



May 20, 2011

**TO:** Yvette Sanchez Fuentes  
Director, Office of Head Start  
Administration for Children & Families

**FROM:** /Lori S. Pilcher/  
Assistant Inspector General for Grants, Internal Activities,  
and Information Technology Audits

**SUBJECT:** Head Start Recipient Capability Audit of Pinellas Opportunity Council, Inc.  
(A-04-09-07005)

Attached, for your information, is an advance copy of our final report on our limited scope review of Pinellas Opportunity Council, Inc.'s (POC) capacity to manage and account for Federal funds and to operate its Head Start program in accordance with Federal regulations. We will issue this report to POC within 5 business days. This review was requested by the Administration for Children and Families, Office of Head Start, as part of its overall assessment of Head Start grantees that have applied for additional funding under the Recovery Act.

If you have any questions or comments about this report, please do not hesitate to contact me at (202) 619-1175 or through email at [Lori.Pilcher@oig.hhs.gov](mailto:Lori.Pilcher@oig.hhs.gov), or contact Peter Barbera, Regional Inspector General for Audit Services, Region IV, at (404) 562-7750 or through email at [Peter.Barbera@oig.hhs.gov](mailto:Peter.Barbera@oig.hhs.gov). Please refer to report number A-04-09-07005.

Attachment



Office of Audit Services, Region IV  
61 Forsyth Street, SW, Suite 3T41  
Atlanta, GA 30303

May 24, 2011

Report Number: A-04-09-07005

Mr. Fred W. Zecker  
Executive Director  
Pinellas Opportunity Council, Inc.  
3443 1<sup>st</sup> Avenue North  
St. Petersburg, FL 33713

Dear Mr. Zecker:

Enclosed is the U.S. Department of Health & Human Services (HHS), Office of Inspector General (OIG), final report entitled *Head Start Recipient Capability Audit of Pinellas Opportunity Council, Inc.* We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me, or contact Denise Novak, Audit Manager, at (305) 536-5309, extension 10, or through email at [Denise.Novak@oig.hhs.gov](mailto:Denise.Novak@oig.hhs.gov). Please refer to report number A-04-09-07005 in all correspondence.

Sincerely,

/Peter J. Barbera/  
Regional Inspector General  
for Audit Services

Enclosure

**Direct Reply to HHS Action Official:**

Ms. Carlis V. Williams  
Regional Administrator, Region IV  
Administration for Children and Families  
U.S. Department of Health & Human Services  
61 Forsyth Street, Suite 4M60  
Atlanta, GA 30303-8909

Department of Health & Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**HEAD START RECIPIENT CAPABILITY  
AUDIT OF PINELLAS OPPORTUNITY  
COUNCIL, INC.**



Daniel R. Levinson  
Inspector General

May 2011  
A-04-09-07005

# ***Office of Inspector General***

<http://oig.hhs.gov>

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The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

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## **OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS**

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

## **EXECUTIVE SUMMARY**

### **BACKGROUND**

Pursuant to P.L. No. 110-134, Improving Head Start for School Readiness Act of 2007, Head Start is a national program that promotes school readiness by enhancing the social and cognitive development of children through the provision of educational, health, nutritional, social and other services to enrolled children and families. Within the U.S. Department of Health & Human Services, the Administration for Children and Families (ACF) administers the Head Start program. The Head Start program provides grants to local public and private non-profit and for-profit agencies to provide comprehensive child development services to economically disadvantaged children and families.

Under the American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), enacted February 17, 2009, ACF received \$1 billion, including nearly \$354 million to help improve staff compensation and training, upgrade Head Start centers and classrooms, increase hours of operation and enhance transportation services. An additional \$356 million was allocated to award all Head Start grantees a nearly five percent cost-of-living increase and bolster training and technical assistance activities.

Pinellas Opportunity Council, Inc. (POC), a non-profit agency, operates community action programs with the cooperation and assistance of governmental and private agencies. POC has entered into a delegate agency agreement with Head Start Child Development and Family Services, Inc., doing business as Pinellas County Head Start (PCHS), to operate a Head Start program at locations throughout Pinellas County, Florida. PCHS performs center- and home-based services that are housed in 22 directly operated and community-partnered centers throughout its service area. POC is funded primarily through Federal and local government grants. During the period January 1, 2008, through March 31, 2009, ACF directly provided grant funds to POC totaling \$14,741,851. POC agreed to forward the funds to PCHS as needed and not to exceed the amount of the grant.

POC received Recovery Act grant funding for the period July 2009 through September 2010, totaling \$802,425 for cost-of-living increases and quality improvement.

### **OBJECTIVE**

The objective of our limited scope review was to determine whether POC is financially viable and has the capacity to manage and account for Federal funds and to operate its Head Start program in accordance with Federal regulations.

