provides High Quality Early Head Start and Head Start Services in Accordance with 45 CFR XIII. This response is to provide additional information regarding the child-based community services provided by Gateway Community Action Partnership in compliance with the Head Start Program Performance Standards.

The comments within this report include a statement of concurrence or nonconcurrence with supporting statements regarding Gateway Community Action Partnership's commitment to its mission to provide services that improve the quality of life and promote self-sufficiency.

Gateway Community Action Partnership has included statements describing the nature of its continued process for quality improvements and action taken to support high quality services.

Gateway Community Action Partnership has addressed the report in regards to concurrence/nonconcurrence. Gateway has provided information regarding the high-quality services for low-income children that were supported through the HHS grant funds.

We are providing a copy of our report to the Administration of Children and Families, demonstrating the validity of the facts and reasonableness of Gateway's response to the report.

Gateway Community Action Partnership is aware the Section 8M of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG website. As such,

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***Helping People • Changing Lives • Gateway to Success***

***"Our mission is to improve the quality of life and promote self-sufficiency."***

Gateway Community Action Partnership - A-02-18-02011

Gateway has emailed an electronic PDF copy of our report, along with sending a hard-copy of the report through FedEx.

If you have any questions or comments about this report, please do not hesitate to call me or contact Denise Castley, Chief Financial Officer, through email at [dcastley@gatewaycap.org](mailto:dcastley@gatewaycap.org) or Bonnie Eggenburg, EHS/HS Vice President, at [beggen@gatewaycap.org](mailto:beggen@gatewaycap.org).

Sincerely,

Albert B. Kelly, CCAP  
President/CEO

## **Gateway Community Action Agency**

The Mission of Gateway Community Action Partnership is to provide services that improve the quality of life and promote self-sufficiency.

The Mission of Gateway Early Head Start and Head Start Services is to provide quality early childhood, health, and family partnership programs that promote self-sufficiency and strengthens the family.

### **Gateway Early Head Start and Head Start**

Gateway Early Head Start and Head Start programs in southern New Jersey and Philadelphia serve 1,956 infants, toddlers, preschoolers, and pregnant women in comprehensive early education centers at no cost to families. Since 1987, Gateway has been providing high quality early learning services, incorporating research-based early childhood curriculum and parent education services. In addition, Gateway has focused its services on supporting the whole child, including vaccinations, well child visits, dental visits, and nutrition consultation. Gateway provides two-thirds of a child's daily nutritional requirements, ensuring a healthy diet. Gateway also works with families whose children have special challenges including English language learners, children with disabilities, children struggling with the impact of toxic stress, homelessness, and health concerns. Gateway works with a family to identify strengths and goals, putting together resources to build a foundation for lifetime learning and success.

### **Gateway Finance Department**

The primary objective of the Gateway Community Action Partnership Finance Department is to ensure the implementation of high-quality services through strong fiscal policies and procedures addressing the three basic cost principles: allowable, reasonable and allocable.

The Gateway Finance Department works with leadership from the governing body and executive teams to support continuous quality improvement based on a strong fiscal position. In addition, the Gateway Finance Department works closely with its funders to ensure compliance with all Federal and Head Start regulations including, but not limited to the OMB Uniform Code, the Head Start Act, and the Head Start Program Performance Standards.

## **Gateway Community Action Partnership**

### **Gateway Early Head Start and Head Start**

# **Gateway Community Action Partnership Provides High Quality Early Head Start and Head Start Services in Accordance with 45 CFR XIII**

Report Number: A-02-18-02011

Gateway Community Action Partnership



**Gateway Community Action Partnership Utilized HHS Funds to Ensure Children's Healthy Development, Alleviate Toxic Stress in Children, Support STEM Education, and Create a High-Quality Early Education Program for Low-Income Infants, Toddlers, Preschoolers, and Pregnant Women.**

*Summary of Gateway's Comments*

Gateway made a statement of **non-concurrence** related to the following unallowable cost findings and recommendations: calculation of Indirect Costs, E-rate vendor credits, Equipment procurement, facility construction, Suitable facilities documentation, Cost estimate by an Architect or Engineer, Real property status reporting, and cost allocation. Gateway provided information and received approval from HHS on actions it took to ensure compliance and to make quality improvements within its program. Gateway states that ACF/HHS funds were used to support children's learning as well as family services in accordance with 45 CFR Chapter XIII. For example, the team supported through approved Indirect Cost funding have been integral to support staff wellness, ensuring compliance with Generally Accepted Accounting Practices (GAAP), and providing support to the program through accessing additional funding sources such as oral health and the creative arts. ACF/HHS funds awarded were used to create a safe playground with appropriate fall zones to enhance children's learning and physical health. In addition, as a result of E-rate funding, Gateway has been able to expand its implementation of their research-based curriculum, enhancing teacher's skills in promoting school success. Gateway's finance department and its Early Head Start/Head Start program work closely together to ensure classrooms have supplies needed for learning and for promoting good health. In addition, they work together to do long-term planning to ensure facilities are safe, accessible, and promote wellness.

Gateway **concurred** with OIG findings and recommendations as it relates to the following: Incomplete documentation for use of company vehicles, conflicting cost data in regards to facility construction, and timely filing of Federal Interest of one facility. Gateway has begun to phase out leased vehicles and acknowledges that mileage logs were not consistently maintained. Gateway acknowledges that the original cost data did not support the facility construction however emphasizes that follow-up cost data did support facility construction, and were approved by HHS. Gateway has always filed Federal Interest Notices timely, with this one exception, which had significant Federal Interest filed previously.

*What GCAP Did to Respond and Implement Ongoing Quality Improvements:*

Gateway welcomes the support and feedback from its funders, auditors, and monitors, working every day to ensure continuous improvement for quality services. Gateway has provided all requested documents, met with OIG on multiple occasions and has followed up with their funders. Gateway has reviewed all Federal and State regulations as well as Program Instructions to ensure compliance with current practices, procedures, and policies.



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## Introduction

### Objective:

To demonstrate that Gateway Community Action Partnership expended grant funds in accordance with the goals and objectives of the Head Start Act, 42 USC 9801 –

...to promote the school readiness of low-income children by enhancing their cognitive, social, and emotional development—

(1) in a learning environment that supports children’s growth in language, literacy, mathematics, science, social and emotional functioning, creative arts, physical skills, and approaches to learning; and

(2) through the provision to low-income children and their families of health, educational, nutritional, social, and other services that are determined, based on family needs assessments, to be necessary.

### Background:

Gateway Community Action Partnership has been an organization with vision to improve the lives of children and families through strong, supportive community services. Since 1987, the Early Head Start and Head Start programs have nearly tripled in the number of children served, expanding from three New Jersey counties to seven counties and two grants in Philadelphia, Pennsylvania. With each growth opportunity, Gateway has focused on achieving excellence, based on the premise of “What would I want for my child?” As part of its expansion to Atlantic and Cape May counties, Gateway took an in depth look at the resources of the community, the safety of the children, and need for high quality services, resulting in an early education center that has been a catalyst for positive change in Atlantic City.



