



October 19, 2009

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

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

SUBJECT: Recipient Capability Audit of Child Care Association
of Brevard County, Inc. (A-04-09-03529)

The attached final report provides the results of our limited scope review of Child Care Association of Brevard County's (CCA) capacity to manage and account for Federal funds and to operate its Head Start program in accordance with Federal regulations. 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.

The Recovery Act was signed into law by President Obama on February 17, 2009. The Recovery Act includes measures to modernize our nation's infrastructure, enhance energy independence, expand educational opportunities, preserve and improve affordable health care, provide tax relief, and protect those in greatest need.

At the President's direction, Federal agencies are taking critical steps to carry out the Recovery Act effectively. All Federal agencies and departments receiving Recovery Act funds must maintain strong internal controls and implement oversight mechanisms and other approaches to meet the accountability objectives of the Recovery Act.

The objective of our limited scope review was to assess CCA's capacity to manage and account for Federal funds and to operate its Head Start program in accordance with Federal regulations.

CCA cannot effectively manage and account for Federal funds or operate its Head Start program in accordance with Federal regulations. Specifically, CCA:

- lacked sufficient cash to meet its operating expenses and debt obligations,

- lacked an effective financial management system to adequately manage and account for Federal funds,
- did not always value or account for the non-Federal matching portion of its budget in accordance with Federal regulations, and
- did not obtain HHS approval before securing a bank loan with property in which the Federal Government has an interest.

Also, other State and non-Federal agencies cited multiple issues concerning CCA's financial management and viability. Based on its current financial position and future debt obligations, CCA may not be able to continue functioning as a "going concern" unless it receives additional funding.

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

CCA's written comments on our draft report included corrective actions it had taken or planned to take regarding our findings. However, CCA's comments did not cause us to change our findings. Accordingly, we continue to recommend that ACF consider the information presented in this report to determine CCA's capacity to manage and account for Federal funds.

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>.

Please send us your final management decision, including any action plan, as appropriate, within 60 days. 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. Please refer to report number A-04-09-03529 in all correspondence.

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**RECIPIENT CAPABILITY AUDIT
OF CHILD CARE ASSOCIATION OF
BREVARD COUNTY, INC.**



Daniel R. Levinson
Inspector General

October 2009
A-04-09-03529

Office of Inspector General

<http://oig.hhs.gov>

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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

Pursuant to Public Law 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 and Human Services (HHS), the Administration for Children and Families (ACF) administers the Head Start program.

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.

The Child Care Association of Brevard County, Inc. (CCA), a private, non-profit agency, coordinates child care, early childhood education and, early intervention programs and services for families. Specifically, CCA operates a Head Start program, which along with a childcare food program provides education, nutrition, health, mental health, dental, and social services to low-income preschool children and their families throughout Brevard County, Florida.

CCA is funded primarily through Federal Government grants. During the period July 1, 2005, through June 30, 2008, ACF directly provided Head Start grant funds to CCA totaling \$17.7 million (\$6.3 million for the fiscal year (FY) ended June 30, 2006; \$6.0 million for FY 2007; and \$5.4 million for FY 2008). Also, for the 10 months ended April 30, 2009, ACF provided CCA \$4.8 million in Head Start grant funds.

CCA received Recovery Act grant funding for FY 2009, totaling \$498,015 for Head Start, Early Head Start, and cost-of-living increases.

OBJECTIVE

The objective of our limited scope review was to assess CCA's capacity to manage and account for Federal funds and to operate its Head Start program in accordance with Federal regulations.

SUMMARY OF FINDINGS

CCA cannot effectively manage and account for Federal funds or operate its Head Start program in accordance with Federal regulations. Specifically, CCA (1) lacked sufficient cash to meet its operating expenses and debt obligations, (2) lacked an effective financial management system to adequately manage and account for Federal funds, (3) did not always value or account for the non-Federal matching portion of its budget in accordance with Federal regulations, and (4) did not obtain HHS approval before securing a bank loan with property in which the Federal

Government has an interest. Also, other State and non-Federal agencies cited multiple issues concerning CCA's financial management and viability. Based on its current financial position and future debt obligations, CCA may not be able to continue functioning as a "going concern" unless it receives additional funding.

RECOMMENDATION

In determining whether CCA should be awarded additional Head Start and Recovery Act grant funding, we recommend that ACF consider the information presented in this report in assessing CCA's financial condition.

CHILD CARE ASSOCIATION OF BREVARD COUNTY, INC. COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

CCA's written comments on our draft report included corrective actions it had taken or planned to take regarding our findings. CCA also included documents that it believed would provide additional information relative to the report's findings. However, CCA's comments did not cause us to change our findings. Accordingly, we continue to recommend that ACF consider the information presented in this report in assessing CCA's financial condition.

The complete text of CCA's comments is included as the Appendix.

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INTRODUCTION

BACKGROUND

Head Start Program

Pursuant to Public Law 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 and Human Services (HHS), 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.

Child Care Association of Brevard County, Inc.

The Child Care Association of Brevard County, Inc. (CCA), a private, non-profit agency, coordinates child care, early childhood education, and early intervention programs and services for families. Specifically, CCA operates a Head Start program, which along with a childcare food program provides education, nutrition, health, mental health, dental, and social services to low-income preschool children and their families throughout Brevard County, Florida.

CCA is funded primarily through Federal Government grants. During the period July 1, 2005, through June 30, 2008, ACF directly provided Head Start grant funds to CCA totaling \$17.7 million (\$6.3 million for fiscal year¹ (FY) 2006, \$6.0 million for FY 2007, and \$5.4 million for FY 2008). Additionally, for the 10 months ended April 30, 2009, ACF provided to CCA \$4.8 million in Head Start grant funds.

CCA received Recovery Act grant funding for FY 2009, totaling \$498,015 for Head Start, Early Head Start, and cost-of-living increases.

¹CCA's fiscal year covered the period July 1 through June 30.

Federal Requirements

Pursuant to 45 CFR § 74.21, grantees are required to maintain financial management systems that: provide accurate, current, and complete disclosure of the financial results of each HHS-sponsored project and contain written procedures for determining the reasonableness, allocability, and allowability of costs. Grantees must maintain accounting records that are supported by source documentation. Grantees are also required to compare outlays with budget amounts for each award and maintain effective control over all funds, property, and other assets.

Section 642 of the Head Start Act, states that a Head Start agency must document strong fiscal controls, including the employment of well-qualified fiscal staff with a history of successful management. Furthermore, 45 CFR § 1304.51(h) requires a grantee to establish and maintain an efficient and effective reporting system to generate periodic reports of financial operations and official reports for Federal authorities.

Regulations (45 CFR § 74.23) provide criteria for grantees to use in valuing and accounting for cost sharing or matching contributions, including cash and third party in-kind contributions.

Also, 45 CFR § 1304.40(b)(1)(i) states that donated clothing is not allowable as it is beyond the scope of the purposes of the Head Start program.

Pursuant to 45 CFR § 1309.21(b), facilities that are acquired with grant funds may not be mortgaged, used as collateral, sold, or otherwise transferred to another party without the written permission of the responsible HHS official.

OMB Circular A-133 allows submission of program-specific audits within the earlier of 30 days after receipt of the audit report or nine months after the end of the audit period.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of our limited scope review was to assess CCA's capacity to manage and account for Federal funds and to operate its Head Start program in accordance with Federal regulations.

Scope

We performed this review based on a June 15, 2009, limited scope request from ACF. Therefore, we did not perform an overall assessment of CCA's internal control structure. Instead, we reviewed only the internal controls that pertained directly to our objectives. Our review period covered FYs 2006, 2007, and 2008 and the 10 months ended April 30, 2009.

We performed our fieldwork at CCA's administrative office in Brevard County, Florida, during June and July 2009.