### **SUMMARY OF FINDINGS**

Generally, POC is financially viable. However, we identified certain issues concerning its capacity to manage and account for Federal funds and to operate its Head Start program in accordance with Federal regulations. The issues identified pertain to: loans to related parties and improper use of Head Start funds, direct versus indirect costs, personal expenses, and

conflicts of interest and family favoritism. These issues occurred because POC did not always ensure, through monitoring and oversight, that PCHS applied Federal regulations in the operation of its Head Start program.

## **RECOMMENDATION**

In determining whether POC should be awarded additional Head Start and Recovery Act grant funding, we recommend that ACF consider the information presented in this report in assessing POC's capacity to manage and account for Federal funds.

## **PINELLAS OPPORTUNITY COUNCIL, INC. COMMENTS**

In written comments on our draft report, POC concurred with most of our findings and included corrective actions it had taken regarding those findings. However, POC disagreed with some aspects of our finding regarding conflicts of interest because it disagrees that all of the issues we reported are matters that effect POC and the Head Start program. POC stated that its monitoring or oversight responsibilities over PCHS were limited to the Head Start program. It does not believe that it is responsible for other grants or activities administered by PCHS that do not come directly through POC, such as the Healthy Marriages Grant and Friend of Families Foundation operations.

In addition, POC provided further information in its response regarding the safety of children.

POC's comments are included as the Appendix.

## **OFFICE OF INSPECTOR GENERAL RESPONSE**

We agree that, generally, a Head Start grantee would not be responsible for the delegate's misuse of funding beyond the Head Start funds. However, our broader conflict of interest findings fall within POC's jurisdiction for several reasons. First, PCHS regularly provided loans of Head Start funds to Friend of Families Foundation, Inc.(FOFF), and these funds fall squarely within POC's oversight responsibilities. Second, PCHS allocated a disproportionate amount of Head Start funds to shared indirect costs such as Information Technology services. In short, the intermingling of money, staff, and resources, coupled with the complicated grantee/subgrantee relationship between PCHS and FOFF, promoted at least the appearance of conflicts of interest and family favoritism, as detailed in our report. We believe further review by ACF is warranted.

We likewise maintain that, because the Executive Director of PCHS was also the President of the Florida Head Start Association, payments by PCHS to the Florida Head Start Association also promote the appearance of a conflict of interest that merits further review by ACF.

After reviewing POC's comments, we deleted the finding regarding safety of children.

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## **INTRODUCTION**

### **BACKGROUND**

#### **Head Start Program**

Pursuant to P.L. No. 110-134, Improving Head Start for School Readiness Act of 2007, Head Start is a national program that promotes school readiness by enhancing the social and cognitive development of children through the provision of educational, health, nutritional, social and other services to enrolled children and families. Within the U.S. Department of Health & Human Services, the Administration for Children and Families (ACF) administers the Head Start program.

The Head Start program provides grants to local public and private non-profit 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 programs engage parents in their children's learning and emphasize parental involvement in the administration of local Head Start programs.

Under the American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), enacted February 17, 2009, ACF received \$1 billion, including nearly \$354 million to help improve staff compensation and training, upgrade Head Start centers and classrooms, increase hours of operation, and enhance transportation services. An additional \$356 million was allocated to award all Head Start grantees a nearly five percent cost-of-living increase and bolster training and technical assistance activities.

#### **Pinellas Opportunity Council, Inc. and Pinellas County Head Start**

Pinellas Opportunity Council, Inc. (POC), a non-profit agency, operates community action programs with the cooperation and assistance of governmental and private agencies. POC has entered into a delegate agency agreement with Head Start Child Development and Family Services, Inc., doing business as Pinellas County Head Start (PCHS), to operate a Head Start program at locations throughout Pinellas County, Florida. PCHS performs center- and home-based services that are housed in 22 directly operated and community partnered centers throughout its service area.

In addition to operating the Head Start program, PCHS administers the Child Care and Adult Food Programs and is the grantee for the Healthy Marriages grant operated by Friend of Families Foundation, a related party organization.

POC is funded primarily through Federal and local government grants. During the period January 1, 2008, through March 31, 2009, ACF provided \$14,741,851 in grant funds directly to POC. POC agreed to forward the funds to PCHS as needed and not to exceed the amount of the grant. POC received Recovery Act grant funding for the period July 2009 through September

2010 totaling \$802,425 for cost-of-living increases and quality improvement. As the grant recipient, POC retains oversight responsibility for Federal Head Start dollars. In its oversight role, POC conducts quarterly reviews of budgetary items and annual onsite monitoring visits at PCHS to address financial, administrative, and programmatic areas.