Gateway Community Action Partnership also took a hard look at how it provides Early Head Start and Head Start services in partnership with child care centers, creating a strong approach to high quality infant-toddler early care. As part of this approach, Gateway made a commitment to renovating a facility in Vineland, NJ, in partnership with a child care provider, to create a safe, healthy learning environment responsive to the needs of infants and toddlers.

Gateway has had a long history of working closely with the Office of Head Start to gain approvals as per the Uniform Guidance and 45 CFR Part 75, participating in training and technical assistance including Fiscal Boot Camps, and meeting with Program and Fiscal Specialists as well as Training/Technical Assistance Specialists. Gateway has not had a fiscal audit finding in nearly

**OIG Note:** We altered photographs in several places in Appendix C to protect the identity of children.

a decade. Gateway's vision for the community has been driven by the passion it has for making a difference in people's lives, believing that it excels in providing high quality services, and knowing that fiscal compliance and accountability are the bedrock of success.

**Related Strengths from most recent Federal Aligned Monitoring**

*From the OHS Program Performance Summary report issued June 15, 2020 -* The program established systems and internal controls to ensure accountability for Federal assets and compliance with Head Start and financial regulations. The program had a financial system to support the development, implementation, and oversight of the program budget. The Chief Financial Officer (CFO) led the finance team and oversaw the implementation of financial management systems. The fiscal team, along with the leadership, was instrumental in developing an internal process to increase non-Federal share contributions. The administration formalized the process and created criteria for all locations to adhere to an obtainable goal of ranking sites that exceeded the required non-Federal share allocation. The program leadership worked in partnership with the governing board to develop and execute a budget that reflected and supported program goals and priorities, and the recruitment and retention of qualified staff. The Head Start Director and the CFO ensured the board and the policy council received monthly financial statements and expenditure reports. The budget and the annual grant applications were reviewed and approved by the governing board. The leadership, the board, and the policy council members reviewed bids and selected the most reasonably priced vendors for several renovations and construction. Sound fiscal practices and strong internal controls helped the program to achieve program goals and ensure oversight of the grants.

## Response to Findings

### GATEWAY CLAIMED UNALLOWABLE COSTS

**OIG:** Gateway Did Not Adjust Estimated Indirect Costs to Actual Indirect Costs

**Gateway:** Nonconcurrency

Gateway's claim of indirect costs is in accordance with the IDC Agreement approved by Cost Allocation Services. This agreement is inclusive of all salaries paid by Federal and Non-Federal grants and programs. Gateway did not receive IDC funding in excess of IDC expenditures and used a consistent methodology that prevented drawing Head Start funds in excess of allowable expenditures, which allowed much needed funding to remain in the Head Start Program.

According to 45 CFR Chapter XIII 1302.53(b)(1), Head Start programs are required to coordinate services with local education agencies. In addition, the Head Start Act, 642(e)(2)-(5), requires that Head Start programs collaborate to reduce duplication and enhance efficiency of services while increasing the program participation of underserved populations of children living in poverty. The benefit of Gateway's relationship with many of its school districts has been additional funding, as noted in Gateway's OHS-approved budget, assisting Gateway in making its Non-Federal Share match (Head Start Act, 640(b)), as well as being able to retain highly qualified degreed teachers (Head Start Act, 642(d)(2)) by paying competitive salaries as per the wage comparison study conducted by Gateway.

These teachers, performing Head Start duties and serving Head Start children, work tirelessly to provide children with supportive, safe, healthy learning environments. One of our collaboration teachers, supported through Head Start and Non-Federal Share funding, displays a passion for teaching, and particularly teaching English Language Learners (ELL), through her interactions with both the children and the families. A majority of the children in her classroom are learning English, so she in turn decided to learn Spanish. Through her dedication, she has taken what she does in the classroom, makes it come alive, and extends the learning into the home. Through Head Start and Non-Federal Match funding she has developed a classroom library that contains stories rich in vocabulary. The books also support content learning across various subjects and domains. When teaching content, she ensures the content is shared in both the children's home language and English. Stories are shared with families, online, daily, in English and Spanish. She supports the parent's engagement in their child's learning. One example, is the Three Billy Goats Gruff, a story with a problem designed to stimulate children's cognitive development. The teacher not only shares the story in a variety of ways, but also ensures the child hears the story in their home language. Families are asked to read with their children, sharing with them the learning activities supporting children developing a deeper understanding of the concepts in the story. Together, the teacher and students, identified the problem in the story and develop alternate solutions to the story. The class also tested their creations and compared them to that of the author's solution. The



teacher also made a diagram, used a flannel board, and included key vocabulary in Spanish as well as in English. Children who are excited about learning, who are challenged to learn, are more likely to be successful in school.

Gateway's Head Start program incurs indirect cost on all salaries attributable to the program. All of which are approved in Gateway's IDC proposal, as noted on the income statements, and all are included in each Department of Health and Human Services' Cost Allocation Services (CAS)-approved Indirect Cost Proposal. Gateway's compliance to the IDC is also referenced in Note 10 in each of Gateway's Audited Financial Statements. Upon OIG's review of Gateway's Indirect Cost Rate, OIG backed into a calculation using a provisional and final rate, ignoring the actual base of direct salaries. Salaries eligible in the indirect cost base were not taken into account by OIG and they erroneously assumed that Gateway was blanketly claiming the approved provisional rate without any regard to possible variances. OIG's methodology would result in drawing down more Head Start funding than what is entitled, resulting in removing much needed funding from the Head Start program and holding cash, which is not allowed.

Gateway analyzes IDC to ensure any variance projected between the Provisional Rate and Final Rate are adjusted in real time. Gateway's internal analysis demonstrates that the Final IDC Rate is applied to Head Start funding and a refund is not warranted. Gateway reviews quarterly, our actual rate compared to our salary base, to ensure all programs are properly included in the Indirect Cost Allocation and not receiving and drawing excess funding that may need to be returned. Gateway submits applicable Administrative Expense Schedules with the Final SF-425 Reports each year. These Administrative Expense Schedules outline the IDC rate charged, matching the actual rate approved by CAS, as well as the salary base for which IDC is charged.

It is worth noting, that Gateway's most recent fiscal year ended June 30, 2020, resulted in no variance between the provisional and final rate. Gateway is fiscally responsible and operates at less than a 5% administrative rate consistently year after year, as can be confirmed in reviewing audited financial statements for each fiscal year end.

