Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

SOUTHEAST ARKANSAS COMMUNITY ACTION CORPORATION DID NOT ALWAYS OPERATE ITS HEAD START PROGRAM IN ACCORDANCE WITH FEDERAL REGULATIONS

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

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Deputy Inspector General
for Audit Services

October 2017
A-06-16-00015

Office of Inspector General

https://oig.hhs.gov

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

Report in Brief

Date: October 2017
Report No. A-06-16-00015

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

Southeast Arkansas Community Action Corporation Did Not Always Operate Its Head Start Program in Accordance With Federal Regulations

Why OIG Did This Review

Oversight and management of grant programs is crucial to the Department of Health and Human Services' (HHS) mission and to the health and well-being of the public. Audits of Head Start and other HHS grantees have found internal control deficiencies, problems with financial stability, inadequate organizational structures, inadequate procurement and property management policies, and inadequate personnel policies and procedures. The HHS Administration for Children and Families, Office of Head Start (OHS), requested this review.

The objective of our review was to determine whether Southeast Arkansas Community Action Corporation (Southeast) operated its Head Start program and managed Federal funds in accordance with Federal regulations.

How OIG Did This Review

For the period April 2014 through October 2015, Southeast claimed approximately $3.4 million in Head Start grant costs. We limited our review to a judgmental sample of 76 Head Start general ledger transaction line items totaling $103,455, a judgmental sample of 79 equipment inventory items with a purchase price of $272,229, and internal controls relevant to our objective.

What OIG Found

Southeast did not always operate its Head Start program in accordance with Federal regulations and did not always manage and account for Federal funds. Specifically, Southeast (1) had ineffective controls and accountability over its assets, (2) used questionable methods to allocate shared costs, (3) did not have required fiscal or legal expertise on its governing board, and (4) claimed some unallowable costs.

What OIG Recommends and Southeast's Comments

We recommended that Southeast (1) conduct a full physical inventory to ensure inventory asset records are accurate and complete, follow its existing purchasing policy to submit a purchase requisition one week in advance, and expand its purchasing policies to include review procedures for credit card purchases and consequences for unauthorized purchases; (2) work with OHS to ensure shared costs claimed during our audit period are allocated correctly; (3) elect members to the board of directors who have legal and financial expertise or hire a consultant or another individual with relevant expertise; and (4) refund $4,784 in unallowable costs.

We also made other procedural recommendations in the full report.

In written comments on our draft report, Southeast concurred with all but one of our recommendations and provided information on actions it has taken or plans to take to address our recommendations. Southeast did not fully concur that $4,784 of costs are unallowable and should be refunded. Specifically, Southeast requested that $4,677 of these costs be reconsidered as allowable because Southeast believes they benefit the Head Start program. We maintain that these costs are unallowable because they do not benefit the Head Start program.

The full report can be found at https://oig.hhs.gov/oas/reports/region6/61600015.asp.

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INTRODUCTION

WHY WE DID THIS REVIEW

Oversight and management of grant programs is crucial to the U.S. Department of Health and Human Services' (HHS) mission and to the health and well-being of the public. Audits of Head Start and other HHS grantees have found internal control deficiencies, problems with financial stability, inadequate organizational structures, inadequate procurement and property management policies, and inadequate personnel policies and procedures.

The Region VI Office of Head Start (OHS) requested that we review Southeast Arkansas Community Action Corporation (Southeast) because of complaints about credit card abuse and potentially unallowable expenses.

OBJECTIVE

The objective of our review was to determine whether Southeast operated its Head Start program and managed Federal funds in accordance with Federal regulations.

BACKGROUND

Head Start Program

Title VI of the Omnibus Budget Reconciliation Act of 1981 established Head Start as a Federal discretionary grant program. The program was most recently reauthorized by the Improving Head Start for School Readiness Act of 2007 (P.L. No. 110-134, codified at 42 U.S.C. 9801 et. seq.) (Head Start Act). The major program objectives include promoting school readiness and enhancing the social and cognitive development of low-income children by providing educational, health, nutritional, and social services.

Head Start provides grants to local public and private nonprofit and for-profit agencies to provide comprehensive child development services to economically disadvantaged children and families, with a special focus on helping preschoolers develop the early reading and math skills needed to be successful in school. Head Start engages parents in their children's learning and emphasizes parental involvement in administering local Head Start programs.

Within HHS, the Administration for Children and Families (ACF), OHS, administers the Head Start program. During Federal fiscal years (FYs) 2014 and 2015, Congress appropriated $17.2 billion to fund Head Start's general operations.

