Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

AUDIT OF THE WASHINGTON STATE MIGRANT COUNCIL SUNNYSIDE, WASHINGTON

JUNE GIBBS BROWN

MAY 2000
A-10-99-00050

EXECUTIVE SUMMARY

We have performed an audit of the Washington State Migrant Council (Council) to address certain specific issues of concern to officials of the Head Start Bureau, Administration for Children and Families. The audit was made at their request. The Council is a nonprofit organization which operates Head Start programs in Washington, along with several other Federal and State funded programs.

BACKGROUND

The Council was incorporated as a tax exempt, nonprofit corporation in the State of Washington on July 18, 1983. It has administrative offices in Sunnyside, Washington, and operates facilities throughout the State. Its principal activities are to provide educational, health, nutritional, and child care services to children of low income, migrant and seasonal farm worker families. Over the past several years, there have been newspaper articles, audits, and other reviews by Federal and State agencies which have raised concerns about the Council's use of Federal and State funds.

The Council receives almost all of its funds from about 28 Federal and State grants. It operates approximately 30 child development centers throughout the State and employs between 275 and 1,000 people, depending on the agricultural season. In Fiscal Year (FY) 1997 the Council received about $20 million in revenue.

OBJECTIVES

The objectives of the audit were to determine if the Council:

- had an adequate cost allocation system for allocating costs among the various Federal and State programs that it administered,
- maintained adequate financial management systems, among which included internal controls, budgeting, procurement, property management and payroll,
- met its nonfederal match requirement for the Migrant Head Start program, and
- effectively involved its Board of Directors in the management of the Council.

SUMMARY OF RESULTS OF AUDIT

Our audit disclosed that the Council did not:

- have an acceptable cost allocation system for ensuring that costs were allocated reasonably among the various Federal and State programs that it administered. Cost allocation plans that had been developed were incomplete, not fully implemented, and inconsistently applied.

- maintain financial and program management systems that met the uniform administrative requirements for awards to nonprofit organizations as set forth in Federal regulations. Problems were noted in internal control procedures, budgeting, procurement, property management, and accounting for payroll costs.

- meet its nonfederal match requirement as set forth in the approved grant award documents for the Migrant Head Start program.[1]

- adequately involve its Board of Directors in the management, direction and control of the business activities of the Council.

RECOMMENDATIONS

In the report, we made several recommendations for development and implementation of an acceptable cost allocation system. In addition, we made recommendations for improvement of the Council's financial and program management systems to comply with uniform administrative requirements of Federal regulations. We also recommended that the Council revise its expenditure reports for grant years 1997 and 1998 and maintain records to support the amount of State funds used to satisfy the unmet nonfederal match requirements. Further, we made recommendations for increased involvement of the Council's Board of Directors in managing, directing and controlling the business affairs of the Council.

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[1]Subsequent to our audit field work the Administration for Children and Families (ACF) performed an on-site review and included in its deficiency report the Council's unmet nonfederal match requirement for 1998. The Council in its Quality Improvement Plan, a corrective action plan submitted to ACF, requested approval to use the State portion of seasonal child care funds to satisfy the unmet nonfederal match requirement. The ACF approved the corrective action plan, but the Council needed to submit revised expenditure reports to substantiate the nonfederal match requirement.

In a written response to the draft audit report, the Council did not agree with the findings and recommendations relating to the cost allocation system and the nonfederal match requirement. The Council's response indicated partial concurrence with the findings and recommendations relating to its financial and program management systems, and general concurrence with the findings and recommendations regarding the involvement of its Board of Directors in the activities of the Council's operations.

We have summarized the Council's comments and the Office of Audit Services response to those comments, as appropriate, after each finding discussed in the report. The complete text of the comments is included as the APPENDIX to this report.

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INTRODUCTION

At the request of officials from the Head Start Bureau, Administration for Children and Families (ACF), we have performed an audit of the Washington State Migrant Council (Council) to address certain specific issues of concern to ACF in the administration of the Migrant Head Start program by the Council. The Council is a tax exempt nonprofit organization incorporated in the State of Washington on July 18, 1983. It has administrative offices in Sunnyside, Washington, and operates other facilities throughout the State of Washington. The Council is a large grantee responsible for administering the federally funded Migrant Head Start program in Washington, and also operates several other Federal and State programs. The audit included the specific issues of concerns conveyed to us by the requesting officials and was not an audit of costs incurred or claimed under the Migrant Head Start program.

BACKGROUND

The Federal interest stemmed from a series of events which included:

- Newspaper articles beginning about November 1997 in the Yakima Herald-Republic that included reports on certain activities of the Council that indicated mismanagement and/or other questionable practices.

- Site visits made by ACF personnel in 1996, 1997, and 1998 which identified concerns about the Migrant Head Start program and funds provided for seasonal child care.

