

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**NEIGHBORHOOD CENTERS, INC.,
CLAIMED UNALLOWABLE HEAD START
COSTS**

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



**Patricia Wheeler
Regional Inspector General**

**September 2013
A-06-11-00055**

Office of Inspector General

<https://oig.hhs.gov>

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

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



DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF INSPECTOR GENERAL



OFFICE OF AUDIT SERVICES, REGION VI
1100 COMMERCE STREET, ROOM 632
DALLAS, TX 75242

September 26, 2013

Report Number: A-06-11-00055

Ms. Angela Blanchard
President and Chief Executive Officer
Neighborhood Centers, Inc.
4500 Bissonnet, Suite 200
Bellaire, TX 77401

Dear Ms. Blanchard:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled *Neighborhood Centers, Inc., Claimed Unallowable Head Start Costs*. 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 <https://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at (214) 767-8414, or contact Michelle Richards, Audit Manager, at (214) 767-9202 or through email at Michelle.Richards@oig.hhs.gov. Please refer to report number A-06-11-00055 in all correspondence.

Sincerely,

/Patricia Wheeler/
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Ms. Kimberly Chalk
Regional Program Manager, Region VI
Office of Head Start
Administration for Children and Families
U.S. Department of Health and Human Services
1301 Young Street, Suite 937 West
Dallas, TX 75202

cc:

Ann Linehan
Deputy Director
Office of Head Start
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Yolanda Brown
Head Start Program Specialist
Office of Head Start
Yolanda.Wise@acf.hhs.gov

EXECUTIVE SUMMARY

Neighborhood claimed \$287,571 in unallowable Head Start grant costs for calendar year 2010.

WHY WE DID THIS REVIEW

Because Office of Inspector General reviews have found that Head Start grantees claimed unallowable costs and had significant internal control weaknesses, we are reviewing Head Start grantees nationwide. Neighborhood Centers, Inc. (Neighborhood), received three Federal grants totaling \$21.6 million for calendar year (CY) 2010 to fund its Head Start and Early Head Start programs: \$16.6 million for its Head Start grant and a total of \$5 million for two grants under the American Recovery and Reinvestment Act (Recovery Act).

The objective of this review was to determine whether Neighborhood claimed Head Start grant costs that were allowable under applicable Federal regulations.

BACKGROUND

Title VI of the Omnibus Budget Reconciliation Act of 1981 established Head Start as a Federal discretionary grant program. For families who have incomes below the Federal poverty level, Head Start and Early Head Start together serve children from birth to age 5 and pregnant women. Federal regulations authorize Federal reimbursement to grantees for the cost of allowable Head Start services. Within the U.S. Department of Health and Human Services, the Administration for Children and Families, Office of Head Start (OHS), administers the Head Start program. In fiscal year (FY) 2010, Congress appropriated \$7.2 billion to fund Head Start's regular operations. The Recovery Act provided an additional \$2.1 billion during FYs 2009 and 2010.

Neighborhood is a nonprofit agency with Head Start locations in the Houston, Texas, area. Of the \$16.6 million in Head Start grant costs claimed, we reviewed \$1.2 million in costs.

WHAT WE FOUND

Neighborhood did not always claim allowable Head Start grant costs under applicable Federal regulations for CY 2010. Of the \$1,161,863 in costs we reviewed, \$874,292 was allowable; however, \$287,571 was unallowable. Specifically, Neighborhood claimed \$131,807 that was not allocable to the Head Start grant and \$155,764 that was not adequately supported. As a result, Neighborhood received \$287,571 in unallowable Federal reimbursement. Neighborhood claimed the unallowable costs because it did not maintain adequate internal controls.

WHAT WE RECOMMEND

We recommend that Neighborhood:

- refund \$287,571 in unallowable costs;
- revise its existing policies and procedures to ensure that all entries in the Head Start expense accounts are adequately reviewed, including for allowability, prior to posting them to the accounts; and
- develop written monitoring procedures to ensure that all expenses posted to the Head Start expense accounts are allowable.

NEIGHBORHOOD COMMENTS AND OUR RESPONSE

In written comments on our draft report, Neighborhood agreed that \$108,491 should not have been charged to the Head Start grant but disagreed that the remaining \$192,177 of the \$300,668 originally determined not to be allowable should be refunded.

After reviewing the additional documentation that Neighborhood provided, we determined that \$13,097 in salary and fringe benefit costs was allowable. We revised our findings and recommendations accordingly. Nothing in Neighborhood's comments caused us to change our other findings or recommendations.

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INTRODUCTION

WHY WE DID THIS REVIEW

Because Office of Inspector General reviews have found that Head Start grantees claimed unallowable costs and had significant internal control weaknesses, we are reviewing Head Start grantees nationwide. Neighborhood Centers, Inc. (Neighborhood), received three Federal grants totaling \$21.6 million for calendar year (CY) 2010 to fund its Head Start and Early Head Start programs: \$16.6 million for its Head Start grant and a total of \$5 million for two grants under the American Recovery and Reinvestment Act (Recovery Act), P.L. No. 111-5.

OBJECTIVE

Our objective was to determine whether Neighborhood claimed Head Start grant costs that were allowable under applicable Federal regulations.

BACKGROUND

Head Start Program

Title VI of the Omnibus Budget Reconciliation Act of 1981 established Head Start as a Federal discretionary grant program. The major program objectives include promoting school readiness and enhancing the social and cognitive development of low-income children by providing educational, health, nutritional, and social services. In 1994, the Head Start program was expanded to establish Early Head Start, which serves children from birth to 3 years of age, to promote prenatal care, enhance the development of infants and toddlers, and promote the healthy functioning of families.

Within the U.S. Department of Health and Human Services (HHS), the Administration for Children and Families, Office of Head Start (OHS), administers the Head Start program. In fiscal year (FY) 2010, Congress appropriated \$7.2 billion to fund Head Start's regular operations.

The Recovery Act provided an additional \$2.1 billion for the Head Start program during FYs 2009 and 2010. These funds were intended for activities such as expanding enrollment, funding cost-of-living wage increases for grantees, upgrading centers and classrooms, and bolstering training and technical assistance.

Neighborhood Centers, Inc.

Neighborhood is a private nonprofit human services organization founded in 1907; its mission is to bring resources, education, and connection to underserved neighborhoods. Neighborhood operates Early Head Start and Head Start programs at eight free-standing centers in the Houston, Texas, area. Additionally, Neighborhood offers home-based programs as well as programs at school and childcare-based sites.