Southeast Arkansas Community Action Corporation

Southeast, based in Warren, Arkansas, is a nonprofit community action agency providing Head Start services for 365 children in 5 counties in southeast Arkansas (Ashley, Bradley, Chicot, Desha, and Drew Counties). Southeast also operates the following programs in the same geographical area: Low-Income Home Energy Assistance Program, Emergency Food and Shelter Program, and Emergency Food Assistance Program. Southeast also receives funding from a Community Services Block Grant (CSBG).

Federal Requirements

For grant awards made prior to December 26, 2014, 45 CFR Part 74 establishes uniform administrative requirements governing HHS grants and agreements awarded to nonprofit entities. For grant awards made on or after December 26, 2014, 45 CFR Part 75 establishes uniform administrative requirements, cost principles, and audit requirements for Federal awards to non-Federal entities. Our audit period encompasses two awards: one made on April 1, 2014, to which 45 CFR Part 74 applies; and one made on July 1, 2015, to which 45 CFR Part 75 applies. For the purposes of this report, if there were only minor, non-substantive differences between the provisions of the rules that applied to a finding, we cited the provisions of 45 CFR Part 74, as it applied during the majority of our audit period. If there were substantive differences between the rules that applied to a finding, we determined the applicable rule on a case-by-case basis.

Head Start-specific program regulations are at 45 CFR sections 1301–1311.

HOW WE CONDUCTED THIS REVIEW

For the period April 2014 through October 2015, Southeast claimed $3,382,250 in Head Start grant costs. We limited our review to a judgmental sample of 76 Head Start general ledger transaction line items (such as travel, training, utilities, supplies, etc.) totaling $103,455 and a judgmental sample of 79 equipment inventory items with a purchase price of $272,229. The judgmental sample included 5 to 7 inventory items from each Head Start center and 25 inventory items from the central office, with an emphasis on computing devices, vehicles, and high-dollar items. We did not perform an overall assessment of Southeast's internal control structure. Rather, we reviewed only internal controls that pertained directly to our objectives.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

See Appendix A for the details of our audit scope and methodology.

FINDINGS

Southeast did not always operate its Head Start program in accordance with Federal regulations and did not always manage and account for Federal funds. Specifically, Southeast

(1) had ineffective controls and accountability over its assets, (2) used questionable methods to allocate shared costs, (3) did not have required fiscal or legal expertise on its governing board, and (4) claimed some unallowable costs.

INEFFECTIVE CONTROLS AND ACCOUNTABILITY OVER ASSETS

Federal regulations state that grantees' financial management systems shall provide for effective control over and accountability for all funds, property, and other assets, and shall adequately safeguard all such assets and assure that they are used solely for authorized purposes (45 CFR § 74.21(b)(3) and 45 CFR § 75.302(b)(4)).[1]

Assets Not Adequately Safeguarded

Southeast's *Administrative Policy and Procedures Manual* (Manual) lists the following procedures to account for inventory: (1) the accounting staff will prepare a list of all equipment from the property record indicating the condition and location of each item and ensuring that all equipment is properly tagged to track inventory, and (2) the accounting staff will take a physical inventory of equipment every 2 years, within 90 days of the program yearend. All discrepancies must be clearly explained (Manual, Section IX – Property).

Southeast did not adequately account for inventory.[2] Of the 79 items we judgmentally sampled from Southeast's most recent inventory list:

- 32 sampled items (41 percent) with a listed purchase price totaling $29,855[3] could not be located, even with the assistance of Southeast staff. These included 14 desktop or laptop computers, 4 tablet computers, a John Deere lawnmower, and a cell phone; and

- 16 sampled items[4] (20 percent) with a listed purchase price totaling $70,660 were not tagged to accurately track inventory. These included five computers, five playground equipment items, and an air conditioning unit.

[1] We included 45 CFR Part 75 because we determined control over physical assets via an inspection in April 2016, at which time Part 75 applied.

[2] While the Manual requires inventory of "equipment" (defined as all items valued at $500 or more and with a useful life of more than 1 year (Manual, Section IX – Property)), Southeast also included supplies, furniture and computing devices and did not limit by purchase price.

[3] The inventory list did not include a purchase price for eight missing items. Therefore, the total purchase price includes only 24 of the 32 missing items.

[4] These items included only equipment with a minimum purchase price of $500.

Southeast had policies and procedures in place to account for inventory; however, Southeast's management did not ensure that these policies and procedures were followed.