Methodology

To accomplish our objective, we:

- reviewed relevant Federal laws, regulations, and guidance;
- reviewed CCA's fiscal procedures related to accounting documentation and preparation of financial reports;
- obtained Federal and local government grant award documentation to determine CCA's Federal funding;
- interviewed CCA personnel to gain an understanding of CCA's operations;
- reviewed CCA's financial statements for FYs 2006 through 2009;²
- reviewed CCA's expense accounts, monthly financial statements, and SF-269s (Financial Status Report) submitted to ACF;
- performed liquidity and stability analyses of CCA's finances;
- reviewed reports of and held discussions with State agencies and non-Federal entities that provided CCA funding;
- obtained and reviewed CCA's loan agreements and property appraisal records; and
- provided a summary of our findings to CCA for comment.

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.

FINDINGS AND RECOMMENDATION

CCA cannot effectively manage and account for Federal funds or operate its Head Start program in accordance with Federal regulations. Specifically, CCA (1) lacked sufficient cash to meet its operating expenses and debt obligations, (2) lacked an effective financial management system to adequately manage and account for Federal funds, (3) did not always value or account for the non-Federal matching portion of its budget in accordance with Federal regulations, and (4) did not obtain HHS approval before securing a bank loan with property in which the Federal

²We reviewed CCA's audited financial statements for FYs 2006, 2007, and 2008, as well as the financial statements for the ten months ended April 30, 2009, which CCA created during our fieldwork. The financial statements for the ten months ended April 30, 2009, have not been audited.

Government has an interest. Also, State agencies and non-Federal entities cited multiple issues concerning CCA’s financial management and viability. Based on its current financial position and future debt obligations, CCA may not be able to continue functioning as a “going concern” unless it receives additional funding.

FINANCIAL POSITION NOT SUFFICIENT TO MEET OPERATING OBLIGATIONS

We performed a liquidity analysis—the relationship of current assets to current liabilities—to determine CCA’s ability to pay its current obligations. Generally, for an organization to be considered fiscally sound, its current assets should be valued more than its current liabilities.

We also performed a debt ratio analysis which is used to determine the overall financial risk of the organization. The debt ratio is an organization’s total debt divided by total assets. This will tell you how much the company relies on debt to finance assets. When calculating this ratio, both current and non-current debt and assets are considered. In general, the lower the organization's reliance on debt for asset formation, the less risky the organization is since excessive debt can lead to a very heavy interest and principal repayment burden.

During FYs 2006, 2007, and 2008 and the 10 months ended April 30, 2009, CCA’s cash position was not sufficient to meet its operating expenses and debt obligations as shown in the chart below.

CCA’s Cash Position

FY	2006	2007	2008	2009³
Current Assets	\$5,168,367	\$3,353,805	\$580,974	\$819,428
Current Liabilities	5,807,938	4,315,215	1,261,160	1,370,322
	(639,571)	(961,410)	(680,186)	(550,894)
Current Ratio	0.89	0.78	0.46	0.60
Total support and revenues	\$35,616,838	\$35,755,801	\$17,688,176	\$11,811,460
Total expenses	36,841,128	36,190,992	18,406,438	11,662,331
Change in net assets	(1,224,290)	(435,191)	(718,262)	149,129
Cash and cash equivalents	\$107,272	\$39,112	\$41,042	\$160,518
Daily Cash Use	100,935	99,153	50,429	38,363
Days of coverage	1.06	0.39	0.81	4.18
Net assets, end of the year	\$(98,316)	\$360,770	\$(208,492)	\$(59,363)

Specifically, CCA’s:

- current liabilities exceeded current assets by a significant amount during each of the FYs 2006, 2007, and 2008 and during the 10 months of FY 2009, which led to a current ratio of less than one for each year;

³This column reflects only 10 months in 2009.

- expenses exceeded revenues in the three full years;
- net assets at the end of two of the three full years and for the 10 months ended April 30, 2009, were negative; and
- cash balance, based on daily cash use, covered operating expenses for periods ranging from less than 1 day for each of the 3 FYs to 4 days for the 10 months ended April 30, 2009.

In FY 2008, a local bank committed to providing CCA with sufficient working capital to cover operations through July 1, 2009, to mitigate CCA's independent auditors' doubts about its ability to continue as a going concern through June 30, 2009. Because of the bank's commitment, the independent auditors did not raise a "going concern" issue in the audit report for FY 2008. CCA's unaudited financial statements for the 10-month period ended April 30, 2009, show that CCA has improved its cash position slightly. However, the Income Statement supporting the Federal form SF-269 filed with ACF for the 12 months ended April 30, 2009, indicated that CCA's expenses exceeded revenues by approximately \$500,000. CCA's current cash position is not sufficient to meet its future operating expenses and debt obligations.

Additionally, CCA does not have sufficient non-Federal funding to pay its long-term debt. During its 2006-2007 budget year, CCA opened a \$1 million line of credit, which it subsequently paid in full from a cash donation of over \$900,000 from the Marjorie G. Olsen Foundation. That same year, CCA was extended another \$1 million line of credit. On September 29, 2008, CCA converted this line of credit to a 20-year mortgage loan worth \$937,583. Again, during March 2009, CCA opened a 60-day line of credit for \$400,000, which it subsequently converted to a 6-year mortgage loan on May 18, 2009. According to CCA officials, the proceeds from both lines of credit were used to cover operational expenses. CCA was required to assign all rental income from current and future tenants to these loans. However, while the average minimum monthly loan payments were \$14,650, CCA's monthly rental income currently averages \$5,000.

Other Issues Potentially Affecting Financial Position

- Recently, CCA was notified that health insurance costs would be increasing 26 percent. Last year, due to a 3 percent increase in health insurance costs, the Board of Directors increased the employees' contributions for the health insurance benefit from 10 percent to 15 percent and is reluctant to increase their contributions again. Health insurance benefits are available for any CCA employee working over 20 hours per week, which means almost every CCA employee qualifies for this benefit.
- A year ago, CCA discontinued until July 1, 2009, the 403(b) match to its employees' retirement contributions. At the May 2009 board meeting, the match was reinstated beginning July 1, 2009.
- CCA was unable to provide any solutions that would mitigate the gap caused by the increased health insurance costs and the resumed 403(b) match.

- Beginning June 15, 2009, the Office of Head Start placed CCA on cash review to safeguard future Federal funds.
- CCA plans to renovate the Monroe Center building. Because the Monroe Center is a historical building, CCA is eligible for a low-interest loan and a grant. At the time of our site visit, CCA anticipated funding these renovations with the loan, the grant, and donations from private individuals.

LACK OF EFFECTIVE FINANCIAL MANAGEMENT SYSTEM

CCA lacks an effective financial management system. Section 642 of the Head Start Act states that a Head Start agency must document strong fiscal controls, including the employment of well-qualified fiscal staff with a successful management history. Furthermore, 45 CFR § 1304.51(h) requires a grantee to establish and maintain an efficient and effective reporting system to generate periodic reports of financial operations and official reports for Federal authorities.

(1) CCA could not provide accurate, current, or complete financial reports of its HHS-sponsored program, nor was it able to generate official reports indicating the current financial status of the program.

(a) CCA did not complete or submit the audited financial statements for FY 2008 by the March 31, 2009, deadline required by OMB Circular A-133.

Additionally, as a result of this audit, the independent auditors provided CCA with several adjusting journal entries that needed to be made to reconcile the trial balance and general ledger with the audited financial statements. The adjusting entries were made on July 7, 2009.

(b) As of July 9, 2009, financial statements for the month of May 2009 had not been finalized. The most recent finalized statements were for the month of April 2009.

(c) CCA submitted its most recent SF-269 on June 1, 2009, for the quarter ended April 30, 2009. CCA stated that the report it submitted to ACF on June 1 was incorrect and would need to be resubmitted.

