November 10, 2011

**TO:** George H. Sheldon
Acting Assistant Secretary
Administration for Children and Families

**FROM:** /Daniel R. Levinson/
Inspector General

**SUBJECT:** Review of 83 Early Head Start Applicants Under the American Recovery and Reinvestment Act (A-01-10-02501)

The attached final report provides the results of our review of 83 Early Head Start (EHS) applicants under the American Recovery and Reinvestment Act of 2009 (Recovery Act). The 83 reviews were requested by the Administration for Children and Families, Office of Head Start, as part of its overall assessment of EHS applicants that applied for funding under the Recovery Act.

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

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact Kay L. Daly, Assistant Inspector General for Audit Services, at (202) 619-1157 or through email at Kay.Daly@oig.hhs.gov. We look forward to receiving your final management decision within 6 months. Please refer to report number A-01-10-02501 in all correspondence.

Attachment

Department of Health and Human Services

**OFFICE OF INSPECTOR GENERAL**

# REVIEW OF 83 EARLY HEAD START APPLICANTS UNDER THE AMERICAN RECOVERY AND REINVESTMENT ACT

Daniel R. Levinson
Inspector General

November 2011
A-01-10-02501

# *Office of Inspector General*

http://oig.hhs.gov

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

## *Office of Audit Services*

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

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

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The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs, operations, and beneficiaries. With investigators working in all 50 States and the District of Columbia, OI utilizes its resources by actively coordinating with the Department of Justice and other Federal, State, and local law enforcement authorities. The investigative efforts of OI often lead to criminal convictions, administrative sanctions, and/or civil monetary penalties.

## *Office of Counsel to the Inspector General*

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support for OIG's internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.

# *Notices*

**THIS REPORT IS AVAILABLE TO THE PUBLIC**
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Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

**OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS**

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

## EXECUTIVE SUMMARY

### BACKGROUND

The American Recovery and Reinvestment Act of 2009 (P.L. No.111-5) (Recovery Act), signed into law on February 17, 2009, provided for additional levels of transparency and accountability regarding Government expenditures so that taxpayers know how, when, and where covered funds are spent. To meet the Recovery Act's accountability objectives, the Office of Management and Budget issued guidance requiring Federal agencies and departments to maintain strong internal controls and implement appropriate oversight mechanisms. In accordance with the Recovery Act, the Office of Inspector General provides oversight of covered funds to prevent fraud, waste, and abuse.

Pursuant to the Improving Head Start for School Readiness Act of 2007 (P.L. No. 110-134) (Head Start Act), Early Head Start (EHS) is a national program designed to promote healthy outcomes for pregnant women, enhance the development of very young children, and promote healthy family functioning. Within the U.S. Department of Health and Human Services, the Administration for Children and Families (ACF), Office of Head Start, administers the EHS program. For fiscal years 2009 and 2010, the Recovery Act provided ACF $1.1 billion to expand the EHS program, including up to $110 million for providing training and technical assistance to new EHS agencies and up to $33 million for monitoring the EHS program.

Of the 1,200 applicants for EHS Recovery Act grants, 1,117 were current ACF grantees. These applicants operated existing Head Start or EHS programs, and ACF had historical information regarding their financial viability. The remaining 83 applicants had no experience administering Head Start or EHS grants. ACF requested that we conduct audits to assess these applicants' financial viability, capacity to manage and account for Federal funds, and capability to operate EHS programs in accordance with Federal requirements. ACF used the results of our audits in its application review process.

Head Start grantees and delegate agencies must meet the requirements in 45 CFR pt. 74 (45 CFR § 1301.10). Grantees also must adhere to the cost principles found at 2 CFR pt. 225, 2 CFR pt. 230, or 48 CFR pt. 31, as applicable. The Head Start Act established the Head Start program and includes provisions related to powers and functions of agencies, administrative requirements, and comparability of wages. The regulations governing the Head Start program, found at 45 CFR §§ 1301–1311, cover program operations, administration, and grant management for all grants awarded under the Head Start Act, including grants for technical assistance and training.

