

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**PINE BLUFF JEFFERSON COUNTY  
ECONOMIC OPPORTUNITIES  
COMMISSION DID NOT ALWAYS  
OPERATE ITS HEAD START PROGRAM  
IN ACCORDANCE WITH FEDERAL  
REQUIREMENTS**

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# ***Office of Inspector General***

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

## Report in Brief

Date: December 2017

Report No. A-06-16-00013

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



### Why OIG Did This Review

Effective oversight and management of grant programs is crucial to the HHS mission and to the health and well-being of the public. Audits of Head Start and other HHS grantees have found internal control deficiencies, problems with financial stability, inadequate organizational structures, inadequate procurement and property management policies, and inadequate personnel policies and procedures. The HHS Administration for Children and Families (ACF) asked us to conduct this review, on the basis of complaints received regarding the misuse of funds.

Our objective was to determine whether Pine Bluff Jefferson County Economic Opportunities Commission (Pine Bluff) claimed allowable Head Start grant costs and managed its Head Start program in accordance with Federal requirements.

### How OIG Did This Review

We reviewed \$966,205 of the Head Start costs that Pine Bluff claimed during the audit period, June 1, 2013, through May 31, 2015.

We also reviewed written policies and procedures for various areas.

## Pine Bluff Jefferson County Economic Opportunities Commission Did Not Always Operate Its Head Start Program in Accordance With Federal Requirements

### What OIG Found

Pine Bluff did not always claim Head Start grant costs that were allowable and allocable in accordance with Federal regulations. Specifically, Pine Bluff claimed \$392,094 of unsupported non-Federal share; \$214,372 in costs that did not meet procurement-related requirements; and \$123,158 in costs that either did not benefit the Head Start program or may not have benefited the Head Start program. In addition, Pine Bluff did not always manage the Head Start program in accordance with Federal requirements.

### What OIG Recommends and Pine Bluff's Comments

We made recommendations to Pine Bluff that it work with ACF's Office of Head Start (OHS) to determine and refund the amount of grant funds for which Pine Bluff would not have been eligible because of the \$392,094 of unsupported non-Federal share; refund \$214,372 for procurement-related costs that did not meet requirements; and refund costs that did not benefit the Head Start program and work with OHS to determine what portion of costs allocated to the Head Start program should be allocated to its other programs.

The body of the report also contains policy and procedural recommendations for Pine Bluff to account for and manage Federal funds and to operate its Head Start program in accordance with Federal regulations.

In written comments on our draft report, Pine Bluff concurred with some but not all of our findings. For the findings and recommendations it agreed with, Pine Bluff provided information on corrective actions it has taken or plans to take to address them. After reviewing Pine Bluff's comments, we maintain that all our findings are valid.

In general comments, Pine Bluff expressed concern that the recommended refund amounts will deplete its funds. Under its new management, Pine Bluff is willing to work with OHS to correct the findings, take more preventative measures, and establish a Technical Assistance Plan to demonstrate improvements that have been made to the operation of the Head Start grant.

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## INTRODUCTION

### WHY WE DID THIS REVIEW

Effective oversight and management of grant programs is crucial to the U.S. Department of Health and Human Services' (HHS) mission and to the health and well-being of the public. Audits of Head Start and other HHS grantees have found internal control deficiencies, problems with financial stability, inadequate organizational structures, inadequate procurement and property management policies, and inadequate personnel policies and procedures. On the basis of complaints received regarding the misuse of funds, the HHS Administration for Children and Families (ACF) requested that we conduct this review of Pine Bluff Jefferson County Economic Opportunities Commission (Pine Bluff), a Head Start grantee.

### OBJECTIVE

Our objective was to determine whether Pine Bluff claimed allowable Head Start grant costs and managed its Head Start program in accordance with Federal requirements.

### BACKGROUND

#### Head Start Program

Title VI of the Omnibus Budget Reconciliation Act of 1981 established Head Start as a Federal discretionary grant program. The Head Start program provides grants to local public and private for-profit and not-for-profit agencies to provide comprehensive child development services to economically disadvantaged children and families. The focus is on helping preschoolers develop the early reading and math skills they need to be successful in school.

Within HHS, the ACF Office of Head Start (OHS) administers the Head Start program.

#### Pine Bluff Jefferson County Economic Opportunities Commission

Pine Bluff is a nonprofit Community Action Agency in Pine Bluff, Arkansas. It was established to combat poverty and provide comprehensive education and support services to low-income individuals and families. Pine Bluff provides services in five counties in Arkansas, and its Head Start program, one of several programs offered, is funded primarily through Federal grants.

Pine Bluff was awarded \$2,638,759 for the period June 1, 2013, through May 31, 2014, and \$2,818,652 for the period June 1, 2014, through May 31, 2015, a total of \$5,457,411 of Head Start grant funds.

## HOW WE CONDUCTED THIS REVIEW

We reviewed \$966,205 of the Head Start costs that Pine Bluff claimed during the audit period, June 1, 2013, through May 31, 2015. These costs included judgmentally selected non-Federal share amounts, electronic whiteboard purchases, payroll costs, and other costs incurred for carpet installation, playground equipment, painting of buildings, and offsite storage, among other things. We also reviewed written policies and evaluated various aspects of Pine Bluff's management of its Head Start program.

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 A contains the details of our audit scope and methodology.

## FINDINGS

Pine Bluff did not always claim Head Start grant costs that were allowable and allocable in accordance with Federal regulations. Specifically, Pine Bluff claimed:

- \$392,094 of unsupported non-Federal share;
- \$214,372 in costs that did not meet procurement-related requirements; and
- \$123,158 in costs that either did not benefit the Head Start program (including equipment costs of \$35,405, salaries and wages of \$18,816, storage costs of \$6,670, and other costs of \$4,280) or may not have benefited the Head Start program (\$57,987).

In addition, Pine Bluff did not always manage the Head Start program in accordance with Federal requirements. Specifically Pine Bluff did not:

- adequately safeguard assets,
- have effective controls and accountability over funds,
- periodically review rental arrangements,
- identify and report all administrative costs, and
- always ensure accounting records were supported by source documentation.