(2) Inventory:

(a) During a discussion of equipment inventories, CCA stated that discrepancies have occurred in the past because equipment is sometimes moved from one location to another without notification.

(b) Previously, the Early Learning Coalition of Brevard County (Coalition) noted inventory errors during its September 2007 review. For example, the inventory listing CCA provided to the Coalition did not provide the source of funding, and CCA did not provide the Coalition with a fixed asset depreciation schedule.

(c) Subsequent to our site visit, CCA provided us with a listing of its assets. CCA stated that an inventory was in process. However, there were no notations that would indicate that an inventory was in progress.

(d) Additionally, CCA was unable to provide evidence of their prior completed equipment inventory. Regulations (45 CFR § 74.34(f)) require grantees to maintain accurate property records to safeguard against theft.

(3) Reconciliations:

(a) CCA did not always perform its bank reconciliations timely. The account balance on the reconciliation did not always agree with the account balance shown in the general ledger. Additionally, the payroll account was overdrawn for 2 consecutive days in December 2008. Bank reconciliations did not always show evidence of management approval. Sometimes the preparer and reviewer was the same individual.

(b) The accounts payable and accounts receivable aging schedules did not reconcile to the general ledger.

(c) Four of the ten accounts on the detail schedule supporting CCA's most recent SF-269 did not reconcile to the general ledger.

Without proper reconciliations of accounts, CCA could not ensure that correct information is reported on its financial status reports.

(4) Checking Accounts:

(a) One of the four checking accounts CCA used for non-Federal money required only one signature on checks.

(5) Financial Department Staff:

(a) CCA hired its Finance Director late in December 2008 without prior ACF approval. One part-time Finance Department position was eliminated to save costs.

(b) In the FY 2008 audit report, the independent auditors noted that staffing shortages in key accounting and finance positions led to a delay in analyzing the fiscal year-end accounting records, which delayed the auditors from beginning their audit procedures. Several years ago, CCA lost two experienced staff members, who had at least 10 years' experience working for CCA, from its Finance Department. CCA has had four people in the Finance Director role in the past three and a half years. With the Finance Department's small staff (three full-time employees), segregation of duties is limited.

IN-KIND VALUATION AND REPORTING

CCA does not always value or account for the non-Federal matching portion of its budget in accordance with 45 CFR § 74.23, which provides regulatory guidance that all cost sharing or matching contributions, including cash and third party in-kind, must meet.

(1) In-Kind Revenue

(a) The forms that CCA used to record In-Kind Parent Involvement time do not contain a place for the parent volunteers to sign their names or the time signed in and out. CCA did not provide us with sign-in sheets that document parent involvement. The parent volunteer did not prepare the forms; instead, a CCA employee summarized the forms. Without verifiable documentation of the time volunteers actually spent in Head Start activities, we were not able to determine whether CCA was correctly claiming parent involvement as in-kind.

(2) In-Kind Expense

(a) Some In-Kind Expenses, such as donated supplies, contained clothing items (flip flops and children and adult clothing) that are unallowable pursuant to 45 CFR § 1304.40(b)(1)(i).

(b) In-Kind Occupancy Expense, as of March 2009, was overstated by approximately \$2.7 million.

1. During our site visit in July 2009, CCA provided us with two sets of documentation to support the monthly In-Kind Occupancy expense amount recorded on its general ledger. The first set of documentation CCA provided showed that it calculated the monthly In-Kind Occupancy expense as \$62,487 or \$749,844 annually. A CCA employee determined this valuation by calculating the average of local commercial rental rates for similar property in the area for seven CCA facilities.

Later during our site visit, CCA provided us with a second set of documentation to support its In-Kind Occupancy expense that showed the In-Kind Occupancy expense for 8 facilities (the original seven facilities plus an additional facility) as \$71,830 per month or \$861,960 annually.

CCA explained that its In-Kind Occupancy expense calculations differed because during late February or early March 2009, CCA decided that the In-Kind Occupancy expenses it recorded on its general ledger were undervalued. Therefore, CCA attempted to “catch-up” this amount. The catch-up amount CCA posted to its general ledger for March 2009 totaled \$2.5 million. This adjustment, in addition to other related transactions, resulted in an In-Kind Occupancy expense balance of \$3.5 million on CCA’s general ledger at the end of March 2009.

CCA’s “catch-up” amount of \$2.5 million was 40 times greater than its initially calculated \$62,487 monthly In-Kind Occupancy expense amount and 35 times greater than its revised calculated \$71,830 monthly In-Kind Occupancy expense amount.

Based on the amount that CCA said was its correct annual In-Kind Occupancy expense (\$71,830 x 12 months=\$861,960), CCA's general ledger balance for In-Kind Occupancy was overstated by approximately \$2.7 million (\$3.5 million minus \$861,960) at the end of March 2009.

2. CCA's President/CEO indicated that the large variance in In-Kind Occupancy costs from February to March resulted in questions and a discussion at the Board of Directors meeting. However, the only reference to this discussion was in the May 26, 2009, minutes that stated the in-kind variance was due to the Children's Festival.

3. The March, April, and May 2009 general ledgers did not show journal entries to correct the In-Kind Occupancy errors.

COLLATERALIZED PROPERTY

Contrary to regulatory guidance (45 CFR § 1309.21(b)), CCA did not obtain the written permission of HHS prior to using two properties, in which the Federal Government has an interest, as collateral for a loan as required.

A loan in the amount of \$400,000 has been secured by two properties in which HHS has an interest—the Marjorie G. Olsen Center and U.F. Gibbs Center. The Federal Government's interest in the Olsen Center was established approximately 10 years ago. The Olsen Center was purchased with city, county, private, and HHS funds. The Federal Government's interest in the Gibbs Center was established approximately 8 years ago. The Gibbs Center was purchased with some outside fund-raising and a grant from HHS.

CCA stated that it wrote a letter to HHS on June 9, 2009, requesting permission to use these properties as collateral for its \$400,000 loan, but HHS has not responded. An unsigned letter was produced to support this statement. However, the loan documents were finalized and signed on May 18, 2009.

FINDINGS BY OTHERS

For the last 3 years, Child Care Association of Brevard County, Inc. has been reviewed by, or on behalf of, multiple funding agencies: the Coalition, the Florida Agency for Workforce Innovation (AWI), and Florida Department of Health (DOH) (for the USDA Child Care Food Program). Each of these agencies cited multiple issues surrounding the financial management and viability of CCA.

Early Learning Coalition of Brevard County: Prior to 2008, CCA operated two State-sponsored programs: voluntary pre-kindergarten (VPK) and school readiness. With the creation of the Coalition in 2000, childcare organizations were placed under a more structured contract review of budgets and expenditures. From 2005 until 2007, the Coalition monitored and reviewed CCA's corrective action plans. During these years, CCA operated under a fixed-price contract, which required little accountability to, or oversight by, the Coalition. During 2007, the Coalition said it worked with and trained CCA on contractual compliance. Towards the end of June 2007, the Coalition performed a review of the fixed-priced contract. During this review, the

Coalition unsuccessfully attempted to reconcile the program expenses to the contract. The Coalition noted similar problems with like organizations across the State. Because of these problems, the AWI encouraged Coalitions statewide to transition to cost reimbursement contracts with its childcare providers. Subsequently, CCA was extended a 6-month cost reimbursement contract. This 6-month contract, which ended December 2007, allowed the Coalition to monitor contractual compliance with all fiscal terms and conditions. The results of this monitoring led the Coalition to provide CCA with 45 days' notice that the contract would not be renewed. Beginning January 2008, the Coalition brought program operations for these programs in-house. Additionally, the Coalition hired about 12 of CCA's employees during the transition.