## **Federal Requirements**

Pursuant to 45 CFR § 74.21, grantees are required to maintain financial management systems that contain written procedures for determining the reasonableness, allocability, and allowability of costs. Grantees must maintain accounting records that are supported by source documentation and follow financial systems that accurately and completely report the financial results of each HHS-sponsored project or program. Grantees are also required to compare outlays with budget amounts for each award and may use grant funds only for authorized purposes. Further, pursuant to 45 CFR § 1301.30, grantees are required to conduct the Head Start program in an effective and efficient manner, free of political bias or family favoritism.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

### **Objective**

The objective of our limited scope review was to determine whether POC is financially viable and has the capacity to manage and account for Federal funds and to operate its Head Start program in accordance with Federal regulations.

### **Scope**

We performed this limited scope review based on a June 22, 2009, request from ACF. We did not perform an overall assessment of POC's internal control structure. Rather, we reviewed only the internal controls that pertained directly to our objectives. Our review focused on fiscal years (FYs) 2007, 2008, and a portion of 2009.

We performed our fieldwork at POC's and PCHS's administrative offices in St. Petersburg and Largo, Florida.

### **Methodology**

To accomplish our objective, we reviewed: (1) relevant Federal laws, regulations, and guidance and (2) POC's and PCHS's:

- audited financial statements for FYs 2007 and 2008;<sup>1</sup>

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<sup>1</sup> PCHS's financial statement for 2008 was an unofficial draft.

- drawdown process<sup>2</sup> and delegate monitoring;<sup>3</sup>
- financial position, including performing ratio analysis of financial information;
- organizational structure and duties, including that of the Board;
- policies and procedures that address the reporting requirements and terms and conditions of the grant award;
- financial systems established to account for Head Start program funding; and
- procurement practices.

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

## **FINDINGS AND RECOMMENDATION**

Generally, POC is financially viable. However, we identified certain issues concerning its capacity to manage and account for Federal funds and to operate its Head Start program in accordance with Federal regulations. The issues identified pertain to: loans to related parties and improper use of Head Start funds, direct versus indirect costs, personal expenses, and conflicts of interest and family favoritism. These issues occurred because POC did not always ensure, through monitoring and oversight, that PCHS applied Federal regulations in the operation of its Head Start program.

### **FINANCIAL MANAGEMENT**

#### **Loans to Related Parties and Improper Use of Head Start Funds**

Federal regulations (2 CFR § 230, App A, A.2.a.) state, “To be allowable under an award, costs must meet the following general criteria: Be reasonable for the performance of the award and be allocable thereto under these principles.” In addition, Federal regulations (45 CFR § 74.22(b)(2)) state:

Unless inconsistent with statutory program purposes, cash advances to a recipient organization shall be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient

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<sup>2</sup> The drawdown process, as defined by ACF, is the action by which the grantee accesses Federal funds granted to it.

<sup>3</sup> POC entered into an agency delegate agreement with PCHS in which PCHS (the delegate) is contracted to implement and conduct all programmatic and fiscal activities required by the grant. POC (the grantee) in turn is required to monitor and evaluate the performance of the delegate.

organization in carrying out the purpose of the approved program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual disbursements by the recipient organization for direct program or project costs and the proportionate share of any allowable indirect costs.

POC's financial management system allowed PCHS to make temporary non-Head Start loans to related parties and to use Head Start funds to pay non-Head Start costs.

PCHS temporarily used Head Start money to purchase \$159,941 in non-Head Start goods and services between January 2008 and June 2009 for three related parties: Friend of Families Foundation, Inc. (FOFF), Florida Head Start Association, Inc., and Region IV Head Start Association. A limited review of the accounts receivable ledger indicated that PCHS usually refunded the amounts within approximately 1 month.

POC did not verify that PCHS's drawdown requests for \$159,941 represented actual and immediate cash requirements to carry out the Head Start program. This lack of oversight occurred because POC did not adequately monitor the drawdown process to ensure that PCHS was using Head Start funds appropriately. Instead, PCHS initially requested funds from POC in lump-sum amounts. Only after POC disbursed the funds to PCHS did PCHS provide a check register to POC as support for the funds requested. POC typically performed a cursory review of the register, scrutinizing only line items that appeared different from previous submissions. As a result, PCHS used Head Start funds to cover non-Head Start costs.

### **Direct Versus Indirect Costs**

Federal regulations (2 CFR § 230, App A, B.1.) state, "Direct costs are those that can be identified specifically with a particular final cost objective, i.e., a particular award." In addition, Federal regulations (2 CFR § 230, App A, C.2.) state, "...typical examples of indirect cost for many non-profit organizations may include depreciation or use allowances on buildings and equipment, the costs of operating and maintaining facilities, and general administration and general expenses, such as the salaries and expenses of executive officers, personnel administration, and accounting."

Furthermore, Federal regulations (45 CFR §§ 1301.32(a)(1) – (g)(5)) state:

Allowable costs for developing and administering a Head Start program may not exceed 15 percent of the total approved costs of the program, unless the responsible HHS official grants a waiver approving a higher percentage for a specific period of time not to exceed twelve months ((a)(1)).

