

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**GREATER BERGEN COMMUNITY
ACTION, INC., DID NOT MANAGE ITS
HEAD START AWARDS IN ACCORDANCE
WITH FEDERAL AND STATE
REQUIREMENTS**

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Office of Inspector General

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

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

Report in Brief

Date: January 2023

Report No. A-02-19-02008

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



Why OIG Did This Audit

Prior audits of HHS awards have found deficiencies in the way recipients account for award funds. As part of its oversight activities, OIG is conducting a series of audits of recipients of multiple HHS awards to determine whether they are managing the awards in accordance with Federal requirements. We selected Greater Bergen Community Action, Inc. (GBCA) for this audit because it received multiple awards from the HHS Administration for Children and Families (ACF).

Our objective was to determine whether GBCA managed its ACF Head Start awards in accordance with Federal and State requirements.

How OIG Did This Audit

We reviewed GBCA accounting records related to \$22 million in Head Start expenditures for March 1, 2017, through November 30, 2018 (audit period). Specifically, we reviewed costs related to rent, vehicles, salaries, fringe benefits, and volunteer services. In addition, we verified GBCA's compliance with background check and health screening requirements for the 30 individuals who volunteered the most time to GBCA during our audit period.

Greater Bergen Community Action, Inc., Did Not Manage Its Head Start Awards in Accordance With Federal and State Requirements

What OIG Found

GBCA did not manage its Head Start awards in accordance with Federal and State requirements. Specifically, GBCA drew down Head Start funds in excess of immediate cash needs and used the funds to temporarily cover non-Head Start expenditures. In addition, GBCA claimed unallowable costs totaling \$394,733 for (1) rental income that was not properly credited as program income, (2) unallowable rent costs, (3) unallowable salary and fringe benefit costs, and (4) non-Head Start program costs. GBCA also claimed \$92,678 in potentially unallowable vehicle costs. Further, GBCA overstated its non-Federal share contributions (e.g., volunteer services) and did not perform required background checks and health screenings on some of its volunteers. These deficiencies occurred because GBCA had inadequate policies in place to ensure that its Head Start grant funds were used to reimburse current, allowable Head Start expenses; its financial reports to ACF accurately accounted for non-Federal contributions to its Head Start program; and background checks and health screenings were performed.

What OIG Recommends and GBCA Comments

We recommend that GBCA (1) refund \$394,733 to the Federal Government for unallowable costs charged to the Head Start awards, (2) work with ACF to determine the amount of allowable vehicle costs or refund \$92,678 to the Federal Government for potentially unallowable vehicle costs and (3) strengthen its policies and procedures to address the issues identified in the report.

In written comments on our draft report, GBCA concurred with some of our findings, did not concur with others, and disagreed with our recommendation that it refund \$394,733 because, according to GBCA, most of our findings are procedural in nature and not unallowable expenses. Additionally, GBCA described steps that it has taken or plans to take to improve its controls over Head Start grant funds, including adjusting policies and procedures to ensure compliance with Federal requirements. After reviewing GBCA's comments, we maintain that our findings and recommendations are valid. GBCA did not provide any new documentation that supports that it managed its Head Start awards in accordance with Federal and State requirements. We commend GBCA for revising its policies and procedures; however, we maintain that GBCA should refund \$394,733 to the Federal Government and continue to strengthen its policies and procedures related to its Head Start programs.

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INTRODUCTION

WHY WE DID THIS AUDIT

Oversight and management of award programs is crucial to the health and well-being of the public. Prior audits of Department of Health and Human Services (HHS) awards have found deficiencies in the way recipients account for award funds. As part of its oversight activities, the Office of Inspector General (OIG) is conducting a series of audits of recipients of multiple HHS awards to determine whether they are managing the awards in accordance with Federal requirements.¹ We selected Greater Bergen Community Action, Inc. (GBCA), for this audit because it received multiple awards from the HHS Administration for Children and Families (ACF).

OBJECTIVE

Our objective was to determine whether GBCA managed its ACF Head Start awards in accordance with Federal and State requirements.

BACKGROUND

Head Start and Early Head Start

Within HHS, ACF is the agency responsible for promoting the economic and social well-being of families, children, individuals, and communities. ACF awards funds to local, public, and private agencies to promote the school readiness of children from low-income families by enhancing their physical, cognitive, social, and emotional development through safe and developmentally enriching caregiving. Within ACF, the Office of Head Start administers the Head Start and Early Head Start programs.

The Head Start program provides comprehensive child development services to economically disadvantaged children and families, with a special focus on helping preschoolers develop the early reading and math skills needed to be successful in school.² The Early Head Start program provides similar services, but they are tailored for the unique needs of infants and toddlers.

Head Start award recipients are required to adhere to the cost principles contained in the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for HHS Awards

¹ See Appendix B for a list of related OIG reports.

² Title VI of the Omnibus Budget Reconciliation Act of 1981 established Head Start as a Federal discretionary award program. The program was most recently reauthorized by the Improving Head Start for School Readiness Act of 2007 (P.L. No. 110-134, codified at 42 U.S.C. 9801 et. seq.).

(Uniform Guidance).³ These cost principles require award expenditures submitted for Federal reimbursement to be reasonable, allocable, and adequately documented.⁴ Further, recipients of Head Start awards are required to contribute 20 percent of their grant awards as non-Federal matching contributions each budget period.⁵ Head Start programs must also ensure volunteers have been screened for communicable diseases in accordance with Federal and State requirements. In New Jersey, criminal history, fingerprint, and background checks are required for volunteer childcare center workers.⁶

Greater Bergen Community Action, Inc.

GBCA, a nonprofit organization based in Hackensack, New Jersey, provides Head Start and Early Head Start services to low-income families at three locations throughout two New Jersey counties. Each location operates Head Start programs at multiple sites. GBCA received three Head Start awards (one for each location) from ACF totaling \$22.7 million covering the period March 1, 2017, through November 30, 2018 (audit period). During our audit period, GBCA also operated a State-funded childcare program that served the same children.