Neighborhood is funded primarily through Federal and State Government grants. For CY 2010, OHS provided Head Start funds and Early Head Start funds to Neighborhood totaling \$16,593,829. For the same period, OHS provided Recovery Act grants to Neighborhood totaling \$4,993,962.

HOW WE CONDUCTED THIS REVIEW

For CY 2010, Neighborhood claimed \$16,590,632 in Head Start grant costs. We limited our review to a nonstatistical sample of Head Start grant costs totaling \$1,161,863.

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

See Appendix A for the details of our scope and methodology. Appendix B contains a list of related OIG reports on the Head Start and Early Head Start programs.

FINDINGS

Neighborhood did not always claim allowable Head Start grant costs under applicable Federal regulations for CY 2010. Of the \$1,161,863 in costs we reviewed, \$874,292 was allowable. However, \$287,571 was unallowable. Specifically, Neighborhood claimed:

- \$131,807 that was not allocable to the Head Start grant, and
- \$155,764 that was not adequately supported.

As a result, Neighborhood received \$287,571 in unallowable Federal reimbursement. Neighborhood claimed the unallowable costs because it did not maintain adequate internal controls.

FEDERAL REQUIREMENTS

Federal regulations (45 CFR part 74) establish uniform administrative requirements governing HHS grants and agreements awarded to nonprofit organizations. As a nonprofit organization that receives Federal funds, Neighborhood must comply with the cost principles at 2 CFR part 230.¹ These cost principles specify the criteria that costs must meet to be allowable. The HHS awarding agency may include additional requirements that are considered necessary to attain the award's objectives.

¹ Cost Principles for Non-Profit Organizations (Office of Management and Budget Circular A-122), incorporated by reference at 45 CFR § 74.27(a).

NEIGHBORHOOD CLAIMED UNALLOWABLE COSTS

Costs Were Not Allocable to the Head Start Grant

To be allowable under applicable Federal regulations, costs must be allocable to the award.²

At the end of the grant year, Neighborhood staff transferred \$102,418 in non-Head Start costs to a Head Start grant expense account. The costs were not allocable to the Head Start grant because they were for other programs that Neighborhood operated (e.g., charter schools). The transferred costs were for items and services such as textbooks, laptop computers, and printing for non-Head Start students.

In addition, throughout the year, Neighborhood claimed \$29,389 that was not allocable to the Head Start grant. The costs were for dance school classes for charter school students, business cards for charter school administration staff, rent related to the Recovery Act grant, electrical maintenance for a non-Head Start facility, management and general costs that were incorrectly allocated to the Head Start grant, and employee salary overpayments.

As a result, Neighborhood received \$131,807 of unallowable Federal reimbursement that did not benefit the Head Start program.

Costs Were Not Adequately Supported

Grantees' accounting records should be supported by source documentation.³

Neighborhood's cost allocation plan requires that it prepare supporting schedules showing the allocation of rent costs for its administration buildings, which were shared by multiple programs.

Neighborhood claimed rent and supply costs that were not adequately supported by source documentation, or the documentation did not clearly indicate whether the costs were for Head Start.

Neighborhood claimed rent costs totaling \$139,591 for one of its administrative buildings. For 9 months of the grant year, Neighborhood charged 100 percent of rent costs totaling \$109,275 to the Head Start grant. However, documentation we reviewed showed that employees of non-Head Start programs also worked in the building. For the remaining 3 months of the year, Neighborhood charged \$30,316 to the Head Start grant, which represents 83 percent of the rent costs for those months. Neighborhood did not provide any support for the allocation.

Neighborhood claimed \$16,173 in supply costs that was not supported by any source documentation, or the supporting documentation did not clearly indicate whether the costs were

² 2 CFR, part 230, Appendix A, paragraph A.2.a.

³ 45 CFR § 74.21(b)(7).

for Head Start. These costs, which Neighborhood originally charged to charter school expense accounts, were transferred to a Head Start grant expense account at the end of the grant year.

As a result, Neighborhood received \$155,764 in unallowable Federal reimbursement.

NEIGHBORHOOD LACKED ADEQUATE INTERNAL CONTROLS

Neighborhood claimed the unallowable costs because it did not maintain adequate internal controls to ensure that it claimed only allowable Head Start grant costs. Specifically, Neighborhood:

- did not always follow its existing policies and procedures requiring that all entries to the accounting system be reviewed by the senior accounting manager or controller and
- did not have adequate monitoring procedures to ensure that all expenses posted to the Head Start expense accounts were allowable.

Neighborhood's accounting policies and procedures manual specifies that each entry in the accounting system will be reviewed and approved by the senior accounting manager or the controller. The accounting manual also states that all general journal entries will be supported by general journal vouchers with supporting documentation attached and will be approved by the senior accounting manager or controller. Additionally, Neighborhood staff explained that budget analysts, as well as accounting staff, periodically monitor the expense accounts for each program to ensure accurate classification of program costs.

For example, Neighborhood staff used a year-end journal entry to reclassify \$118,591 in non-Head Start costs as Head Start grant expenses.⁴ The supporting documentation showed that a general ledger accountant prepared the journal entry. The entry was initialed and stamped "posted" by the controller. However the controller or senior accounting manager had not adequately reviewed the entry for allowability prior to it being posted in the accounting system. Additionally, Neighborhood's expense account monitoring procedures did not identify the unallowable costs.

Neighborhood could have prevented or detected the unallowable costs by ensuring that (1) all entries to the Head Start expense accounts were adequately reviewed for allowability prior to posting them to the accounts and (2) all expenses posted to Head Start expense accounts were adequately monitored for allowability.

RECOMMENDATIONS

We recommend that Neighborhood:

- refund \$287,571 in unallowable costs;

⁴ The \$118,591 includes \$102,418 in costs that were not allocable and \$16,173 in costs that were not supported.

- revise its existing policies and procedures to ensure that all entries in the Head Start expense accounts are adequately reviewed, including for allowability, prior to posting them to the accounts; and
- develop written monitoring procedures to ensure that all expenses posted to the Head Start expense accounts are allowable.

NEIGHBORHOOD COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, Neighborhood agreed that \$108,491 should not have been charged to the Head Start grant but disagreed that the remaining \$192,177 of the \$300,668 originally determined not to be allowable, should be refunded. Neighborhood's comments, along with additional documents Neighborhood supplied, are included as Appendix C. We did not include two of the documents because they contain personally identifiable information.