## **PINE BLUFF CLAIMED SOME HEAD START GRANT COSTS THAT DID NOT MEET FEDERAL REQUIREMENTS**

### **Non-Federal Share Was Not Always Supported**

#### *Federal Requirements*

Federal regulations require grantees to provide 20 percent of the total costs of the Head Start program unless an exception applies.<sup>1</sup> This proportion is referred to as the non-Federal share, and it must come from non-Federal sources. Federal requirements make provisions for grantees to meet some or all of the 20-percent non-Federal share through in-kind contributions from such sources as volunteer services, personal services, office and classroom supplies, materials, equipment, buildings, and land. To be accepted, the grantee's non-Federal share, including cash and third-party in-kind, must be verifiable from the grantee's records.<sup>2</sup>

Federal regulations (45 CFR § 74.23(i)(1))<sup>3</sup> state that "Volunteer services shall be documented and, to the extent feasible, supported by the same methods used by the recipient for its own employees, including time records."

Federal regulations (2 CFR § 215.23) also state:

All contributions, including cash and third party in-kind, shall be accepted as part of the recipient's cost sharing or matching when such contributions meet all of the following criteria: (1) Are verifiable from the recipient's records. (2) Are not included as contributions for any other federally-assisted project or program. (3) Are necessary and reasonable for proper and efficient accomplishment of project or program objectives. (4) Are allowable under the applicable cost principles.

#### *Unsupported Non-Federal Share*

Pine Bluff did not meet its non-Federal share requirement for our audit period. For that period, Pine Bluff's required non-Federal share was \$1,364,353. However, it reported \$1,485,462 as non-Federal share, \$121,109 more than required. Of the \$1,485,462 that Pine Bluff reported,

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<sup>1</sup> 45 CFR section 1301.20(a).

<sup>2</sup> 45 CFR sections 74.23 (a)(1), (a)(5), (f), (i)(1), and (i)(2).

<sup>3</sup> Although not applicable to this audit, HHS promulgated new grant regulations at 45 CFR part 75. The new regulation applies to Head Start Program awards made on or after December 26, 2014.

we reviewed \$458,528<sup>4</sup> and determined that \$392,094<sup>5</sup> was not supported by documentation. As detailed below, we were unable to verify:

- \$265,448 that Pine Bluff classified as “other,”
- \$68,027 that Pine Bluff classified as “volunteer hours,”
- \$58,392 that Pine Bluff classified as “facility,” and
- \$227 of the amounts that Pine Bluff classified as “parent committee meetings.”

Because Pine Bluff had reported non-Federal share amounts that exceeded the organization's required contribution by \$121,109, we reduced our calculation of unallowable non-Federal share from \$392,094 to \$270,985.

As a result of improperly claiming non-Federal share and not maintaining adequate documentation to support some in-kind contributions, Pine Bluff may not have provided its 20-percent non-Federal share of the total costs of its Head Start program as required by Federal regulations.

**Other In-Kind Amounts.** Of the \$271,037 that we reviewed, we were not able to verify \$265,448 that Pine Bluff classified as “other.”

The amounts reviewed included donated therapy services provided by Arkansas River Education Service Cooperative (ARESC); however, the documentation from ARESC that Pine Bluff provided was inadequate to support the \$157,920 stated value of the donated services that Pine Bluff reported. Specifically, there was no support for the actual number of hours of service provided to each child or an explanation of what services were provided. Instead, Pine Bluff provided a single “Non-Federal Share Documentation” form dated June 3, 2014, to support all the months that included services provided by ARESC as an in-kind donation. The form stated that the value of the services totaled \$8,400 weekly. The stated donation amount, according to the form, was calculated using the average daily rate of the staff multiplied by the number of hours per week for the total children served. However, changes over time in the number of children receiving services, the number of absences and holidays, and the variety of services an individual child may require, combined with the statement on the form regarding how the weekly amount of ARESC’s donation was calculated, suggest that the \$8,400 weekly

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<sup>4</sup> The \$458,528 in non-Federal share that we reviewed consisted of \$271,037 that Pine Bluff had classified as “other,” \$126,352 that it had classified as “volunteer hours,” \$58,392 that it had classified as “facility,” \$1,141 that it had classified as “parent committee meetings,” and \$1,606 of other non-Federal share. We determined that all of the \$1,606 was supported by documentation.

<sup>5</sup> The unsupported amounts totaled \$150,160 for June 1, 2013, through May 31, 2014, and \$241,934 for June 1, 2014, through May 31, 2015.

amount should have changed over time and that documentation should be maintained to support the actual services provided and the amount claimed.

We determined that the services provided by ARESC, in addition to being inadequately supported, were partially paid for by Federal funds. Federal regulations (45 CFR § 74.23(a)(5)) state that to be accepted, matching contributions may not be paid by the Federal Government under another award, except where authorized by Federal statute to be used for cost sharing or matching. Additionally, OHS guidance<sup>6</sup> states that the time used to provide special education or related services by a therapist may be considered as an in-kind donation to the extent that all or part of the therapist's pay is from non-Federal sources. The proportion of the therapist's salary and fringe benefits coming from non-Federal sources should be used to calculate the non-Federal share that may be claimed for that therapist's work in the Head Start program. Pine Bluff should have determined and reported as in-kind contributions only the value of the services that were not paid by the Federal Government.

**Volunteer Hours.** Of the \$126,352 that we reviewed, we were not able to verify \$68,027 of the amount that Pine Bluff classified as "volunteer hours." OHS guidance<sup>7</sup> allows home activities to be counted as non-Federal share when a parent engages in activities with the enrolled child that support the child's Head Start experience, that are articulated by the teacher, and that support the curriculum used by the program. The teacher should provide the child's parents with written plans or guidance for home activities. However, the records that Pine Bluff provided for volunteer hours did not provide detailed information on the activities parents performed. In most cases, the terms "home task," "did work at home for class," or other similar language were the only descriptions about what "services" the parent was providing. No other information, such as written plans or guidance, was furnished for activities that would support the Head Start experience. In addition, volunteer hour forms included calculation errors, missing dates, missing volunteer names and signatures, no service description, and incorrect rates.