Florida Agency for Workforce Innovation: AWI provides funds for the VPK and school readiness programs. These funds flow through the Early Learning Coalitions across the State. As the oversight agency, AWI is responsible for monitoring and reviewing the management of these programs. On February 2008, AWI published a report of its review of the Coalition. According to this report, AWI found that the Coalition's overall implementation of policies and procedures was erratic and unreliable largely due to the poor performance of its contractor, CCA. The report also said that CCA sustained systematic eligibility determination errors that seriously marred the effectiveness of the program. This finding further supported the Coalition's decision not to renew CCA's contract and bring the programs in-house.

Florida Department of Health: DOH administers the USDA Food Program used at Head Start and childcare facilities in Florida. DOH performed a review of CCA's food program during February 2008 for the budget year ended 2007. Some of DOH's findings were: lack of transparency in the accounting software, CCA paid its providers late, expenses reviewed were overstated and not fully documented and monthly claims exceeded the budget amount. In addition, CCA: did not maintain or submit Personnel Activity Reports, did not monitor or provide oversight to its providers, failed to review providers' monthly claims, and made eligibility determination errors. DOH issued CCA a Notice of Serious Deficiency as a result of this review. In response to this notice, CCA was required to address each finding in a corrective action plan. Initially, CCA submitted an incomplete corrective action plan that DOH did not accept. DOH then extended the deadline for submission of a complete corrective action plan. DOH rejected the second submission because it received the plan one month after the due date. In October 2008, DOH proposed terminating CCA's contract and disqualifying a number of CCA Board members from participating in the program in the future. Furthermore, DOH proposed barring for 7 years the President/CEO, two board members, and another employee from serving as a principal in any institution that participated in the childcare food program. On November 10, 2008, DOH withdrew its case against CCA stating that further review of CCA would be necessary to determine if CCA was financially viable.

DOH performed another review of the program during December 2008. As a result of this review, CCA entered into another corrective action plan.

Earlier this year (2009), DOH initiated another review of CCA. As this review is not yet final, no report has been issued. However, based on conversations with DOH personnel, similar issues as those previously noted are recurring.

RECOMMENDATION

In determining whether CCA should be awarded additional Head Start and Recovery Act grant funding, we recommend that ACF consider the information presented in this report in assessing CCA's financial condition.

CHILD CARE ASSOCIATION OF BREVARD COUNTY, INC. COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

CCA's written comments on our draft report included corrective actions it had taken or planned to take regarding our findings. CCA also provided documents that it believed would provide additional information relative to the report's findings. CCA offered the following comments.

Financial Position Not Sufficient To Meet Operating Obligations

Child Care Association of Brevard County, Inc. Comments

CCA said that its Board of Directors (Board) had approved a financial sustainability plan, which it included in its comments as an exhibit. The plan showed \$773,000 in projected savings and revenue initiatives that CCA was implementing for the 2009-2010 year. Concerning our finding that CCA's rental income was not sufficient to meet its total loan commitments of \$14,650 per month, CCA said that its rental income was actually \$6,900 per month rather than the \$5,000 we reported and that we did not include other proceeds that it had committed toward paying the debt, such as individual donations, proceeds from fundraisers, and sale of property.

CCA said that the Board authorized a reduction in staff to mitigate the effects of the health insurance increase and the reinstatement of the employees' 403(b) match. CCA also said it did not plan to borrow money to renovate the Monroe Center complex but would rely on community organizations for assistance in the renovation and continue to pursue grants for the project. CCA believes that, once renovations are completed, it could lease additional space, or, if needed, CCA could relocate staff to the Monroe Center from its downtown space, which it could then sell.

Office of Inspector General Response

CCA's sustainability plan only shows the savings and revenues CCA is projecting for the 2009-2010 year. CCA did not provide any information on what progress it had made to date in reaching these projected savings and revenue goals. In regard to CCA's rental income, CCA only provided us with documentation that showed an average of \$5,000 of monthly rental income. Nonetheless, \$6,900 of monthly rental income would not be sufficient to pay the \$14,650 per month loan obligations. While CCA said that it had also committed individual donations, proceeds from fundraisers, and sale of property toward paying the debt, it did not provide any specific information about how much money it has actually generated from those other sources.

CCA also did not provide any details regarding the extent to which it had obtained community support in renovating the Monroe Center complex or the results of its efforts to obtain grants for the project.

Lack of Effective Financial Management System

Child Care Association of Brevard County, Inc. Comments

CCA said that it had not submitted its FY 2008 audited financial statements to ACF on time because of new staffing in the department and the auditor's workload. CCA had obtained ACF approval to submit its FY 2008 audited financial statements late. CCA said that it had a financial firm working to ensure that it submitted the subsequent audit on time.

In response to our findings that: (1) as of July 2009, financial statements for the month of May 2009 had not been finalized and (2) CCA's quarterly SF-269 report to ACF was incorrect and would need to be resubmitted, CCA said that it had reviewed its processes to streamline functions, thus allowing for timely generation of accurate financial reports.

CCA said the inventory audit, which the Coalition conducted, only found two errors. CCA also said that it provided the Coalition with a fixed asset depreciation schedule as a corrective action item following the receipt of the Coalition's report. CCA further said that all fixed assets were accounted for.

CCA said that it had provided OIG with a packet of information that included the form being used for the inventory [that was in process at the time of the OIG's site visit] and documentation of progress made to date. CCA said that this inventory was completed on August 24, 2009.

In regard to the checking account that only required one signature, CCA said that the Board will evaluate the need for two signatures. According to CCA, this checking account did not house any Federal funds.

Office of Inspector General Response

CCA did not address whether it had finalized its May 2009 financial statements or whether its financial records were up-to-date. CCA's Board and its management cannot make sound decisions without current and accurate financial information. In addition, CCA did not provide any documentation to show the outcome of the processes it reviewed or the functions it streamlined that would allow it to submit timely and accurate financial reports.

In regard to CCA's comment that it provided the OIG with a "packet of information" which documented its progress in completing its inventory, the "packet" we received after we completed our on site work consisted of a memo dated July 30, 2009 that: (1) stated that CCA's . . . inventory is still in progress. . . .", (2) described the extent of the inventory (number of sites that housed equipment that needed to be inventoried). The packet also included a copy of a blank "Inventory Listing" form that CCA said it was using and a 15-page listing of CCA

equipment. The packet did not include any information about the progress of the inventory or when it was scheduled to be completed.

CCA did not provide any evidence that the checking account did not house any Federal funds. Regardless whether the checking account contained Federal funds, a good system of internal control should include an evaluation of the need for more than one signature on a checking account.

In-Kind Valuation and Reporting

Child Care Association of Brevard County, Inc. Comments

CCA said that volunteers must sign their names and note the time in and out on their timesheet for each day worked. Each week, the head teacher at each center tallies the total volunteer hours and forwards them to the central office. A central office staff person then prepares an Agency-wide monthly summary report of volunteer hours. In regard to in-kind items, CCA said it only counts those items that meet Federal regulations.

CCA said that it had corrected the \$2.7 million in-kind overstatement error. CCA further said that its in-kind total for FY 2008-2009 was now \$1.7 million, which exceeds the in-kind requirement.

Office of Inspector General Response

The documentation CCA provided to us while on site to support its monthly in-kind reporting did not include the volunteer time sheet that CCA mentions in its response to the draft report. Since we were only provided a blank example of the timesheet supposedly used, we still have no basis to evaluate the in-kind contribution of parent volunteers. The weekly summary sheets prepared by CCA staff were not considered adequate evidence to support the volunteer time of parents.

In addition, CCA did not provide any documentation to support the validity and reasonableness of the revised figure, \$1.7 million.

Collateralized Property

Child Care Association of Brevard County, Inc. Comments

CCA did not directly address our finding that it did not obtain HHS's written permission prior to using two properties, in which the Federal Government has an interest, as collateral for a loan. CCA included as an attachment to its written comments a letter from its Board Chairman to HHS requesting approval to use property with a Federal interest to secure the loan.