Costs classified as development and administrative costs are those costs related to the overall management of the program. These costs can be in both the personnel and non-personnel categories ((b)(1)).

Grantees must charge the costs of organization-wide management functions as development and administrative costs. These functions include planning, coordination and direction; budgeting, accounting, and auditing; and management of purchasing, property, payroll and personnel ((b)(2)).

Development and administrative costs include, but are not limited to, the salaries of the executive director, personnel officer, fiscal officer/bookkeeper, purchasing officer, pay-roll/insurance/property clerk, janitor for administrative office space, and costs associated with volunteers carrying out administrative functions ((b)(3)).

Other development and administrative costs include expenses related to administrative staff functions such as the costs allocated to fringe benefits, travel, per diem, transportation and training ((b)(4)).

Development and administrative costs include expenses related to bookkeeping and payroll services, audits, and bonding; and, to the extent they support development and administrative functions and activities, the costs of insurance, supplies, copy machines, postage, and utilities, and occupying, operating and maintaining space ((b)(5)).

If a waiver requested as a part of a grant application for funding or refunding is not approved, no Financial Assistance Award will be awarded to the Head Start program until the grantee resubmits a revised budget that complies with the 15 percent limitation ((g)(5)).

In FYs 2007 and 2008, PCHS did not consistently follow its cost allocation plan. As a result, PCHS overstated the amount charged to the Head Start program and understated development and administration costs that are limited to 15 percent of the total approved costs of the program. Due to limited testing performed during this review, we were unable to determine whether they exceeded the 15 percent ceiling.

The following are some examples of charging indirect costs as direct costs:

#### *Information Technology Services Contract*

PCHS charged its information technology (IT) services contract, totaling approximately \$259,000 for 1 year, as direct costs (program services) rather than charging an allocated portion as indirect costs (development and administrative expenses). The IT services benefitted the accounting functions, payroll functions, administrative office, and management functions of PCHS and other programs administered by PCHS. The IT services company determined that approximately 7 percent of IT services were required for administrative support for the programs administered by PCHS. Therefore, at least \$18,389 (7.1 percent) of the total IT services contract amount should have been allocated to development and administrative expenses. Furthermore, because PCHS and FOFF share various personnel, IT equipment, support, and services, PCHS should have allocated a percentage of the \$259,000 to FOFF.

### *Travel and Registration Expenses Associated with Training*

PCHS employees whose duties included administrative functions made seven trips for training purposes between January and October 2008. Their travel and registration fees for these trips totaled \$32,285; however, only \$581 of the total expenses was charged to development and administrative expenses (an indirect cost account) and \$31,704 was charged to program services (a direct cost account). Therefore, PCHS overstated the amount charged to the Head Start program by classifying the \$31,704 as a direct cost instead of as an indirect cost.

As an example of some of the trips taken, seven PCHS employees, who performed administrative functions, and a Board Member attended two training events in Las Vegas, Nevada, entitled *Building Head Start Monitoring Success* and *The 9<sup>th</sup> Annual Grant-Funded Programs Management Conference*. The registration, lodging, transportation, and incidental costs for these administrative personnel and the Board Member to attend these events totaled \$13,569.<sup>4</sup>

During the management conference, PCHS staff also charged a dinner for nine people totaling \$616 to Head Start program services. Six of the nine people who attended the dinner perform administrative functions at PCHS, but PCHS did not charge any costs to development and administrative expenses. Therefore, the amount PCHS charged to program services for the dinner attended by six administrative personnel, was overstated by \$411.

### *Other Development and Administrative Expenses*

PCHS purchased five computers totaling \$10,245 for the use of administrative personnel. However, PCHS charged this purchase and related installation costs to program costs rather than to development and administrative expenses.

### **Personal Expenses**

Federal regulations state:

Costs of goods or services for personal use of the organization's employees are unallowable regardless of whether the cost is reported as taxable income to the employees (2 CFR § 230, App B, 19.).

That portion of the cost of organization-furnished automobiles that relates to personal use by employees (including transportation to and from work) is unallowable as fringe benefit or indirect costs regardless of whether the cost is reported as taxable income to the employees. These costs are allowable as direct costs to sponsored award when necessary for the performance of the sponsored award and approved by awarding agencies (2 CFR § 230, App B, 8.h.).

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<sup>4</sup> This amount is part of the \$32,285 overstatement cited in the preceding paragraph.

Furthermore, PCHS's *fiscal manual* states, "...only costs that are reasonable, allowable and allocable to a Federal award will be charged to that award directly or indirectly."