Southeast did not update its inventory records with the results of the most recent physical inventory, which Southeast officials told us was conducted in June 2014. Furthermore, Southeast officials did not know when the last physical inventory prior to June 2014 had been conducted. The former bookkeeper was responsible for updating the inventory records as changes occurred and updating the inventory records with the results of physical inventories. According to the director of finance and administration, the former bookkeeper had fallen behind in her duties, and it was later discovered that she had not been updating the inventory records as changes occurred.

Because it did not follow procedures for tracking inventory and conducting a physical inventory, Southeast could not account for some equipment it purchased with Federal funds. In addition, Southeast's inventory assets were vulnerable to theft and mismanagement.

Ineffective Accounting Controls

Federal regulations require that Head Start grantees ensure that appropriate internal controls are established and implemented to safeguard Federal assets, check the accuracy and reliability of accounting data, and promote operating efficiency (45 CFR §§ 1304.50(g)(2) and 1301.13(a)).

Bank Reconciliations Not Timely and Duties Not Properly Segregated

According to Southeast's Manual, the bank reconciliations must be approved by the director of finance and administration (Manual, Section III – Cash Disbursements).

Southeast did not complete bank reconciliations in a timely manner and did not properly segregate accounting duties. Specifically:

- Southeast took an average of approximately 3 months and as long as 5 months to prepare bank reconciliations for April 2014 through July 2015. Bank reconciliations for August through October 2015 had not been completed when we were provided the bank reconciliations during our fieldwork in December 2015.

- Southeast's director of finance and administration was responsible for making the bank reconciliations at the time of our review. She was also responsible for recording transactions in the accounting system and had access to the supply of unused checks. Additionally, no one was reviewing the bank reconciliations after they were completed.

Timely completion of bank reconciliations and adequate segregation of duties helps ensure that undetected errors and irregularities are minimized.

The bank reconciliations were completed by the grants manager until she left the organization in April 2015. The director of finance and administration explained that the grants manager was overwhelmed and fell behind with her work. The director of finance and administration then took over the responsibility for preparing bank reconciliations in May 2015. Bank reconciliations after May 2015 were either prepared late or had not been completed because the director of finance and administration told us she could not get the reconciliations to balance because of an issue with the accounting software.

Grant Drawdowns Not Always Supported

Federal regulations state that grantees' financial management systems shall provide for accounting records that are supported by source documentation (45 CFR § 74.21(b)(7)) and that cash advances must be timed in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project (45 CFR § 74.22(b)(2)). Furthermore, Southeast's Manual states that when making a drawdown, Southeast should document its cash need (Section II – Cash Receipts).

Southeast did not always support grant drawdowns from the HHS Payment Management System.[5] During our audit period, Southeast made 60 drawdowns totaling $3,327,146.[6] Southeast retained no general ledger support for 17 of these drawdowns, totaling $681,398 of the total drawdowns.

By failing to follow its policy to document its cash need, Southeast may at times have had more Head Start grant funds on hand than it needed for grant purposes. However, grant drawdowns for the grant year matched grant expenditures from the general ledger, so Southeast did not draw down more total grant funds for the grant year than was needed.

Employees Did Not Obtain Approval for Credit Card Purchases

Southeast's Manual states that purchase requisitions must be made for any goods or services purchased (Section IV – Purchasing). Furthermore, the purchase requisition states that it will be submitted 1 week in advance of need (Appendix A – Forms). Additionally, Southeast's Manual states that the individual signing or approving a purchase requisition must determine whether the expenditure is budgeted, allowable, and necessary, and whether funds are available for the expenditure (Section IV – Purchasing). Southeast's Manual also prohibits personal purchases (Section IV – Purchasing).

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[5] The Payment Management System is the key system HHS uses for disbursing grant funds. The Payment Management System provides web-based access to grantees to request grant fund disbursements and transmits those funds electronically to grantees. It also provides real-time account information to grantee and Federal grant awarding agencies.

[6] The total drawdowns in our audit period ($3,327,146) do not match total grant revenue claimed ($3,382,250) because a drawdown of $55,104 for the 2014 grant year was made after our audit period.

Southeast employees made 42 credit card purchases totaling $11,155 without obtaining approval in advance:

- Nine purchases totaling $8,943 were charged to agency credit cards assigned to the executive director, the director of finance and administration, and the Head Start director. Purchase requisitions were created after these expenses were charged. Examples of the post-expenditure requisitions included purchase requisitions for (1) hotel lodgings for three people totaling $2,108, created by the bookkeeper and approved by the executive director 43 days after the hotel costs were charged to an agency credit card; and (2) airline tickets totaling $1,868, created by the Head Start director and approved by the executive director 46 days after the tickets were charged to an agency credit card.