COSTS WERE NOT ALLOCABLE TO THE HEAD START GRANT

Transferred Costs

Neighborhood Comments

Neighborhood agreed that \$86,083 of the \$102,418 in costs was not allocable. Neighborhood stated that the error occurred because a journal entry was misclassified and that it was an isolated incident. For the remaining \$16,335, Neighborhood asserted that these costs were solely allocable to the Head Start grant (\$565) or funded dual enrollment classrooms of charter school and Head Start children (\$15,770). Neighborhood provided Exhibits A and C with a list of transactions that they contend were allocable. Additionally, Neighborhood stated that supplies were included in the approved budget, as noted in Exhibit B.

Office of Inspector General Response

During the audit, we reviewed the supporting invoices and documentation for the transactions listed in the exhibits to make the determination that they were not allocable to the program. Neighborhood's response did not change our determination. Additionally, the funding document provided in Exhibit B is not for the grant we reviewed. We reviewed grant award number 06CH6999, which covers CY 2010; the exhibit grant award number is 06SH6999, a Recovery Act grant covering September 2010 through September 2011.

Other Costs Not Allocable

Neighborhood Comments

Neighborhood agreed that \$9,636 of the \$29,389 in costs was not allocable. For the remaining \$19,753 in rent costs, Neighborhood stated that the costs were appropriate Early Head Start expenses. Neighborhood provided Exhibit D to support the rent costs.

Office of Inspector General Response

During the audit period (CY 2010), Neighborhood received a Recovery Act grant award that also included Early Head Start funding. The rent for the building increased \$4,938 starting in April 2010. Neighborhood charged the first 4 months of the rent increase (April through July 2010), totaling \$19,753, to the Head Start grant we reviewed. When we asked Neighborhood about the increase in cost for those months, Neighborhood officials responded in writing that the increase should have been charged to the Recovery Act grant, not the grant we reviewed. Additionally, the rent increase was not charged to the Head Start grant for the remaining months of the year. Neighborhood's response did not change our determination.

COSTS WERE NOT ADEQUATELY SUPPORTED

Administrative Rent Costs

Neighborhood Comments

Neighborhood disagreed that the \$139,591 in rent costs related to the administrative building was not adequately supported. Neighborhood maintains that all employees housed in the administrative building worked solely for the Head Start program with the exception of instructional coaches who were on site one time per week working with dually enrolled Head Start and charter school children. Neighborhood provided Exhibit E,⁵ which lists all of the 56 Head Start employees who worked in the administrative building in 2010. Neighborhood stated that it had allocated rent costs based on the percentage of staff that worked for Head Start and Early Head Start Expansion.

Office of Inspector General Response

During the period that Neighborhood states that the building housed only Head Start staff, Neighborhood allocated telephone costs for that building to other programs. The supporting documentation provided for the telephone allocation included personnel who worked for other programs. Additionally, Neighborhood's allocation policy requires that facility costs be based on square feet, not percentage of staff. Neighborhood's response did not change our determination.

Salary and Fringe Benefits Costs

Neighborhood Comments

Neighborhood disagreed with the finding regarding the \$13,097 in salary and fringe benefit costs. Neighborhood provided Exhibit F,⁶ which includes an electronic submission of the employee's time and a signed affidavit by the employee.

⁵ We did not include Exhibit E because it contains personally identifiable information.

⁶ We did not include Exhibit F because it contains personally identifiable information.

Office of Inspector General Response

After reviewing the additional documentation provided, we allowed the \$13,097 in salary and fringe benefit costs. We revised our findings and recommendations accordingly.

Supply Costs

Neighborhood Comments

Neighborhood agreed that \$12,772 of the \$16,173 in supply costs was unsupported. For the remaining \$3,401 Neighborhood asserted that these costs were solely allocable to the Head Start grant (\$852) or funded dual enrollment classrooms of charter school and Head Start children (\$2,549). Neighborhood provided Exhibit G, which lists transactions that it contends were allocable. Additionally, Neighborhood stated that supplies were included in the approved budget, as noted in Exhibit B.

Office of Inspector General Response

During the audit, we were not provided with supporting documentation for the transactions listed in the exhibit. Without invoices or other supporting documentation, we are unable to make a determination that the costs are allowable. Neighborhood's response did not change our determination. Additionally, the funding document provided in Exhibit B is not for the grant we reviewed. We reviewed grant award number 06CH6999, which covers CY 2010; the exhibit grant award number is 06SH6999, a Recovery Act grant covering September 2010 through September 2011.

NEIGHBORHOOD LACKED ADEQUATE INTERNAL CONTROLS

Internal Controls

Neighborhood Comments

Although Neighborhood disagreed that it lacked adequate internal controls, Neighborhood stated that since 2010, it has taken measures to improve its internal control structure. These measures include increasing its staff resources, assessing segregation of duties and existing controls, revising policies and procedures, and implementing a new accounting system to allow for more effective reporting.

Monitoring Procedures

Neighborhood Comments

Neighborhood agreed that written monitoring procedures should be developed. Neighborhood stated that it has compliance staff working with accounting staff to develop and improve internal control processes through workflow analysis and process improvement.

OTHER MATTERS

PERSONNEL ACTION FORMS NOT USED TO INITIATE PAY INCREASES

Grantees' accounting records should be supported by source documentation (45 CFR § 74.21(b)(7)). In addition, grantees must establish and maintain efficient and effective record-keeping systems to provide accurate and timely information regarding staff (45 CFR § 1304.51 (g)).

According to Neighborhood's accounting policies and procedures, pay rate changes should be initiated with Personnel Action Forms and authorized by the director of human resources.

Neighborhood did not prepare Personnel Action Forms in a timely manner to support pay rate increases. Neighborhood processed annual pay increases for 2008 through 2010 that affected the salaries in our audit period. Neighborhood provided Personnel Action Forms for the 139 employees whose salary costs we reviewed; however, 75 of these forms were created and approved after we requested them (approvals dated in December 2011). The 75 forms reflected pay increases totaling \$137,662 annually. Therefore, Neighborhood did not maintain payroll records that were adequately documented in a timely manner.