HOW WE CONDUCTED THIS AUDIT

We reviewed GBCA accounting records related to \$22 million in Head Start expenditures applicable to our audit period, March 1, 2017, through November 30, 2018.⁷ Specifically, we reviewed costs related to rent, vehicles, salaries, fringe benefits, and volunteer services. In addition, we verified GBCA's compliance with background check and health screening requirements for the 30 individuals who volunteered the most time to GBCA during our audit period.⁸

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.

³ 45 CFR Part 75.

⁴ 45 CFR § 75.403.

⁵ 45 CFR § 1303.4.

⁶ Title 3A, Chapter 52 of the New Jersey Administrative Code (NJAC).

⁷ The \$22 million includes \$21,138,135 of expenditures claimed to GBCA's Head Start awards and \$824,189 claimed as part of GBCA's non-federal matching expenditures.

⁸ According to GBCA officials, 2,559 individuals volunteered during our audit period. Most of these volunteers were parents of Head Start children.

Appendix A contains the details of our audit scope and methodology.

FINDINGS

GBCA did not manage its Head Start awards in accordance with Federal and State requirements. Specifically, GBCA drew down Head Start funds in excess of immediate cash needs and used the funds to temporarily cover non-Head Start expenditures. In addition, GBCA claimed unallowable costs totaling \$394,733 for (1) rental income that was not properly credited as program income, (2) unallowable rent costs, (3) unallowable salary and fringe benefit costs, and (4) non-Head Start program costs. GBCA also claimed \$92,678 in potentially unallowable vehicle costs. Further, GBCA overstated its non-Federal share contributions (e.g., volunteer services) and did not perform required background checks and health screenings on some of its volunteers. These deficiencies occurred because GBCA had inadequate policies in place to ensure that its Head Start grant funds were used to reimburse current, allowable Head Start expenses; its financial reports to ACF accurately accounted for non-Federal contributions to its Head Start program; and background checks and health screenings were performed.

GBCA DID NOT ADEQUATELY MANAGE HEAD START FUNDS

Head Start award recipients' financial management systems must provide effective control over and accountability for all funds. The award recipients' financial management systems must be sufficient to prepare required reports and trace funds to a level of expenditure adequate to establish that funds have been used according to the Federal requirements.⁹ Also, award recipients shall adequately safeguard all assets and assure they are used solely for authorized purposes.¹⁰ Cost transfers from one project to another to cover cost overruns are not allowable.¹¹ Advance payments (i.e. drawdowns) to an awardee must be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the awardee in carrying out the purpose of the approved program.¹² Accordingly, GBCA policies state that it will draw down funds from HHS's payment system no more than 5 business days prior to the payment of Head Start-related expenses.

During our audit period, GBCA drew down \$2,544,437 of Head Start funds in excess of immediate cash needs. Of this amount, GBCA used \$1,828,724 to temporarily cover non-Head Start salary and parking expenses. Specifically, in its accounting system, GBCA recorded these expenses in its Head Start accounts. Subsequently, GBCA adjusted its accounting records by making journal entries (known as batch adjustments) to remove the expenses from one

⁹ 45 CFR § 75.302(a) and (b)(3).

¹⁰ 45 CFR § 75.302.

¹¹ HHS Grants Policy Statement, part II-43-44.

¹² 45 CFR § 75.305(1).

account (in this case, a Head Start account) and charge them to another account (in this case, a non-Head Start account). See example below.

**Example: GBCA Used Head Start Funds to Pay for Parking Spaces
Used by Non-Head Start Employees**

From March through July 2017, \$8,500 of the funds drawn down by GBCA were expensed to a Head Start account for monthly parking spaces used by its Lead-Safe Home Remediation (LEAD) program employees.¹³ In August 2017 and September 2018, GBCA made batch adjustments to pay the \$8,500 back to its Head Start account.

We could not trace the remaining \$715,713 in GBCA's accounting records to determine what expenses were paid when the funds were drawn down. According to GBCA officials, these funds were used for expenses recorded in its Head Start accounts payable accounts. However, we confirmed that the funds were not used within the required 5 business days for Head Start expenses. GBCA subsequently made batch adjustments to record \$715,713 of Head Start expenses but could not trace to the specific expenses paid. These batch adjustments balanced GBCA's Head Start account; therefore, by end of the grant period, GBCA's recorded expenses were equal to the draw downs (i.e., total Head Start funds received).

GBCA drew down excess funds because it did not adhere to its policy to draw down Head Start funds from HHS's payment system no more than 5 business days prior to the payment of Head Start-related expenses. GBCA officials stated that its draw down practices had no monetary effect on the Head Start program because its accounting system was subsequently adjusted to remove non-Head Start expenses and, ultimately, Head Start expenditures were equal to funds received. In addition, GBCA officials stated that subsequent drawdowns were reduced by the amount of funds previously drawn down to pay non-Head Start expenses. However, GBCA did not provide evidence of this.

Although GBCA's Head Start general ledger showed that its drawdowns equaled its expenses at the end of the grant year, it did not minimize the time that elapsed between its drawdowns and immediate cash disbursements for the Head Start program. GBCA impermissibly used Head Start funds to cover non-Head Start expenses. In addition, GBCA did not maintain records that adequately identified the expenses paid with each drawdown. Therefore, the cash management of Head Start funds was not handled in a responsible manner that is consistent with grant requirements. This indicates a lack of internal controls and improper financial management. As a result, GBCA put Head Start grant funds at risk of being used for services that did not benefit the Head Start program.

¹³ GBCA's LEAD program offers remediation and abatement services to protect qualified families from hazards associated with lead paint.

GBCA CLAIMED UNALLOWABLE COSTS TO THE HEAD START PROGRAM

GBCA Did Not Properly Claim Rental Income to Its Head Start Program

HHS recipients of Federal awards must deduct program income from total allowable costs to determine the net allowable costs, and program income must be used for current costs unless the HHS awarding agency authorizes otherwise.¹⁴ Program income is defined as gross income directly generated by a federally supported activity, including rental income from real property acquired under Federal awards.¹⁵

GBCA had lease agreements for one of its GBCA-owned facilities for both its Head Start program and its State-funded childcare program, which served the same children. GBCA claimed the facility's mortgage payment for Head Start reimbursement. In its role as landlord, GBCA also received monthly rental payments from the State-funded program. GBCA did not properly credit the related Head Start award with this program income. Specifically, the rental income received from its State-funded childcare program was not deducted from the total Head Start costs reimbursed nor was it used for current Head Start expenses. As a result, GBCA received an excess of \$146,253 in Head Start funds that could have been used to provide allowable Head Start services to children.