**Alternative Corrective Action:** Gateway analyzes IDC to ensure any variance projected between the Provisional Rate and Final Rate are adjusted in real time. Gateway reviews quarterly, our actual rate compared to our salary base, to ensure all programs are properly included in the Indirect Cost Allocation and not receiving and drawing excess funding that may need to be returned. Gateway's most recent fiscal year ended June 30, 2020, resulted in no variance between the provisional and final rate.

**OIG:** Gateway Did Not Credit Head Start Grant Awards for Credits Received from Vendor  
**Gateway:** Nonconcurrency

Gateway did credit Head Start Grant Awards as a cost reduction for E-Rate Reimbursement, as outlined in 45 CFR 75.406(a). Total cost reported on the Final SF-425 of each Federal Award excluded E-Rate funded expenses. The E-Rate funds received were credited to the Federal Awards through a cost reduction on the appropriate budget line items of the award, to reduce the final amount of internet and phone service charges charged to the Head Start grant. All E-rate expenses and revenues are excluded from both the final cost of the federal award (reported on the Final SF-425) and any non-federal share reported on the Final SF-425.

As part of Gateway's OHS-approved grant renewal application, E-Rate funding is included in its strategy for supporting a high-quality program. E-Rate reimbursements received were 100%



allocated to the appropriate Head Start programs, as ACF-IM-HS-12-09 intended. Gateway analyzes data from its technology department along with that of its Head Start program to identify all needs that E-rate funding can address. As noted by the National Association for the Education of Young Children and the Fred Rogers Center, "in an age when connection often refers to WiFi, supporting relationship-based technology and media interactions represents an area of

opportunity to enhance the lives of children and their caregivers." E-rate is an essential aspect of the funding that supports Gateway's early education program.

The E-rate program has greatly assisted Gateway in ensuring adequate funding for operating a high-quality program. With less Head Start funding needed to support expenses related to technology, more funding is able to be used in the classroom. One example of a high-quality classroom supported with Head Start funding is one led by a teacher and American Army Veteran. This teacher has brought the Teaching Strategies study unit, "Buildings," to life. Children studied blueprints downloaded by teacher, studied videos of homes being built, and then created their own blueprints on large sheets of poster board. The children then worked with the teacher's husband, a retired police officer, to bring their vision to life by building their own structures. The children used real tools, various materials including lumber, wore goggles, and were able to experience the process of building. This activity, supported by Teacher Strategies and the teacher's creativity, encouraged children to use new words, expanding their vocabulary. The activity required mathematics such as measuring and counting. The activity required an understanding "weight bearing" and gravity. The study unit supported all aspects of STEM (Science, Technology, Engineering, and Mathematics) from the blueprint process to the construction process, as per 45 CFR Chapter XIII 1302.31(b)(1)(iv). All of the curriculum supports, the videos, and the blueprint downloads were a result of access to internet connectivity. The curriculum kits and materials were a result of the ability to sufficiently fund classroom curriculum and supplies.

All HHS funds awarded for the purpose of high-quality Early Head Start and Head Start services were used to ensure the successful implementation of comprehensive school-readiness early childhood education services in keeping with the Head Start Act (42 USC 9801) as amended December 12, 2007. All funds received through the E-rate program were applied to the Head Start grant in alignment with the goals and objectives of the Head Start Program Performance Standards.

**Alternative Corrective Action:** All funds received through the E-rate program will continue to be applied in a manner that aligns with ACF-IM-HS-12-09 and will be applied to the Head Start grant in alignment with the goals and objectives of the Head Start Program Performance Standards.

**OIG:** Gateway Claimed Costs for Equipment That Was Not Procured in Accordance with Open Competition Regulations and Was Not Necessary and Reasonable.

**Gateway:** Nonconcurrence

Gateway publicly solicited bids to use already purchased equipment to install at the newly constructed facility in Atlantic City. The only responsive bidder was Contractor A. When the time came to install the equipment (almost 1 ½ years later), the decision was made to change the original design to include some new equipment. The Development Team (the architect, general contractor and engineer) as well as the staff and families raised concerns regarding fall zones safety, color and diversified playing surfaces and equipment. Based on those reasons, Gateway made the determination not to use the original equipment that was in storage, as it was inconsistent with the new building design, and the health and safety concerns of the Head Start children. This is similar to an architectural or MEP firm designing the bid package for contractors to bid and the owner altering components of the design after contractor selection (resulting in cost savings or change orders). Contractor A has consistently provided the best quality product at the best pricing. All equipment purchased and approved through this grant award remains with the Head Start program and was an approved transfer from the Hurricane Sandy Emergency Funding.

Decisions about the use of the Hurricane Sandy Emergency funding were made based on recommendations from Office of Head Start communications, input from architects, general contractors and engineers, as well as staff and families. A 1309 application describing the project was submitted to the Office of Head Start, approved, and monitored quarterly throughout the construction project.



In 2012, Hurricane Sandy damaged communities all along the eastern seaboard including Atlantic City. As a result, much of the area was contaminated, from a variety of sources including basement gas tanks, as reported by the New York Times and as noted through environmental studies required by the New Jersey Office of Licensing. One of the centers, located on Adriatic Avenue, operated by the previous grantee was closed due to not receiving satisfactory health inspections by the state of New Jersey due to environmental issues, as per *The Press of Atlantic City*. The center on Mediterranean Avenue was also closed due to Hurricane Sandy and had a playground that did not meet the needs of children. The playground at the Atlantic City High School was torn up by the hurricane force winds. The playground at the Mayor James B. Usry Center was rusted and damaged, the surrounding grass area outside the fence was contaminated during the flooding. As such, children in Atlantic City had consistent access to high-quality outdoor early education facilities from the fall of 2012 through 2017. Families were committed to

working with Gateway to provide feedback and support to create a new learning environment for their children, both inside and outside.

The playground at the high school was one of the sites addressed early in the history of the Hurricane Sandy Emergency Funding. Since the playground was unusable, Gateway began working with vendors, getting quotes for designs for restoring the play area for the children. However, within a year, prior to moving forward with playground installation, the Atlantic City School District requested that we move our two classrooms to their elementary school site. Gateway moved its classrooms and worked with the district to identify a new play area. The school



district had large areas of unused property and Gateway was able to install a large, spacious playground designed to support learning through outdoor play. However, prior to the end of the school year, the school district informed Gateway that the two classrooms would need to vacate the district property as the school district was opting to open its own classrooms. Gateway offered to partner with the school district, assisting the district with offering more children

preschool services through a collaborative approach, however, the district opted not to partner. This required Gateway to remove all of the newly installed playground equipment at the end of the school year and place the equipment in storage.

Gateway's search for a new center location in Atlantic City also needed to address providing a safe play area. In working to optimize the limited land space for the new Head Start facility, the playground is built on a raised area, addressing FEMA flood concerns as well as creating significant barriers between the children's play area and any potential contaminated soil issues. The playground area is very specific in size to the building, the raised area, and the size of the property on which it is located. Atlantic City is a land-locked area, allowing for very little flexibility for creating safe areas for play.