- The executive director made 33 purchases totaling $1,706 at several restaurants, a pharmacy, and other retail businesses between December 2013[7] and June 2015. These purchases were for the director's personal benefit. The director of finance and administration twice took possession of the executive director's agency credit card after she noticed he was making personal charges. After each of these instances, the card was returned to the executive director when he requested it to make authorized purchases for the agency; however, his unauthorized personal purchases resumed. Each time the director of finance and administration brought the charges to the executive director's attention, he personally reimbursed Southeast for all charges. Furthermore, Southeast did not use Head Start funds to pay these credit card charges. The director of finance and administration reported this issue to the board of directors in July 2015. The board of directors met with the executive director but did not take or recommend disciplinary action; however, the executive director did stop making personal purchases with the agency's credit card after meeting with the board.

Southeast cannot ensure that it is maintaining effective control over and accountability for all funds and that these funds are used solely for authorized purposes when it does not follow its policy to obtain approval in advance of purchases.

The director of finance and administration explained that sometimes employees are in a rush and do not complete purchase requisitions in a timely manner. Additionally, the executive director stated that the personal purchases were made inadvertently because the agency credit card resembled his personal bankcard.

QUESTIONABLE METHODS USED TO ALLOCATE SHARED COSTS

Allowability of costs for nonprofit organizations is determined in accordance with the cost principles laid out in 2 CFR Part 230 (45 CFR 74.27(a)). To be allowable under an award, a cost

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[7] We included one charge that occurred in December 2013 even though it was prior to our audit period because this was the initial unallowable purchase related to the transactions under review.

must be reasonable and allocable to the award (2 CFR Part 230, App. A, § A.2.a). A cost is allocable to a particular cost objective in accordance with the relative benefits received (2 CFR Part 230, App. A, § A.4).

Some Shared Costs May Have Been Incorrectly Allocated

We were unable to determine whether Southeast correctly allocated shared costs to the Head Start program in accordance with the cost allocation plan for 15 expenditures totaling $18,159. Examples of these expenditures are vehicle, property, and general liability insurance; travel; and training. The supporting documentation for the expenditures only specified a dollar amount allocated to the Head Start program. The documentation did not specify the methodology Southeast used to allocate costs to the Head Start program, nor could we determine whether the costs were allocated in accordance with the cost allocation plan.

Furthermore, Southeast officials could not explain the method they used to allocate the sampled expenditures, nor could they explain how to allocate those costs in accordance with the cost allocation plan. The director of finance and administration stated that a former employee in the accounting department was responsible for allocating shared costs during our review period; however, Southeast officials could not explain the methodology for how the former employee allocated costs because this employee never explained or documented the methodology she used.

Vacation, Holiday, and Sick Pay Incorrectly Allocated

Federal cost principles state that fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job—such as vacation leave, sick leave, and holidays—are allowable, provided the costs are absorbed by all organization activities in proportion to the relative amount of time or effort actually devoted to each (2 CFR Part 230, App. B., § 8.g.(1)).

Southeast's cost allocation plan states that "Vacation, holiday and sick pay are allocated in the same manner as salaries."

For 10 of the 12 sampled cost allocations we reviewed, Southeast did not allocate vacation, holiday, and sick pay in the same proportion as salaries, as required. During our audit period, Southeast allocated salaries based on hours worked for each program but allocated vacation, holiday, and sick pay using predefined percentages.

According to the payroll clerk, when she was hired in 2014, she was incorrectly told to allocate vacation, holiday, and sick pay based on a section of the cost allocation plan that used predefined percentages for the positions with shared salaries. In August 2015, she was told that she should instead be allocating vacation, holiday, and sick pay based on the percentage of hours worked for each program. Both methods were listed in the cost allocation plan because it was never updated to remove the method that used predefined percentages.

No Method for Allocating Shared Equipment Costs

The "Equipment" section of Southeast's cost allocation plan does not address how to allocate shared equipment costs to more than one program. Southeast currently allocates 60 percent of shared equipment costs to the Head Start program, regardless of the benefits to the program.

This shared equipment cost allocation percentage was used by a former employee, but Southeast's accounting department does not know why she did so. In addition, Southeast had been alerted to this issue in an email from ACF in 2013 but never corrected its cost allocation plan to include a method of allocating shared equipment costs because the email was sent to the former Head Start director, and the issue was never communicated to the director of finance and administration.