GBCA stated that it was allowed to use rental income to pay down debt on GBCA's bonds because, in 2011, it received prior approval from ACF for its bond issuance.¹⁶ However, according to ACF officials, a similar arrangement for bond issuance in 2016 was not preapproved. Also, GBCA did not have policies and procedures to address how to account for rental income in accordance with Federal requirements.

GBCA Claimed Unallowable Rent Costs

Rental costs under less-than-arm's-length leases, including leases for property owned by the non-Federal entity, are unallowable. Only those expenses related to ownership of the property (e.g., depreciation, maintenance, taxes, and insurance) are allowed. A less-than-arm's-length lease is one under which one party to the lease agreement is able to control or substantially influence the actions of the other.¹⁷

GBCA had lease agreements for one of its GBCA-owned facilities for its Head Start program. In its role as tenant and landlord, GBCA wrote checks to itself to cover its rent payments and

¹⁴ 45 CFR § 75.307(e)(1).

¹⁵ 45 CFR § 75.2.

¹⁶ GBCA refinanced outstanding debt with the issuance of \$13.5 million of bonds in 2016. It used its rental income to make payments on these bonds.

¹⁷ 45 CFR § 75.465(c).

claimed the full amount of these payments for Head Start reimbursement. According to GBCA, rental payments were used to cover common facility costs, such as utilities, insurance, salaries and fringe benefits, vehicle maintenance and repairs, office supplies, and fuel. However, since GBCA owned the facility, it should have only claimed costs related to depreciation, maintenance, and insurance for reimbursement. As a result, GBCA claimed unallowable costs totaling \$134,526 that could have been used to provide allowable Head Start services to children.¹⁸

GBCA Claimed Unallowable Salary and Fringe Benefits Costs

For costs to be allowable, they must be reasonable and necessary for the performance of the award, be allocable to the award, and be adequately documented.¹⁹ A cost is allocable if the services are charged in accordance with the relative benefits received. For compensation for personal services to be allowable, the total compensation must be reasonable for the services rendered and benefit the Federal award. Salaries and wages must also be based on records that accurately reflect the work performed.²⁰ Fringe benefits must be allocated in a manner consistent with the benefits attributable to the individuals whose salaries and wages are chargeable to the award. Fringe benefit costs are allowable if these benefits are attributable to the employees whose salaries and wages are chargeable to the Federal award.²¹ Further, awardees are required to trace all funds used to support services back to the funding source.²²

During our audit period, GBCA operated 1st Bergen Federal Credit Union (FBFCU), a GBCA subsidiary that serves individuals in GBCA's geographic area. GBCA was also awarded an ACF Child Care and Development Block Grant (CCDBG). GBCA claimed \$95,483 of unallowable salary and fringe benefit costs applicable to FBFCU and its CCDBG award that could have been used to provide allowable Head Start services to children. Specifically:

- GBCA claimed salaries and fringe benefit costs totaling \$50,094 for FBFCU staff who were not Head Start employees.²³ GBCA stated that the costs are allowable because,

¹⁸ GBCA claimed rent during the audit period (Mar. 1, 2017, through Feb. 28, 2018) for Bergen County's Head Start program totaling \$202,620. Depreciation, maintenance, and insurance costs for the same period was \$68,094. We questioned the difference between the two amounts (\$202,620 less \$68,094) as this exceeded the allowable amount that GBCA could claim for reimbursement.

¹⁹ 45 CFR §§ 75.403(a) and (g).

²⁰ 45 CFR §§ 75.430(b) and (8)(i).

²¹ 45 CFR § 75.431(c).

²² 45 CFR § 75.302(b)).

²³ Specifically, GBCA charged \$40,860 in salaries and \$9,234 in related fringe benefits to its Head Start grants for three employees (two member service representatives and a branch manager).

during the summer, FBFCU employees provided financial literacy services that benefited GBCA Head Start families and staff. Although GBCA's approved Head Start application included financial literacy services as an activity to benefit parents of Head Start children, ACF officials told us that FBFCU staff salary costs should not have been charged to the Head Start program. The services provided by FBFCU included overseeing daily credit union operations, supervising FBFCU staff, opening and closing accounts, and facilitating loan applications. Therefore, the salary and fringe benefit costs are unallowable.

- GBCA claimed fringe benefits totaling \$45,389 for employees whose salary costs were charged directly to its CCDBG.²⁴ GBCA stated that this occurred because its Head Start and CCDBG programs were blended; therefore, the costs are allowable.²⁵ However, the fringe benefit costs should have been charged in a manner consistent with how the related salaries were charged. Specifically, these costs should have also been charged directly to GBCA's CCDBG program. Therefore, the fringe benefit costs are unallowable.

GBCA Claimed Costs Not Related to Its Head Start Program

A cost is allocable to a particular Federal award if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received.²⁶ Costs of professional services are allowable when reasonable in relation to the services rendered and the services must benefit the program. Legal fees in defense of an anti-discrimination suit are not allowable because recipients of Federal awards are required to comply with all Federal non-discrimination laws.²⁷

GBCA claimed costs totaling \$18,471 not related to its Head Start programs. Specifically, GBCA claimed costs for office supplies related to a non-Head Start program (\$5,144) and legal fees related to allegations that it wrongfully terminated an employee based on discrimination (\$13,327). GBCA stated that it believed these costs were allowable.

GBCA claimed these unallowable costs because it did not have adequate policies and procedures that address how to charge costs to the Head Start program. The unallowable costs totaling \$18,471 could have been used for providing allowable Head Start services to children.

²⁴ For one of its locations, GBCA received Federal funds of \$156,118 for its CCDBG.

²⁵ According to ACF's Office of Head Start, "blending" refers to combining funds from different funding sources together to fund a specific part of a program.

²⁶ 45 CFR 75.405(a).