**Facility.** None of the \$58,392 that we reviewed and that Pine Bluff classified as "facility" could be verified because Pine Bluff was unable to provide any documentation to support the amounts it reported.

**Parent Committee Meetings.** Of the \$1,141 that we reviewed, we were not able to verify \$227 that Pine Bluff classified as "parent committee meetings." Pine Bluff used volunteer forms to record parent participation in the meetings and calculate the amount of in-kind to include on a summary sheet. The volunteer forms that Pine Bluff provided only partially supported the summary amounts for 1 month, and a signature was missing from another form.

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<sup>6</sup> OHS-PC-A-075.

<sup>7</sup> OHS-PC-A-006.

## **Procurement-Related Requirements Were Not Always Met**

### *Federal Requirements*

Federal regulations (45 CFR § 74.43) state:

All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition. The recipient shall be alert to organizational conflicts of interest as well as noncompetitive practices among contractors that may restrict or eliminate competition or otherwise restrain trade . . . . Awards shall be made to the bidder or offeror whose bid or offer is responsive to the solicitation and is most advantageous to the recipient, price, quality and other factors considered. Solicitations shall clearly set forth all requirements that the bidder or offeror shall fulfill in order for the bid or offer to be evaluated by the recipient.

Federal regulations (45 CFR § 74.45) also state:

Some form of cost or price analysis shall be made and documented in the procurement files in connection with every procurement action. Price analysis may be accomplished in various ways, including the comparison of price quotations submitted, market prices and similar indicia, together with discounts. Cost analysis is the review and evaluation of each element of cost to determine reasonableness, allocability and allowability.

### *Failure To Obtain Competitive Bids or Perform Cost or Price Analysis*

Pine Bluff had procurement policies and procedures in place that satisfied Federal requirements, including guidelines for obtaining bids, for competitive proposals, and for instances where noncompetitive proposals would be acceptable. However, Pine Bluff did not follow those policies and procedures to obtain necessary competitive bids or perform a cost or price analysis for purchases totaling \$214,372. These purchases were for electronic whiteboards, playground equipment, carpet installation, and painting services.

## **Some Costs Did Not Benefit the Head Start Program**

### *Federal Requirements*

Federal regulations (2 CFR part 230, Appendix A, section A.4(a)) state, "A cost is allocable to a particular cost objective, such as a grant . . . in accordance with the relative benefits received. A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it: (1) Is incurred specifically for the award. (2) Benefits both the award and other work and can be distributed in reasonable proportion to the benefits received. . . ."

### *Equipment That Did Not Benefit the Head Start Program*

Federal regulations (2 CFR part 230, Appendix A, section A.4.) state that a cost is allocable to a particular cost objective, such as a grant, in accordance with the relative benefits received.

Pine Bluff used Head Start funds to purchase equipment that did not benefit the program. Specifically, four electronic whiteboards purchased at a total cost of \$35,405 sat idle in a closet in their original boxes almost 1 year after being purchased. Given that the purchase was made on May 7, 2015, at the end of a program year,<sup>8</sup> the purchase could be seen as an effort to stockpile supplies and obligate funds before the end of the grant period, well before these items could be useful.

### *Unallowable Salaries and Wages*

Pine Bluff claimed \$18,816 in salary costs for five non-Head Start employees. These employees held the following positions: Lincoln County Coordinator, Weatherization Tech, Cleveland County Coordinator, Community Service Coordinator, and Jefferson County Coordinator.

Pine Bluff did not have policies and procedures or controls in place to ensure that Head Start funds were used only for allowable Head Start purposes, including correctly identifying Head Start employees and tracking its Head Start activities.

### *Unnecessary Storage Costs*

Federal regulations (2 CFR part 230, Appendix A, section A.3) state: “. . . consideration shall be given to whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award.”

Pine Bluff claimed \$6,670 for offsite storage units to store equipment and items that we determined to be obsolete and useless. Contents of the storage units included old playground equipment, obsolete computers and appliances, and old files that did not benefit the Head Start program. A Pine Bluff employee confirmed that the items in storage needed to be disposed of, but Pine Bluff had not done so because of lack of manpower to empty the units.

### *Costs Not Allocated in Proportion to Benefits Received*

A review of a sample of judgmentally selected general ledger transactions showed that Pine Bluff incorrectly allocated \$62,267 to the Head Start program because it did not always follow a methodology for allocating costs.

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<sup>8</sup> The program year ended May 31, 2015.

We determined that Head Start funds were used to pay \$4,280 in costs that did not benefit the Head Start program, and \$57,987 in costs were not distributed proportionately to the Head Start program according to the benefits received.

## **PINE BLUFF DID NOT ALWAYS MANAGE ITS HEAD START PROGRAM IN ACCORDANCE WITH FEDERAL REQUIREMENTS**

### **Assets Not Adequately Safeguarded**

#### *Federal Requirements*

Federal regulations (45 CFR § 74.34(f)) and (2 CFR part 215.34(f)) identify the following required property management standards for equipment acquired with Federal funds and federally owned equipment:

- accurate equipment records, including a description of the equipment, an identification number, the acquisition date, source of the equipment including the award number, the location and condition of the equipment, and the date the information was reported;
- proper identification of equipment owned by the Federal Government;
- verification of the existence, current utilization, and continued need for the equipment;
- a control system to ensure adequate safeguards to prevent loss, damage, or theft of the equipment; and
- proper sales procedures, which provide for competition and result in the highest possible return and ultimate disposition data, including date of disposal and sales price or the method used to determine current fair market value where a recipient compensates the Federal awarding agency for its share.

#### *Failure To Follow Property Management Standards*

Pine Bluff did not always follow property management standards for equipment acquired with Federal funds and federally owned equipment. Specifically:

- Pine Bluff's equipment records were incomplete and inaccurate. Records did not identify the Federal award number for each line item; include the condition of the equipment; or, in the case of four whiteboards, include the correct equipment location. Additionally, there was a \$9,595 understatement of equipment, which was primarily the result of an unrecorded electronic whiteboard.