FEDERAL CASH DRAWDOWN PROCEDURES NOT FOLLOWED

Guidance issued by the HHS Program Support Center, Division of Payment Management, required Neighborhood to draw down funds from a specific Payment Management System (PMS) account to fund Head Start grant expenditures. Similarly, Neighborhood was required to draw down funds from another PMS account to fund Recovery Act grant expenditures. Regulations state that cash advances must be timed in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project (45 CFR § 74.22).

Twice during CY 2010, Neighborhood incorrectly drew down funds totaling \$291,257 from the Head Start grant's PMS account that should have been drawn from the Recovery Act grants' PMS account (\$122,647 in June and \$168,610 in September). The supporting documentation in the drawdown files indicated that Neighborhood withdrew the funds for Recovery Act grant expenditures rather than Head Start grant expenditures.

As a result, at times during the year, Neighborhood may have had more Head Start grant funds on hand than it needed for grant purposes. Neighborhood officials stated that the funds were drawn down from the wrong account due to a clerical error and that funds were available to support all Recovery Act expenditures. Neighborhood officials further explained that, after discovering that these errors had occurred, Neighborhood corrected the errors by drawing down less funds from the Head Start grant's PMS account (and more funds from the Recovery Act's PMS account) for the remainder of the grant period.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

For CY 2010, Neighborhood claimed \$16,590,632 in Head Start grant costs. We limited our review to a nonstatistical sample of Head Start grant costs totaling \$1,161,863.

We did not perform an overall assessment of Neighborhood's internal control structure. Rather, we reviewed only the internal controls that pertained directly to our objectives. Our review period was CY 2010.

We performed our fieldwork at Neighborhood's administrative offices in Houston, Texas.

METHODOLOGY

To accomplish our objective, we:

- reviewed relevant Federal laws, regulations, and guidance;
- reviewed grant award documentation to determine Neighborhood's Federal funding;
- reviewed Neighborhood's written internal control procedures related to accounting, procurement, property, personnel, consultants, and budgeting;
- interviewed Neighborhood's management to gain an understanding of Neighborhood's internal control procedures related to accounting, procurement, property, and personnel;
- reconciled the costs Neighborhood claimed on its final Federal Financial Status Report to its general ledger; and
- selected a nonstatistical sample of costs claimed and tested them for allowability.

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

APPENDIX B: RELATED OFFICE OF INSPECTOR GENERAL REPORTS

Report Title	Report Number	Date Issued
<i>Center for Community and Family Services, Inc., Did Not Expend Head Start Funds in Accordance With Federal Requirements</i>	<u>A-09-11-01006</u>	06/19/13
<i>Not All of the Young Women’s Christian Association of Metropolitan St. Louis Head Start Expenditures Were Allowable</i>	<u>A-07-11-02762</u>	04/25/13
<i>Southeastern Tidewater Opportunity Project, Inc., Head Start Program Claimed Unallowable Costs for Grant Year April 1, 2010, Through March 31, 2011</i>	<u>A-03-11-00501</u>	02/28/13
<i>Neighborhood House Association Claimed Allowable Head Start Costs but Did Not Maintain Adequate Internal Controls Related to Personnel, Facilities, and Subcontracts</i>	<u>A-09-11-01015</u>	02/20/13
<i>The Child Development Council of Acadiana, Inc.’s, Financial Management Practices and Systems Did Not Always Meet Federal Requirements</i>	<u>A-06-11-00031</u>	09/27/12
<i>Economic Opportunities Development Corporation of Atascosa, Karnes, and Wilson Counties’ Financial Management Practices and Systems Did Not Always Meet Federal Requirements</i>	<u>A-06-11-00034</u>	09/06/12
<i>The Columbus Urban League Claimed Some Unallowable Costs to Head Start</i>	<u>A-05-11-00053</u>	09/05/12
<i>Cenla Community Action Committee’s Financial Management Practices and Systems Did Not Always Meet Federal Requirements</i>	<u>A-06-11-00032</u>	08/15/12
<i>William Smith, Sr., Tri-County Child Development Council, Inc.’s, Financial Management Practices and Systems Did Not Always Meet Federal Requirements</i>	<u>A-06-11-00036</u>	08/01/12
<i>Lake County Family YMCA Claimed Unallowable Early Head Start Costs</i>	<u>A-05-11-00055</u>	07/17/12
<i>First A.M.E. Child Development Center’s Head Start Program Governance Was Not Fully in Accordance With Federal Requirements</i>	<u>A-09-11-01003</u>	06/13/12

APPENDIX C: NEIGHBORHOOD COMMENTS



September 6, 2013

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

Report Number: A-06-11-00055 August 2013

Dear Ms. Wheeler:

Enclosed is the Neighborhood Centers' response to the Office of Inspector General (OIG) draft report entitled *Neighborhood Centers, Inc. Claimed Unallowable Head Start Costs*.

If you have any questions or comments regarding this report, please contact me by phone at (713) 669-5371 or by email at krummel@neighborhood-centers.org.

Respectfully,

Kirk Rummel
Chief Financial Officer
Neighborhood Centers Inc.

Enclosures

cc Angela Blanchard

Neighborhood Centers Inc. A United Way Agency People Transforming Communities. **FOR GOOD.**

Neighborhood Centers Inc. Response to OIG Findings and Recommendations

Report Number: A-06-11-00055 - August 2013

This communication is in response to the Office of Inspector General (OIG) draft report entitled *Neighborhood Centers, Inc. Claimed Unallowable Head Start Costs* dated August 8, 2013. The following statements reflect the concurrence or non-concurrence with the OIG findings and recommendations:

I. Recommendation One: Refund \$300,668 in unallowable costs

A. Neighborhood Centers Inc. (NCI) claimed unallowable costs which were not allocable to the Head Start grant

1.) **NCI does not concur** with the finding regarding the transfer of \$102,418 in non-Head Start costs to a Head Start grant expense account. Upon thorough review of the supporting documentation, the following was determined as summarized below:

(a) As noted in **Exhibit A**, **\$564.43** of consumables purchased **solely for the Head Start program** are allowable. Supplies are included in the approved budget for FY2010 as noted in **Exhibit B**.

