



DEPARTMENT OF HEALTH AND HUMAN SERVICES

OFFICE OF INSPECTOR GENERAL



OFFICE OF AUDIT SERVICES, REGION II
JACOB K. JAVITS FEDERAL BUILDING
26 FEDERAL PLAZA, ROOM 3900
NEW YORK, NY 10278

May 18, 2012

Report Number: A-02-11-02007

Ms. Debrah Garcia
Chief Executive Officer/Executive Director
Long Island Child and Family Development Services, Inc.
98 Austin Street
Patchogue, NY 11772

Dear Ms. Garcia:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled *Long Island Child and Family Development Services, Inc.'s Financial Management System Did Not Accurately Disclose Head Start Program Results*. 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 Glenn H. Richter, Audit Manager, at (518) 437-9390, extension 227, or through email at Glenn.Richter@oig.hhs.gov. Please refer to report number A-02-11-02007 in all correspondence.

Sincerely,

/James P. Edert/
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Ms. Joyce A. Thomas
Regional Administrator
Administration for Children and Families, Region II
26 Federal Plaza, Room 4114
New York, NY 10278

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**LONG ISLAND CHILD AND FAMILY
DEVELOPMENT SERVICES, INC.'S
FINANCIAL MANAGEMENT SYSTEM
DID NOT ACCURATELY DISCLOSE
HEAD START PROGRAM RESULTS**



**Daniel R. Levinson
Inspector General**

**May 2012
A-02-11-02007**

Office of Inspector General

<http://oig.hhs.gov>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

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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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The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

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Notices

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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.

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

Title VI of the Omnibus Budget Reconciliation Act of 1981 established Head Start as a Federal discretionary grant program. The major program objectives include promoting school readiness and enhancing the social and cognitive development of low-income children by providing health, educational, nutritional, and social services. In 1994, the Head Start program was expanded to establish Early Head Start, which serves children from birth to 3 years of age. We refer collectively to both programs as “Head Start.” Within the U.S. Department of Health and Human Services (HHS), the Administration for Children and Families (ACF) administers Head Start.

Long Island Child and Family Development Services, Inc. (LIHS) is a nonprofit corporation that operates Head Start programs at 23 centers throughout Suffolk County, New York. During the 5-year period December 1, 2004, through November 30, 2009, ACF awarded Head Start funds to LIHS totaling \$71,793,310.

Pursuant to 45 CFR § 74.22(b)(2), cash advances to grant recipients shall be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project. In addition, Federal regulations require grantees to maintain financial management systems that provide for accurate, current, and complete disclosure of the financial results of each program (45 CFR § 74.21(b)(1)).

ACF requested that we perform a limited scope review of LIHS’s cash advances. In its request, ACF expressed concern that a liability for unexpended grant funds reported in LIHS’s audited financial statements for FYs 2005 through 2009 indicated that LIHS drew down Head Start grant funds in excess of program-related expenditures.

OBJECTIVE

Our objective was to determine if LIHS drew down Head Start grant funds in excess of program-related expenditures during FYs 2005 through 2009.

SUMMARY OF FINDING

LIHS did not draw down Head Start grant funds in excess of program-related expenditures during FYs 2005 through 2009. Rather, LIHS overstated its liability for unexpended grant funds during this period (the overstated liability totaled \$1,489,093 at the end of FY 2009). The overstatement occurred because LIHS’s procedures for reviewing and approving transactions recorded in its financial management system were inadequate.

RECOMMENDATIONS

We recommend that LIHS:

- reduce the liability for unexpended grant funds recorded in its financial management system as of the end of FY 2009 by \$1,489,093 and
- strengthen its procedures for reviewing and approving transactions recorded in its financial management system.

LONG ISLAND HEAD START COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, LIHS described steps it had taken to address our recommendations that it reduce the liability for unexpended grant funds and to strengthen its financial management system procedures. LIHS's comments appear in their entirety as the Appendix.

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INTRODUCTION

BACKGROUND

Head Start Program

Title VI of the Omnibus Budget Reconciliation Act of 1981 established Head Start as a Federal discretionary grant program. The major program objectives include promoting school readiness and enhancing the social and cognitive development of low-income children by providing health, educational, nutritional, and social services. In 1994, the Head Start program was expanded to establish Early Head Start, which serves children from birth to 3 years of age. We refer collectively to both programs as “Head Start.” Within the U.S. Department of Health and Human Services (HHS), the Administration for Children and Families (ACF) administers Head Start.

Long Island Child and Family Development Services, Inc.

Long Island Child and Family Development Services, Inc. (LIHS) is a nonprofit corporation that operates Head Start programs at 23 centers throughout Suffolk County, New York. During fiscal years (FY) 2005 through 2009, ACF awarded Head Start funds to LIHS totaling \$71,793,310.¹

Requirements for Head Start Grantees

Pursuant to 45 CFR § 74.22(b)(2), cash advances to grant recipients shall be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project. In addition, Federal regulations require grantees to maintain financial management systems that provide for accurate, current, and complete disclosure of the financial results of each program (45 CFR § 74.21(b)(1)).

Administration for Children and Families Request for Review

ACF requested that we perform a limited scope review of LIHS’s cash advances. In its request, ACF expressed concern that a liability for unexpended grant funds reported in LIHS’s audited financial statements for FYs 2005 through 2009 indicated that LIHS drew down Head Start grant funds in excess of program-related expenditures.