The Head Start facility is designed with 18 classrooms, so the playground areas needed to provide for a variety of play as well as be designed to prevent overcrowding in one area while other areas remained unused. The design of the main playground does this through creating four specific play areas, storage, and a small open area, while respecting the need for safe fall zones. The playground has a track for riding trikes, pulling wagons, and engaging in "traffic safety" pretend play. At each end of the playground, there are play structures that provide for different types of climbing, sliding, and pretend play. At the center of the playground, is a playhouse to promote pretend play, crucial to social development and developing an understanding of how the world works. In addition, the playground has a storage area to safely store trikes. Lastly, the playground has open space for ball play, running, and just "being." The playground is 2,671 square feet and can accommodate, according to the New Jersey Office of Licensing, thirty-five children at 75 square feet per child. However, it is also crucial for learning that the play area is able to engage 35 children as well. Each play structure is designed to accommodate 10-12 children at a time. The trike path can accommodate approximately 8 children without overcrowding and



creating safety issues. The playhouse is designed for approximately 4 children. The playground equipment from the elementary school that was originally identified to be moved from storage to the new Head Start facility would not support a design that would engage large groups of children in safe, educational play.

Gateway reviewed the design of the play area. In addition to aesthetic issues, such as color, Gateway's largest concern was ensuring there were enough play opportunities and that the play opportunities were laid out to ensure safe fall zones. Overall, the old equipment would not work well in the new area due to difficulties in addressing safe fall zones as well as coordinating the equipment to get the most play opportunities from the area (N.J.A.C. 5:23-11 and the *Handbook for Public Playground Safety*, Pub. No. 325, produced by the United States Consumer Product Safety Commission).

Today the play area is now a place for children to run, laugh, and learn as per requirements for creating an outdoor learning environment, 45 CFR Chapter XIII, 1302.31(c). The playground design supports *Zero to Three's Center for Wellness* recommendation that children get at least one hour of play each day to alleviate stress. For low-income children, toxic stress can be a real part of a child's development with an adverse impact on their overall health. Playgrounds, well-designed playgrounds, are an integral aspect of providing much needed active play.

Gateway engages in continuous planning and improvement, reviewing and updating its Financial Policies and Procedures to comply with all Federal, State, and local regulations, as well as Generally Accepted Accounting Practices (GAAP).

**Alternative Corrective Action:** Gateway engages in continuous planning and improvement, reviewing and updating its Financial Policies and Procedures to comply with all Federal, State, and local regulations, as well as Generally Accepted Accounting Practices (GAAP).

**OIG:** Gateway Claimed Costs Related to Inappropriate Use of Company Vehicles

**Gateway:** Concurrence

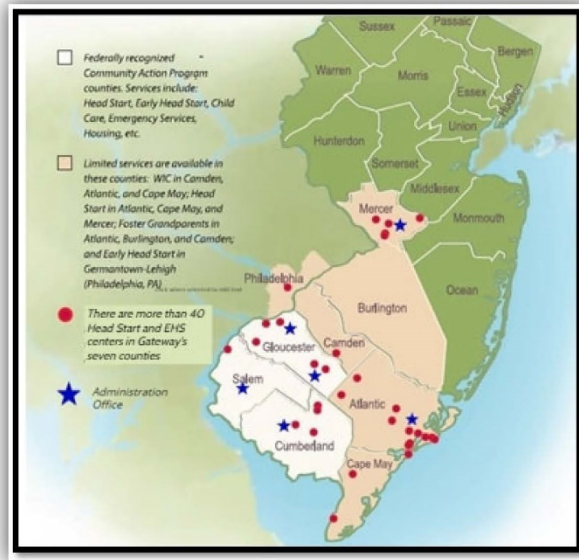
Gateway agrees mileage logs were incomplete. The amount in question is the allocable cost for two leased vehicles, designated for business use, for over three years, which amounts to less than \$5,000 per year per vehicle. This is less than 200 miles per week, which equates to one or two round trip site visits per week. Gateway's geographic area extends from Atlantic and Cape May counties through Cumberland, Salem, Gloucester, Camden, to Mercer Counties and across to Philadelphia. Gateway has a large geographic span with over fifty sites covering more than 3,200 square miles. With that, mileage reimbursement for the use of personal vehicle has been calculated to be costlier than providing vehicles. Gateway employees are taxed on any personal use of the company vehicle. Moving forward, Gateway is phasing out leased vehicles, with the last due to expire at the end of 2021.

Gateway vehicles have been driven to accomplish several goals over the past few years. One of the most important roles of a leader is to know their people and the programs they lead. This includes visiting the more than 40 Early Head Start and Head Start centers, visiting classrooms, and talking with staff and parents (45 CFR Chapter XIII, 1302.101(a)(2), 1302.102(b)(2)(ii)).

In addition, these leaders have worked to develop strong ties to the communities Gateway serves. Through multiple visits with churches, county officials, and city officials in Atlantic City, Gateway was able to procure suitable land for parking and a facility designed specifically for young learners. In addition, those contacts have evolved into providing improved community-law enforcement relations, the development of accessible pediatric services (previously most services had to be accessed at other parts of the county), and stronger communications between Early Head Start/Head Start families and state officials regarding community needs.

While Gateway concurs with the OIG regarding incomplete documentation regarding the use of company vehicles, Gateway also wants to emphasize that the vehicles were essential to the ongoing monitoring of the program, implementation of a vision, and the development of community relationships for supporting the Early Head Start and Head Start program.

**Corrective Action:** Moving forward, Gateway is phasing out leased vehicles, with the last due to expire at the end of 2021.



**GATEWAY DID NOT COMPLY WITH FEDERAL REQUIREMENTS RELATED TO NEW CONSTRUCTION AND MAJOR RENOVATIONS OF ITS HEAD START FACILITIES**

**OIG:** Gateway Did Not Comply with Federal Requirements for Constructing a New Facility.

**Gateway:** Nonconcurrency

Gateway constructed a high-quality Head Start Early Education Center to serve the low income children and families of the Hurricane Sandy-impacted Atlantic City in New Jersey with approval from the Office of Head Start in keeping with Sec. 644[42 U.C.S. 9838 (f)(1)-(2),(A)-(F)].

Gateway, along with the Administration for Children and Families, Office of Head Start, and Community Development Institute (CDI), an interim Grantee, visited all Early Head Start/Head Start sites that were currently leased or immediately available to lease during the grant transition process. They also reviewed reports on two sites no longer in use, closed by the New Jersey Office of Licensing due to serious health and safety concerns. All sites were damaged by Hurricane Sandy or had significant environmental issues, some moderately, some severely.