Office of Inspector General Response

The letter CCA included with its comments is unsigned and dated June 9, 2009, which was approximately a month after CCA secured the loan on May 18, 2009. (See the Appendix, page 24.) In this letter, CCA did not describe the property that it used as collateral for the loan nor did it describe the Federal Government's interest in the property.

Findings by Others

Child Care Association of Brevard County, Inc. Comments

CCA did not agree that the results of the Coalition's monitoring led to non-renewal of its contract. CCA said that the Coalition did not renew the contract because it believed it could serve more children and save the administrative fees that were being paid to CCA. According to CCA, the Coalition never provided any verbal or written notice that its contract would not be renewed because of audit findings.

CCA said that the DOH ruled in November 2008 that the findings cited in DOH's February 2008 audit could not be substantiated. CCA also said that DOH never said that "further review of CCA would be necessary to determine if CCA was financially viable." CCA further said that the statement in the report, ". . . based on conversations with DOH personnel, similar issues as those previously noted are recurring" was not based on a completed audit or on a final report.

Office of Inspector General Response

We do not agree with CCA's assertion that the Coalition never provided any verbal or written notice that its contract would not be renewed because of audit findings. In its Contract Compliance Report for the period July 1 through October 31, 2007, the Coalition reiterated the contract renewal language contained in the six-month contract with CCA that said: "[t]his contract may be extended for an additional six (6) months based on the following: Within three (3) months of contract execution, the Sub-recipient will be monitored to ensure contractual compliance with all fiscal terms and conditions. Results of the monitoring will be reviewed by the Coalition to determine overall fiscal compliance. An assessment will be made regarding contract continuation through the end of the fiscal year (June 30, 2008) no later than November 15, 2007." In a letter dated November 11, 2007, the Coalition notified CCA that "in accordance with your contract, an assessment has been made regarding contract continuation. . . . The Coalition Board of Directors unanimously approved non-renewal. . . ."

We also do not agree with CCA's contention that DOH never said that "further review of CCA would be necessary to determine if CCA was financially viable". In a letter dated November 14, 2008, from the DOH Field Operations Manager to the CCA Executive Director, DOH said that it would ". . . initiate further inquiries to determine whether or not Child Care Association of Brevard, Inc. is financially viable and had proper financial management to determine whether or not the serious deficiency identified in the Notice of Serious Delinquency of February 27, 2008, has been fully and permanently corrected."

In a July 2, 2009, conversation with DOH personnel regarding its current review at CCA, DOH said that they were experiencing the same problems obtaining information and following documentation as they had in the past.

The complete text of CCA's comments is included as the Appendix.

APPENDIX

**APPENDIX: CHILD CARE ASSOCIATION OF BREVARD COUNTY
COMMENTS**

Child Care Association of Brevard County, Inc.
community child care coordinating agency

18 HARRISON STREET, COCOA, FL 32922 • PHONE (321) 634-3500 • FAX (321) 634-3513
Website: www.childcarebrevard.com • Email: info@childcarebrevard.com



September 14, 2009

Mr. Peter J. Barbera
Regional Inspector General for Audit Services
Office of Inspector General, Region IV
61 Forsyth Street, S.W., Suite 3T41
Atlanta, Georgia 30303

Re: A-04-09-03529

Dear Mr. Barbera:

Enclosed is the Child Care Association of Brevard County, Inc.'s response to the audit which is subject to review and revision. We appreciate your review and provide our response, including incorporation of corrective actions, as appropriate, in the attachment.

We respectfully request a careful review of our comments and documentation provided for clarity.

Sincerely,

John H. Storm

Dr. John Storm, Chairman
Board of Directors

**Response From
the Child Care Association of Brevard County, Inc.
to the Report By the
Office of the Inspector General**

Reference A-04-09-03529

See Exhibit A – Quality Improvement Plan

- I. Financial Position Not Sufficient to Meet Operation Obligations
 - a. Page 4, 3rd full paragraph: *During FYs 2006, 2007, and 2008 and the 10 months ended April 30, 2009, CCA's cash position was not sufficient to meet its operating expenses and debt obligations.*
The Agency's Board of Directors has approved a Financial Sustainability Plan. [Exhibit B]
 - b. Page 5, 2nd full paragraph, last two sentences: *"CCA was required to assign all rental income from current and future tenants to these loans. However, while the average minimum monthly loan payments were \$14,650, CCA's monthly rental income currently averages \$5,000."*
The Agency did commit rental income toward this debt. Rental income averages \$6,900 monthly, not \$5,000 as stated in the report. Omitted were the other proceeds committed toward paying this debt: 1) individual donations, 2) proceeds from fundraisers; and 3) sale of property.
 - c. Page 5, last bullet at the bottom of the page: *"CCA was unable to provide any solutions that would mitigate the gap caused by the increased health insurance costs and the summed 403(b) match."*
To clarify, the Board of Directors authorized a reduction in staff to absorb health insurance increases and the reinstatement of the 403(b) match.
 - d. Page 6, 2nd bullet at top of the page: *"CCA plans to renovate the Monroe Center building. Because the Monroe Center is a historical building, CCA is eligible for a low-interest loan and a grant. At the time of our site visit, CCA anticipated funding these renovations with the loan, the grant, and donations from private individuals."*
Monroe Center is not a single building but a complex of 11 buildings. The Agency is not pursuing borrowing money for this project; community organizations and volunteers are assisting in renovation of the facility, and

we continue to pursue grants for the project. It should also be noted that renovation of this complex could greatly change the Agency's financial position. Only 3 of 11 buildings at Monroe Center are currently occupied. Renovation will provide another 40,000+ square feet of space that could be leased. The space could also house all the Agency's staff that is currently located in a prime downtown location, which then could be leased for top dollar or sold.

II. Lack of Effective Financial Management System

- a. Page 6, item (1) (a): *"CCA did not complete or submit the audited financial statements for FY2008 by the March 31, 2009, deadline required by OMB Circular A-133."*

The audit report was delayed due to new staff in the department and the audit firm's workload. A letter from the auditor was issued and a letter requesting an extension was submitted and approved. [See Exhibits C, D, E.] The Agency has a financial firm working to ensure that the subsequent audit is completed on time.

- b. Page 6, item (1) (b) and (c): *"As of July 9, 2009 financial statements for the month of May 2009 had not been finalized. The most recent finalized statements were for the Month of April 2009. CCA submitted it's most recent SF-269 on June 1, 2009 for the quarter ended April 30, 2009. CCA stated that the report it submitted to ACF on June 1 was incorrect and would need to be resubmitted."*

The Agency has reviewed its processes in order to streamline functions thus allowing for timely generation of accurate reports and financial documents.

- c. Page 6, last paragraph: *"Previously, the Early Learning Coalition of Brevard County (Coalition) noted inventory errors during its September 2007 review. For example, the inventory listing CCA provided to the Coalition did not provide the source of funding, and CCA did not provide the Coalition with a fixed asset depreciation schedule."*

The inventory audit conducted by the Early Learning Coalition found only two errors that were deemed by the Coalition to be unacceptable. 1) There was no amount shown on the inventory listing form. The form used was provided to CCA by the Coalition and they failed to include a field for the amount. This was corrected by the Coalition. 2) CCA did not provide a fixed asset depreciation schedule. This was provided as a corrective action item following receipt of the report. All fixed assets were accounted for. [See Exhibit F.]

The report states that one error was that no source of funding was provided with the inventory listing. This was not a finding of this audit. Again, the inventory listing form was provided to CCA by the Coalition and included

only the seven (7) items purchased with Coalition funds; there was no other source of funding.

- d. Page 7, top of page, item (c), last sentence: “...there were no notations that would indicate that an inventory was in progress.”
The audit team received a packet of information that included the form being used for the audit and documentation of progress made to date. [See Exhibit G.]

The inventory was completed on August 24, 2009.