PCHS charged unallowable personal expenses to the Head Start program. For example, benefits for eight PCHS employees included vehicles for traveling to and from work. PCHS incurred the expenses for fuel and oil, depreciation, insurance, lease payments, maintenance, licenses, and registration for all eight of these vehicles. PCHS did not adjust for the portion of the vehicle costs that related to unallowable personal use by employees. We were not able to determine the unallowable amount because PCHS did not have documentation, e.g., mileage logs, to substantiate personal versus business use. This use of Head Start funds to pay personal expenses occurred because POC did not provide adequate oversight and monitoring to ensure that PCHS was using Head Start funds for program related costs.

### **Conflicts of Interest and Family Favoritism**

Federal regulations (45 CFR § 74.42) state:

No employee, officer, or agent shall participate in the selection, award, or administration of a contract supported by Federal funds if a real or apparent conflict of interest would be involved. Such a conflict would arise when the employee, officer, or agent, or any member of his or her immediate family, his or her partner, or an organization which employs or is about to employ any of the parties indicated herein, has a financial or other interest in the firm selected for an award. The officers, employees, and agents of the recipient shall neither solicit nor accept gratuities, favors, or anything of monetary value from contractors, or parties to sub agreements.

Federal regulations (45 CFR § 1301.30) also state, "Head Start agencies and delegate agencies shall conduct the Head Start program in an effective and efficient manner, free of political bias or family favoritism."

#### *Conflicts of Interest*

A review of the listing of PCHS's Board members, bank signature cards, and accounting records indicated that a Board Member of PCHS, who serves as the Treasurer for the Board, is also a paid consultant for FOFF.<sup>5</sup> This poses an apparent conflict of interest because the Treasurer has check cosigning capabilities and also receives monies from FOFF, a related party organization, as a paid consultant.

A review of PCHS's accounting records and contracts, and discussions with PCHS personnel, indicated that the Executive Director of PCHS is also the Executive Director of FOFF and, in that role, entered into a contract with her daughter to provide consulting services for FOFF. FOFF paid the Executive Director's daughter's consulting company a total of \$28,258. However, a PCHS finance department employee provided documentation of the payments and commented that because of an apparent conflict of interest between FOFF and the Executive

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<sup>5</sup> PCHS is the grantee for the Healthy Marriages Initiative Grant operated by FOFF.

Director's daughter, Region IV Head Start Association subsequently became the payer to the daughter's company through part of April 2009. Then, according to the same employee, because of a disagreement over contractual payment amounts between Region IV Head Start Association and the Executive Director's daughter, payment was then resumed by FOFF even though it was previously deemed a conflict of interest by the PCHS and FOFF<sup>6</sup> finance departments. The Executive Director of PCHS is also a board member of the Region IV Head Start Association.

In addition, the Executive Director of PCHS and FOFF is also the president of the Florida Head Start Association, Inc. A review of PCHS's employee training list and additional information provided by PCHS employees indicated that PCHS paid the Florida Head Start Association, Inc. to provide training for some of PCHS's employees. PCHS paid \$10,725 to the Florida Head Start Association, Inc. for two training sessions during 2008. Because the Executive Director of PCHS and FOFF and the president of the Florida Head Start Association, Inc. is the same person, any transactions between these three organizations pose an apparent conflict of interest.

### *Family Favoritism*

PCHS personnel commented during several meetings that FOFF contracted with the husband of the PCHS Deputy Director for Program Services to provide service for the Male Involvement program for FOFF and paid him \$3,960 from January 1, 2009, through June 30, 2009. He is also a contracted employee associated with the Male Involvement program for PCHS; therefore, PCHS is not free of family favoritism.

All of these instances occurred because POC did not always understand and enforce Federal regulations or properly oversee and monitor PCHS's organizational structure.

## **INSUFFICIENT GRANTEE MONITORING**

POC did not always ensure that PCHS applied or enforced Federal regulations because, in its role as the grantee, POC did not properly oversee or monitor PCHS in its role as the delegate. Although POC transferred Federal funds to PCHS, it retained its Head Start oversight responsibilities and is, therefore, responsible for all of the issues delineated above.

## **RECOMMENDATION**

In determining whether POC should be awarded additional Head Start and Recovery Act grant funding, we recommend that ACF consider the information presented in this report in assessing POC's capacity to manage and account for Federal funds.

## **PINELLAS OPPORTUNITY COUNCIL, INC. COMMENTS**

In written comments on our draft report, POC concurred with most of our findings and included corrective actions it had taken regarding those findings. However, POC disagreed with some aspects of our finding regarding conflicts of interest because it disagrees that all of the issues we reported are matters that effect POC and the Head Start program. POC stated that its monitoring

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<sup>6</sup> PCHS and FOFF share finance personnel.

or oversight responsibilities over PCHS were limited to the Head Start program. It does not believe that it is responsible for other grants or activities administered by PCHS that do not come directly through POC, such as the Healthy Marriages Grant and Friend of Families Foundation operations.