Hurricane Sandy impacted the entire East Coast in October 2012, and more specifically disproportionately impacted low-income families as per a study by Rutgers University. In the aftermath, the Head Start program in Atlantic City was left in disarray. In 2013 Gateway reviewed the extensive damage, examined the undertaking to bring the facilities up to new Licensing and FEMA standards, and analyzed on-going lease costs. In collaboration with the interim grantee, CDI, Gateway agreed building a centralized early education center in the heart of the community and surrounded by family-friendly resources, would most benefit the children and families, in keeping with 45CFR Chapter XIII 1303.44(a)(1). The Early Head Start and Head Start center would become a beacon of hope to the community where children from all corners of Atlantic City and the surrounding towns would attend, where Atlantic City could focus their resources on improving the lives of its most vulnerable population.

The planning began with the premise of “How do we reinvest in the children and families?” As a result of Hurricane Sandy, families and staff were living with building damage, soil contamination, poor living conditions, more than tripling in unemployment, and a sense of abandonment. The children and families spent days cut off from the mainland as flood waters receded, including electric being turned off to prevent gas explosions. Then once families could physically begin the routines of a normal life many of them found that their children’s educational services were unavailable, their jobs were gone, and the resources they needed were difficult to access. Early Head Start and Head Start services were the bright spot for their families, but were limited due several facilities being damaged or eventually closed permanently.



In late spring of 2013, Gateway began working with a consultant, with the county, community members as well as realtors to identify a property to develop an early education center that would support families'

goal for raising successful, healthy children. One of the initial properties reviewed was ideal in regards to location, diagonally located from the current facility. However, the property was adjacent to Brown Park, an area that often accommodated a dozen or more homeless persons each night. Displacing the homeless community without a solution or the funding to underwrite a solution is counter to Gateway's commitment to making communities a better place to live. In addition, the property's proposed purchase price was excessive, far more than Gateway was prepared to commit, despite the lack of other options. Discussions with the Office of Head Start acknowledged that though the location was ideal, the cost, the current use, and the ownership of the property, the property was not an acceptable option. Gateway continued the search.

During the search process, Gateway also continued to build community relationships. Out of a relationship with the Atlantic Cape Community College, came the recommendation to consider the former "One-Stop Shop" county unemployment building as the site for the Head Start program. The building was located diagonally across the street from the college's Atlantic City location, and seen by the college as an ideal opportunity for partnering to improved outcomes for young children in the community. The initial thought was that the facility would not be suitable, and continued to search out properties. During the summer of 2013, Gateway reached out to the county to explore the options for purchasing a property in Atlantic City. Gateway visited two properties, one of which was the county unemployment building. The building, located near the college, two community-based churches, the primary health provider for the city, the library, and the county services office, was submerged during Hurricane Sandy leaving it unsuitable for use, however, the property itself was ideal. In early fall of 2013, Gateway began to pursue the option, meeting with leaders from the community including the mayor, city council members, county freeholders, the Casino Reinvestment and Development Authority, local churches, and parents. Throughout the process, beginning with an initial meeting in June 2013, Gateway communicated with the Office of Head Start to keep them informed and receive guidance, including sending regular transition and quarterly reports.

Once the Regional Office shared their support of the purchase of the county property, Gateway began a series of meetings and public hearings, adhering to county and state regulations. And in November of 2013 began the search for an architect to bring to life the vision of the staff and parents as well as to ensure that all aspects of 1309 regulations were addressed. At the same time, Gateway worked with Office of Head Start staff on ensuring the purchase process fully complied with Federal regulations as well as working with the county to move forward with the purchase,

with a draft of an agreement of sale developed by January 2014. Gateway also worked with the Office of Head Start to develop requests for qualifications (RFQ) to find a vendor to complete a Phase I environmental study and an architect to develop the early education center. And with this work completed, Gateway's Phase I application was approved and Gateway received the first phase of Sandy Disaster Relief Funding in January 2014.

With a final selection of a site in February 2014, Gateway began working more closely with the community. On March 6, 2014, Gateway brought together parents and community members throughout Atlantic City to share our vision as well as to hear their vision for their children. Parents were able to review several architectural renderings and provided feedback as to what they liked the best about each, and overall, what building appealed most to them as parents and community members. Their input was then forwarded to each of the architects being considered for the project with a final selection made on March 31, 2014.

Soon after this, Gateway began working with a team of architects, engineers, environmental specialists and attorneys to assemble the required Federal documents needed for the Office of Head Start to approve the Head Start center and bring a high-quality early education center to the families of Atlantic City. During the next month, Gateway worked with its team and with guidance from the Office of Head Start to submit a 1309 application in early May 2014. On May 30, 2014, an agreement of sale was executed. On July 1, 2014, the Phase II application was approved and Gateway was able to move forward with the project.

In July 2014, the Office of Head Start approved Gateway's Phase II application and the work of preparing for construction began. The Gateway team met to ensure the facility met the following objectives:

- Alignment with FEMA standards for construction
- Provisions for providing emergency services to Head Start families
- Environmentally friendly facility
- Educationally supportive

Gateway made sure the facility was properly elevated to prevent flooding in the event of a future hurricane. In addition, doors have flood gates to drop into place to protect the building. In the event there is a hurricane and power is cut off to the island, Gateway has installed a generator. The generator can function on propane for two to three days, and much longer if gas is available to the island. Gateway also added showers and washers and dryers to help provide relief to families without access to the necessities. The kitchen has been designed to provide food to the children who attend the center, but can also be available if Head Start is called upon to assist their Head Start families through a disaster.



Gateway also worked to make the facility environmentally friendly which also kept costs for operating the facility low. The heating and cooling system is geothermal and is displayed on the first floor providing children with a glimpse into the inner workings of their classroom. The flooring in the lobby is terrazzo, ensuring long wear, but also is designed to allow children to follow flowing stripes to their classrooms. Each hallway and classroom have Marmoleum flooring, a natural material that is also anti-microbial. The windows are large, letting in sun for the children and staff's well-being, and yet tinted to help keep the building cool.

The design can support as many as 300 children, and as a result, has three playgrounds, one for infants-toddlers, one designed to encourage interaction with natural materials, and one designed for supporting gross motor outdoor play.

The culmination of all the planning resulted in the Office of Head Start awarding the Phase III Sandy Relief Emergency funding, including approving the acquisition of the property and commencement of construction. By April 20, 2015 demolition was completed and a groundbreaking was planned.

The Head Start center in Atlantic City's construction began with a celebratory groundbreaking on May 19, 2015. The groundbreaking was attended by OHS Regional Office staff, the mayor, city council, community members, parents, and Head Start children.