²⁷ Legal fees based on discriminatory actions are not allowable costs as discrimination is prohibited under the Head Start program. See *Child Opportunity Program, Inc.*, DAB No. 1700 (1999).

GBCA POTENTIALLY CLAIMED UNALLOWABLE VEHICLE COSTS TO THE HEAD START PROGRAM

For costs to be allowable, they must be reasonable and necessary for the performance of the award, be allocable to the award, and be adequately documented.²⁸ Recipients of Federal awards are required to maintain records to a level adequate to prove compliance with all applicable regulations.²⁹

GBCA claimed potentially unallowable costs totaling \$92,678 related to 30 vehicles (buses, vans, and cars) that may have been used for non-Head Start purposes. Specifically, GBCA maintained gas receipts for these vehicles; however, it did not maintain documentation for where the vehicles were driven and for what purpose. This occurred because GBCA did not have policies and procedures to address documentation requirements for adequately supporting vehicle usage costs charged to its Head Start awards. GBCA stated that it believes that documenting the date, cost, and amount of gasoline purchased adequately supports its use of GBCA vehicles for Head Start purposes. However, we could not determine whether the documentation provided by GBCA supported its claim that the vehicles only served its Head Start program and that all vehicle costs (i.e., fuel, insurance, and maintenance) benefited the program. Therefore, we consider the costs potentially unallowable.

GBCA OVERSTATED THE VOLUNTEER PORTION OF ITS NON-FEDERAL CONTRIBUTIONS

Recipients of Head Start awards are required to contribute 20 percent of their awards as non-Federal matching contributions each budget period.³⁰ All matching contributions must be verifiable from the awardee's records. This includes the source and application of cash contributions, services received, and donated supplies and equipment.³¹

A volunteer is an individual providing a service that is necessary to the operation of the Head Start program at no cost to an awardee. To count the time of a volunteer as a matching cost, the volunteer must provide a service to and not receive a service from the awardee.³² The use of volunteer time as a matching cost must include the establishment of a wage scale based upon the awardee's internal scale or prevailing wages in the area.³³ GBCA's policies and procedures state that volunteer classroom assistants contribute to its in-kind program share at

²⁸ 45 CFR §§ 75.403(a) and (g).

²⁹ 45 CFR §§ 75.302(a) and (b)(3).

³⁰ 45 CFR § 1303.4.

³¹ 45 CFR § 75.306.

³² ACF, [Non-Federal Match Narrative](#).

³³ Salaries and wages used in meeting cost sharing and matching requirements on Federal awards must be supported in the same manner as salaries and wages claimed for reimbursement from Federal awards (45 CFR § 75.430(4)).

\$10.73 per hour or more,³⁴ depending on volunteers' educational background and prior experience.³⁵

GBCA overstated the volunteer portion of its non-Federal contributions by \$766,178. Specifically, GBCA reported contributions related to unallowable non-volunteer activities (\$522,580), unsupported volunteer hours (\$109,891), and inflated hourly wages (\$133,707) in its financial reports to ACF. The unallowable non-volunteer activities included parent workshops, parent-teacher conferences, and activities outside the classroom and often in their own homes on weekends, holidays, and evenings (e.g., family time, baking, yardwork, and birthday parties). GBCA also reported excess volunteer hours to ACF that could not be supported. Further, GBCA used an hourly rate of \$34.25 per hour to calculate costs for its parent volunteers, which is \$23.52 more than the \$10.73 stated in GBCA's policies. GBCA's failure to use the volunteer hourly rate written in its policies led to inflated hourly wages that were claimed as part of its non-Federal contribution.

GBCA overstated the volunteer portion of its non-Federal contributions because it did not have adequate policies and procedures regarding allowable volunteer activities and maintaining supporting documentation. GBCA officials stated that they believed that all volunteer activities were allowable. Further, GBCA stated that it was in the process of implementing a computerized system to better document its volunteer hours. GBCA also stated that it used data on hourly rates from the U.S. Department of Labor to calculate volunteer contributions.

Because GBCA fulfilled its 20-percent contribution requirements through other non-Federal revenue sources, the overstated volunteer costs did not have a monetary effect during our audit period. However, GBCA provided ACF with inaccurate cost-sharing information. In the future, if GBCA continues to report overstated volunteer costs and funding from non-Federal revenue sources is decreased, GBCA's reports to ACF could inaccurately reflect that it met its cost-sharing obligation for non-Federal contributions towards its Head Start program.

GBCA DID NOT PERFORM BACKGROUND CHECKS AND HEALTH SCREENINGS ON SOME OF ITS VOLUNTEERS

Head Start programs must ensure volunteers have been screened for communicable diseases in accordance with State or local laws.³⁶ GBCA policies state that individuals volunteering on a regular basis for more than 20 percent of GBCA's weekly operating hours must complete State-mandated paperwork that initiates background checks.³⁷

³⁴ This amount includes fringe benefit costs.

³⁵ We noted that there was no evidence of parent volunteers with educational background or prior experience with child development services.

³⁶ 45 CFR § 1302.94.

³⁷ The paperwork includes forms related to investigations for child abuse and criminal history.

New Jersey requires criminal history, fingerprint, and background checks for volunteer childcare center workers.³⁸ In addition, staff members, including volunteers, whose job duties require contact with children for at least 20 percent of the center's weekly operating hours shall take a Mantoux tuberculin (Tuberculosis) skin test prior to or upon beginning work at the center. Further, prior to beginning work, each staff member, including volunteers, shall submit a written statement from a health care provider, indicating that he or she is in good health and poses no health risk to persons at the center.³⁹

GBCA did not perform required background checks and appropriate health screenings on 6 of the 30 individuals who provided the most volunteer hours. These volunteers were family members who provided classroom volunteer services during more than 20 percent of GBCA's weekly operating hours. GBCA stated that it does not consider parents to be volunteers because their time commitment is part of the expectation of their parent involvement and, therefore, New Jersey's regulations do not apply. However, this contradicts GBCA's own policies, which state that individuals who volunteer on a regular basis must adhere to State guidelines. By not performing background checks and appropriate health screenings for volunteers, GBCA potentially jeopardized the safety of children in its care.