In addition, POC provided further information in its response regarding the safety of children.

POC's comments are included as the Appendix.

## **OFFICE OF INSPECTOR GENERAL RESPONSE**

We agree that, generally, a Head Start grantee would not be responsible for the delegate's misuse of funding beyond the Head Start funds. However, our broader conflict of interest findings fall within POC's jurisdiction for several reasons. First, PCHS regularly provided loans of Head Start funds to FOFF, and these funds fall squarely within POC's oversight responsibilities. Second, PCHS allocated a disproportionate amount of Head Start funds to shared indirect costs such as Information Technology services. In short, the intermingling of money, staff, and resources, coupled with the complicated grantee/subgrantee relationship between PCHS and FOFF, promoted at least the appearance of conflicts of interest and family favoritism, as detailed in our report. We believe further review by ACF is warranted.

We likewise maintain that, because the Executive Director of PCHS was also the President of the Florida Head Start Association, payments by PCHS to the Florida Head Start Association also promote the appearance of a conflict of interest that merits further review by ACF.

After reviewing POC's comments, we deleted the finding regarding safety of children.

# **APPENDIX**

**PINELLAS OPPORTUNITY COUNCIL, INC.**

3443 FIRST AVENUE NORTH, ST. PETERSBURG, FLORIDA 33713-8450

P. O. BOX 11088, ST. PETERSBURG, FLORIDA 33733-1088

Fred W. Zecker, Executive Director

TELEPHONE (727) 327-8690

FAX (727) 321 -9612

*The Community Action Agency Serving Pinellas County, Florida Since 1968*

April 8, 2011

Report Number: A-04-09-07005

Peter J. Barbera  
Regional Inspector General for Audit Services  
Department of Health and Human Services  
Office of Inspector General  
Office of Audit Services, Region IV  
61 Forsyth Street, SW, Suite 3T41  
Atlanta, GA 30303

Dear Mr. Barbera:

Enclosed are our comments in response to the observations and recommendations in your draft report dated March 31, 2011 which resulted from your visit to our agency in July 2009.

If you require additional response please advise.

Sincerely,

Fred W. Zecker  
Executive Director

## Financial Management

### *Loans to Related Parties and Improper Use of Head Start Funds*

POC concurs with the findings as they relate to loans to related parties and improper use of Head Start funds. It should be noted that transactions of this nature were a customary practice of the past PCHS senior management staff for many years and such practices were conveyed to new senior management staff as agency turnover occurred. In reviewing the history of PCHS external audit examinations by various external regulatory entities, there was no indication that such practices were ever deemed non-compliant and therefore, such practices continued.

However, as a result of information shared with PCHS during the OIG review and POC and PCHS' current management staff receiving additional training related to various regulations governing the Head Start Program, appropriate measures have been made to revise the internal procedures related to the request for drawdown of and use of federal funds.

**Corrective Action Taken:** POC as of July 2009, required that PCHS follow the steps outlined below prior to making an official written federal funds drawdown request to POC to ensure that drawdown requests represent actual and immediate cash requirements to carry out the Head Start program only, thereby preventing even temporary use of Head Start funds to pay non-Head Start costs (i.e. related party transactions):

1. PCHS A/P specialist must fax a copy of the accounts payables voucher batch to the POC finance office. This report outlines the vendor to be paid, cost center to be charged, a brief description of the nature of the charge, and the payment amount for each expense. This report also includes a breakdown of funds that are allowable under the HS grant which will be requested in the drawdown request and those that are non-allowable which will be paid from non-federal unrestricted funds. POC reviews the report for accuracy and makes inquiries as necessary to ensure that the breakdown as presented is correct prior to approving the batch. Once POC approves the batch the top page of the batch is initialed by the POC finance office and faxed back to the PCHS A/P specialist to indicate the batch is authorized to move forward with an official drawdown request.
2. The PCHS A/P specialist prepares the official drawdown letter and faxes the letter along with the cash forecast log to the POC finance office. The cash forecast log provides PCHS and POC with information on the current cash on hand balance in the operating bank account. If there is a cash balance these funds are used to decrease the federal funds drawdown request required to cover the approved A/P batch expenses. If there are any discrepancies in the amount on the drawdown letter POC contacts the PCHS A/P specialist for further clarification and correction if necessary. Once POC verifies that the drawdown letter is appropriately stated to cover only HS expenses then POC initiates the funds request with Payment Management Systems (PMS) for the authorized amount.

3. Once the drawdown request has been processed by PMS, POC faxes a copy of the confirmation to the HS A/P specialist to be maintained with the A/P records relative to the approved batch. Funds are transferred from the POC financial institution to the HS financial institution on the appropriate date and the checks are issued for the approved expenses.
4. Once all checks have been issued PCHS emails a copy of the check register relevant to the approved A/P batch to the POC finance office which is reviewed and compared to the original A/P batch report provided at the onset of the process to ensure that both reports are in agreement.