- e. Page 7, item (4) (a): “One of the four checking accounts CCA used for non-Federal money required only one signature on checks.”
This account was authorized by the Board of Directors for rental income and general donations. These funds are used to pay for items not allowable by regulation, and are also used for emergencies. As noted, this account contains non-federal funds and there is no requirement for more than one signature at this time. However, the Board will evaluate the advisability of requiring two signatures, consistent with federal guidelines, as further financial safeguard to mitigate any concern.
- f. Page 7, item (5) (a): “CCA hired its Finance Director late in December 2008 without prior ACF approval.”
Head Start staff in Atlanta was fully informed throughout the process of recruiting, interviewing and hiring of the Finance Director. The Finance Director was hired in December 2008 after providing more than three full months of services as a contract consultant. When first contracted, her resume was sent to Atlanta and shared with Head Start staff. When Head Start staff came to the agency in September 2008, to conduct a financial audit, they had an opportunity to speak to the candidate and voiced their approval. They met with her again in October at a risk management meeting in Atlanta. When the decision was made by the Board to offer the position to the candidate, notification was sent to the Agency’s Program Specialist in Atlanta. No written response or acknowledgement has been received. [See Exhibit H.]

III. In-Kind Valuation and Reporting: CCA does not always value or account for the non-Federal matching portion of its budget in accordance with 45 CFR § 74.23.

- a. Page 8, item (1), full paragraph: “The forms that CCA used to record In-Kind Parent Involvement time do not contain a place for the parent volunteers to sign their names or the time signed in and out.”
Each of the 17 centers utilizes a volunteer time sheet for parent and community volunteers. The Agency has a well-established procedure for accounting for parent involvement time that ensures full compliance.

Volunteers must sign their name and note the time in and the time out for each day worked on their timesheet. On a weekly basis, the head teacher at each center tallies the total volunteer hours for each person and includes that on a summary sheet along with a weekly total of all donated goods and other services. Weekly summary sheets are forwarded to the central office where a CCA staff person prepares an Agency-wide monthly summary report. This process and the accuracy of the data are audited as part of the Agency's Continuous Quality Improvement Plan. [See Exhibit I.]

- b. Page 8, item (2) (a): *"Some In-Kind Expenses, such as donated supplies, contained clothing items (flip flops and children and adult clothing) that are unallowable pursuant to 45 CFR § 1304.40 (b)(1)(i)."*
The Agency accepts, documents and acknowledges all donated goods received from the community, and these items are provided to the children and families who need them. However, for the purpose of meeting the non-federal share requirement, the Agency only counts those items which meet with regulations 45 CFR § 74.23 and 45 CFR § 1304.40 (1) (i).
- c. Page 8, item (2) (b): *"In-Kind Occupancy Expense, as of March 2009, was overstated by approximately \$2.7 million."*
This error has been corrected. The total in kind for March 2009 has been adjusted to \$103,707.91. The total in-kind secured for FY 2008-2009 was \$1,711,293.43, which exceeds the requirement.
- d. Page 8, number 1, first and second paragraphs: *"During our site visit in July 2009, CCA provided us with two sets of documentation to support the monthly In-Kind Occupancy expense amount recorded in its general ledger."*
The first set of documentation did not include all eight facilities. The second set of documentation corrected that error.
- e. Page 8, number 1, paragraph 3: *"CCA decided that the In-Kind Occupancy expenses it recorded on its general ledger were undervalued. Therefore, CCA attempted to "catch up" this amounts. The catch up amount posted to its general ledger for March 2009 totaled \$2.5 million."*
This error has been corrected. The total in kind for March 2009 has been adjusted to \$103,707.91. The total in-kind secured for FY 2008-2009 was \$1,711,293.43, which exceeds the requirement.
- f. Page 8, number 1, paragraph 4: *"CCA's "catch-up" amount of 2.5 million was 40 times greater than its initially calculated \$62,487 monthly In Kind Occupancy expense amount and 35 times greater than its revised calculated \$71,830 monthly In Kind Occupancy expense amount."*
This error has been corrected. The total in kind for March 2009 has been adjusted to \$103,707.91, based on monthly occupancy of \$71,830. The total

in-kind secured for FY 2008-2009 was \$1,711,293.43, which exceeds the requirement.

- g.** Page 9, paragraph 1: *“CCA’s general ledger balance for In-Kind Occupancy was overstated by approximately \$2.7 million at the end of March 2009.”*
This error has been corrected. The total in kind for March 2009 has been adjusted to \$103,707.91. The total in-kind secured for FY 2008-2009 was \$1,711,293.43, which exceeds the requirement.
- h.** Page 9, number 3: *“The March, April, and May 2009 general ledgers did not show journal entries to correct the In-Kind Occupancy errors.”*
This error has been corrected. The total in kind for March 2009 was been adjusted to \$103,707.91. The total in-kind secured for FY 2008-2009 was \$1,711,293.43, which exceeds the requirement.

IV. Collateralized Property

- a.** Page 9, paragraphs 1, 2, and 3: *“CCA did not obtain the written permission of HHS prior to suing two properties, in which the Federal government has an interest, as collateral for a loan as required.”*
Extensive conversations were held with representatives from the Department of HHS regarding plans to meet the shortfall of funds for the remainder of the program to include borrowing funds. We believed this to be a joint effort of the Department of HHS and the Child Care Association to solve the problem.

The Agency received a line of credit on March 18, 2009, which was unsecured. The line of credit was converted to a loan on May 18, 2009. HHS officials requested that CCA notify them if the bank would agree to the terms, which was done.

A letter of request was submitted to the Department of HHS on June 9, 2009. To date, no response or acknowledgement has been received. [See Exhibits J, K.]

V. Findings by Others

- a.** Page 9, paragraph 2: *“From 2005 until 2007 ... CCA operated under a fixed-price contract, which required little accountability to, or oversight by, the Coalition.”*
In 2000, local Coalitions were established throughout the state and child care organizations were placed under their contract review. State-funded fixed-price contracts had been in place for decades, and the Agency was always regularly audited, and found to be in full compliance with no findings. The Early Learning Coalition of Brevard County operates only in Brevard County and converted to reimbursement contracts in 2006.

“During 2007, the Coalition said it worked with and trained CCA on contractual compliance.”

The Early Learning Coalition of Brevard County never provided any training to CCA on contractual compliance.

“Towards the end of June 2007, the Coalition performed a review of the fixed price contract.”

The local Coalition did not perform a review of fixed-priced contracts in June of 2007, with a subsequent transition to reimbursement contracts. The Coalition converted from a fixed-price to reimbursement contract in December 2006, midway through the 2006-2007 contract year.

- b. Page 10, paragraph 1: *“AWI encouraged Coalitions statewide to transition to cost reimbursement contracts with its child care providers. Subsequently, CCA was extended a 6-month cost reimbursement contract. This 6-month contract, which ended December 2007, allowed the Coalition to monitor contractual compliance with all fiscal terms and conditions. The results of the monitoring led the Coalition to provide CCA with 45 days’ notice that the contract would not be renewed.”*

The Coalition converted from a fixed-price to reimbursement contract in December 2006, midway through the 2006-2007 contract year. AWI encouraged local Coalitions throughout the state to provide services in-house, and from 2005 to 2007, the ELC of Brevard had gradually migrated various functions in-house. In July 2007, the Coalition extended a 6-month contract to the Agency which ended in December 2007. The Coalition’s stated intention was that they finally bring all functions in-house. Forty-five days prior to the end of the contract, the Coalition notified CCA in writing that the contract would not be renewed based on the Coalition’s assertion that they could serve more children and save the administrative fees being paid to CCA. There was never any verbal or written mention of non-renewal due to audit findings.