GOVERNING BODY LACKED REQUIRED FISCAL AND LEGAL EXPERTISE

All Head Start agencies are required to establish and maintain a governing body that includes at least one member with a background and expertise in fiscal management or accounting (Head Start Act § 642(c)(1)(B)(i)) and at least one member who is a licensed attorney familiar with issues that come before the governing body (Head Start Act § 642(c)(1)(B)(iii)). If a person with this background and expertise is not available to serve as a member of the board, the board may use a consultant (Head Start Act § 642(c)(1)(B)(vi)). Furthermore, the Head Start Act states that each Head Start agency shall ensure the sharing of accurate and regular information for use by the governing body, including monthly financial statements (Head Start Act § 642(d)(2)).

Southeast's board of directors lacked the necessary fiscal and legal expertise as required by the Head Start Act. Specifically, Southeast's board of directors did not have a member with a background and expertise in fiscal management or accounting, or a member who is a licensed attorney, nor did the board of directors utilize consultants to fill these roles.

Prior to our audit period, Southeast provided detailed financial statements by listing specific cost categories (i.e., salaries, travel, utilities, building maintenance, office supplies, etc.). The director of finance and administration stated that the board of directors requested less detailed Head Start financial statements for discussion during board meetings because they considered detailed financial statements too complex. The less detailed financial statements were limited to two cost categories: "Head Start Expenditures" and "Training/Technical Assistance." The request for less detailed financial statements demonstrates the need for expertise in fiscal management or accounting to effectively oversee Southeast's business operations.

The director of finance and administration explained that Southeast was compliant with these requirements because it had fiscal and legal consultants. However, Southeast was unable to produce contracts for these consultants, and these consultants were never present during board meetings. In addition, three members of Southeast's board of directors told us that they were not aware that it was required for the board to contain members with fiscal and legal expertise.

UNALLOWABLE COSTS CLAIMED

Allowability of costs for nonprofit organizations is determined in accordance with the cost principles laid out in 2 CFR Part 230 (45 CFR 74.27(a)). To be allowable under an award, a cost must be reasonable and allocable to the award (2 CFR Part 230, App. A, §A.2.a). A cost is allocable to a particular cost objective in accordance with the relative benefits received (2 CFR Part 230, App. A, § A.4).

We determined that eight sampled costs totaling $4,784 were not allocable because they did not directly benefit the Head Start program. These unallocable costs included membership dues and costs to attend a conference sponsored by Arkansas Community Action Agencies Association, Inc. (ACAAA), which did not directly benefit the Head Start program, as well as a copier used for CSBG program activities, and utility costs that were mistakenly charged to the Head Start program.

Southeast charged these costs to the Head Start grant because it believed the costs benefited the Head Start program, and it made a clerical error by coding expenses to the wrong expense account.

RECOMMENDATIONS

We recommend that Southeast:

- conduct a full physical inventory to ensure that inventory asset records are accurate and complete, and update the inventory asset records as assets are purchased, moved, or disposed;

- complete bank reconciliations in a timely manner and properly segregate duties associated with bank reconciliations;

- limit future drawdowns from the HHS Payment Management System to past expenditures and immediate future needs as recorded in the general ledger;

- follow its existing purchasing policy to submit a purchase requisition 1 week in advance, as well as expand its purchasing policies to include (1) an individual assigned to review credit card purchases on a monthly basis and (2) a policy establishing consequences for employees who make unauthorized purchases;

- work with OHS to ensure that shared costs claimed during our audit period are allocated correctly, document its methodology for allocating shared costs, develop a written policy that explains how to perform cost allocations, and require a second level of review for cost allocations to ensure the application of correct data to properly allocate costs;

- update its cost allocation plan to include only the methodology that allocates vacation, holiday, and sick pay based on the percentage of hours worked for each program;
- update its cost allocation plan to address how to allocate shared equipment costs to more than one program;
- elect members to the board of directors who have legal and financial expertise or retain the services of a consultant with relevant expertise; and
- refund $4,784 in unallowable costs.

SOUTHEAST ARKANSAS COMMUNITY ACTION CORPORATION COMMENTS

In written comments on our draft report, Southeast concurred with all but one of our recommendations. Southeast did not fully concur with our last recommendation to refund $4,784 in unallowable costs. Southeast requested that $4,677 of these costs, incurred for ACAAA membership dues and to attend an ACAAA conference, be reconsidered as allowable. Southeast added that this conference brought value to the Head Start program and the community action agency by allowing Southeast's staff members to receive information to help achieve their goal of providing support to the entire family.

Southeast also provided information on actions it has taken or plans to take to address our recommendations.

Southeast's comments are included in their entirety as Appendix B.