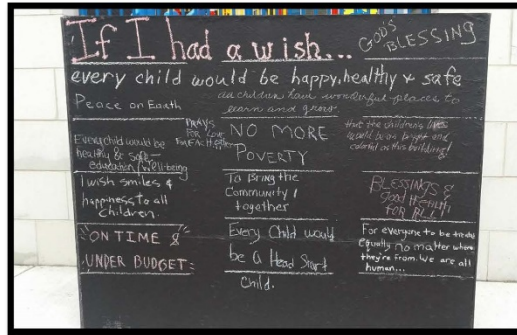
The construction of the new early education center had its challenges. With construction occurring on an island, a great deal of the funding went toward creating a strong, lasting foundation requiring dewatering, clean fill materials, and well-engineered foundation meeting FEMA requirements. However, despite the challenges, the facility went up and the community was inspired. Then on May 23, 2017, the city gathered to celebrate the ribbon cutting on the new facility. The ribbon cutting ceremony was attended by the Office of Head

Start, the Regional Office, state representatives, the mayor, city council, county freeholders, parents and children. Parents and community members shared the following on large outdoor blackboards in response to the phrase, "If I had a wish:"

- All children have wonderful places to learn and grow.
- NO MORE POVERTY
- To Bring the Community Together
- Every child would be a Head Start Child
- That children's lives would be as bright and colorful as this building.
- Blessings and good health for all
- For everyone to be treated equal, we are all human.
- Every child would be happy, healthy and safe.
- Peace on earth

- Every child would be healthy and safe—education and well being
- I wish happiness and smiles to all children.
- Everyone to love each other.
- Less crime, more peace and love.

Gateway addressed the needs of the community, analyzed the data, and worked with its funders, HHS/ACF/OHS. Through the planning process, Gateway determined it is more beneficial to the program to house its operations under one owned facility, located in proximity to many of the resources needed by families, than to have multiple leased facilities with rising rents and unpredictable futures at lease ends. The approach became combining all of the facilities that were damaged by Hurricane Sandy, all leaseholds, into one owned facility where long-term stability could be brought to the program. The facility offers emergency services to Head Start families in times of natural and community disasters.



Gateway worked with the Regional Office to follow the uniform procedures established for Head Start agencies to request approval to purchase property and construct a facility. Gateway coordinated with churches, the local college, and the area health system as well as collaborate with city and county government to develop a strong plan for serving the children and families of Atlantic City so hard hit by Hurricane Sandy. Gateway provided a description of the site to be purchased as well as the plans and specifications of such facility of the facility to be built. In addition, Gateway demonstrated the cost savings the facility would provide, allowing Gateway to focus its funding on providing high-quality staff and curriculum-based learning materials. Without the funding and the approval by the Office of Head Start, Gateway would have been reduced to providing services in facilities with environmental concerns and would need constant maintenance. The new Head Start Early Education Center provided for the needs of a disheartened and displace community of young learners, and is a “Beacon of Hope to the Community.”

**Alternative Corrective Action:** Gateway works with the Regional Office to follow the uniform procedures, as well as the new 1303 Head Start Performance Standards, established for Head Start agencies to request approval to purchase property and construct a facility.

**OIG:** Lack of Suitable Facilities documentation inadequate

**Gateway:** Nonconurrence

The report from the Realtor is not contradictory of Gateway’s assertion. There were many sites in the City of Atlantic City available for lease, however, not without significant issues to the structure/use of the facilities. The Realtor report states that “many sites have had water or structural damage from Hurricane Sandy” and goes on to state that those “structures without heavy damage now have to meet more stringent FEMA and State Regulations that would result in elevating structures to be at least 11 feet above sea level.” Other facilities visited had issues with land

contamination, lack of space for outdoor play, and conflicts of interest with the landlords. Gateway was unable to find suitable facilities to fit the need for the children in Atlantic City.

The first property Gateway assessed, outside of the original centers damaged by the storm, was located adjacent to Brown Park. Brown Park is located across the street from the liquor store and has been for many years a gathering place for persons who are homeless. Each night the homeless would lay out their cardboard to create their safe place to sleep. However, Gateway did not want to begin its relationship with the community by displacing the homeless. Today, the park still attracts the homeless on the one corner of the park at night, but the rest of the park is now a daytime gathering for families, developed by the city as part of bringing the community back to life.

**Alternative Corrective Action:** Gateway works with the Regional Office to follow the uniform procedures, as well as the new 1303 Head Start Performance Standards, established for Head Start agencies to request approval to purchase property and construct a facility.

**OIG:** Gateway submitted cost comparisons with conflicting cost data that concluded it was more expensive to lease space than it was to construct a new facility.

**Gateway:** Concurrence

Gateway did submit two conflicting cost comparisons, both of which were approved in the corresponding 1309 Applications. The initial cost comparison submitted was completed using only lease rates by the Head Start Program at that time, rather than determining actual lease rates for available spaces. This rate was then applied with the thought that we could lease 70,000 square feet of space. This cost comparison was also completed prior to receiving the architects' cost estimate on a 70,000 square foot building. After receiving the cost estimate, it was determined that Gateway needed to downsize the building due to lack of available budget. Because of this, Gateway contracted with a Realtor to issue a Broker's Price Opinion for available space in Atlantic City.



Gateway met with the landlords of the one remaining leased property in Atlantic City that was being operated as a Head Start center

by the transitional grantee. In the previous lease, under the former grantee the landlord had provided the facility at no cost to the grantee with the grantee responsible for maintenance and operational costs. When Gateway met with the landlord in September 2013, the proposed rent was \$15,000 per month. Through negotiations, the rent was reduced to \$6,000 per month, but still a



\$72,000 annual burden to the Head Start budget, cutting into Gateway's staffing budget, the largest expense incurred by a Head Start program.

The report submitted to ACF in January 2015 showed the low lease rate range and indicated some facilities available for rent. In completing the second cost comparison for review, Gateway took a more analytical approach. We used the space currently being rented over 20 years, as well as analyzed supplemental space needed at the market rate provided in the BPO. These rates, along with an initial renovation cost to a possible new facility rental reflected a more accurate estimate of the cost of leasing multiple facilities over 20 years.

**Corrective Action:** Gateway works with the Regional Office to follow the uniform procedures, as well as the new 1303 Head Start Performance Standards, established for Head Start agencies to request approval to purchase property and construct a facility. Moving forward, cost comparisons completed will reflect the latter in which we analyze all space available to lease.

**OIG:** Gateway Requested and Received Funds for Major Renovations Based on an Inaccurate Cost Estimate That Was Not Prepared by an Architect or Engineer

**Gateway:** Nonconcurrency

Gateway followed the 1309 Pre-Award Checklist for all required documents and approvals. The only mention of 45CFR 1309.10(b) in the checklist was referring to the need for architectural drawings and specifications. In regards to the overall cost, Gateway initially submitted a request for an estimate of \$475,050 to renovate the facility. When we entered into a construction contract, unforeseen issues arose ultimately increasing the cost of renovation. Gateway applied Davis Bacon Prevailing Wage Rates to all of the unforeseen change orders and environmental remediations, adding to the increase in costs for the facility. An initial cost estimate by an architect would not have included items found after beginning the renovation.