- c. Page 10, paragraph 3: *[Findings by the Florida Department of Health] “On November 10, 2008 DOH withdrew its case against CCA stating that further review of CCA would be necessary to determine if CCA was financially viable.”*

On November 10, 2008, Florida Department of Health ruled that the findings cited in the audit conducted during February 2008 could not be substantiated. It was shown that DOH officials had made numerous procedural errors, had misdated actions and communications, had misaddressed correspondence, and had confused Brevard County with Broward County throughout the process.

DOH never stated that “further review of CCA would be necessary to determine if CCA was financially viable.”

- d. Page 10, paragraph 5: *“Earlier this year (2009) DOH initiated another review of CCA. As this review is not yet final, no report has been issued. However based on conversations with DOH personnel, similar issues as those previously noted are recurring.”*

This is not based on a completed audit or a final report.

CHILD CARE ASSOCIATION OF BREVARD COUNTY, INC.

EXHIBITS

- A. Quality Improvement Plan
- B. Financial Sustainability Plan
- C. Letter to HHS (Re: 15-day Extension for Submission of Audit Report – 3/27/2009)
- D. Letter from HHS (Re: Approval of Extension to Submit Audit Report – 3/31/2009)
- E. Letter from Auditor (Re: Delay in Completing Audit – 4/28/2009)
- F. AWI/Office of Early Learning Inventory Documents
- G. Child Care Association Inventory Listing Form
- H. Email to Olissa Williams re: Finance Director
- I. Volunteer Time Sheet
- J. Letter to Jeffrey Fredericks from Board Chair John Storm re: loan
- K. Letter to Jeffrey Fredericks from Board member Wanda Knight re: loan

Quality Improvement Plan

Grantee: Child Care Association of Brevard County, Inc.
Grantee #: 04CH3087
Date: 9/10/09
From: John H. Storm
To: Peter J. Barbera

System: Fiscal Management	Deficiency: Lacks sufficient cash to meet it operating expenses and debt obligations.
----------------------------------	--

Work Completed (Discuss how you have improved this system that includes areas of non-compliance)	Applicable Standards
1. Implementation of Financial Sustainability Plan (See attachment)	45 CFR § 74.14 45 CFR § 74.21 45 CFR § 74.25(e)

Next Steps: 1. Regularly evaluate and revise Plan to maximize revenue and minimize costs

Quality Improvement Plan

Grantee: Child Care Association of Brevard County, Inc.
Grantee #: 04CH3087
Date: 9/10/09
From: John H. Storm
To: Peter J. Barbera

System: Fiscal Management	Deficiency: Lacks an effective financial management system to adequately manage and account for Federal funds.
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Work Completed (Discuss how you have improved this system that includes areas of non-compliance)	Applicable Standards
I. Reviewed processes to streamline functions in order to generate timely reports and documents.	Head Start Act, section 647(a) [42 USC § 9842] 45 CFR § 74.21(b) Head Start Act, section 642. Powers and Functions of Head Start Agencies [42 USC § 9837]. Section 642(i) 45 CFR § 1304.51(h) OMB Circular A-133 §.235 45 CFR § 74.52(a)(1)(iv) 45 CFR § 92.20(a)(2) 45 CFR § 74.34(f)

Next Steps: I. Continuous compliance; timely submission of audit.
--

Quality Improvement Plan

Grantee: Child Care Association of Brevard County, Inc.
Grantee #: 04CH3087
Date: 9/10/09
From: John H. Storm
To: Peter J. Barbera

System: Fiscal Management	Deficiency: Did not always value or account for the non-Federal matching portion of its budget in accordance with Federal regulations.
----------------------------------	---

Work Completed (Discuss how you have improved this system that includes areas of non-compliance)	Applicable Standards
<p>1. The error made in accounting for In-Kind Occupancy for March 2009, has been corrected. The total in-kind for March 2009 has been adjusted to \$103,707.91. The total in-kind secured for FY 2008-2009 was \$1,711,293.43, which exceeds the federal match requirement.</p>	<p>45 CFR § 74.23</p>

<p>Next Steps: 1. Continuous compliance.</p>

Quality Improvement Plan

Grantee: Child Care Association of Brevard County, Inc.
Grantee #: 04CH3087
Date: 9/10/09
From: John H. Storm
To: Peter J. Barbera

System: Fiscal Management	Deficiency: Did not obtain HHS approval before securing a bank loan with property in which the Federal government has an interest.
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Work Completed (Discuss how you have improved this system that includes areas of non-compliance)	Applicable Standards
1. Ongoing communication with HHS officials regarding plans for loan. Letter request submitted; awaiting response.	45 CFR § 1309.21(a)
	45 CFR § 1309.21(b)
	45 CFR § 74.32(a)
	45 CFR § 74.37

Next Steps: 1. Continuous compliance.
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FINANCIAL SUSTAINABILITY PLAN

COST SAVING INITIATIVES	<u>2009-2010 Projected</u>
Staff Reductions	\$200,000.00
Voluntary Leave Without Pay	\$70,000.00
Additional Negotiated Discounts: Food	\$25,000.00
Eliminate Head Start contract provider	\$28,000.00
Additional Negotiated Discounts: Internet/Network Services	\$25,000.00
NET IMPACT	\$348,000.00

REVENUE INITIATIVES	<u>2009-2010 Projected</u>
Rental Income	\$140,000.00
Foundation Grants	\$25,000.00
Sale of Vehicles and Obsolete Equipment	\$20,000.00
Sale of Real Estate	\$150,000.00
Training Fees	\$15,000.00
Fundraiser Events	75,000.00
NET IMPACT	\$410,000.00

ANNUAL IMPACT:

\$773,000.00

3/27/09 emailed faxed & mailed



Child Care Association of Brevard County, Inc.
community child care coordinating agency

18 HARRISON STREET, COCOA, FL 32922 * PHONE (321) 634-3500 * FAX (321) 634-3513

March 27, 2009

Mary Jones
Office of Head Start
Administration for Children and Families
U.S. Department of Health & Human Services
Atlanta Federal Center
61 Forsyth Street, Suite 4M60
Atlanta, GA 30303-8909

Dear Ms. Jones:

Our audit firm just notified us that our audit report will not be ready as scheduled due to an unforeseen backlog in their schedule.

We are therefore requesting a 15-day extension for submission of our audit report.

Your favorable consideration and approval is appreciated.

Sincerely,

Barbara Moore
President/CEO

John H. Storm
Chairman, Board of Directors

cc: Olijssa Williams



Department of Health and Human Services
Administration For Children and Families
Region IV

61 Forsyth Street, Suite 4M60
Atlanta, Georgia 30303-8909

Telephone (404) 562-2800/2900
Fax (404) 562-2981

March 31, 2009

Mr. John Storm, Board Chairperson
Board of Directors
Child Care Association of Brevard County, Inc.
Head Start/Early Head Start Program
18 Harrison Street
Cocoa, Florida 32922-7934

Re: 04CH3087/41

Dear Ms. Storm:

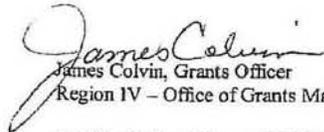
This letter references a letter, dated March 27, 2009, from Barbara Moore, Executive Director of Brevard County Child Care Association, requesting an extension on submitting your Fiscal Year 2007 A-133 organization-wide audit. The audit is for Program Year 41 which has a Program Year end date of April 30, 2008 and a Fiscal Year end date of June 30, 2008. The A-133 audit is due in the Atlanta Regional Office and the Federal Audit Clearinghouse on March 31, 2009.

You stated that your audit firm notified you that the audit report will not be ready as scheduled due to a foreseen backlog in their schedule. You also stated that the Fiscal Year 2007 A-133 organizational-wide audit will be submitted to the Federal Audit Clearinghouse as well as to the Atlanta Regional Office by April 17, 2009.

Your request has been approved. Please notify the Audit Clearinghouse of this approval from the Atlanta Regional Office.

Questions may be directed to Ms. Mary W. Jones, Financial Operations Specialist, at 404-562-2872.