### ***Direct Versus Indirect Costs***

POC concurs with the findings as they relate to direct and indirect cost allocations. It should be noted that cost allocation plans for the FYs 2007, 2008, and 2009 were developed by PCHS senior fiscal staff who were no longer employed with the agency at the time of this review and the methodology by which costs were being allocated was obtained through the use of those individuals' plans as had been the on-going practice. In reviewing the history of PCHS external audit examinations by various external regulatory entities, there was no indication that such practices were ever deemed non-compliant and therefore, such practices continued.

However, as a result of information shared with PCHS during the OIG review and POC and PCHS' current management staff receiving additional training related to various regulations governing the Head Start Program, appropriate measures have been made to revise the internal procedures related to cost allocation principles to ensure compliance with federal regulations and thereby ensure that the Head Start program does not exceed the 15% administrative limitation. It should also be noted that in FY 2007 PCHS' total administrative expense percentage was 12.31% and FY 2008 total administrative expense percentage was 8.90% and it is very unlikely that revision of cost allocation plans in those years would have resulted in administrative expenses exceeding the 15% limitation.

### **Corrective Action:**

#### *Information Technology*

In 2010, the PCHS fiscal staff developed a cost allocation spreadsheet that uses the number of employee systems supported by the I.T. contract for each cost center as a base to determine the percentage of the I.T. consulting contract services expense that should be charged to each grant administered by PCHS and of that amount what percentage should be coded to administrative expense versus program expense. The determination of whether costs should be categorized as administrative or programmatic is based on the employee's position, specific job functions, and cost center(s) receiving benefit from the employee's efforts and not by the physical location to which the employee is assigned. The cost allocation spreadsheet is reviewed and re-issued on an annual basis by PCHS fiscal staff to ensure that cost allocation percentages are accurately reflected and adjustments are made to account for any changes. This spreadsheet is provided to POC

prior to the beginning of the fiscal year and during our participation in quarterly fiscal conferences with PCHS cost allocation plans are compared to PCHS financial reports to ensure that expenses are being allocated in accordance with the plan.

*Travel and Registration Expenses Associated with Training:*

In 2010, the PCHS fiscal staff developed a cost allocation spreadsheet that uses the same methodology for staff payroll cost allocation submitted with the annual grant application budget information to determine the amount of training travel and registration expenses to be charged to each grant administered by PCHS as administrative expense or program expense. The cost allocation spreadsheet is reviewed and re-issued on an annual basis by PCHS fiscal staff to ensure that the cost allocation percentages are accurately reflected and adjustments are made to account for any changes. This spreadsheet is provided to POC prior to the beginning of the fiscal year and during our participation in quarterly fiscal conferences with PCHS cost allocation plans are compared to PCHS financial reports to ensure that expenses are being allocated in accordance with the plan.

*Other Development and Administrative Expenses*

During FY 2007, 2008, and 2009 all I.T. related expenses were being charged directly to the I.T. cost center in accordance with the cost allocation plans referenced in the concurrence statement. However, in September 2010 through an organizational restructuring involving the reassignment of job responsibilities, the Program Grants and Contracts Specialist was charged with the duties of issuing purchase orders, reviewing supporting documentation, and coding expenses to appropriate cost centers for all agency procurements. Therefore, currently all purchases relating to computer equipment are now being charged to the cost centers utilizing the same cost allocation basis utilized to allocate payroll and training expenses.