- An audit made by personnel from the State of Washington Office of Superintendent of Public Instruction (OSPI) in 1998 of the Migrant Education Program which disallowed $2.2 million.

- An audit of the Council by the Washington State Auditor's Office. The final audit report was issued June 10, 1999.

The Council's main activity is to provide educational, health, nutritional, and child care services to children of low income, migrant and seasonal farm worker families. It receives almost all of its funds from about 28 Federal and State grants. It operates 30 centers throughout the State and employs, at various times, between 275 and 1,000 people, depending on the agricultural season. In Fiscal Year (FY) 1997 the Council received over $20 million in revenue, of which about half was from the Migrant Head Start program.

The preponderance of the funds received by the Council is obtained under Federal and State programs for providing services to children. A summary of the children's programs operated by the Council is included below.

Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

AUDIT OF THE

WASHINGTON STATE MIGRANT COUNCIL

SUNNYSIDE, WASHINGTON

JUNE GIBBS BROWN
Inspector General

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OFFICE OF INSPECTOR GENERAL

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 OIG's Office of Audit Services (OAS) provides all 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 in order to reduce waste, abuse, and mismanagement and to promote economy and efficiency throughout the Department.

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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 in OIG's internal operations. The OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within the Department. The OCIG also represents OIG in the global settlement of cases arising under the Civil False Claims Act, develops and monitors corporate integrity agreements, develops model compliance plans, renders advisory opinions on OIG sanctions to the health care community, and issues fraud alerts and other industry guidance.

The Council's "Blended Program"

The term "blended program" was used by the Council in reference to the Migrant Head Start, Seasonal Child Care, and Migrant Education programs that it operated. Generally, these programs were collocated at the same facilities (child development centers) and provided services to the same children during the same time periods in which the facilities were open. Information on these programs follows:

Migrant Head Start Program. This is a comprehensive program funded by the Department of Health and Human Services (HHS) that focuses on the social and emotional development of children. The program serves children ranging in age from birth to five years. To qualify, families must have moved within the last two years to obtain employment in agriculture, meet certain income guidelines, and have derived 51 percent of the previous 12 months of income from agricultural-related employment. In FY 1997, the Council received about $10 million to serve 2,332 migrant children.

Seasonal Child Care Program. This program, funded by the State of Washington Department of Social and Health Services (DSHS), was developed as a support service to agricultural families to make it possible for them to go to work. It is not a comprehensive program; planning, preparation, and start-up costs are not reimbursed. The Council was generally reimbursed, on a fee-for-service basis, for the days a child was in attendance at the child development centers.

Eligibility for the program is based on the income of the seasonal farm worker family. About 75 percent of the children enrolled by the Council were eligible for both the Migrant Head Start and Seasonal Child Care programs, i.e., dual eligible.

A portion of the funding received by the Council from the DSHS was identified as Federal monies given to the State via the Federal Social Services Block Grant, authorized by Title XX of the Social Security Act. The Council received about $2.4 million in FY 1997 for services provided under its Seasonal Child Care program.

Migrant Education Program. This is an educational program to facilitate and enhance the individual experience of preschool age children. The funds are to be used to lower instructional ratios, prepare children for transition to the public schools, promote and strengthen language acquisition, and introduce children to math, reading, and writing skills. The program has no income guidelines.

The State of Washington OSPI received Migrant Education funds from the U. S. Department of Education, and in turn awarded funds to the Council. The OSPI is responsible for monitoring the use of the Federal funds. The Council received about $400 thousand in FY 1997 for its Migrant Education program.

Other Children's Programs

Regional Head Start Program. This is a preschool program federally funded through Regional Offices of HHS that provides educational activities, health and nutrition services and referrals for young children, and opportunities for families to become involved in their children's education. For families to be eligible, children must be three or four years old by August 31 of the current school year and families must meet income eligibility guidelines. Children are provided a half-day preschool program, four days per week. The Council received about $1.1 million in FY 1997 for its Regional Head Start program.

Early Head Start Program. This is a federally funded community-based program for low-income families with infants, toddlers and/or pregnant women. Its mission is to enhance the development of very young children, promote healthy prenatal outcomes for pregnant women, and promote healthy family functioning. Eligible families with children from birth to three years of age must meet Federal income eligibility guidelines. The Council received about $600 thousand in FY 1997 for this program.

Early Childhood Education Assistance Program. The Early Childhood Education Assistance Program (Early Childhood Education) is funded through a combination of Federal, State and local dollars. The program is a comprehensive, family-focused preschool program designed to help low-income children and their families to prepare for and succeed in school. The program's target population is four-year-old children whose family incomes are below the Federal poverty level. The Council received about $1.7 million in FY 1997 for this program.