### OBJECTIVES

Our objectives were (1) to provide details about our testing of applicants' financial viability, capacity to manage and account for Federal funds, and capability to operate EHS programs in accordance with Federal requirements and (2) to summarize the results of our assessments of and ACF's funding determinations for 83 applicants.

## SUMMARY OF RESULTS

We tested whether applicants had (1) the financial resources necessary to meet operational costs and pay liabilities; (2) accounting systems to track all cash drawdowns separately and provide accurate, current, and complete reports of grant expenditures; and (3) written procedures for financial management, including budget and cost-accounting practices. Of the 83 applicants that we assessed, 8 had no reported audit deficiencies. For the remaining 75, our reviews identified (1) problems with financial stability, (2) inadequate systems to manage and account for Federal funds, (3) inadequate organizational structures, (4) inadequate procurement and property management procedures, and (5) inadequate personnel policies and procedures.

Using our findings, ACF awarded $15 million in Recovery Act funds to 8 applicants; did not award $31 million requested by 15 applicants; and awarded $126 million to 60 applicants on the condition that they receive increased ACF oversight, training, and technical assistance.

## RECOMMENDATIONS

We recommend that ACF use the information in this report (1) as part of its application-review process and (2) in its monitoring and oversight of the 60 funded applicants identified in this report.

## ADMINISTRATION FOR CHILDREN AND FAMILIES COMMENTS

In written comments on our draft report, ACF agreed with our findings and recommendations and described steps it had taken to incorporate the information in this report into its oversight activities. ACF also provided technical comments, which we addressed as appropriate. ACF's comments, excluding the technical comments, are included as the Appendix.

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ADMINISTRATION FOR CHILDREN AND FAMILIES COMMENTS

# INTRODUCTION

## BACKGROUND

### American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (P.L. No.111-5) (Recovery Act), signed into law on February 17, 2009, included measures to modernize our Nation's infrastructure, enhance energy independence, expand educational opportunities, preserve and improve affordable health care, provide tax relief, and protect those in greatest need.

The Recovery Act provided for additional levels of transparency and accountability regarding Government expenditures so that taxpayers know how, when, and where covered funds are spent. To meet the Recovery Act's accountability objectives, the Office of Management and Budget issued guidance requiring Federal agencies and departments to maintain strong internal controls and implement appropriate oversight mechanisms and other approaches. The Office of Inspector General (OIG) reviews Recovery Act spending to ensure that (1) projects undertaken with Recovery Act money meet legal and administrative requirements, (2) recipients have the right administrative practices in place, and (3) effective controls are in place to manage funds.

### Early Head Start Program

Pursuant to the Improving Head Start for School Readiness Act of 2007 (P.L. No. 110-134) (Head Start Act), Early Head Start (EHS) is a national program designed to promote healthy outcomes for pregnant women, enhance the development of very young children, and promote healthy family functioning. Within the U.S. Department of Health and Human Services (HHS), the Administration for Children and Families (ACF), Office of Head Start, administers the EHS program. The EHS program provides grants to public and private agencies (EHS agencies) to provide a wide range of services to economically disadvantaged children and families, including child-development services, child care, parenting education, case management, health care and referrals, and family support.

For fiscal years (FY) 2009 and 2010, the Recovery Act provided ACF $1.1 billion to expand the EHS program, including up to $110 million for providing training and technical assistance to new EHS agencies and up to $33 million for monitoring the EHS program.

### Grant-Award Process for Early Head Start Recovery Act Funding

ACF received approximately 1,200 applications for EHS Recovery Act expansion funding. ACF evaluated funding for new applicants using its competitive grant-award process. Under ACF's direction, an independent panel of childhood experts reviewed and scored applications. The panel evaluated each applicant based on factors that included the applicant's plans for identifying children and families in need, service strategy and projected outcomes, and proposed staffing and organization. The panel gave its reviews and applicants' scores to ACF, and ACF then evaluated each applicant for compliance with the applicable Uniform Administrative Requirements in 45 CFR pt. 74, including standards for financial management systems and related cost principles.