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing Southeast's comments, we maintain that $4,677 incurred for ACAAA membership dues and to attend an ACAAA conference is unallowable. While we are not expressing an opinion on whether these costs benefited Southeast's community action agency activities, we disagree that they benefited the Head Start program. In addition, we consulted with ACF regarding the allowability of these costs and ACF agreed that they do not benefit the Head Start program. Therefore, we consider the $4,677 allocated to the Head Start program unallowable.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

For the period April 2014 through October 2015, Southeast claimed $3,382,250 in Head Start grant costs. We limited our review to a judgmental sample of 76 Head Start general ledger transaction line items totaling $103,455 and a judgmental sample of 79 equipment inventory items with a purchase price of $272,229.

We did not perform an overall assessment of Southeast's internal control structure. Rather, we reviewed only the internal controls that related to accounting, procurement, and property.

We conducted our fieldwork at Southeast's central office in Warren, Arkansas, from December 2015 through July 2016.

METHODOLOGY

To accomplish our objective, we:

- met with ACF officials to discuss concerns;
- reviewed documentation submitted to OHS alleging credit card abuse and potentially unallowable expenses;
- reviewed applicable Federal laws, regulations, and guidance;
- reviewed Southeast's written internal control procedures related to accounting, procurement, and property;
- interviewed Southeast's management to gain an understanding of internal control procedures related to accounting, procurement, and property;
- reviewed Southeast's A-133 financial statements for FYs 2014 and 2015;
- reconciled the costs Southeast claimed on its 2014 Federal Financial Report to its general ledger;
- reconciled Southeast's drawdowns from the HHS Payment Management System to its general ledger for our audit period;
- reviewed Southeast's bank statements for our audit period;

- reviewed Southeast's board minutes for our audit period;

- reviewed Southeast's board of directors' qualifications;

- reviewed a judgmental sample of 79 items (which included 5 to 7 inventory items from each Head Start center and 25 inventory items from the central office, with an emphasis on computing devices, vehicles and high-dollar items) totaling $272,229 from the equipment inventory list to test inventory accuracy;

- reviewed a judgmental sample of 76 general ledger transaction line item expenses (with an emphasis on high-dollar line item expenses, travel/training, and all line item expenses containing "CSBG" in the description) totaling $103,455 for testing;

- reviewed a judgmental sample of 14 timesheets for the 7 employees for whom salary costs (including vacation, holiday, and sick pay) were shared between the Head Start and CSBG grants to determine whether fringe benefits were correctly allocated; and

- discussed the results of our review with Southeast 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: AUDITEE COMMENTS

Community
Action
PARTNERSHIP
TM

Helping people. Changing Lives.

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August 15, 2017

Patricia Wheeler
Regional Inspector General for Audit Services
Office of Inspector General
Office of Audit Services, Region VI
1100 Commerce Street, Room 632
Dallas, TX 75242

RE: Report No. A-06-16-00015 -Southeast Arkansas Community Action Corporation Did Not Always Operate Its Head Start Program in Accordance with Federal Regulations

Dear Ms. Wheeler:

SEACAC appreciates the opportunity to respond to the Unites States Department of Health and Human Services, Office of Inspector General draft audit Report Number A-06-16-00015 entitled Southeast Arkansas Community Action Corporation Did Not Always Operate Its Head Start Program in Accordance With Federal Regulations. The draft report focuses on four findings:

1. Ineffective controls and accountability over Its assets
2. Used questionable methods to allocate shared costs
3. Did not have required fiscal or legal expertise on its governing board and
4. Claimed some unallowable costs.

The first finding in the area of ineffective controls and accountability over its assets:

A. Assets were not adequately safeguarded. The draft report indicates that:

1. SEACAC did not adequately account for inventory where 41% of sampled items could not be located and 20% were not tagged to accurately track. Policies and procedures were not followed and the result from last inventory was not updated.

B. Ineffective Accounting Controls. The draft report finds that:

SEACAC did not complete bank reconciliations in a timely manner nor have adequate segregation of duties and oversight of completed reconciliations. Bank reconciliations took an average of approximately 3-5 months to be completed. The Finance Director was responsible for recording transactions, completing all bank reconciliation with additional monitoring, and had access to the supply of unused checks.

2. SEACAC did not always retain general ledger support from the HHS Payment Management System. Although grant drawdowns matched grant expenditures at the end of the year, 17 of 60 drawdowns totaling $681,398 retained no general ledger support to ensure that SEACAC did not have more grant funds on hand than needed at the time.