RECOMMENDATIONS

We recommend that Greater Bergen Community Action, Inc.:

- refund \$394,733 to the Federal Government for unallowable costs charged to the Head Start awards,
- work with ACF to determine the amount of allowable vehicle costs or refund \$92,678 to the Federal Government for potentially unallowable vehicle costs, and
- strengthen its policies and procedures to ensure that:
 - grant drawdowns are used to cover immediate cash needs necessary for its Head Start expenditures,
 - only allowable costs are charged to Head Start program,
 - vehicle usage costs are adequately supported, and
 - background check and health screenings are performed on all volunteers who provide more than 20 percent of services during GBCA's weekly operating hours.

³⁸ NJAC 3A:52-4.11.

³⁹ NJAC 3A:52-7.4(a) and (b).

GREATER BERGEN COMMUNITY ACTION, INC., COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, GBCA concurred with some of our findings, did not concur with others, and disagreed with our recommendation that it refund \$394,733 because, according to GBCA, most of our findings are procedural in nature and not unallowable expenses. Additionally, GBCA described steps that it has taken or plans to take to improve its controls over Head Start grant funds, including adjusting policies and procedures to ensure compliance with Federal requirements.

After reviewing GBCA's comments, we maintain that our findings and recommendations are valid. GBCA did not provide any new documentation that supports that it managed its Head Start awards in accordance with Federal and State requirements. We commend GBCA for revising its policies and procedures; however, we maintain that GBCA should refund \$394,733 to the Federal Government and continue to strengthen its policies and procedures related to its Head Start programs.

A summary of GBCA's comments and our responses follows. GBCA's comments are included in their entirety as Appendix C.

GBCA DID NOT ADEQUATELY MANAGE HEAD START FUNDS

GBCA Comments

GBCA agreed that its procedures for reconciliation of its drawdowns can be improved. However, GBCA did not agree that it lacked internal controls or general drawdown procedures, or that its cash management was not handled responsibly. GBCA stated that it reviews its Head Start program expenses and reclassifies or adjusts them as necessary. For example, GBCA stated that it adjusted its monthly parking expenditures (described in the report) after discovering the incorrect charges to its Head Start grants.

GBCA also stated that it provided its methodology and support used to complete drawdowns and reconcile total expenditures and that, because the exact amount of expenses is not always available, GBCA used estimates when determining needs for each Head Start drawdown. Therefore, GBCA increases or decreases subsequent drawdowns to account for variances. Finally, GBCA noted that it has implemented biweekly reconciliations of Head Start expenses to drawdowns to ensure that its policies and procedures comply with Head Start regulations. GBCA's drawdowns will only include payroll expenses 2 days beforehand, cash disbursements already paid in the past 2 weeks, and future payments made within 5 business days.

Office of Inspector General Response

We maintain that GBCA did not adequately manage its Head Start funds. Although GBCA provided its accounting methodology and support that general ledger expenses equaled Head

Start funds received, GBCA did not provide support for the expenses paid with each grant drawdown. We verified expenses totaling \$2,544,437 that GBCA drew down in excess of immediate cash needs. Of this amount, GBCA used \$1,828,724 to temporarily pay non-Head Start expenses (\$1,820,224 in salary expenses and \$8,500 in parking expenses). The remaining expenses, totaling \$715,713, could not be traced to specific expenses. GBCA stated that these expenses were recorded in its Head Start accounts payable accounts. However, GBCA was not able to identify the specific expenses and document when they were paid. Further, GBCA did not provide any support for how it increased or reduced drawdowns to account for variances. As such, GBCA did not provide actual support for these expenses. Accordingly, we maintain that GBCA did not comply with Federal documentation requirements, and it did not minimize the time that elapsed between its drawdowns and immediate cash disbursements for the Head Start program. Therefore, the cash management of Head Start funds were not handled in a manner that is consistent with grant requirements.

GBCA CLAIMED UNALLOWABLE COSTS TO THE HEAD START PROGRAM

GBCA Did Not Properly Claim Rental Income to Its Head Start Program

GBCA Comments

GBCA did not dispute our description of how GBCA recorded rental income; however, GBCA stated that it developed its lease agreement for one of its GBCA-owned facilities to record facility-related program income “more easily against common facility costs not recorded directly against the Head Start program.” GBCA stated that, even though its allocation methodology simplified its accounting process, it planned to restructure its allocation process to better allocate expenses and record program income. GBCA also stated that the program income was not recorded “precisely in accordance” with Federal regulations and that there are common expenditures available to offset GBCA’s expenses; therefore, GBCA requested that the recommended disallowance (\$146,253) be set aside.

Office of Inspector General Response

Despite GBCA’s assertion that it might have common facility costs that could have been used to offset program income, the costs were not claimed to the Head Start grant, therefore, these are not considered allowable current costs. Further, ACF did not authorize GBCA to use facility-related program income for common facility costs and GBCA admittedly did not adhere to the Federal regulations. Therefore, we maintain that GBCA refund \$146,253 to the Federal Government.

GBCA Claimed Unallowable Rent Costs

GBCA Comments

GBCA stated that it recorded facility costs as a rent expense—a calculation that included depreciation, maintenance, insurance, and maintenance staff. GBCA stated that it has changed its facility cost methodology to allocate these costs as “space costs” and not record them as rental costs “to avoid confusion.” Therefore, GBCA requested we set aside the recommended disallowance (\$134,526).

Office of Inspector General Response

We maintain that GBCA claimed unallowable rent costs and entered into a less-than-arm’s-length lease agreement. Since GBCA owned the facility, it should have only claimed costs related to depreciation, maintenance, and insurance for reimbursement. We netted these amounts, totaling \$68,094, against the total rental costs of \$202,620 in order to calculate the excess Head Start costs claimed. Accordingly, we maintain that GBCA refund \$134,526 to the Federal Government.

GBCA Claimed Unallowable Salary and Fringe Benefits Costs

GBCA Comments

GBCA stated that the financial literacy services provided by FBFCU staff were approved by ACF. Also, GBCA stated that FBFCU staff are GBCA employees funded by GBCA—not FBFCU—who provided financial services to Head Start parents and employees. GBCA contended that the costs are allowable and that the recommended disallowance (\$50,094) be set aside.