Other award factors included (1) the funds available for competitive areas that include States, territories, migrant areas, and tribes; (2) the need for services in proposed areas; (3) the size of proposed grants; (4) the reasonableness of budgets; and (5) the cost per child based on the services proposed.

Of the 1,200 applicants for EHS Recovery Act grants, 1,117 were current ACF grantees. These applicants operated existing Head Start or EHS programs, and ACF had historical information regarding their financial viability. The remaining 83 applicants had no experience administering Head Start or EHS grants. ACF requested that we conduct audits to assess these applicants' financial viability, capacity to manage and account for Federal funds, and capability to operate EHS programs in accordance with Federal requirements. ACF used the results of our audits in its application review process.[1]

### Federal Requirements

Head Start grantees and delegate agencies must meet the requirements in 45 CFR pt. 74 (45 CFR § 1301.10). Grantees also must adhere to the cost principles found at 2 CFR pt. 225, 2 CFR pt. 230, or 48 CFR pt. 31, as applicable.[2] The Head Start Act established the Head Start program and includes provisions related to powers and functions of agencies, administrative requirements, and comparability of wages. The regulations governing the Head Start program, found at 45 CFR §§ 1301–1311, cover program operations, administration, and grant management for all grants awarded under the Head Start Act, including grants for technical assistance and training.

## OBJECTIVES, SCOPE, AND METHODOLOGY

### Objectives

Our objectives were (1) to provide details about our testing of applicants' financial viability, capacity to manage and account for Federal funds, and capability to operate EHS programs in accordance with Federal requirements and (2) to summarize the results of our assessments of and ACF's funding determinations for 83 applicants.

### Scope

We assessed the financial viability, financial management systems, and related policies and procedures of 83 new applicants from September 2009 through January 2010. Reviews were nationwide and involved staff from all OIG regional offices.

We did not review ACF's system of internal controls because our objectives did not require us to do so.

[1] We issued 83 limited-distribution reports to ACF to use in its grant-award process.

[2] Pursuant to 45 CFR pt. 74.27, the allowability of costs is determined in accordance with the relevant cost principles. Cost principles for States and localities are codified at 2 CFR pt. 225. Cost principles for nonprofit organizations are codified at 2 CFR pt. 230. Cost principles for commercial organizations are determined in accordance with the Federal Acquisition Regulation at 48 CFR pt. 31.

**Methodology**

To accomplish our objectives, we:

- reviewed relevant Federal laws and regulations, including Uniform Administrative Requirements for grants and related cost principles, the Head Start Act, and Head Start Program Performance Standards;
- reviewed ACF's competitive grant-award process to gain an understanding of how Recovery Act funds are awarded;
- reviewed funding information provided by ACF for 83 applicants;
- categorized the deficiencies identified at the 83 applicant organizations;
- discussed the results of our 83 audits with ACF officials and certain applicant organizations; and
- determined ACF's funding actions for the 83 applicants.

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 conclusion based on our audit objectives.

## RESULTS OF REVIEW

We tested whether applicants had (1) the financial resources necessary to meet operational costs and pay liabilities; (2) accounting systems to track all cash drawdowns separately and provide accurate, current, and complete reports of grant expenditures; and (3) written procedures for financial management, including budget and cost-accounting practices.

Of the 83 applicants that we assessed, 8 had no reported audit deficiencies. For the remaining 75, our reviews identified (1) problems with financial stability, (2) inadequate systems to manage and account for Federal funds, (3) inadequate organizational structures, (4) inadequate procurement and property management procedures, and (5) inadequate personnel policies and procedures.

Using our findings, ACF awarded $15 million in Recovery Act funds to 8 applicants; did not award $31 million requested by 15 applicants; and awarded $126 million to 60 applicants on the condition that they receive increased ACF oversight, training, and technical assistance.

## FINANCIAL STABILITY

Pursuant to 45 CFR § 74.14(a), an awarding agency may impose additional requirements as needed if an applicant or recipient has a history of poor performance or is not financially stable.