Gateway expended HHS funds to support the newly created Early Head Start-Child Care Partnership Program in accordance with 45 CFR Chapter XIII 1302.30-34. Child care providers, essential to the economic backbone of the country, often struggle, despite their passion for early childhood education, with providing high quality services due to under funding through the state's child care subsidy program. Gateway partnered with eight child care providers to bring resources and training to the child care centers, raising quality and improving opportunities for children's school success. Gateway provided research-based, state-approved early childhood curriculum along with training from credentialed staff, an investment in children's education. Gateway also worked with providers to ensure classrooms had appropriate learning materials to support curriculum implementation as per 1302.31(d) and 1302.32. Gateway also provided safe playgrounds that included surfacing to prevent injuries and equipment designed to support physical development where outdated or inappropriate playgrounds for infants previously existed in keeping with 1302.47(b)(2) regulations regarding Safety Practices.

Gateway invested in the learning of infants and toddlers by creating an infant-toddler center that met all of the New Jersey Office of Licensing regulations, all of the New Jersey Department of Health regulations, and all of the New Jersey Department of Environmental Protection regulations as well as the regulations noted in the Head Start Program Performance Standards (45 CFR Chapter XIII.). Gateway began with a vision of turning a dilapidated, donated facility into a center with spacious rooms in which to explore and learn. Each step of the process involved feedback from experienced child care providers and knowledge of the needs of the community, an area with limited services for infants and toddlers, noted as child care deserts by the state leader in early childhood advocacy. Gateway eliminated a boiler system located in what had been a classroom, conducted mold remediation and reconstruction throughout the building, addressed roof issues, and installed needed fire exits, and, overall, ensured a safe, healthy learning environment for infants and toddlers as per the Head Start Act 641A(a)(1)(a)(D), 1302.47, and 1303.52(c).



Upon completion, including the installation of a safe infant-toddler outdoor play area, Gateway worked with a child care provider to fully outfit the center to support the implementation of a responsive, research-based, curriculum aligned with the *Head Start Early Learning Outcomes Framework: Ages Birth to Five* and the *New Jersey Birth to Three Early Learning Standards*.

Early Head Start-Child Care Partnership funding assists families in providing their children with a more stable home. While enrolled in EHS-CCP, parents have accessed housing, moving out of their homelessness status. Other parents, while working, also attended classes in order to improve their economic situation. In one case, a mother earned her Certified Nurse's Aide credential and had interviews lined up as soon as she graduated. The EHS-CCP program addresses family needs as well as helps child care programs achieve high quality.

In 2016, new Head Start Program Performance Standards regulating Major Renovations were issued. In addition, the Office of Head Start have updated worksheets for submitting requests for approval. Gateway has integrated all applicable updates from 45 CFR Chapter XIII, 1303 into its Financial Policies and Procedures, following GAAP and the 1303 regulations for complying with regulations for Major Renovation and Construction of facilities. It is worth noting, the new 1303 Subpart E regulations no longer require a cost estimate by an architect or engineer, and were published not long after we submitted the application to renovate.

**Alternative Corrective Action:** Gateway works with the Regional Office to follow the uniform procedures, as well as the new 1303 Head Start Performance Standards, established for Head Start agencies to request approval to purchase property and construct a facility.

**OIG:** Gateway Did Not Adhere to Federal Regulations and ACF Requirements Related to Filing Federal Interest and Annual Real Property Status Reports

**Gateway:** Concurrence with finding regarding Requirements related to Filing Federal Interest timely.

**Gateway:** Nonconcurrence with finding regarding Annual Real Property Status Reports

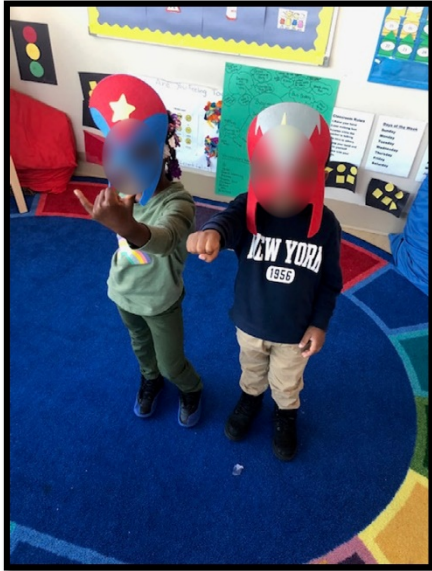
Gateway has always been diligent in filing Federal Interest timely on all properties, with this one exception, of delayed filing for a property which had significant Federal Interest filed previously. The facility noted in the report had significant Federal Interest already filed, therefore the interest of the Federal Government was not at risk. Gateway concurs with and recognizes the oversight of not filing the notice timely for this facility. Moving forward, Gateway will update its Policies and Procedures to ensure timely filing of Notices of Federal Interest that comply with the current 1303 Subpart E regulations.

The facility in question, currently serving infants and toddlers, was originally renovated nearly two decades ago to serve as a child care center for infants and toddlers. A few years later, it was renovated a second time to provide for four Early Head Start classrooms, each approximately 350 square feet with restrooms in the classrooms, challenging the center to grow in quality. The Early Head Start classrooms became the model for engaging children in research-based curriculum designed to support the social-emotional development of the child and create a foundation for learning. It was at this time, early on, that Federal Interest in the facility was first established.

The Bridgeton community continued to grow in its need for high quality infant-toddler early care. As preschool programs expanded, providers began providing less infant-toddler care and families, particularly low-income families began having more difficulty in accessing services. Gateway's waiting list continued to grow, and Gateway looked for a way to respond to the community need. Gateway applied for Early Head Start-Child Care Partnership funding, including funding to renovate an additional area of the facility, expanding services as well as providing more supportive learning environments.

The facility now holds nine classrooms, each ranging in size from 500 to 700 square feet, giving children plenty of space to crawl, climb, walk, and explore. The space is also large enough to promote good health, allowing for children to have at least 49 square feet each, optimal for not sharing air-borne diseases. The classrooms contain reading areas, areas for exploring math and science concepts, areas for pretend play, and areas for creating and experimenting through art and sand/water play. The areas are designed for teachers to interact with children, to bond with them and support all domains of learning. The classrooms are also designed to support health and safety, well as promoting independence with sinks and child-sized restrooms in every classroom.

Out of each classroom also comes stories of success. One of the toddlers was identified during his time in Early Head Start as having a speech and language delay. As research shows, many



low-income children do not have exposure to a wide range of vocabulary, and struggle to keep up with their middle-class counterparts. Teaching staff created a language rich environment with conversation, open-ended questioning designed to stimulate thinking skills, reading stories, singing songs, and creating a print rich environment. Prior to leaving the Early Head Start classroom to enter pre-school, this child's world widened and his vocabulary grew, speaking full sentences and expressing herself to all who would listen, in English and Spanish.