GBCA also stated that its allocation methodology for its Head Start/CCDBG blended program should have included both wages and benefits (\$45,389). According to GBCA, the total allocation between the two programs “would still total the same.” GBCA stated that the CCDBG program is no longer administered by GBCA; however, it will seek to improve its allocations.

Office of Inspector General Response

We maintain that GBCA claimed salaries and fringe benefit costs for FBFCU staff who were not Head Start personnel, regardless of how GBCA categorized their employment. Although GBCA’s approved Head Start application included financial literacy services as an activity to benefit parents of Head Start children, ACF officials agreed that FBFCU staff salary costs do not fall into this category and should not have been charged to the Head program; therefore, these costs

are unallowable. Accordingly, we maintain that GBCA should refund \$50,094 to the Federal Government.

In addition, we maintain that the fringe benefit costs for employees whose salary costs were charged directly to the CCDBG program should have been charged in a manner consistent with how the related salaries were charged. Although GBCA no longer administers the CCDBG program, we maintain that GBCA refund \$45,389 to the Federal Government.

GBCA Claimed Costs Not Related to Its Head Start Program

GBCA Comments

GBCA stated that it does not agree with our recommendation to refund \$13,327 in legal fees associated with an employee allegation of discrimination because the allegation “was not an actual finding of discrimination;” therefore, the fees should be allowable. GBCA did not agree that DAB case No. 1700 (cited in footnote 27) supports our finding because they contend that the payment made in the referenced case was for wages and because the organization did not have insurance for legal fees to defend allegations; therefore, GBCA’s costs for legal fees should be allowable.

GBCA agreed that the costs claimed for office supplies (\$5,144) related to a non-Head Start program were incorrectly posted to its Head Start program. GBCA stated that the accounting errors were minor and due to employees’ errors or incorrectly entering the costs in its accounting software.

Office of Inspector General Response

We maintain that GBCA claimed costs not related to its Head Start program. As a recipient of Federal awards, GBCA is responsible for complying with Federal regulations, regardless of how it categorizes costs. In DAB case No. 1700, the Departmental Appeals Board (DAB) concluded that the costs in question were unallowable because the purpose of the settlement agreement was to resolve claims arising out of a legal tort action based on discrimination rather than a simple claim for compensation. Similar to the recipient in the cited DAB case, GBCA incurred expenses to settle discrimination allegation claims. If the settlement costs had been for wages, as GBCA asserts, those costs would have been allowable, as outlined in the DAB case. Therefore, we maintain that GBCA refund \$13,327 in legal fees as well as the \$5,144 in office supplies to the Federal Government.

GBCA POTENTIALLY CLAIMED UNALLOWABLE VEHICLE COSTS TO THE HEAD START PROGRAM

GBCA Comments

GBCA stated that it believes it followed Federal requirements related to maintaining records for the costs associated with its Head Start program vehicles. GBCA described its process for

logging fuel costs that specifically allocates these costs to the correct program—a method that is more accurate than the manual log system it replaced. GBCA also stated that drivers are not allowed to use its vehicles for personal use. GBCA stated that, subsequent to our audit period, it installed vehicle tracking software on its vehicles. Although GBCA stated that it believes that it met Federal requirements, GBCA stated that it will complete paper logs if ACF makes this recommendation.

Office of Inspector General Response

We maintain that GBCA should ensure that its costs associated with its vehicles are adequately supported and work with ACF to determine the amount of allowable vehicle costs or refund \$92,678 to the Federal Government for potentially unallowable vehicle costs. We commend GBCA for installing tracking software on its vehicles; however, GBCA is still responsible for complying with Federal requirements, including ensuring that only allowable vehicle costs are allocated to the Head Start program.

GBCA OVERSTATED THE VOLUNTEER PORTION OF ITS NON-FEDERAL CONTRIBUTIONS

GBCA Comments

GBCA did not concur that it used an inflated hourly rate and stated that it used U.S. Department of Labor data to calculate its volunteer rate because it has three separate grant programs. However, GBCA stated that it should have updated its volunteer rate in its policies to reflect the actual U.S. Department of Labor rate for northern New Jersey. GBCA also stated that it should not have included unallowable at-home volunteer hours.

In addition, GBCA stated that it did not report excess hours to ACF because it only reported the required 20-percent non-Federal share amount to ACF. GBCA also stated that overstated amounts were due to budget estimations—not actual documentation—and differences between paper documents and its computerized Child Plus system program. GBCA stated that even though there was no monetary effect on its Head Start grants, it will enhance its budget and actual calculations and amend its policies where necessary.

Office of Inspector General Response

We maintain that GBCA overstated the volunteer portion of its non-Federal contributions and, if it continues to report overstated volunteer costs, its reports to ACF could inaccurately reflect that GBCA met its cost-sharing obligations for non-Federal contributions toward its Head Start program. We determined the excess volunteer hours using the actual volunteer hours from the Child Plus program (not budget estimations). We note that the starting hourly rate paid to GBCA's Teacher Assistants ranged from \$12.00 to \$14.30. This is significantly less than the

\$26.32 that GBCA used to calculate the volunteer costs.⁴⁰ Therefore, we maintain that GBCA should use the volunteer hourly rate in its policies for all of its Head Start programs and ensure it continues to meet the 20-percent non-Federal share requirement.

GBCA DID NOT PERFORM BACKGROUND CHECKS AND HEALTH SCREENINGS ON SOME OF ITS VOLUNTEERS

GBCA Comments

GBCA agreed that its policies for performing background checks for parents are unclear and disagreed that State regulations require background checks for parents. GBCA also stated that it will immediately revise its policies to rectify this finding.

Office of Inspector General Response

We maintain that GBCA should perform background checks and health screenings on parent volunteers in accordance with Federal and State regulations and its own policies. As described in the report, GBCA policies state that individuals volunteering on a regular basis for more than 20 percent of GBCA's weekly operating hours must adhere to State guidelines and complete State-mandated paperwork that initiates background checks.

⁴⁰ To calculate the volunteer costs, GBCA used the Teacher Assistant's hourly rate listed by the U.S. Department of Labor, which is \$26.32 (\$34.25 less fringe benefits).