(b) As noted in **Exhibit C**, **\$15,770.12** of consumables purchased **for classrooms that have a dual enrollment of Promise Community School and Head Start children are allowable costs**. This dual enrollment leverages funding to allow Neighborhood Centers to offer a seven-hour day at its Head Start centers and also ensures that all children in the center-based program are taught by a degreed and certified teacher. Additionally, dual enrollment allows longitudinal tracking of academic progress into elementary school through the assignment of unique numerical identifiers used by the state educational agency. For the core Head Start program, supplies are necessary for day-to-day activities and would be purchased for Head Start regardless of organizational structure. Supplies are included in the approved budget for FY 2010 as noted in **Exhibit B**.

All expenses charged to Head Start benefit children enrolled in the Head Start program. Account codes document the location of the purchase requestor, rather than the location at which the purchase will be used. For example, a Head Start administration staff assigned to central services may place an office supply order for multiple centers where dually-enrolled children are located; the account code may reflect the central services location rather than the dual-enrollment location.

NCI asserts that **\$16,334.55** of the \$102,418 are allowable costs which are allocable to the Head Start grant.

NCI concurs that **\$86,083** of consumables purchased **for classrooms that were not for Head Start or dual enrollment classrooms** should not have been supported by Head Start funds.

NCI professes that the misclassification of the journal entry which transferred expenses was an isolated incident whereby the staff responsible for reviewing the documentation for the expenses overlooked the description detail.

2.) **NCI does not concur** with the finding that \$29,389 in costs (throughout the year) were not allocable to the Head Start grant. Of the monthly rental fee of \$12,438 for the Kingdom Builders property, \$7,500 is for Head Start and the \$4,938 is the portion of the rent related to Early Head Start. **Exhibit D** is a listing of monthly rent payments which includes Kingdom Builders. The \$4,938 portion for the four months of April 2010 to July 2010 totaling **\$19,753** is appropriate as it is an Early Head Start expense. The remaining **\$9,636** of the \$29,389 represents disputed costs that should not have been supported by Head Start funds.

Corrective Action: NCI has taken measures to prevent and detect unallowable costs by ensuring that all expenses posted to Head Start expense accounts are adequately monitored for allowability. Furthermore, all entries to Head Start expense accounts are reviewed by the Controller or Senior Accounting staff prior to posting to the general ledger. Budget versus actual reports are reviewed with the Head Start Director monthly and any inconsistencies and material variances are identified and addressed.

B. Neighborhood Centers Inc. (NCI) claimed unallowable costs which were not adequately supported

1.) **NCI does not concur** that rent costs related to an administration building were not adequately supported. Regarding the **\$139,591** of rent claimed for the Aramco Building, NCI has charged rent costs to Head Start as this site served as the Head Start/Early Head Start Administrative office prior to the move to the Savoy location. NCI maintains that all employees housed in the Aramco Building worked solely for the Head Start program with the exception of instructional coaches who were on site one time per week. These instructional coaches worked with dually enrolled students who were either enrolled solely in Head Start or Charter School Without Walls. At no time did the instructors work with students not in the Head Start or Charter School Without Walls programs. **Exhibit E** lists all employees who worked in the Administration building in 2010. Therefore, NCI maintains that it was reasonable to allocate one hundred percent of the rent charges for the Aramco Building to the Head Start program for nine months of the year (January 2010 to September 2010). The allocation of only eighty-three percent of the rent charged to the Head Start program for the remaining three months of the year (October 2010 to December 2010) is also appropriate since the seventeen percent was supported by carryover funds awarded for expansion of Head Start and Early Head Start programs. NCI began allocating central staff to the ARRA expansion grant in October of 2010. This is when Early Head Start expansion began. NCI's efforts were to appropriately allocate funds to proper funding streams. The basis for the allocation is noted below and is based on staffing for Head Start and Early Head Start Expansion:

Budgeted Staffing	# of Employees	% Allocation
HS Base Staffing	264	83%
HS Expansion Staffing	54	17%
	318	100%

Head Start administrative staffs were collectively moved into four locations between 2009 and 2012. These staff was not comingled with other staff and all were moved together as a team. Due to the frequency of the moves during this period, not all location codes for each staff were immediately updated. However, these staff performed duties solely for Head Start and their salaries and related fringes were properly charged to Head Start regardless of their location code. Promise Community Charter School and Early Child Development administrative staffs in NCI's education division are charged to the campus/location where they have oversight responsibilities. These staff did not move with or share offices with Head Start administrative staffs.

2.) **NCI does not concur** with the finding regarding the **\$13,097** in salary and fringe benefit costs. The employee documented the time she worked on the Head Start grant as noted in **Exhibit F** which is an electronic submission of her time referred to as a *Timecard View and Report with Supervisor Approval*. This employee's time is charged 100% to Head Start as evidenced by **Exhibit F** which includes a signed affidavit by the employee. Therefore, the salary and fringe benefit costs charged to Head Start is appropriate and NCI should not refund these costs.

3.) **NCI does not concur** with the all of the findings that **\$16,173** of supply costs were not supported by source documentation. **Exhibit G** lists supply costs of **\$852.08** purchased solely for Head Start as well as **\$2,549.41** of expenses for dual enrollment in Charter School and Head Start. As noted previously, items purchased **for classrooms that have a dual enrollment of Promise Community School and Head Start children** leverage funding to allow Neighborhood Centers to offer a seven-hour day at its Head Start centers. It also ensures that all children in the center-based program are taught by a degreed and certified teacher. For the core Head Start program, supplies are necessary for day to day activities and would be purchased whether or not the Head Start children were benefitting from dual enrollment. Supplies are included in the approved budget for FY2010 as noted in **Exhibit B**.

NCI asserts that **\$3,401.49** of the \$16,173 are allowable costs supported by source documentation which are allocable to the Head Start grant.

Corrective Action: NCI has taken measures to prevent and detect unallowable costs by ensuring that all expenses posted to Head Start expense accounts are adequately monitored for allowability. Furthermore, all entries to Head Start expense accounts are reviewed by the Controller or Senior Accounting staff prior to posting to the general ledger. Budget to actual reports are reviewed with the Head Start Director monthly and any inconsistencies and material variances are identified and addressed. NCI has already addressed the personnel activity report issue by implementing an electronic time and attendance program which captures each department/program in which an employee works in. NCI has also increased resources in infrastructure and implemented efficiencies in processes to ensure that all costs are supported by adequate documentation. This includes human resource staff dedicated to Head Start staffing compliance and additional Payroll, Billing, Accounts Payable and Treasury staff.

II. Recommendation Two: Revise existing policies and procedures to ensure that all entries in the Head Start expense accounts are adequately reviewed, including for allowability, prior to posting them to the accounts.