We assessed financial stability by analyzing applicants' financial data, including the relationships among accounts and changes in accounts over time. Specifically, we analyzed applicants' audited financial statements using ratio and trend analysis, including (1) the ability to pay bills over the next year (current ratio) and in the immediate future (quick ratio), (2) current assets less current liabilities (net working capital), (3) change in net assets (net-income surplus or net-income deficit), and (4) unusual trends or significant changes over a 3-year period.

We identified eight applicants with questionable financial stability. Examples included the following:

- An applicant had only $1 in current assets for every $3 in current liabilities (current ratio of 0.33). Generally, an organization must have current assets that are valued as greater than current liabilities to be considered fiscally sound. In addition, the applicant's net working capital was approximately -$47.4 million (current assets of $22,941,258 less current liabilities of $70,314,938). Working capital is a common measure of an organization's liquidity, efficiency, and overall financial health. ACF did not fund this applicant's request for $3.5 million.

- Another applicant's current liabilities exceeded its current assets for FY 2009, the latest available year of financial statements. It had $1 of current assets for every $3 of current liabilities (current ratio of 0.33). In addition, its net working capital had been steadily declining, resulting in a negative balance as of June 30, 2009. The applicant's net working capital dropped 142 percent between FYs 2006 and 2009. This applicant received $1.8 million on the condition of increased oversight by ACF.

## SYSTEMS TO MANAGE AND ACCOUNT FOR FEDERAL FUNDS

Pursuant to 2 CFR pt. 225, Appendix B, § 8.h and 2 CFR pt. 230, Appendix B, § 8.m, grantees must support the distribution of salaries and wages with personal activity reports based on actual effort expended. Pursuant to 45 CFR § 74.23(a)(4), grantee costs must include only allowable costs. Furthermore, allowable shared costs must be equitably allocated (2 CFR pt. 225, Appendix A, § C.3; 2 CFR pt. 230, Appendix A, § A.4; and 48 CFR § 31.205-4). In addition, shared costs consisting of in-kind contributions (such as the services of volunteers) must be valued properly (45 CFR pt. 74.23(c)).

Federal financial assistance granted under the Head Start Act for a Head Start program shall not exceed 80 percent of the total costs of the program (45 CFR § 1301.20(a)); the applicant, therefore, is required to pay least 20 percent of the total program costs. Pursuant to 45 CFR § 301.32(a)(2), allowable costs for developing and administering a Head Start program may not exceed 15 percent of the total approved costs of the program (administrative cap).

Pursuant to 45 CFR §§ 74.21 and 22, grantees' financial systems must have effective controls to account for and safeguard Federal funds, including maintaining Federal funds in insured bank accounts whenever possible and transferring and disbursing Federal funds on a timely basis.

We obtained information on applicant financial systems and policies and procedures. We determined whether (1) personnel costs were allocated to projects based on actual effort expended, (2) only allowable costs were included for cost sharing, (3) shared costs were allocated equitably, (4) indirect costs did not exceed the 15-percent administrative cap, (5) controls were in place to account for and safeguard Federal funds,[3] (6) Federal funds were maintained in insured bank accounts, and (7) Federal funds were transferred and disbursed on a timely basis.

We identified 71 applicants that did not have adequate systems to manage and account for Federal funds. Examples included the following:

- An applicant did not perform monthly general ledger account reconciliations in a timely manner, did not have procedures for allocating costs, and did not have a chart of accounts that accumulated and segregated Recovery Act costs. In addition, this applicant did not meet the 20-percent requirement for cost sharing. This applicant received $1.5 million on the condition of increased oversight by ACF.

- Another applicant lacked written financial and accounting policies for documenting and valuing the non-Federal share of in-kind contributions; ensuring that administrative costs do not exceed the 15-percent administrative cap; and determining reasonableness, allowability, and allocability of costs for Federal grants. In addition, the applicant did not segregate duties; one individual performed all accounting transactions, approved purchases, issued checks, handled bank deposits and reconciliations, and managed personnel and payroll. ACF did not fund this applicant's request for $1.6 million.

## ORGANIZATIONAL STRUCTURE

Pursuant to the Head Start Act § 642(c), a grantee must establish a governing board that includes at least one member each with expertise in early childhood education and development, law, and accounting and finance. The grantee must also establish a policy council. In addition, members of a Head Start agency's governing board shall not have a financial conflict of interest with the Head Start agency.