SEACAC is in compliance with Titles VI and VII of the Civil Rights Act and is operated, managed and delivers services without regard to age, religion, disability, political affiliation, veteran status, sex, race, color or national origins.

3. SEACAC employees did not obtain approval for credit card purchases. Post-expenditure requisitions (42) totaling $11,155 were made without obtaining approval in advance. The Executive director made 33 personal purchases totaling $1,706. Head Start did not fund the charges and they were reimbursed by the Executive director and no other charges were made. The current policy in place did not address consequences for such actions.

The OIG report further finds that there were questionable methods used to allocate shared cost:

A. Some shared cost may have been incorrectly allocated. The draft contains a finding that:

   1. In 15 expenditures totally $18,159, SEACAC could not explain nor specify the methodology used in allocating shared cost to the Head Start program nor could there be a determination on whether the costs were allocated in accordance with the cost allocation plan.

B. *Vacation*, Holiday, and *Sick Pay were* incorrectly allocated. The draft report denotes a finding that:

   1. SEACAC did not allocate vacation, holiday and sick pay in the same proportion as salaries. Salaries were allocated based on hours worked for each program but vacation, holiday and sick pay were allocated using predefined percentages. Both methods are listed in the cost allocation plan because it was never updated to remove the method that used predefined percentages.

C. No method *for* allocating *shared* equipment *cost. The* draft report *finds that:*

   1. The equipment section of SEACAC's cost allocation plan does not address how to allocate shared equipment costs to more than one program. An allocation of 60 percent of shared equipment costs was charged to the Head Start program regardless of the benefits to the program. An ACF email alert to this issue was sent in 2013.

The third finding consists of OIG's observation that the Governing body lacked required fiscal and legal expertise:

A. The Governing board lacked the necessary fiscal and legal expertise as required by the Head Start Act. The draft report observes that SEACAC did not have a member with a background and expertise in fiscal management or accounting, or a member who is a licensed attorney, nor did the board of directors utilize consultants to fill these roles.

   1. A revised less detailed financial statement demonstrates the need for expertise in fiscal management or accounting to effectively oversee SEACAC's business operations.

   2. *Contracts for said* consultants *were not* produced *and these* consultants *were never* present during board meetings.

   Board members who were interviewed were not aware that it was required for the board to contain members with fiscal and legal expertise.

Lastly, there was a finding for unallowable costs claimed:

A. SEACAC charged cost to the Head Start grant that did not directly benefit the Head Start program. Eight sampled costs totaling $4,784 were not unallocable costs. The draft report finds that:

1. Membership dues and conference costs sponsored by Arkansas Community Action Agencies Association, Inc. did not directly benefit the Head Start program.

2. Costs for CSBG copier usage and utilities were mistakenly charged to Head Start.

The following addresses each of these matters in turn: Ineffective Controls and Accountability Over

Assets

A. SEACAC concurs with the recommendations in the area of "Assets Not Adequately Safeguarded", The following corrective actions are to avoid vulnerability to theft and mismanagement are:

- SEACAC performed a physical inventory in February of 2017 and the inventory results have been updated.
- As of July 1, 2017, a revised requisition requires that the New/Transfer Equipment form is attached if the equipment purchases is $500 or more and a life of more than 1 year. The Bookkeeper will update the inventory sheet as purchases of equipment are made for tracking inventory.
- The bookkeeper is now responsible for tagging all new equipment and updating the inventory list in accordance with its funding source.
- Staff will receive annual training on policies and procedures which includes the purchasing of equipment, tagging and tracking inventory.

B. SEACAC concurs with the recommendations in the area of "Ineffective Accounting Controls". The following corrective actions will ensure that appropriate internal controls are established and implemented to safeguard Federal assets, check the accuracy and reliability of accounting data and promote operating efficiency.

1. "*Bank Reconciliations Not Timely and Duties Not Properly Segregated*" - The following corrective actions to ensure that undetected errors and irregularities are minimized and duties are segregated are:
   - SEACAC has corrected its actions by completing monthly bank reconciliations timely.
   - The duty of reconciliations has been transferred to the Bookkeeper and Human Resource manager and the Finance Director provides oversight in this matter. The staff received training to perform these duties and the Administrative policies have also been revised to reflect such changes.
   - SEACAC has replaced the antiquated accounting software previously used with a new accounting software (Abila). The new accounting software enhances reporting options and system back up capabilities.

2. SEACAC concurs with the recommendations on "*Grant Drawdowns Not Always Supported*". The following corrective actions are to document that the Federal regulations are met relating to cash advances are timed in accordance with cash requirements of the organization:
   - SEACAC will ensure that each drawdown is accommodated with supporting documentation and on schedule.
   - Staff will receive annual training on policies and procedures which includes drawdown of funds.