A. Neighborhood Centers Inc. (NCI) lacked adequate internal controls

1.) **NCI does not concur** that it lacked adequate internal controls. An independent audit of NCI's financial statements for 2010, 2011 and 2012 did not identify any deficiencies in internal control that are considered to be material weaknesses. Since 2010, NCI has taken measures to improve its internal control structure by increasing its staffing resources, assessing segregation of duties and existing controls, revising policies and procedures, and implementing a new accounting system to allow for more effective reporting. NCI has aggressively maintained good internal control systems and endeavors to comply with laws and regulations and accurately report financial results.

III. Recommendation Three: Develop written monitoring procedures to ensure that all expenses posted to the Head Start expense accounts are allowable.

NCI concurs that written monitoring procedures should be developed to ensure all expenses posted to the Head Start expense accounts are allowable. NCI continuously works to improve internal controls. In total, NCI has approximately 130 accounting policies and procedures. In 2013 alone, forty of these policies and procedures have been revised and four were newly created. In addition, Compliance staff work with Accounting staff to develop and improve internal control processes through workflow analysis and process improvement. NCI strives to administer Head Start programs with effective internal controls and has taken measures to enhance work performance through training and technical assistance via conferences and webinars. For example, NCI employees from Head Start, Accounting, Budget, Compliance and Procurement departments attended a two day training in 2013. This training was an In-Depth Review of the OMB Circulars. The content covered the following:

Day 1: OMB Administrative Requirements - 2 CFR Part 215 (OMB Circular A-110, and the Common Rule) including financial management system requirements and controls, equipment, budgeting, and procurement.

Day 2: OMB Cost Principles - 2 CFR Part 230 and 2 CFR Part 225 (OMB Circular's A-122 and A-87) including general criteria for all costs, allowable and unallowable costs, and cost allocation.

IV. OTHER MATTERS

1.) **OIG states that personnel action forms were not used to initiate pay increases.** In 2010, an agency wide salary increase was given to employees as part of a cost of living adjustment which Human Resources prepared on one document rather than reflecting these changes on 75 individual personnel action forms. These pay increases were approved by Human Resources and the Board of Directors. NCI believed that the salary approvals by Human Resources and the Board of Directors were adequate documentation of the pay rate changes. Per the request of the OIG auditors during their visit, NCI documented these increases on personnel action forms.

In June 2013, NCI began utilizing an automated system to reflect all personnel changes. All personnel changes initiated by supervisors and approved by Human Resources will be reflected electronically.

2.) **OIG states that federal cash drawdown procedures were not followed.** At no time did NCI have additional funds on hand. Funds were drawn down inadvertently from the Head Start account instead of from the Head Start funds provided by the Recovery Act PMS account. NCI subsequently corrected the drawdown errors by requesting fewer funds from the Head Start grant. NCI has a three day cash process which is used as a tool to monitor cash advances and minimize excess cash. NCI's management and billing staff coordinate with program staff to accurately project the cash needs to minimize the time lapse between the receipt of funds and the disbursement of those funds. As a result of the excess cash analysis and comparison of amounts advanced with actual expenditures, NCI effectively controls cash-on-hand levels.

V. Closing Remarks

Neighborhood Centers Inc. has consistently operated with a commitment to compliance with laws, regulations, and program requirements. Since 95% of the Agency's \$266 million of revenue is derived from federal/state programs, the Agency is highly regulated. Neighborhood Centers has invested in infrastructure that supports this commitment, with highly qualified individuals who understand their roles in protecting funder and donor interests.

Neighborhood Centers' financial statements are audited each year by an independent audit firm and have consistently resulted in an unqualified report. Similarly, A-133 audits are conducted for all major programs. Neighborhood Centers' Board of Directors (and Board Committees) operates with the same conviction to excellence and compliance in their roles as management. The Board (and Committees) is "hands on" in terms of overseeing management's compliance approach and monitoring results for the Agency. Frequent and focused monitoring efforts are keys to maintaining proper and effective internal controls. Each month the Finance and Administration Committee and the Choices in Education Committee (which oversees Head Start) review monthly financial results, actual to budget variance explanations, key program metrics, and program performance measures that go beyond statutory requirements. Parents who have volunteered to serve on the Head Start Policy Council and the members of the Finance Subcommittee also provide monthly oversight and have a key role in deciding how funds are spent (within the regulations). Each program has monthly staff accountability meetings, led by program directors, which includes review of all measureable outcomes. Before monthly reports are prepared, the Controller, CFO, Accounting, and Budgeting staff review actual to budget reports and identify/validate the business reason for all material variances. This review is conducted for each program. As part of the process, all invoices and purchase orders are reviewed by Budget Analysts assigned to each program to ensure all items coded to a program are properly approved, within budget, and are coded and allocated properly.

NCI will continue to work diligently to maintain strong controls and affirm our commitment to sound financial practices and accountability.

Response submitted by Neighborhood Centers Inc. on Friday, September 6, 2013

Neighborhood Centers, Inc.
Breakdown of Questioned Costs - NCI deems Allowable as Head Start expense
A-06-11-00055

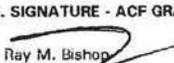
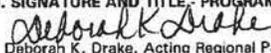
NOTE: Of the \$102,418 in non-Head Start costs, \$564.43 are consumables purchased solely for the Head Start grant.

G/L Account	Posting Date	TRANSACTIONS/PAYROLL DESCRIPTION	Expense Amount	Program	Description
117-110-1-10-6415	12/31/2010	Crystal Children & Teacher Supplies	\$ 197.61	Head Start	Pre-K School Supplies
117-110-1-10-6415	12/31/2010	Lakeshore Learning Materials	\$ 166.82	Head Start	Classroom supplies
117-110-1-10-6415	12/31/2010	Lakeshore Learning Materials	\$ 200.00	Head Start	Classroom supplies
			<u>\$ 564.43</u>		