We reviewed documentation that included board minutes and board members' resumes. We assessed whether applicants (1) established governing boards; (2) had board members with the required expertise; (3) established policy councils; and (4) had boards free of apparent conflicts of interest, such as employees who also served on the board.

[3] Specifically, we determined whether duties were properly segregated.

We identified 31 applicants with organizational structures that did not comply with Federal requirements. Examples included the following:

- An applicant had a conflict of interest because a member of its board was also married to the organization's executive director. In addition, the board did not include a specialist with expertise in law. This applicant received $1.9 million on the condition of increased oversight by ACF.

- Another applicant had a conflict of interest because its board included three members who were also employees. This applicant received $2.4 million on the condition of increased oversight by ACF.

## PROCUREMENT AND PROPERTY MANAGEMENT PROCEDURES

Pursuant to 45 CFR § 74.43, procurements are to be conducted using open and free competition to the maximum extent practicable. Grantees are required to establish written procurement procedures related to obtaining solicitations for goods and services (45 CFR § 74.44(a)). Grantees must have written policies and procedures to comply with cost principles for ensuring costs charged to Federal projects, including the costs of consultants' services, are reasonable, allowable, and allocable (45 CFR § 74.21(b)(6)). The regulations also state that grantees are required to maintain an accurate property management system that accounts for and safeguards equipment purchased with Federal funds and to conduct a physical inventory of equipment at least once every 2 years (45 CFR § 74.34).

Pursuant to 45 CFR § 74.44(e), recipients must make available to the HHS awarding agency procurement documents, such as requests for proposals or invitations for bids and independent cost estimates, when the procurement is expected to exceed $100,000 and is to be awarded without competition or only one bid or offer is received in response to a solicitation, among other circumstances.

Pursuant to 2 CFR pt. 225, Appendix B, § 32.b; 2 CFR pt. 230, Appendix B, § 37.b; and 48 CFR § 31.205-33(d), in determining the allowability of consultants' costs, the following factors, among others, are relevant: (1) the nature and scope of services provided in relation to the service required; (2) the necessity of contracting for the service considering the grantee organization's capability in the particular area; (3) the past pattern of such costs, particularly in the years before Federal awards; (4) whether the service can be performed more economically by direct employment rather than contracting; (5) the qualifications of the consultant; and (6) the adequacy of the contractual agreement.

We reviewed applicants' policies and procedures and interviewed applicants to evaluate systems in place for the procurement of goods and services and property management.

We identified whether applicants' procurement and property management systems ensured that (1) quality goods and services were obtained in a cost-effective manner with open and free competition, such as the use of competitive bids for goods and services; (2) written procurement procedures related to obtaining solicitations were established; (3) consultants' costs were reasonable, allowable, and allocable; (4) property purchased with Federal funds was properly identified and accounted for; and (5) equipment was safeguarded from theft or misuse.

We identified 53 applicants that did not have adequate procurement and property management procedures. Examples included the following:

- An applicant did not comply with Federal and State equipment-management and inventory-record requirements. The applicant also did not have adequate security controls to prevent property theft. The applicant's failure to maintain adequate control over movable property resulted in the loss in FY 2008 of 35 laptop computers and a digital scanner that cost $55,802. This applicant received $3.5 million on the condition of increased oversight by ACF.

- Another applicant's written procurement procedures did not stipulate the dollar amount over which competitive bids were required. In addition, the applicant's procedures regarding consultants' costs did not address the nature and scope of allowable services. This applicant received $1.9 million on the condition of increased oversight by ACF.

## PERSONNEL POLICIES AND PROCEDURES

Pursuant to 45 CFR § 1301.31(a), grantees must have established written personal policies, including procedures for performing employee criminal-record checks and descriptions of staff positions, including salary ranges. The Head Start Act § 653(b) limits executive compensation.