- Some equipment did not have inventory tags, including the eight electronic whiteboards that had been purchased and installed by Pine Bluff during our audit period.
- Equipment records did not reflect an accurate disposal date for certain equipment. Specifically, Pine Bluff recorded a July 31, 2014, disposal date in the equipment records for three vans. However, Pine Bluff did not obtain quotes for disposing of the vans until November 24, 2014, almost 4 months after the recorded disposal date.
- Pine Bluff did not follow proper sales procedures or obtain the highest possible return for the three vans it gave to a wrecking yard that, at a minimum, could have been sold at salvage value or at \$200 each, according to quotes Pine Bluff received.
- Pine Bluff stored unused school buses and allowed these buses to deteriorate instead of disposing of them for the highest possible return.

As a result of not following Federal regulations that address property management standards for equipment acquired with Federal funds and federally owned equipment, Pine Bluff's equipment was at risk of loss or theft, and its equipment records were unreliable and understated by \$9,595. In addition, there was an estimated loss of \$600 from the vans Pine Bluff gave to a wrecking yard and an undetermined loss for deteriorating school buses that are not currently being used and will not be put to future use for the Head Start program.

### **Ineffective Controls and Accountability Over Funds**

#### *Federal Requirements*

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

Federal regulations (45 CFR § 1304.50(g)(2)) also state that recipients must ensure that appropriate internal controls are established and implemented to safeguard Federal funds.

#### *Ineffective Controls Over Payroll*

Timesheets were not always signed by the employee's supervisor and approved by the Executive Director per Pine Bluff's policy and its normal business practices, and the Human

Resources employee who processed employee timesheets<sup>9</sup> routinely processed her own timesheet.

Pine Bluff did not effectively safeguard Federal funds because it did not always follow its own policy and its normal business practices when processing timesheets.

#### *Bank Reconciliations Not Timely*

Pine Bluff did not perform timely bank reconciliations. Five of six reconciliations that we examined were performed several months after month-end, and all lacked the preparer's and reviewer's signatures. Pine Bluff did not effectively safeguard Federal funds because it did not follow its own policies, which state that its certified public accountant, executive director, and board of directors would provide monthly oversight of its bank reconciliations.

Without maintaining effective control over and accountability for funds (including effective controls over payroll and timely bank reconciliations), Pine Bluff cannot ensure that funds are used solely for authorized purposes.

#### **Failure To Periodically Review Rental Arrangements**

Federal regulations (2 CFR part 230, Appendix B(43)(a)) state that rental arrangements should be reviewed periodically to determine whether circumstances have changed and other options are available.

Pine Bluff did not follow Federal regulations or its own policy, which states that the director of finance would maintain leases and the executive director would review leases at the end of each fiscal year. Of the 10 leases selected for review, three had expired, and Pine Bluff was unable to locate the renewal leases, valued at \$44,724.

Failure to periodically review its rental arrangements places Pine Bluff at risk of having an interruption of Head Start services offered at the three facilities with expired leases, as the lease terms for the three expired leases indicate that upon expiration, the leases become "month-to-month," and Pine Bluff would have to vacate if required by the landlord. Further, Pine Bluff risks forgoing other superior leasing options that may periodically become available.

#### **Inability To Identify and Report All Administrative Costs**

Federal regulations (45 CFR § 1301.32) state:

(a)(1) Allowable costs for developing and administering a Head Start program may not exceed 15 percent of the total approved costs of the program, unless the responsible

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<sup>9</sup> This employee was responsible for ensuring that hours are charged to the correct program, uploading direct deposit information, and printing payroll checks.

HHS official grants a waiver approving a higher percentage for a specific period of time not to exceed twelve months. (b)(1) Costs classified as development and administrative costs are those costs related to the overall management of the program. These costs can be in both the personnel and non-personnel categories. (d)(1) Some costs benefit both the program components as well as development and administrative functions within the Head Start program. In such cases, grantees must identify and allocate appropriately the portion of the costs that are for development and administration. (e)(1) Grantees must categorize costs in a Head Start program as development and administrative or program costs. These categorizations are separate from the decision to charge such costs directly or indirectly.

Guidance (OHS-PC-A-041) states that the 15-percent administrative cap includes the total of both Federal and non-Federal share.

Pine Bluff did not have adequate systems, policies, and procedures to accurately identify and report its administrative costs.

Pine Bluff reported administrative costs of \$269,322 on its federal financial report (SF-425) for the period June 1, 2013, through May 31, 2014, but was only able to identify \$230,479 of the reported costs in its financial records; Pine Bluff was unable to account for the difference between the identified costs and the reported costs for that period. Additionally, Pine Bluff claimed administrative costs of \$160,932 during June 1, 2014, through May 31, 2015, on its SF-425; however, the itemized list of these costs showed this amount included only salaries, resulting in underreported administrative costs.

Pine Bluff officials told us that the “administrative staff class code” was used in its accounting system to identify non-salary administrative costs. However, when we attempted to use this code to identify non-salary administrative costs for the program year, many of the costs identified were clearly not administrative. In addition, we identified administrative costs, including audit fees, insurance, rent, and utilities, that were not identified with the administrative staff class code in Pine Bluff’s accounting system. This resulted in unreported costs. Pine Bluff also did not identify any in-kind amounts as administrative costs during the audit period.

Without the ability to accurately identify and report administrative costs, Pine Bluff is unable to ensure that it does not exceed the 15-percent limitation on administrative expenses.

### **Accounting Records Were Not Always Supported by Source Documentation**

Federal regulations (45 CFR § 74.21(b)(7)) state that grantees must maintain accounting records, including cost accounting records, that are supported by source documentation.

Pine Bluff did not ensure that all costs were supported by adequate documentation and were allowable for reimbursement. More than 50 percent of a judgmentally selected sample of 131 general ledger transactions totaling \$263,621 contained 1 or more deficiencies. Specifically:

- supporting invoices were missing for 25 transactions,
- valid approval signatures were absent for 33 transactions,
- proof of payment was missing for 12 transactions,
- the incorrect account classification was made for 9 transactions, and
- incorrect invoice amounts were paid for 5 transactions.