1. RECIPIENT Department of Health and Human Services Administration for Children and Families Financial Assistance Award (FAA)				SAI NUMBER: PMS DOCUMENT NUMBER: 06SH699902	
1. AWARDING OFFICE: OA/OGM/Region VI		2. ASSISTANCE TYPE: Discretionary Grant	3. AWARD NO.: 06SH6999/02	4. AMEND. NO.: 1	
5. TYPE OF AWARD: SERVICE	6. TYPE OF ACTION: Revision (*)	7. AWARD AUTHORITY: American Recovery and Reinvestment Act of 2009			
8. BUDGET PERIOD: 09/30/2010 THRU 09/29/2011		9. PROJECT PERIOD: 09/30/2009 THRU 09/29/2011		10. CAT NO./CFDA: 93.708 ...	
11. RECIPIENT ORGANIZATION: Neighborhood Centers, inc. 4500 Bissonnet, Suite 200 Bellaire TX 77277 1389 Vicki Birenbaum, Board Chair			12. PROJECT / PROGRAM TITLE: Head Start ARRA Expansion		
13. COUNTY: HARRIS	14. CONGR. DIST.: 25	15. PRINCIPAL INVESTIGATOR OR PROGRAM DIRECTOR: Angela Blanchard , President and CEO			
16. APPROVED BUDGET:			17. AWARD COMPUTATION:		
Personnel..... \$ 615,242 Fringe Benefits..... \$ 151,198 Travel..... \$ 2,500 Equipment..... \$ 0 Supplies..... \$ 173,995 Contractual..... \$ 27,333 Facilities/Construction..... \$ 0 Other..... \$ 119,328 Direct Costs..... \$ 1,089,596 Indirect Costs..... \$ 163,038 At % of \$ In Kind Contributions..... \$ 0 Total Approved Budget (** \$ 1,252,634			A. NON-FEDERAL SHARE..... \$ 313,159 20.00 % B. FEDERAL SHARE..... \$ 1,252,634 80.00 % 18. FEDERAL SHARE COMPUTATION: A. TOTAL FEDERAL SHARE..... \$ 1,252,634 B. UNOBLIGATED BALANCE FEDERAL SHARE..... \$ 158,174 C. FED. SHARE AWARDED THIS BUDGET PERIOD.. \$ 1,094,460 19. AMOUNT AWARDED THIS ACTION: \$ 0 20. FEDERAL \$ AWARDED THIS PROJECT PERIOD: \$ 2,017,305 21. AUTHORIZED TREATMENT OF PROGRAM INCOME: DEDUCTIVE 22. APPLICANT EIN: 1-237062976-A1 23. PAYEE EIN: 1-237062976-A1 24. OBJECT CLASS: 41.51		
25. FINANCIAL INFORMATION: DUNS: 073032765					
ORGN	DOCUMENT NO.	APPROPRIATION	CAN NO.	NEW AMT.	UNOBLIG. NONFED %
OGM	06SH699901	75-9/0-1537	2009 G06R023		(\$158,174)
OGM	06SH699902	75-9/0-1537	2009 G06R023		\$158,174

26. REMARKS: (Continued on separate sheets)

Client Population: 120.
 Number of Delegates: 1.
 Paid by DHHS Payment Management System (PMS), see attached for payment information.
 This award is subject to Terms and Conditions specific to the American Recovery and Reinvestment Act of 2009.
 All recipients of funding under the American Recovery and Reinvestment Act of 2009 are required to submit quarterly reports on the use of funds.
 Information on recipient reporting can be found at FederalReporting.gov.
 This award is subject to the requirements of Section 106 (g) of the Trafficking Victims Protection Act of 2000, as

27. SIGNATURE - ACF GRANTS OFFICER  Ray M. Bishop		DATE: 6/10/11	28. SIGNATURE(S) CERTIFYING FUND AVAILABILITY Maugarra A. Walker	
29. SIGNATURE AND TITLE - PROGRAM OFFICIAL(S)  Deborah K. Drake, Acting Regional Program Manager		DATE: 6/10/11		

DGCM-3-785 (Rev. 86)

(SH)

1. RECIPIENT DEPARTMENT OF HEALTH AND HUMAN SERVICES ADMINISTRATION FOR CHILDREN AND FAMILIES FINANCIAL ASSISTANCE AWARD		SAI NUMBER:	
		PMS DOCUMENT NUMBER: 06SH699902	
1. AWARDING OFFICE: OA/OGM/Region VI		2. ASSISTANCE TYPE: Discretionary Grant	3. AWARD NO.: 06SH6999/02
		4. AMEND. NO. 1	
5. TYPE OF AWARD: SERVICE	6. TYPE OF ACTION: Revision (*)	7. AWARD AUTHORITY: American Recovery and Reinvestment Act of 2009	
8. BUDGET PERIOD: 09/30/2010 THRU 09/29/2011	9. PROJECT PERIOD: 09/30/2009 THRU 09/29/2011	10. CAT NO./CFDA: 93.708	
11. RECIPIENT ORGANIZATION: Neighborhood Centers, inc.			

26. REMARKS: (Continued from previous page)

amended (22 U.S.C. 7104).
 For the full text of the award term, go to http://www.acf.hhs.gov/grants/award_term.html.
 This grant is subject to the requirements as set forth in 45 CFR Part 87.
 (***) Reflects only federal share of approved budget.
 All previous terms and conditions remain in effect. (*) Other (see following remarks):
 Client Population: 120
 Number of Delegates: 0

This action authorizes the carry-forward of \$158,174 from 06SH6999/01 to current program year 06SH6999/02 for the following, per the grantee's application.

Supplies
 PA-RO23. \$158,174.

These funds increase the Total Federal Approved Budget.

Neighborhood Centers, Inc.
Breakdown of Questioned Costs - NCI deems Allowable as Head Start expense
A-06-11-00055

NOTE: Of the \$102,418 in non-Head Start costs, \$15,770.12 are consumables purchased for classrooms for dual enrollment Charter School and Head Start.