*Personal Expenses*

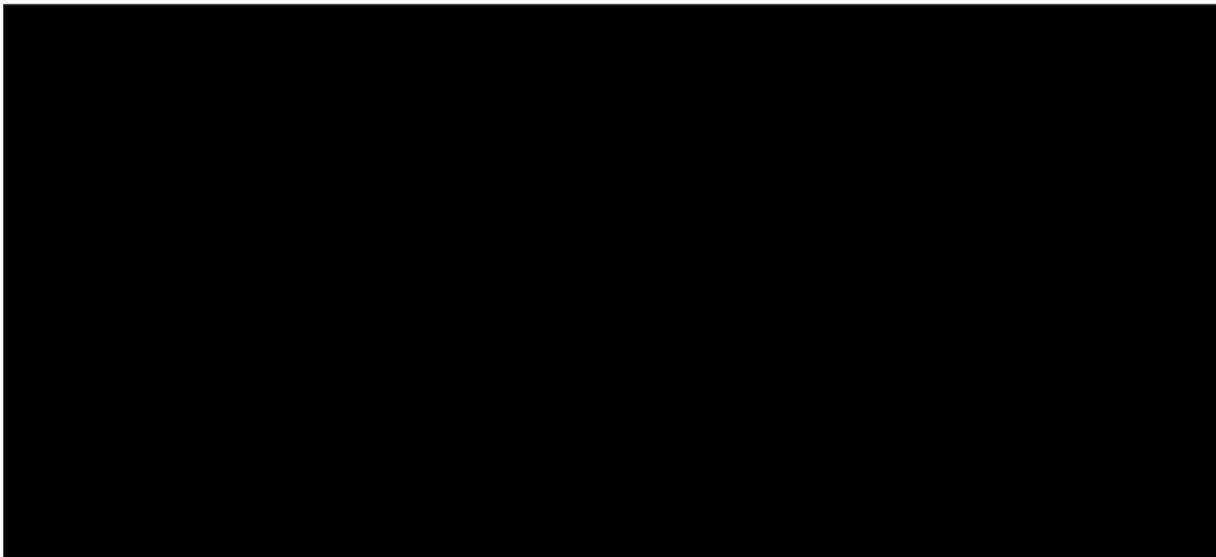
POC concurs with the finding as it relates to personal expenses. In order to correct this finding POC will direct PCHS to revise its current policies and procedures to reflect that all personal use of agency vehicles are unallowable under federal regulations 2 CFR § 230, App B, 19 and 2 CFR § 230, App B, 8.h. and will not be charged to the federal grant award. The policies and procedures must ensure that all agency vehicle travel will be documented (via mileage logs) to substantiate personal from business use, funds to cover the personal use expense of vehicles will not be included in the PMS draw down requests, and the federal IRS mileage reimbursement rate shall be used in calculating the cost of the personal use of vehicles to be excluded from HHS grant expenses and paid from non-federal resources. The policies and procedures will be due to POC for review and approval within 30 days.

***Conflicts of Interest and Family Favoritism:***

We acknowledge and agree that as the grantee for the Head Start program we have monitoring and oversight responsibilities as they relate to the Head Start grant and program. We do not, however, have any such responsibilities relating to other grants PCHS receives, which do not come through us, such as the HHS Healthy Marriages Grant that comes directly from HHS to PCHS, and which PCHS utilizes its Friend of Families Foundation to operate and oversee.

Only the conflict of interest finding relating to the PCHS board treasurer constitutes monitoring and oversight responsibility for POC. The treasurer no longer served as a consultant for the Friend of Families Foundation effective May 2009. As stated in the “insufficient grantee monitoring” response, POC and PCHS management staff will review the conflict of interest definition and get training to better understand what constitutes conflict of interest to ensure that we do not enter into practices which constitute such.

The Conflict of Interest finding relative to the Executive Director and her daughter, the Conflict of Interest finding relative to Region IV and the Florida Head Start Association, and the Family Favoritism finding you cite in your report are not related to our Head Start program, but rather to the Healthy Marriages Grant and Friend of Families Foundation operations, therefore POC contends that we have no monitoring or oversight responsibilities relative to those issues.

**Insufficient Grantee Monitoring**

We acknowledge and agree that as the grantee for the Head Start program we have monitoring and oversight responsibilities as they relate to the Head Start grant and program. We do not, however, have any such responsibilities relating to other grants

PCHS receives, which do not come through us, such as the HHS Healthy Marriages Grant that comes directly from HHS to PCHS, and which PCHS utilizes its Friend of Families Foundation to operate and oversee.

Two of the Conflict of Interest findings and the Family Favoritism finding you cite in your report are not related to our Head start program, but rather to the Healthy Marriages Grant and Friend of Families Foundation operations, therefore we contend that we have no monitoring or oversight responsibilities relative to those issues. POC and PCHS management staff will review the conflict of interest definition and get training to better understand what constitutes conflict of interest to ensure that we do not enter into practices which constitute such.

As a result of the OIG review POC has strengthened its monitoring and oversight of the Head Start Program. POC will expand its PCHS quarterly financial review meetings to include review of contracts and certain other voucher batch source documentation, i.e. credit card statement detail, quarterly out of town travel detail, and personal use of agency vehicle recordkeeping, expense, and reimbursement detail.

Additionally, for the 2010 annual PCHS monitoring POC engaged the services of a third party individual who is a certified public accountant familiar with Head Start federal regulations, performance standards, and protocols to assist in this process.

It should be noted that POC has been the grantee for the Head Start Program since 1968. No monitoring program review teams from HHS or any independent auditor reports ever indicated that our monitoring of Head Start was insufficient. We have in fact been awarded Head Start and Recovery Act funding for 2010 and 2011 and programs have performed effectively and efficiently in accordance with Federal regulations.

It should also be noted that we have received and continue to receive funding from several other sources to operate other programs. For more than 40 years we have successfully utilized the funding in accordance with governing rules and regulations and have received no indication that we have not properly accounted for funds or that we have not performed in anything other than an effective and efficient manner.