Sincerely,


James Colvin, Grants Officer
Region IV - Office of Grants Management

cc: Ms. Barbara Moore, CEO/Executive Director
Ms. JoAnne Scaringe, Head Start Director
Ms. Marva Taylor, Chief Financial Officer

Alabama • Florida • Georgia • Kentucky • Mississippi • North Carolina • South Carolina • Tennessee



DAVIES, HOUSER & SECREST, CPA, P.A.
BUSINESS CONSULTANTS AND FAMILY WEALTH PLANNERS

Shareholders/Directors
Edward R. Christensen
Stephen A. Ellis
Todd M. Russell

Directors Emeritus
Floyd C. Lemmon
Walter E. Secrest
William R. Kidd

April 28, 2009

Ms. Barbara Moore, President/CEO
Child Care Association of Brevard County, Inc.
18 Harrison Street
Cocoa, Florida 32922

Dear Ms. Moore:

Due to unexpected delays we have encountered during the audit of the Child Care Association of Brevard County, Inc. and a very busy tax season we were not able to complete the audit as anticipated by March 31, 2009. We expect to complete the engagement and issue our reports on the Association no later than May 15, 2009.

Sincerely,

DAVIES, HOUSER & SECREST, CPA, P.A.

A handwritten signature in dark ink, appearing to read 'Stephen A. Ellis', is written over a faint, larger version of the same signature.

Stephen A. Ellis
Certified Public Accountant

SAE:GJK

ATTACHMENT VII

AWI/Office of Early Learning
Master Property Inventory Form

Page 1 of 1

Contract #ELCB06.07-01

Date: September 14, 2007

Early Learning Coalition: Brevard County

Phone: 321-634-3500

Custodian: Child Care Association of Brevard County, Inc.

ORG Code:

Tag#	Description	Serial Number	Condition	Location	Initials
8229	Infocus LP70+XGA 1500 LUMENS Projector	1SANEN64600009	good	Monroe Center	
8203	Laptop Computer	35555644	good	18 Harrison St, Room 18	
8204	Laptop Computer	35555623	good	18 Harrison St, Room 18	
8205	Laptop Computer	35555622	good	18 Harrison st, room 18	
	17" Monitor Soyo	None	good	18 Harrison St, Room 14	
8800	Stech Computer System	09282005-01	good	18 Harrison St, Room 4	
8801	Athlon 64 3200MB	None	good	18 Harrison St, Room14	

Coalition Custodian's Signature _____ Date _____

Coalition Analyst's Signature _____ Date _____

Attachment 2

ATTACHMENT VII AWW/OFFICE OF Early Learning Property Tag Assignment Form		Number: <u>1</u>				
Coalition Designated Custodian: Child Care Association of Brevard County, Inc.						
Address: 18 Harrison Street Cocoa, FL 32922 Phone: 321-634-3500 Fax: 321-634-3513						
Coalition: Early Learning Coalition of Brevard County Address: P.O. Box 560692 Rockledge, FL 32955 Phone: 321-6377241 Fax: 321-6377244						
Affix attached tag(s) to the front of the item(s) listed below. Complete every blank space for each item below. Sign at bottom of form indicating that all information provided is correct and that the tag(s) have been affixed. Attach a copy of the PO, Check or Invoice/Receipt for items listed.						
Coalition Tag#	PO or Check #	Full Street Address of Location of Property	City	Description of Item (Include Manufacture & Model #)	Serial Number	Amount
8229		705 Blake St - Monroe Center	Cocoa	Infocus LP70+XGA 1500 LUMENS Projector	1SANEN54600009	\$1,375.00
8203		18 Harrison St, Room 16	Cocoa	Laptop Computer	355556644	\$1,025.00
8204		18 Harrison St, Room 18	Cocoa	Laptop Computer	355556623	\$1,025.00
8205		18 Harrison St, Room 18	Cocoa	Laptop Computer	355556622	\$1,025.00
8800		18 Harrison St, Room 14	Cocoa	17" Monitor Soyo	None	\$299.00
8801		19 Harrison St, Room 4	Cocoa	Glech Computer System	09282005-01	\$875.00
		20 Harrison St, Room 14	Cocoa	Athlon 64 3200MB	None	\$649.00
I CERTIFY THE TAGS ABOVE HAVE BEEN AFFIXED TO THE PROPERTY DESCRIBED AND THAT ALL ABOVE INFORMATION IS CORRECT.						
Signature AWI-OEL-06/23/2005						Date 321-634-3500 Phone #
ATTACHMENT I						

Child Care Association of Brevard County, Inc.
community child care coordinating agency



18 HARRISON STREET, COCOA, FL 32922 • PHONE (321) 634-3500 • FAX (321) 634-3513

Fixed Asset Equipment Depreciation Schedule

Fixed Asset System "Class" Name	Depreciation in Years - Useful Life
Building Services (Includes security systems)	10 Years
Business (Includes copiers, fax machines and other mechanical office equipment)	5 Years
Communications (Includes telephone switches)	7 Years
Computer	3 Years
Food Service	7 Years
Furniture (Includes desks, chairs, and movable shelving-non-fixed furnishings)	10 Years
Safety	7 Years
Shop & Maintenance (Includes machine tool and wood working equipment, lawn mowers and tractors)	7 Years
Buses	7 Years
Vehicles (Includes standard automobiles, vans and light trucks)	5 Years

Barbara Moore

From: Barbara Moore **Sent:** Wed 8/27/2008 2:04 PM
To: Williams, Olissa (ACF)
Cc:
Subject: CFO hired
Attachments:

Olissa,

I am pleased to report that the Board of Directors has authorized the hiring of an interim CFO.

She is now on staff and receiving her orientation. We will keep you posted on our progress.

Barbara

Child Care Association of Brevard County, Inc.
community child care coordinating agency

18 HARRISON STREET, COCOA, FL 32922 * PHONE (321) 634-3500 * FAX (321) 634-3513
Website: www.childcarebrevard.com * Email: info@childcarebrevard.com



June 9, 2009

Jeffrey Fredericks, Branch Manager
Region IV Office of Head Start
Department of Children and Families
61 Forsyth Street, Suite 4M60
Atlanta, Georgia 30303-8909

Dear Mr. Fredericks:

As you know, our Agency took out a loan to cover our budget shortfall experienced at the end of the last fiscal year, May 2008-April 2009. We also have commitment from our bank for a Line of Credit with collateral. We need HHS approval to use property with a Federal interest to secure the loan and line of credit.

Your authorization and approval is appreciated.

Sincerely,

John Storm, Chairman
Board of Directors

Child Care Association of Brevard County, Inc.
community child care coordinating agency

18 HARRISON STREET, COCOA, FL 32922 * PHONE (321) 634-3500 * FAX (321) 634-3513
Website: www.childcarebrevard.com * Email: info@childcarebrevard.com



July 8, 2009

Jeffrey Fredericks, Branch Manager
Region IV Office of Head Start
Administration for Children & Families
U.S. Department of Health & Human Services
61 Forsyth Street, Suite 4M60
Atlanta, Georgia 30303-8909

Dear Mr. Fredericks:

This will confirm the telephone call with you on Tuesday, July 7, 2009 from J. Albert Diggs, Past President of the Board of Directors confirming arrangements for the Agency's payroll with our bank.

We are forwarding to you the payroll register for the week of July 10, 2009, expenses for this period and the corrected payroll documentation for the week of May 15, 2009.

The Board of Directors has reorganized and authorized a team of Board financial experts to work with Finance Staff weekly to audit and ensure appropriate and timely processing of documents. This extra oversight will provide added expertise to our Finance team and assurance of full compliance.

The Board of Directors and Personnel Committee are continuing to address other changes and efficiencies.

We will provide updates and reports to you as appropriate.

Sincerely,

Wanda Knight, Vice Chairperson
Board of Directors