As a result, general ledger transactions were not fully supported by adequate documentation, and unallowable costs were charged to the Head Start program. The costs associated with these transactions are identified in the section titled Costs Not Allocated in Proportion to Benefits Received.

## **RECOMMENDATIONS**

We recommend that Pine Bluff:

- work with OHS to determine and refund the amount of grant funds for which Pine Bluff would not have been eligible because of the \$270,985 shortfall in non-Federal share contributions, implement controls to ensure in-kind contributions are properly supported and allowable, and develop policies and procedures for documenting and valuing the non-Federal share and in-kind contributions;
- refund to the Federal Government payments made for services totaling \$214,372, and follow its policies and procedures to obtain competitive bids for procurement transactions;
- refund to the Federal Government payments made for unnecessary equipment purchases totaling \$35,405, and strengthen monitoring procedures to ensure that costs claimed benefit the program during the grant period;
- refund to the Federal Government payments made to non-Head Start employees for salaries totaling \$18,816, and implement policies and procedures to ensure that only Head Start employees are compensated with Head Start funds;

- refund to the Federal Government \$6,670 in payments made for unnecessary storage, and develop and implement adequate policies and procedures to ensure that funds charged to the Head Start program benefit the program;
- refund to the Federal Government payments totaling \$4,280 that were incorrectly allocated to Head Start, and work with OHS to determine what portion of the \$57,987 allocated to the Head Start program should be allocated to its other programs;
- improve inventory controls by (1) maintaining complete and accurate inventory records and (2) following proper sales procedures or obtaining the highest possible return when disposing or selling of inventory;
- adhere to its policies and procedures to ensure that timesheets are always signed by the employee's supervisor and approved by the executive director, and ensure that employees with payroll responsibilities do not process their own timesheets;
- complete bank reconciliations in a timely manner and adhere to its policies and procedures of having monthly oversight of bank reconciliations performed;
- adhere to its policies and procedures and periodically review its rental arrangements;
- implement systems and adequate policies and procedures to properly identify and report administrative costs; and
- ensure that all costs charged to the Head Start program are properly supported with adequate documentation.

**PINE BLUFF JEFFERSON COUNTY ECONOMIC OPPORTUNITIES COMMISSION COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE**

In written comments on our draft report, Pine Bluff concurred with some but not all of our findings that some Head Start Grant costs claimed did not meet Federal requirements, and with most of our findings that the Head Start program was not always managed in accordance with Federal requirements. Where Pine Bluff did not fully concur with our findings and recommendations, we have summarized Pine Bluff's comments below. For the findings and recommendations it agreed with, Pine Bluff provided information on corrective actions it has taken or plans to take to address them.

In its general comments, Pine Bluff expressed concern that the recommended refund amounts will deplete its funds and require Pine Bluff to take out a loan to repay OHS. Under its new management, Pine Bluff is willing to work with OHS to correct the findings and take more preventative measures and establish a Technical Assistance Plan to demonstrate improvements

that have been made to the operation of the Head Start grant. Pine Bluff's comments are included in their entirety as Appendix B.

After reviewing Pine Bluff's comments, we maintain that all our findings and recommendations are valid for the reasons stated below.

### **Failure To Obtain Competitive Bids or Perform Cost or Price Analysis**

#### *Pine Bluff Comments*

Pine Bluff did not concur with the finding that it did not always meet procurement requirements. Specifically, it commented that the purchases for the whiteboards and playground equipment were included in its grant application. Regarding the whiteboards, Pine Bluff stated that its research showed that the vendor it selected was the only one that provided installation and maintenance as part of the purchase price and that other vendors charged separately for these services. Pine Bluff stated that the management in place at that time considered this research to have reflected its "due diligence to be prudent when operating with Head Start dollars." Regarding the playground equipment, Pine Bluff stated that it did not obtain bids because the vendor was a recommended company of the Arkansas Head Start Association.

#### *Office of Inspector General Response*

Proposing equipment purchases in a grant application, or vendor endorsement from an association, does not eliminate the competitive bid or price analysis procurement requirements. Pine Bluff's purchases did not meet procurement requirements because they were not conducted in a manner to provide open and free competition as required by Federal requirements, and Pine Bluff did not provide any form of cost or price analysis in its supporting documentation.

### **Equipment That Did Not Benefit the Head Start Program**

#### *Pine Bluff Comments*

Pine Bluff did not concur with the finding regarding the purchase of unnecessary equipment. It commented that the whiteboards sat idle because the building the whiteboards were to be used in was "no longer suitable by State licensing standards to house Head Start classrooms." Pine Bluff stated that the whiteboards are now installed at a new location, and that it was not Pine Bluff's intention to stockpile supplies and obligate funds before the end of the grant period.

*Office of Inspector General Response*

Because the whiteboards were not placed in service and did not benefit the Head Start program during the grant year, the cost of the whiteboards was unallowable.

**Unallowable Salaries and Wages**

*Pine Bluff Comments*

Pine Bluff partially concurred with the finding that salary costs for non-Head Start employees were unallowable. It acknowledged that salary costs for two employees were erroneously charged to Head Start; however, it disagreed with our finding for the other three employees. Pine Bluff commented that the other employees had performed functions related to the Head Start program.

*Office of Inspector General Response*

The salary costs claimed for all five non-Head Start employees were unallowable. Pine Bluff's unsupported assertion contradicts the documentation it provided. During our audit, Pine Bluff provided a list of Head Start employees. None of the five employees were on the list.

**Costs Not Allocated in Proportion to Benefits Received**

*Pine Bluff Comments*

Pine Bluff did not concur with the finding regarding costs that were not allocated in proportion with benefits received. It provided a general explanation for how its costs were allocated and noted that the methodology was acceptable for other Federal programs that it administered.

*Office of Inspector General Response*

We identified instances in which costs were allocated 100 percent to Head Start but should have been allocated across multiple programs in proportion to the benefits received. We also identified costs that should not have been allocated to Head Start because they did not provide any benefit to the program. In response to Pine Bluff's comments, we provided the specific instances of these costs. OHS will have final say in determining whether these costs are properly allocated and allowable.