An annual SF-429A form was being filed annually with the other main grant that has federal interest in the property. Specifically, the SF-429A Annual Real Property Status Report for the year ended 1/31/2017, recognized the major renovation completed in the Summer of 2016, thus complying with reporting requirements surrounding major renovations. Gateway continues to work with the

Regional Office to ensure the accuracy of Annual Real Property Status Report filing, in keeping with OMB requirements.

**Corrective Action Plan (Federal Interest):** Moving forward, Gateway will update its Policies and Procedures to ensure timely filing of Notices of Federal Interest that comply with the current 1303 Subpart E regulations.

**Alternative Corrective Action (Real Property):** Gateway continues to work with the Regional Office to ensure the accuracy of Annual Real Property Status Report filing, in keeping with OMB requirements.

**OIG:** Gateway Did Not Always Properly Allocate Expenditures Among benefitting awards

**Gateway:** Nonconcurrency

Gateway has an approved and clear cost allocation plan that looks at the category of an expense and allocates it based on what is reasonable. Gateway looks at every cost and the inherent benefit to the program. In regards to the referenced lodging expense charged 100 percent to one program; Gateway charged the expense to where the maximum benefit was received for that expense at that time. It is not reasonable for Gateway to allocate each minor expense related to lodging/training/etc., as this would cause undue effort to determine allocable proportions to each award for immaterial amounts.

The 2016 Parent, Staff, and Leadership Training Conference was a launching point for ensuring all staff integrate the new Head Start Program Performance Standards into their planning, goals, and ongoing monitoring procedures. The conference provided opportunities for learning about data-driven planning as well as the starting point for strengthening research-based parent education

curriculum. Conferences such as these strengthen a program and have led to creating systems for ongoing improvements through use of tools such as DataSay for assisting with data analysis. In the past years, Gateway has strengthened its implementation of Creative Curriculum ensuring its Education Team is well trained in curriculum implementation, CLASS observations, and child assessment data analysis. In addition, conferences such as this led Gateway to adopt Ready Rosie a research-based Family Engagement on-line tool, now an essential tool during the 2020-21 pandemic. Conferences spark the creativity of teams within Head Start to continue the journey of excellence.

Gateway will continue to review its approved Cost Allocation Plan periodically to ensure the most proportionate costs are being charged. Gateway personnel participate in on-going trainings, maintain an open dialogue with their fiscal specialist, and request approval and guidance continuously. It is worth noting again that Gateway has not had a fiscal audit finding in nearly a decade.

**Alternative Corrective Action (Real Property):** Gateway will continue to review its approved Cost Allocation Plan periodically to ensure the most proportionate costs are being charged. Gateway personnel participate in on-going trainings, maintain an open dialogue with their fiscal specialist, and request approval and guidance continuously.

#### **RESPONSE TO OIG RECOMMENDATIONS:**

Gateway made a statement of non-concurrence related to the following unallowable cost findings and recommendations: calculation of Indirect Costs, E-rate vendor credits, Equipment procurement. As such, Gateway does not concur with the recommendation to refund HHS/ACF. Gateway provided information and received approval from HHS on actions it took to ensure compliance and to make quality improvements within its program. Gateway concurred with OIG findings and recommendations as it relates to the incomplete documentation for use of company vehicles.

Gateway regularly updates its financial policy and procedures to ensure compliance with all Federal requirements. Gateway maintains strong internal controls and ensures appropriate cost allocations. Gateway participates in training and works closely with its program and fiscal specialists to ensure accuracy of cost information and cost proposals, acting on approved proposals and applications.

## APPENDIX D: ACF COMMENTS



### ADMINISTRATION FOR **CHILDREN & FAMILIES**

Office of the Assistant Secretary | 330 C Street, S.W., Suite 4034  
Washington, D.C. 20201 | [www.acf.hhs.gov](http://www.acf.hhs.gov)

March 05, 2021

Ms. Amy J. Frontz  
Deputy Inspector General for Audit Services  
U.S. Department of Health and Human Services  
200 Independence Avenue, SW  
Washington, DC 20201

Dear Ms. Frontz:

The Administration for Children and Families (ACF) appreciates the opportunity to respond to the Office of Inspector General (OIG) **draft** report titled, *Gateway Community Action Partnership Claimed Unallowable Costs, Did Not Comply with Federal Regulations on Construction and Major Renovations, and Did Not Accurately Account for Grant Funds, A-02-18-02011*.

The following is ACF's response to the OIG's recommendation:

#### **Recommendation 1:**

Ensure that Gateway complies with Federal requirements and verifies information submitted by Gateway to support Gateway's grant award applications, including requesting Gateway to obtain independent analyses of cost comparisons for Head Start facility construction and major renovations.

#### **Response:**

Respectfully, ACF does not concur with this recommendation.

In response to Hurricane Sandy, ACF assembled a Disaster Recovery Team (Recovery Team) that included members who were familiar with the grantee, its service area and were facilities subject matter experts able to address overall disaster recovery needs. ACF also assigned two facilities specialists to the Recovery Team, to review grantee submitted documentation. Their review included assessment of the grantee's compliance with 45 Code of Federal Regulations Part 1309, entitled Head Start Facilities Purchase, Major Renovation and Construction, which were the program specific facility regulations in effect at the time, as well as associated costs of a new Head Start facility.

The Recovery Team considered factors such as applicable flood plain and building code requirements established by the Federal Emergency Management Agency, state and local building requirements, and taking into account the immediate, interim and long-term consequences and associated costs resulting from Hurricane Sandy.

Page 2 – Ms. Frontz

ACF used its extensive familiarity with the grantee and the local service area to conclude that new construction was more beneficial to the community than ongoing services in leased facilities that did not meet regulatory compliance requirements.

ACF reviewed several cost estimates provided by the grantee that were based on the grantee's project development process, including initial design and full project proposals submitted by the top three candidates.

ACF decisions were based on written, verbal, and observational information, including data provided by qualified realtors and building developers. ACF took these steps to ensure Gateway complied with Federal requirements, and verified information submitted by Gateway supported its grant applications.

ACF will continue to review all grant award applications and associated costs with rigor and will continue to strengthen its policies and procedures to ensure compliance with Federal requirements.

Again, thank you for the opportunity to review this draft report. Please direct any follow-up inquiries to Ann Linehan, Deputy Director, Office of Head Start, at [ann.linehan@acf.hhs.gov](mailto:ann.linehan@acf.hhs.gov).

Sincerely,

/s/

Ben Goldhaber  
Deputy Assistant Secretary for  
Administration