G/L Account	Posting Date	TRANSACTIONS/ PAYROLL DESCRIPTION	Expense Amount	Program	Description
117-110-1-10-6415	12/31/2010	Network Interstate	\$ 446.46	Charter School & Head Start	Staff Aprons
117-110-1-10-6415	12/31/2010	Office Depot	\$ 68.09	Charter School & Head Start	School Supplies
117-110-1-10-6415	12/31/2010	Office Depot	\$ 329.78	Charter School & Head Start	Office Supplies
117-110-1-10-6415	12/31/2010	Office Depot	\$ 4,139.23	Charter School & Head Start	Office Supplies
117-110-1-10-6415	12/31/2010	Office Depot	\$ 6,628.56	Charter School & Head Start	Supplies for Pre-K programs for CS and HS
117-110-1-10-6415	12/31/2010	Office Depot	\$ 27.90	Charter School & Head Start	Office Supplies
117-110-1-10-6415	12/31/2010	Office Depot	\$ 49.49	Charter School & Head Start	Office Supplies
117-110-1-10-6415	12/31/2010	Office Depot	\$ 49.49	Charter School & Head Start	Office Supplies
117-110-1-10-6415	12/31/2010	Office Depot	\$ 80.63	Charter School & Head Start	Office Supplies
117-110-1-10-6415	12/31/2010	Office Depot	\$ 90.75	Charter School & Head Start	Office Supplies
117-110-1-10-6415	12/31/2010	Office Depot	\$ 129.94	Charter School & Head Start	Office Supplies
117-110-1-10-6415	12/31/2010	Office Depot	\$ 166.60	Charter School & Head Start	Office Supplies
117-110-1-10-6415	12/31/2010	Office Depot	\$ 195.34	Charter School & Head Start	Office Supplies
117-110-1-10-6415	12/31/2010	Office Depot	\$ 333.03	Charter School & Head Start	Office Supplies
117-110-1-10-6415	12/31/2010	Office Depot	\$ 335.90	Charter School & Head Start	Office Supplies
117-110-1-10-6415	12/31/2010	Office Depot	\$ 470.56	Charter School & Head Start	Office Supplies
117-110-1-10-6415	12/31/2010	Office Depot	\$ 505.93	Charter School & Head Start	Office Supplies
117-110-1-10-6415	12/31/2010	Office Depot	\$ 1,722.44	Charter School & Head Start	Office Supplies
			<u>\$ 15,770.12</u>		

MONTHLY RENT PAYMENTS

MONTH: MAY Apr-10
Head Start Facilities

Pay to:	Vendor No.	Amount	Description
1 Sercorp of Houston, Inc. c/o David Casares 10700 Richmond Avenue, Suite 203 Houston, TX 77042	2254	\$1,743.38 ✓	New Horizon Head Start 6565 Rookin 1,007.00 1-0-000-100-900-0-90-1450 Term 7/1/2000-6/30/2020
2 Sercorp of Houston, Inc. c/o David Casares 10700 Richmond Avenue, Suite 203 Houston, TX 77042	2254	\$3,546.34	SER Charter School 6615 Rookin 420-11-6269-106-0-11 Term 7/1/2000-6/30/2020
3 GAR ASSOCIATES XIII, LLC c/o Oak Leaf Management 9555 W Sam Houston Prkwy St# 250 Houston, TX 77099	1176 CAM	\$10,734.75 <u>\$31.81</u> \$10,766.56 /	Savoy 1,007.00 6200 Savoy Ste 1200 1-0-000-100-900-0-90-1450 Term 2/1/2006-6/30/2011
4 Childcare Council of Greater Houston PO BOX 572043 Houston, TX 77257	301	\$2,733.33	Angelita Fraga Day Care Center 209 North York Street 420-11-6269-102-0-11 Term 7/1/2008-7/31/2011
5 Capital Management Services 726 Exchange Street, Suite 700 Buffalo, NY 14210	6608	\$35,000.00 \$33K OK PRB	Stay Connected 1,007.57 9700 Bissonnet, Suite 2000 1-0-000-100-900-0-90-1450 12/1/2008-4/30/2010
6 Houston Business Development, Inc c/o Central Management Inc 820 Gessner, Suite 1525 Houston, TX 77024	9989 CAM	\$2,989.00 <u>\$747.25</u> \$3,736.25 /	Healthy Start 1,007.02 5280 Griggs Road 1-0-000-100-900-0-90-1450 08/6/2009-8/31/2014
7 Kingdom Builders 6011 West Orem Street Houston, TX	4775	\$7,500.00 /	Kingdom Builders Head Start 1,007.01 1-0-000-100-900-0-90-1450 8/1/08-5/31/2010
7 Kingdom Builders 12401 South Post Oak, Suite 100 Houston, TX 77045	6083 CAM	\$4,538.75 <u>\$399.41</u> \$4,938.16 /	Kingdom Builders Early Head Start 1-0-000-100-900-0-90-1450 04/01/10-04/01/2013 1,007.03

Prepared By [Signature] Date [Signature]

Approved By [Signature] Date 4-21-10

Office of Inspector General Note—We did not include Exhibits E and F because they contain personally identifiable information.

**Neighborhood Centers, Inc.
Breakdown of Unsupported Costs - NCI deems Allowable
A-06-11-00055**

NOTE 1: Of the \$16,173 of supply costs not supported by source documentation, \$852.08 are supplies purchased solely for Head Start.

G/L Account	Posting Date	TRANSACTIONS/PAYROLL DESCRIPTION	DEBIT	Expense Amount	Program	Description
117-110-1-10-6415	12/31/2010	Lakeshore Learning Materials	\$0.85	0.85	Head Start	Classroom supplies
117-110-1-10-6415	12/31/2010	Lakeshore Learning Materials	\$200.00	200.00	Head Start	Classroom supplies
117-110-1-10-6415	12/31/2010	Lakeshore Learning Materials	\$200.00	200.00	Head Start	Classroom supplies
117-110-1-10-6415	12/31/2010	Lakeshore Learning Materials	\$204.83	204.83	Head Start	Classroom supplies
117-110-1-10-6415	12/31/2010	Office Depot	\$13.61	13.61	Head Start	School Supplies
117-110-1-10-6415	12/31/2010	Office Depot	\$232.79	232.79	Head Start	School Supplies
				\$ 852.08		

NOTE 2: Of the \$16,173 of supply costs not supported by source documentation, \$2,549.41 are consumables for dual enrollment of Charter School and Head Start programs.

G/L Account	Posting Date	TRANSACTIONS/PAYROLL DESCRIPTION	DEBIT	Expense Amount	Program	Description
117-110-1-10-6415	12/31/2010	Ace Mart Restaurant Supply	\$883.49	883.49	Charter School & Head Start	Food Service Equip
117-110-1-10-6415	12/31/2010	Network Interstate	\$446.50	446.46	Charter School & Head Start	Staff Aprons
117-110-1-10-6415	12/31/2010	Office Depot	\$1,139.48	1,139.48	Charter School & Head Start	School Supplies
117-110-1-10-6415	12/31/2010	Officer Depot	\$79.98	79.98	Charter School & Head Start	Office Supplies
				\$ 2,549.41		
				\$ 3,401.49	Allowable	