## **Failure To Manage the Head Start Program in Accordance With Federal Requirements**

### *Pine Bluff Comments*

Pine Bluff concurred with the findings that it did not always manage its Head Start program in accordance with Federal requirements, with two exceptions. First, Pine Bluff disagreed with the finding that assets were not adequately safeguarded. While it acknowledged that the award number and condition of the equipment that was required by Federal regulation were missing from its inventory control log, it disagreed with the estimated understatement of its inventory. It stated that according to the inventory log dated September 30, 2015, all whiteboards were properly recorded. Second, Pine Bluff did not fully concur with the finding that it did not ensure all costs charged to the Head Start program were properly supported with adequate documentation because it was unable to identify the specific transactions that were found deficient.

### *Office of Inspector General Response*

The inventory log Pine Bluff initially provided in response to our information request was incomplete. Pine Bluff provided a second log from its external auditors that we used to reconcile and identify the difference. We sent Pine Bluff our reconciliation, which identified the understatement.

Finally, we sent Pine Bluff our full analysis of the judgmentally selected sample of 131 general ledger transactions so that it could clearly identify those that were not fully supported by adequate documentation.

## APPENDIX A: AUDIT SCOPE AND METHODOLOGY

### SCOPE

We reviewed \$966,205 of Head Start costs that Pine Bluff claimed during the audit period of June 1, 2013, through May 31, 2015. These costs included judgmentally selected non-Federal share amounts; electronic whiteboard purchases; payroll costs; and other costs such as carpet installation, playground equipment, painting of buildings, and offsite storage. We also reviewed written policies and procedures and evaluated various aspects of Pine Bluff's management of its Head Start program.

We did not review the overall internal control structure of Pine Bluff. Rather, we reviewed only those controls related to our objective.

We performed fieldwork at Pine Bluff's office in Pine Bluff, Arkansas, from December 2015 to August 2016.

### METHODOLOGY

To accomplish our objective, we:

- reviewed documentation provided by ACF;
- held discussions with ACF to discuss its concerns, on the basis of complaints received regarding the misuse of funds;
- reviewed applicable Federal laws, regulations, and guidance;
- met with Pine Bluff officials to gain an understanding of Pine Bluff's internal controls and accounting system, policies, and procedures for managing Federal grant funds;
- reviewed Pine Bluff's procurement policies and procedures and Head Start contracts and leases;
- reviewed Pine Bluff's financial statements and the results of its A-133 audits for fiscal years 2014 and 2015;
- reconciled the costs Pine Bluff claimed on its Federal Financial Reports for June 1, 2013, through May 31, 2014, and June 1, 2014, through May 31, 2015, to Pine Bluff's accounting records;
- reconciled Pine Bluff's drawdowns from the HHS Payment Management System to its accounting records;

- reviewed Pine Bluff's board minutes for our audit period and the qualifications of Pine Bluff's board of directors;
- reviewed Pine Bluff's equipment policies and procedures, conducted a physical inventory of equipment, and reconciled Pine Bluff's equipment records to its financial statements;
- reviewed a sample of bank reconciliations to determine whether they were completed in a timely manner;
- reviewed Pine Bluff 's cost allocation plan to ensure administrative costs did not exceed 15 percent of total project costs;
- reviewed Pine Bluff 's policies and procedures for documenting and valuating in-kind contributions and other non-Federal share;
- reviewed supporting documentation for a judgmental sample of non-Federal share amounts;
- reviewed a judgmental sample of payroll registers and timesheets to determine whether the salaries were reasonable, allocable, and otherwise allowable;
- compared all payroll registers during our audit period with the Head Start employee list to identify payments made to non-Head Start employees;
- selected a judgmental sample of 131 general ledger transactions totaling \$263,621 to review and determine whether costs were adequately supported and were allowable for reimbursement. Specifically, for each transaction, we determined whether:
  - it had a supporting invoice,
  - it had a valid approval signature,
  - it had proof of payment,
  - the invoice amount paid was correct,
  - the account classification was correct, and
  - the amount allocated to the Head Start program was correct; and
- discussed the results of our review with Pine Bluff officials.

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

## APPENDIX B: AUDITEE COMMENTS<sup>10</sup>



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Gloria L. Jarmon  
Deputy Inspector General for Audit Services  
Office of Audit Services, Region VI  
1100 Commerce Street, Room 632  
Dallas, TX 75242

Wednesday, September 27, 2017

The Pine Bluff Jefferson County Economic Opportunities Commission (PBJCEOC) is a Community Action Agency that embodies the spirit of hope to improve communities and help make America a better place to live. To accomplish this purpose, PBJCEOC maintains a financial management system that provides policies and/or procedures to account for and administer federal funds properly.

According to the OIG Review for the audit period, June 1, 2013, through May 31, 2015, OIG found that PBJCEOC claimed:

- \$392,094.00 of unsupported non-Federal share;
- \$214,372.00 in costs that did not meet procurement-related requirements; and
- \$123,158.00 in costs that either did not benefit the Head Start program or may not have benefited the Head Start program.

These matters will be addressed in this report accordingly.

### **Unsupported Non-Federal Share:**

After reviewing the OIG report with our records, PBJCEOC concurs with the findings for the period under review. After the first program year (June 1, 2013 – May 31, 2014), management noticed that the bookkeeping of In-Kind conducted by the ERSEA coordinator was below satisfactory and that some information was misplaced or lost. Also, PBJCEOC during the audited time period had several changes in management that resulted in a new Executive Director, hired in June of 2014, a new Finance Director, hired in December of 2014, and the Purchasing Coordinator was giving In-Kind responsibilities in November of 2014, which may have had some effect on the proper documentation process.

Regarding volunteer hours, in speaking with former employees, they stated that the teachers provided parents with a sheet that explained the activity, but the parents were only required to return the activity report, and this was practice when other Agencies housed the Head Start Program. Management agrees that volunteer forms with calculation errors, missing dates,

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<sup>10</sup> **Office of Inspector General Note**—The deleted text in these comments has been redacted because it is personally identifiable information.