3. SEACAC concurs with the recommendations in the area of "*Employees Did Not Obtain Approval for Credit Card Purchases*". The following corrective actions are to maintain control and accountability for all funds and that funds are used solely for authorized purposes by obtaining approval in advance.

- SEACAC adopted a credit card policy in June 2017. This policy also includes the disciplinary actions for any misuse of credit cards.
- The Bookkeeper reviews all credit card purchases, receipts and purchase orders before payments are made monthly. A credit card report and supporting documentation is given to the Governing board and Policy council monthly.
- A purchase requisition will require one week advance notice except for in the case of emergency which should be approved by a Program Director.
- Staff will receive annual training on policies and procedures which includes credit card policy and any authorized card users are required to sign an acknowledgement of policy form.

II. Questionable Methods Used to Allocate Shared Costs

A. SEACAC concurs with the recommendation in the areas of "*Some Shared Costs May Have Been Incorrectly Allocated*" and "*No Method of Allocation Shared Equipment Cost*".
The following corrective actions have been taken to ensure costs are allocable to a particular program and cost objective in accordance with the relative benefits received:

- In 2016 SEACAC accounting staff received technical assistance from the Regional office and revised its Cost Allocation Plan to ensure that it meets Federal requirements and that cost objectives are outlined.
- The Governing Board approved the revised Cost Allocation Plan outlining the methodology for shared costs in December 2016.
- Accounting staff received training and a quick reference guide for allocating shared cost in accordance with the revised plan. A second level review has been implemented with the Fiscal Assist providing oversight of all cost allocations.
- Regular staff meetings are held to ensure all correspondence and required information is exchanged and communicated as necessary.

B. SEACAC concurs with the recommendations in the area of "Vacation, Holiday, and Sick Pay Incorrectly Allocated". The following corrective actions have been taken and are planned to the cost are absorbed by all organizations activities in proportion to the relative about of time:

- In August of 2015, the payroll clerk changed its allocation method to included said time based on the percentage of hours worked for each program.
- The Governing Board approved the revised Cost Allocation Plan outlining the methodology for shared costs in December 2016.

III. Governing Body Lacked Required Fiscal and Legal Expertise

A. SEACAC concurs with the recommendations in the area of "Governing Body Lacked Required Fiscal and Legal Expertise". The following corrective actions have been taken and are planned to establish and maintain a governing board in compliance with the Head Start Act:

- SEACAC is actively involved in the recruiting process for new board members with legal and financial background and expertise. SEACAC expects to have new seats filled in the upcoming election. SEACAC will also require the candidates to provide a resume to support their experience.
- SEACAC is also actively involved in recruiting professionals with legal and financial expertise to provide consultation in the event that newly seated board members lack said qualifications.

- Any agreement established with a professional consultant will have expectations outlined within their contract.

IV. UNALLOWABLE COSTS CLAIMED

A. SEACAC does not concur with the recommendation in the area of "Unallowable Costs Claimed" in refunding $4,784. The reason for the nonconcurrence includes the following:

- $107 was a coding error by the Bookkeeper in allocating CSBG expenditures to the Head Start grant and SEACAC will be refunded to the Head Start.
- SEACAC is requesting the remaining $4,677 be reconsidered as an allowable cost. Reason stated being that the value ACAAA brings to the Head Start program and the community action agency is immeasurable. Head Start has attended the conferences for at least the last ten years. While Head Starts primary role is based on working with children, we are also charged with providing support to the entire family. Attending the ACAAA conferences allows our staff members the opportunities to receive information to help them better achieve this goal. ACAAA's mission is to provide education, advocacy, and a unified voice for community action agencies. We consider Head Start staff the first line of defense in reducing poverty and promoting thriving communities.
- SEACAC will require a report from the conference attendees that will outline the information received and its application process. An evaluation procedure will be implemented by the Head Start director to determine the effectiveness of the information collected.

Southeast Arkansas Community Action Corporation again thanks OIG for this opportunity to provide input regarding the draft audit report. SEACAC believes that it has made substantial strides to implement systems to safeguard against the findings identified in the draft report and then also ensure compliance with the law and the terms and conditions of SEACAC's federal awards. Southeast Arkansas Community Action looks forward to working to resolve the issues OIG has listed, and thereby to allow HHS to rest assured SEACAC is a responsible steward of public funds.

Alethea S. Dallas
Interim Executive Director