¹ Specifically, ACF awarded Head Start funds to LIHS totaling \$13,779,614 in FY 2005; \$14,112,805 in FY 2006; \$14,413,121 in FY 2007; \$14,452,715 in FY 2008; and \$15,035,055 in FY 2009. (LIHS’s FY runs from December 1 through November 30.)

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine if LIHS drew down Head Start grant funds in excess of program-related expenditures during FYs 2005 through 2009.

Scope

This review was performed based upon a limited scope request from ACF. Therefore, we did not perform an overall assessment of LIHS's internal control structure. Rather, we reviewed only the internal controls that pertained directly to our objective.

We conducted fieldwork at LIHS's administrative office in Patchogue, New York from June through December 2011.

Methodology

To accomplish our objective, we:

- reviewed relevant Federal laws and regulations,
- reviewed LIHS's audited financial statements for FYs 2005 through 2009,
- interviewed LIHS personnel to gain an understanding of LIHS's financial management system,
- reviewed LIHS's procedures for reviewing and approving transactions recorded in its financial management system,
- traced Head Start funds drawn down by LIHS to invoices and other supporting documentation,
- analyzed transactions recorded in the liability account established in LIHS's financial management system to track unexpended grant funds, and
- discussed our results with LIHS 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 objective.

FINDING AND RECOMMENDATIONS

LIHS did not draw down Head Start grant funds in excess of program-related expenditures during FYs 2005 through 2009. Rather, LIHS overstated its liability for unexpended grant funds during this period (the overstated liability totaled \$1,489,093 at the end of FY 2009). The overstatement occurred because LIHS's procedures for reviewing and approving transactions recorded in its financial management system were inadequate.

FINANCIAL TRANSACTIONS IMPROPERLY RECORDED

The liability for unexpended grant funds recorded in LIHS's financial management system was overstated by \$1,489,093 at the end of FY 2009 because LIHS improperly recorded financial transactions. Specifically:

- The liability account was overstated by \$764,669 because LIHS did not record a FY 2005 payment related to its not meeting established Head Start enrollment levels.²
- The liability account was overstated by \$1,532,499 because, in FY 2005, the account was not adjusted for unsupported drawdowns previously recorded.³
- The liability account was understated by \$808,075 because, during FYs 2007 through 2009, LIHS personnel improperly recorded yearend and corresponding reversing entries.

These improperly recorded transactions occurred because LIHS's procedures for reviewing and approving transactions recorded in its financial management system were inadequate. As a result, LIHS did not accurately and completely disclose the financial results of its Head Start program.

RECOMMENDATIONS

We recommend that LIHS:

- reduce the liability for unexpended grant funds recorded in its financial management system as of the end of FY 2009 by \$1,489,093 and
- strengthen its procedures for reviewing and approving transactions recorded in its financial management system.

² LIHS returned these funds to ACF.

³ LIHS initially indicated to its independent auditor that it was unable to provide requested support for the drawdowns and properly recorded the drawdowns in the liability account. However, the liability account was not adjusted when LIHS subsequently provided the requested support.

**LONG ISLAND HEAD START COMMENTS AND OFFICE OF INSPECTOR
GENERAL RESPONSE**

In written comments on our draft report, LIHS described steps it had taken to address our recommendations that it reduce the liability for unexpended grant funds and to strengthen its financial management system procedures. LIHS's comments appear in their entirety as the Appendix.

APPENDIX

APPENDIX: LONG ISLAND HEAD START COMMENTS



Long Island Head Start
98 Austin Street, Patchogue, NY, 11772
Phone 631.758.5200 / Fax 631.758.3512
www.liheadstart.org / email: info@liheadstart.org

April 10, 2012

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Office of Inspector General
Department of Health and Human Services, Region II
26 Federal Plaza, Rm. 3900
New York, N.Y. 10278
Attn.: Mr. James P. Edert, Regional Inspector General for Audit Services

Re: Report Number: A-02-11-02007

Dear Mr. Edert,

In response to your letter dated March 29, 2012, referenced to report number A-02-1102007, the agency has concluded that L.I. Child and Family Development Services, Inc. did not draw down Grant Funds in excess of program expenditures during FYs 2005 through 2009.

As per your recommendation to reduce the liability for unexpended grant funds recorded in our financial management system as of the end of FY 2009 by \$1,489,093, we have created a reversing journal entry in order to remove the erroneous liability. In addition, we have strengthened our procedures for reviewing and approving transactions recorded in our financial management systems, by refining internal controls and closely monitoring journal entries to ensure that they correlate with actual transactions according to GAP.

We appreciate your time and effort reviewing, tracing and analyzing all transactions recorded in the liability account which incorrectly overstated our Financial Statements from 2005 to present.

Should you have any questions please do not hesitate to contact Elsa Cruciani, Director of Finance at (631) 758-5200 X 107 or me directly at X 122.

Sincerely,

Debrah Garcia
Debrah Garcia
CEO/Executive Director

cc: Terrence D. Goode, Chair, Board of Directors
Elsa G. Cruciani, Director of Finance
Glenn H. Richter, Audit Manager

The mission of Long Island Head Start is to provide a comprehensive learning environment to children respectful of their cultures and to assist families in reaching self-sufficiency through the combined efforts of parents, community, and staff.