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missing names and signatures, no service description, and incorrect rates should have been rejected from the calculation.

#### Corrective Action:

As a corrective action strategy management moved the bookkeeping responsibilities to the Purchasing Coordinator in November of 2014. On January 12, 2015, the Purchasing Coordinator, received In-Kind training from [REDACTED] of the Community Services Office in Hot Springs, Arkansas. This training covered budgeting, documentation, and record keeping. In addition, trainings on In-Kind were held on Thursday, February 12, 2015, Wednesday June 24, 2015, and PBJCEOC conducts In-Kind trainings throughout the program year during Pre-Service and In-Service. To mitigate the chances of reporting incorrect information, PBJCEOC rejects all information that cannot be verified with the appropriate supporting documentation, which includes guidance for home tasks, volunteer names, dates, signatures, correct rates, and service description. The Agency has also equipped several of the teaching staff to be leaders in training all new staff in the proper way of recording In-Kind.

PBJCEOC acted in good faith in recording In-Kind of the donated therapy services of the Arkansas River Education Service Cooperative (ARESC). The documentation that was viewed by the OIG auditors were also audited by PBJCEOC's independent audit firm, Craft, Veach & Company, PLC prior to their (OIG) visit, and if the records would have been deemed inappropriate, PBJCEOC would have made the adjustments earlier. Currently, PBJCEOC has made corrections to how the Agency records the donated services of ARESK by making sure that actual number of hours of provided services are multiplied by a specific predetermined professional rate. The In-Kind records are entered into CAP60, scanned, and filed away for proper record keeping purposes.

#### **Costs of Procurement-related Requirements:**

PBJCEOC does not fully concur with the findings concerning procurement-related requirements.

- The four electronic whiteboards purchased at a total cost of \$35,405.00 was explained to the auditors that the reason for the whiteboards sitting idle was because the Haley Street building was no longer suitable by State licensing standards to house Head Start classrooms, and that we were looking to move. The Agency did have a building in mind to move the classrooms but those plans were halted due to failure to place a deposit in a timely fashion. In addition, management did not want to put the whiteboards in the classrooms because the Agency would have incurred a charge to uninstall the whiteboards in case of a move, and that the Agency would have had another location by the end of the summer. The four whiteboards have been installed in the Dollarway classrooms where they are being utilized for Head Start purposes. It was not the intentions of PBJCEOC to stockpile supplies and obligate funds before the end of the



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grant period. Moving forward, management is assuring that any equipment purchased with Head Start Grant dollars will be placed in service during the grant year of purchase within a three-day window once the equipment is in the Agency's possession.

- Management did further research in the salary costs for the five specified non-Head Start employees. It was discovered that the:
  - Lincoln County Coordinator's hours should have been charged to the HEAP program. This was a clerical error in the payroll classification system.
  - Weatherization Tech's hours were properly charged because the Tech conducted some work on several of the Head Start Centers before the proper staff was in place.
  - Cleveland County Coordinator's hours should have been charged to the HEAP program. This was a clerical error in the payroll classification system.
  - Community Service Coordinator's hours were properly charged because this position is considered admin, and this position helps in enrollment and managing the Family Service Workers' positions.
  - Jefferson County Coordinator's hours were properly charged because this position assisted in the data entry of enrollment of Head Start children.

To mitigate the risk of employees' hours of being charged inappropriately, the agency on an annual basis identifies in the grant proposal the employees considered 100% Head Start and the employees whose time will be cost allocated across multiple programs. For each payroll, this plan is monitored to assure that employees time are being charged according to the grant proposal that is approved and submitted to HSES.

- The Agency concurs with the finding of the offsite storage units, and the Agency has acted to clean out the units and to terminate the lease agreements. In addition, PBJCEOC has procedures in place to assure that retention schedules for equipment are followed up and that costs incurred are recognized as cost that benefit the grant award in accordance with 2 CFR Part 230, Appendix A, section A.3.
- Concerning costs not allocated in proportion to benefits received, in the program year of 06/01/2013 to 05/31/2014, PBJCEOC utilized a process that identifies and prorates shared costs by using a base that was most appropriate to the particular element of cost that was being prorated. For example, PBJCEOC utilized time sheets, which formed the basis for allocation of salaries for the Executive Director, Finance Director, Assets Coordinator, and Human Resources Coordinator, or charges for postage were allocated by usage for each program. In an email in May of 2014, HHS (██████████), Grants Management Specialists) notified ██████████ (Finance Director) that the Agency needed a written cost allocation plan. A series of emails between ██████████ and ██████████ pursued, and on August 22, 2014, ██████████ recommended that ██████████ be provided help from the Technical Assistance staff to help in writing an acceptable cost allocation plan, and ██████████ from the T&TA Network was assigned. On September 26, 2014, ██████████ (now Executive Director) after receiving assistance from ██████████ submitted an acceptable cost

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allocation plan to [REDACTED], and on October 14, 2014, PBJCEOC's cost allocation plan was accepted by HHS, and it was approved by the Board of Directors. Since then, PBJCEOC has made sure that all costs are made according to the cost allocation plan to assure that all programs receive their fair share of the costs incurred by the agency. In addition, Management feels that the Agency did demonstrate a methodology for properly allocating costs of \$62,267.00 because this methodology was acceptable with the other programs (CSBG, LiHEAP, Weatherization, Assurance 16) prior to being granted the Head Start program.

- The plan to purchase the smart boards and playground equipment was included in PBJCEOC's grant application for the program year of 06/01/2014-05/31/2015. Bids were not obtained for the playground equipment because Playgrounds Etc. was a recommended company by the Arkansas Head Start Association. Bids were not obtained for the smartboards because research revealed that Hatch was the only company that provided both installation and maintenance services with the purchase price while other companies charged these items separately. Management elected not to carry out the bid process because going with Hatch reflected their due diligence to be prudent when operating with Head Start dollars. Three Bids were acquired concerning the painting services, but further research revealed that one of the companies was a subcontractor for one of the companies that had submitted a bid, and therefore two Bids were only reviewed for cost or price analysis. Concerning the carpet installation, current management is not able to wage a decision because of lack of knowledge. PBJCEOC revised its procurement policy that meets the standards of the new OMB Uniform Guidance and it was approved 10/01/2015 to strengthen PBJCEOC's fiscal policies concerning procurement processes.