We assessed whether applicants' personnel policies and procedures addressed criminal-record checks and employee compensation. We identified 38 applicants with inadequate personnel policies and procedures. Examples included the following:

- An applicant lacked written personnel policies and procedures, including those that addressed the requirements for performing employee criminal-record checks and those that ensured that executive compensation did not exceed limits under the Head Start Act. This applicant received $3.1 million on the condition of increased oversight by ACF.

- Another applicant lacked written personnel policies and procedures, including those that addressed the requirements for performing employee criminal-record checks. This applicant received $1.8 million on the condition of increased oversight by ACF.

## ACTION TAKEN BY THE ADMINISTRATION FOR CHILDREN AND FAMILIES

Using our findings, ACF awarded $15 million in Recovery Act funds to 8 applicants; did not award $31 million requested by 15 applicants; and awarded $126 million to 60 applicants on the condition that they receive increased ACF oversight, training, and technical assistance.

## CONCLUSION

ACF's funding decisions highlight the importance of identifying risks early in the application-review process. Such proactive oversight helps prevent fraud, waste, and abuse. ACF could enhance oversight by ensuring that its application-review process includes obtaining sufficient information to minimize the risk of awarding grants to applicants with questionable financial stability or inadequate financial, procurement, and management systems. Applicants' effectiveness within the EHS program is likely to be enhanced if they understand the unique requirements of Federal programs, establish internal compliance controls and appropriate policies and procedures, and maintain sufficient documentation to support compliance with Federal requirements.

## RECOMMENDATIONS

We recommend that ACF use the information in this report (1) as part of its application-review process and (2) in its monitoring and oversight of the 60 funded applicants identified in this report.

## ADMINISTRATION FOR CHILDREN AND FAMILIES COMMENTS

In written comments on our draft report, ACF agreed with our findings and recommendations and described steps it had taken to incorporate the information in this report into its oversight activities. ACF also provided technical comments, which we addressed as appropriate. ACF's comments, excluding the technical comments, are included as the Appendix.

# APPENDIX

DEPARTMENT OF HEALTH & HUMAN SERVICES

ADMINISTRATION FOR CHILDREN AND FAMILIES
Office of the Assistant Secretary, Suite 600
370 L'Enfant Promenade, S.W.
Washington, D.C. 20447

SEP 20 2011

TO: Daniel R. Levinson
Inspector General

FROM: George H. Sheldon
Acting Assistant Secretary
for Children and Families

SUBJECT: Office of Inspector General's (OIG) Draft Report titled, "Review of 83 Early Head Start Applicants under the American Recovery and Reinvestment Act" (A-01-10-02501)

Attached are comments of the Administration for Children and Families on the above-referenced OIG draft report.

Should you have any questions or need additional information, please contact Yvette Sanchez Fuentes, Director, Office of Head Start, at 202-205-8573.

Attachment

**COMMENTS OF THE ADMINISTRATION FOR CHILDREN AND FAMILIES ON THE OFFICE OF INSPECTOR GENERAL DRAFT REPORT TITLED, "REVIEW OF 83 EARLY HEAD START APPLICANTS UNDER THE AMERICAN RECOVERY AND REINVESTMENT ACT" (A-01-10-02501)**

The Administration for Children and Families (ACF) appreciates the opportunity to comment on the above-cited Office of Inspector General (OIG) draft report.

**OIG RECOMMENDATIONS**

We recommend that ACF use the information in this report (l) as part of its application-review process and (2) in its monitoring and oversight of the 60 funded applicants identified in this report.

**ACF RESPONSE**

ACF agrees with OIG's recommendations and has incorporated the information in this report into grantee and applicant oversight in a number of ways, specifically:

1) Due to the relationship with OIG and the in-depth reviews of these applicants for American Recovery and Reinvestment Act (ARRA) funding, ACF has given heightened attention to the assessment of fiscal viability of applicants for replacement grants.

2) For those grantees that ACF decided to fund with additional oversight based on the OIG findings, ACF has paid particular attention to including additional training and technical assistance. Once these new grantees were awarded funding they participated in a two-day orientation on operating an EHS program. In addition, these grantees received targeted technical assistance throughout their first year in operation. All ARRA grantees received unannounced reviews to ensure their compliance with regulations and high-quality performance.