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed GBCA accounting records related to \$22 million in Head Start expenditures applicable to our audit period, March 1, 2017, through November 30, 2018.⁴¹ Specifically, we reviewed costs related to rent, vehicles, salaries, fringe benefits, and volunteer services. In addition, we verified GBCA's compliance with background check and health screening requirements for the 30 individuals who volunteered the most time to GBCA during our audit period.⁴²

Our audit objective did not require an understanding or assessment of GBCA's complete internal control structure, and we limited our review of internal controls to those directly related to our objective.

We conducted our audit from August 2019 through September 2022.

METHODOLOGY

To accomplish our objective, we:

- reviewed Federal and State requirements related to HHS awards;
- met with ACF officials to discuss GBCA's awards;
- met with GBCA officials to discuss GBCA's policies, procedures, and controls related to their accounting of award funds;
- reviewed GBCA's financial management system, which included its general ledger, cash disbursement journals, and check registers, to determine whether costs were allocable to the Head Start program;
- obtained from ACF a list of GBCA Head Start awards and related documentation for the audit period;
- reconciled costs claimed by GBCA to accounting records for the 3 Head Start awards included in our audit;

⁴¹ The \$22 million includes \$21,138,135 of expenditures claimed to GBCA's Head Start awards and \$824,189 claimed as part of GBCA's non-Federal matching contributions.

⁴² During our audit period, a total of 2,559 individuals volunteered time to GBCA.

- reconciled total Federal cash drawdowns of \$22.7 million in Head Start expenditures to GBCA's general ledger;
- reviewed costs claimed by GBCA for Federal reimbursement totaling \$21.1 million from various expenditure categories including, salaries, fringe benefits, and rent;
- reviewed GBCA's volunteer portion of its non-federal share totaling \$824,189;
- judgmentally selected and reviewed documentation for 30 of 2,559 GBCA volunteers for compliance with background check and health screening requirements;
- reviewed GBCA's monthly salary and fringe benefit costs for its Head Start awards;
- reviewed GBCA's lease agreements and rental costs for its Head Start facilities;
- obtained a list of GBCA's vehicles and reviewed GBCA's gas logs; and
- discussed the results of our audit with ACF and GBCA 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: PRIOR OIG AUDIT REPORTS RELATED TO RECIPIENTS OF MULTIPLE HHS GRANTS

Report Title	Report Number	Issue Date
<i>Gateway Community Action Partnership Claimed Unallowable Costs, Did Not Comply With Federal Regulations on Construction and Major Renovations, and Did Not Accurately Account for Grant Funds</i>	<u>A-02-18-02011</u>	5/28/2021
<i>Cape Cod Child Development Program Did Not Meet Its Head Start Non-Federal Share Obligations</i>	<u>A-01-19-02500</u>	4/16/2020
<i>Wateree Community Actions, Inc., Made Improvements but Still Requires Monitoring</i>	<u>A-04-19-08069</u>	2/11/2020
<i>Opportunities for Williamson and Burnet Counties Had Ineffective Accounting Controls and Used Unapproved or Questionable Cost Allocation Methods</i>	<u>A-06-18-02002</u>	2/7/2020
<i>The Next Door Foundation Claimed Unallowable Indirect Costs and Did Not Document the Funding Source of Program Expenditures in Accordance With Federal Requirements</i>	<u>A-05-18-00008</u>	9/27/2019

APPENDIX C: GREATER BERGEN COMMUNITY ACTION PARTNERSHIP, INC., COMMENTS

Greater Bergen Community Action, Inc.

Report Number: A-02-19-02008

Greater Bergen Community Action, Inc. (GBCA) Comments

FINDINGS

GBCA Did Not Adequately Manage Head Start Funds

Finding: GBCA Did Not Adequately Manage Head Start Funds

Statement of Nonconcurrence: GBCA agrees that its procedures for reconciliation of its drawdowns can always be improved. However, GBCA does not agree that it lacked internal controls or general drawdown procedures, that Head Start grant funds would purposely be used for non-Head Start activities or that its cash management was not handled responsibly. GBCA regularly reviews expenditures charged to the Head Start Programs (as well other funding sources) and reclasses or adjusts expenditures as necessary to ensure appropriate Head Start expenditures are charged to the Head Start Program

For example, relating to the unintentional allocation of non-Head Start parking expenses to the program referenced in this report, the error was due to an employee using the wrong program fund originally on the purchase order. While this report correctly states that the monthly parking was incorrectly charged (and funds drawn) to Head Start, once discovered the necessary adjustments to remove the expenditures from the Head Start program were made --- this is an example of monitoring program expenses that actually avoided the allocation of non-Head Start expenditures to the program.

Moreover, GBCA provided the methodology and the backup used to complete draws and reconcile total expenditures against those draws (as well as the total program funding in total). Because the exact amount of expenses (particularly allocable expenses due the complex nature of GBCA's operations) is not always available at the time of draw, a modest estimation based on past recurring expenses, current spending, and budget analysis may be used in determining needed funds for a particular draw. GBCA either increases or decreases the following draws to account for any variances in the previous draws.

To ensure our policies and procedures remain consistent with Head Start regulations, GBCA has implemented a bi-weekly reconciliation of Head Start expenses to draw spending. GBCA will only draw on payroll two days beforehand, cash disbursements already paid in past two weeks, and future payments that are made within five business days.

GBCA Claimed Unallowable Costs to the Head Start Program

Finding: GBCA Did Not Properly Claim Rental Income to Its Head Start Program

Statement of Concurrence: This report states that rental income received from its State-funded childcare program was not deducted from the total Head Start costs reimbursed nor was it used for current Head Start expenses. GBCA does not dispute how the transaction was recorded however, the "rental lease" was developed to record facility-related program receipts more easily against common facility costs not recorded directly against the Head Start program.

The rent dollars allocated as part of the reimbursements from the State-funded program are applied against the unabsorbed facility costs. Thus, while the process may simplify the agency accounting process, GBCA will restructure the allocation process to allocate expenses for the facility budget line item on the State-funded contract itself, and record it as program income on the Head Start program to avoid any confusion or misunderstanding. While the income was recorded, not precisely in accordance with the stated regulations, there are still common expenditures available to offset those expenses, GBCA therefore, requests that the recommendation to refund be set aside.