#### **Assets Not Adequately Safeguarded:**

- PBJCEOC does not fully concur with the findings that assets are not adequately safeguarded.
  - PBJCEOC keeps an inventory control log on all items costing more than five thousand or more. This inventory log includes the item name, serial number, equipment type, funding source, title/ownership, percentage of federal award participation, location, purchase date, maximal months of useful life, end of useful life, years of useful life remaining, purchase price, salvage value, current book value, and year-to-date depreciation. The only items missing according to the Federal Regulations of 45 CFR § 74.34(f) and (2 CFR Part 215.34(f)) are the award number and the condition of the equipment. The Agency has revised its inventory control logs to include these two missing items in order to fully comply with the Federal Regulations of 45 CFR § 74.34(f) and (2 CFR Part 215.34(f)).

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- According to PBJCEOC’s inventory control log dated 09/30/2015, all white boards were properly recorded, and management disagrees with OIG’s estimate that the records are understated by \$9,595.00.
- PBJCEOC concurs with OIG that some equipment did not have inventory tags, but since their audit, management has corrected this issue by making sure that these items have properly received inventory tags.
- PBJCEOC concurs with OIG concerning accurate disposal of equipment. Management have established procedures and protocols according to PBJCEOC’s revised “Dispositions of Property and Equipment” policy.

**Ineffective Controls and Accountability Over Funds:**

- PBJCEOC concurs that timesheets were not always signed by the employee’s supervisor and approved by the Executive Director per Pine Bluff’s policy and its normal business practices, and the Human Resources’ employee who processed employee timesheets routinely processed her own timesheet.
  - Management has put in place controls to mitigate the risk of not following policy. HR assures that timesheets reflect appropriate signatures, and the Executive Director approves the timesheets of HR. The following grid demonstrates the payroll process and responsibilities.

- A. Human Resources Manager
- B. Director of Finance
- C. Assets Coordinator
- D. Liabilities Coordinator
- E. Program Directors/Executive Director

Duty	A	B	C	D	E
Authorizes new hires	X				X
Authorizes salary adjustments		X			X
Authorizes terminations	X				X
Sets up new employee in P/R system	X	X			
Enters salary adjustments to P/R system			X		



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Duty	A	B	C	D	E
Enters direct deposit info. in P/R system		X	X		
Deletes terminated employees from P/R		X	X		
Reviews changes to payroll master file		X			
Approves timesheets					X
Enters timesheets	X		X		
Reviews input of timesheet data		X			
Reviews distribution of time		X			
Reviews payroll register		X			
Prints checks (or paystubs)				X	
Signs payroll checks					X
Distributes checks (paystubs)				X	
Has access to unused payroll checks				X	
Prints annual W-2 forms		X			
Reviews annual W-2 forms		X			
Distributes annual W-2 forms				X	

- PBJCEOC concurs that Pine Bluff did not perform timely bank reconciliations, but want to interject that these reconciliations were completed by fiscal year end. To effectively safeguard the Federal funds, Management has put in place the following procedures concerning the bank reconciliation process:
  - Bank account statements are received each month and forwarded unopened to the Director of Finance. The Director of Finance shall open the statement and review its contents for unusual or unexplained items, such as unusual endorsements on checks, indications of alterations to checks, etc. (This review must be performed in a timely manner so that reconciliation of the bank account is not delayed.) Unusual or unexplained items shall be reported immediately to the Audit {Finance} Committee.
  - After this review is complete, the entire bank statement is forwarded to the Assets Coordinator who prepares reconciliation between the bank balance and general ledger balance. The bank reconciliation process will be completed within one week of receipt of each bank statement.



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- The reconciliation process shall involve an inspection of the fronts and backs of cancelled checks returned with the bank statement. The purpose of this inspection is to identify signs of forgery, altered or substitute checks, unusual endorsements, or other signs of fraudulent activity. If PBJCEOC's financial institution does not return original cancelled checks or paper copies thereof, the person preparing the monthly bank reconciliation shall view electronic copies of cancelled checks provided by the financial institution via CD-ROM or Internet access to the Institution's website.
- All bank reconciliations, including any adjusting journal entries resulting from preparing bank reconciliations, are reviewed and approved by the Director of Finance monthly.
- Bank reconciliations and copies of resulting journal entries are filed in the current year's accounting files.

#### **Failure to Periodically Review Rental Arrangements:**

PBJCEOC concurs that the Agency has failed to conduct periodically reviews of its rental arrangements. To mitigate the risk of having an interruption of Head Start services offered at the leased facilities, all agreements are reviewed four months prior to the end of the year, the review is signed off by the Executive Director, and renewals are sent out three months prior to year-end. This process was implemented to assure that all lease agreements are reviewed and renewed in a timely manner. In addition, in case that the lease agreement enters a month to month, all lease agreements include language that clarifies that both the landlord or the lessee must give a thirty-day notification prior to the next month.

#### **Inability to Identify and Report All Administrative Costs:**

PBJCEOC concurs with the finding concerning having adequate systems, policies, and procedures to accurately identify and report its administrative costs. Management attributes much of the inadequacy to the absence of having an effective cost allocation plan from 06/01/2013 to 10/14/2014 in place. The Agency has adopted a sophisticated model of monitoring administrative costs to assure the fifteen percent administrative cap according to the Federal regulations of (45 CFR § 1301.32) and the Guidance (OHS-PC-A-041). The Agency is utilizing





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management, and it is our goal to provide a programming of excellence to our clients. The amount that is being requested for a refund will not only deplete the Agency's existing unrestricted funds, but will place the Agency in a position to where it will have to take out a loan just to repay OHS. Hopefully the Agency and OHS can come to some feasible agreement as well as establish a Technical Assistance Plan where the Agency will be allowed to demonstrate the improvements that has been made over the years of operating the Head Start Grant.

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