Finding: GBCA Claimed Unallowable Rent Costs

Statement of nonconcurrency: This reports states that rental costs under less-than-arms's length leases...are unallowable...and only expenses related to the ownership of the property (e.g., depreciation, maintenance, taxes, and insurance) are allowable. While GBCA recorded the facility costs as a rent expense, the rent expense was a calculation of depreciation, maintenance, insurance, and maintenance staff, etc. GBCA has since changed its facilities costs methodology to allocate costs as space costs, and not record as rental costs to avoid confusion. GBCA therefore, requests that the recommendation to refund be set aside.

Finding: GBCA Claimed Unallowable Salary and Fringe Benefits Costs

Statement of nonconcurrency: Regarding the finding relating to the allocation of credit union staff (\$50,094) being charged to the Head Start program, as noted by ACF, financial literacy services are an approved budget item. The FBFCU staff are "employees of GBCA" (not employees of 1st Bergen FCU) and are paid by GBCA and are funded by GBCA not FBFCU. While the referenced staff perform direct depository account transactions, they also provide financial services to Head Start parents as well as Head Start employees. GBCA believes the costs are allowable and the recommendation to refund should be set aside.

Statement of nonconcurrency: Regarding the finding for employee wages (\$45,389) GBCA disagrees that the allocation between the blended program (CCDBG) should be disallowed however, GBCA agrees the allocation between the programs should have been made in a manner that included wages and benefits. The total allocation between the programs would still total the same. The CCDBG program is no longer administered by GBCA. However, GBCA, as recommended, will seek to improve its allocations.

Finding: GBCA Claimed Costs Not Related to Its Head Start Program

Statement of nonconcurrency: GBCA does not agree with the recommendation to refund the legal fees due the fact that the employee allegation was based upon discrimination. First, the allegation was not an actual finding of discrimination and therefore, the legal fees should be an allowable expense. Second, the facts and circumstances cited in DAB No. 1700 (1999) are not consistent with the facts and circumstances in the allegations made against GBCA. The payment made in the referenced case was for wages and because the organization did not have insurance, not for legal fees to defend allegations, they should be viewed as allowable expenses..

Statement of concurrence: GBCA agrees that non-Head Start program expenses of \$5,144 were posted incorrectly to the program. However, the posting errors were minor and were due

to employees' errors or entering incorrectly in the AP and GL software, not an inherent procedural issue. The errors accounted for .02% of all Head Start program expenditures and less than .001% of all agency expenditures during the audit period.

GBCA Potentially Claimed Unallowable Vehicle Costs to the Head Start Program

Finding: GBCA Potentially Claimed Unallowable Vehicle Costs to the Head Start Program

Statement of nonconcurrency: GBCA believes it has met the statutory requirements relating to maintaining records relating to the use (allowability) of the cost associated with Head Start program vehicles, and furthermore, believes its procedure is more accurate than the use of specific vehicle logs and is properly documented. 45 CFR 75.403(a) provides that "...costs be necessary and reasonable for the performance of the Federal award..." and 45 CFR 75.403(g) provides that "...costs be adequately documented. Additionally, 45 CFR 75.302 (a) and (b)(3) provide that "...management systems...must be sufficient to permit the preparation of reports required... be program-specific and provide records that identify adequately the source and application of funds for federally funded activities.

The agency automated its vehicle log process whereby it set up an automated system with Sunoco gas stations (only) to specifically earmark the purchases of fuel to the program, and the driver, in addition to specific employee and vehicle security pins. Moreover, drivers are not allowed to use vehicles personally nor take the vehicles home. The system replaced a manual log system that was less accurate and created increased opportunities for lack of documentation. As noted above, GBCA believes it has met the requirements of the associated statutes as it relates to vehicle costs (logs are not specifically required by CFRs). In addition to the procedure noted, the agency just recently installed vehicle tracking software. However, GBCA is willing to complete paper logs in each vehicle should the regional office make such a recommendation.

GBCA Overstated the Volunteer Portion of Its Non-Federal Contributions

Finding: GBCA Overstated the Volunteer Portion of Its Non-Federal Contributions

Statement of nonconcurrency/concurrence: GBCA does not concur as it relates to the volunteer hours rate because the agency used the official US DOL rate to calculate the volunteer rate since the agency has three separate grants. GBCA agrees that its volunteer rate should have been updated in its policies to reflect the actual US DOL rate for northern NJ. GBCA agrees that the home volunteer hours should not have been used. This report states that GBCA reported excess hours to ACF – this is incorrect because GBCA may have calculated a higher NFS amount on its estimates, but only reports the 20% required amount in total to ACF for actual and budget purposes. Also, much of the overstated amounts or variances were due to the budget estimations versus the actual NFS documentation, and differences between the official paper documents versus the newly implemented Child Plus program.

As noted in this report, GBCA's non-Federal Share (NFS) exceeded the required 20% requirement therefore, there is no monetary effect on the Head Start grants. GBCA will enhance both its budget and actual calculations of NFS and amend its policies where necessary.

GBCA Did Not Perform Background Checks and Health Screenings on

Some of Its Volunteers

Finding: GBCA Did Not Perform Background Checks and Health Screenings on Some of Its Volunteers

Statement of nonconcurrence/concurrence: GBCA agrees that its policies are unclear as it pertains to the need to perform background checks for parents but disagrees that State regulations require it. Therefore, GBCA will revise its policies to rectify the above finding immediately.

Summary:

As noted, GBCA concurs on some findings and does not concur on others. GBCA does not agree that it should refund \$394,733 as most of the findings are procedural in nature and are not unallowable expenses. GBCA has noted where it will adjust procedures and policies to ensure compliance. It should be noted that the amount of the proposed findings by this audit account for less than .6% of all expenses for the audit period.

GBCA always strives to continually improve its procedures and processes and appreciates the recommendations made by the HHS Audit Services team. The HHS Audit Services Team was always professional in their dealings with GBCA staff.

Sincerely,



Robert Moore
VP, Finance
November 2, 2022