Child and Adult Food Program. To complement the children's programs, the U. S. Department of Agriculture (USDA) provided pass-through funds to OSPI which were in turn awarded to the Council. The USDA funds were used by the Council to defray the costs of cooks, food, supplies and equipment to provide meals and snacks to the migrant children at the child development centers. The Council received about $800 thousand in FY 1997 for this program.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our audit was performed in accordance with generally accepted government auditing standards. The objectives of the audit were to determine if the Council:

- had an adequate cost allocation system for allocating costs among the various Federal and State programs that it administered,

- maintained adequate financial management systems which included internal controls, budgeting, procurement, property management and payroll,

- met its nonfederal match requirement for the Migrant Head Start program, and

- effectively involved its Board of Directors in the management of the Council.

The Council's fiscal year ended October 31 of each year, and our audit covered the 3-year period November 1, 1995 through October 31, 1998. However, with regard to certain Seasonal Child Care program expenditures, we included audit procedures for FYs 1993, 1994, and 1995. Also, when we examined the Council's nonfederal match commitment, it was necessary to consider the respective grant years for the Head Start programs which did not coincide with the Council's fiscal year.

Our audit did not include an examination of the allowability of costs charged to the Migrant Head Start program and claimed for Federal financial participation with the exception of the nonfederal match commitment for the Migrant Head Start program. Rather, our audit was directed to the systems that the Council used for allocating costs among programs. It was noted that the Council has engaged the services of a Certified Public Accounting firm to perform organization-wide audits under the provisions of Office of Management and Budget (OMB) Circular A-133.

We also reviewed the Council's overall financial management systems, including internal controls, to determine if there were effective systems in place for safeguarding assets, approving budgets, controlling expenditures, producing reports, maintaining accountability, and meeting other management responsibilities.

Further, we examined the Council's nonfederal match commitment for Head Start programs using award documents, expenditure reports, and accounting records. In addition, we reviewed the operations of the Board of Directors to determine if the Board performed its fiduciary responsibilities.

We excluded from our review any eligibility determinations of program participants. Also, in our examination of the Council's management, we did not include activities related to programs which had no impact on the Head Start programs such as the various job training programs and other smaller programs administered by the Council. In addition, although the Migrant Education Program was closely affiliated with the Migrant Head Start program, we also omitted from our review the Council's activities involving that program because it had just been extensively reviewed by OSPI. The OSPI issued a report in November 1998 which disallowed $2.2 million of Migrant Education Program funds due to deficiencies in the program.

We used the Council's audited financial statements for the five reporting periods ended October 31, 1993 through October 31, 1997 and the accompanying independent auditor's reports to help meet our audit objectives. Specifically, we reviewed the Schedules of Expenditures of Federal Awards and Other non-Federal Awards, plus supporting documentation, in order to analyze the revenues and expenditures for specific programs. We discussed the preparation of these schedules and other matters with the independent auditor, as deemed necessary. Except for the Schedules of Expenditures of Federal Awards and Other non-Federal Awards, we did not rely on the work of the Council's independent auditor. We also used other reports to complement our work, where applicable.

The audit work was performed at the (i) Council's administrative offices in Sunnyside, Washington (ii) ACF Regional Offices in Seattle, Washington, and (iii) the Council's independent auditor's office in Yakima, Washington during the period November 1998 through May 1999. Site visits were also made to community development centers in Sunnyside, Toppenish, and Grandview, Washington.

FINDINGS AND RECOMMENDATIONS

The Council did not: (i) have an acceptable cost allocation system for ensuring that costs were allocated reasonably among the various Federal and State programs that it administered during the audit period, November 1, 1993 through October 31, 1998; (ii) maintain adequate financial and program management systems that met the uniform administrative requirements for awards to nonprofit organizations as set forth in Federal regulations; (iii) comply with the nonfederal match requirements for the Migrant Head Start program in grant years ended November 30, 1997 and November 30, 1998, as specified in the applicable grant award documents; and (iv) adequately involve its Board of Directors in the management, direction, and control of the business activities of the Council.

Subsequent to our audit field work ACF performed an on-site review and included in its deficiency report the Council's unmet nonfederal match requirement for 1998. The Council in its Quality Improvement Plan (QIP), a corrective action plan submitted to ACF, requested approval to use the State portion of seasonal child care funds to satisfy the unmet match requirement. The ACF approved the QIP, but the Council has not submitted the required revised expenditure reports to substantiate the nonfederal match requirement.

COST ALLOCATION SYSTEM

The Council did not have an acceptable cost allocation system for ensuring that costs were allocated reasonably among the various Federal and State programs that it administered. We noted that three different cost allocation plans had been developed by the Council during the audit period, but the plans (i) were incomplete and did not provide specific details as to the methodology to be used for allocating costs, (ii) were not fully implemented and were inconsistently used for allocating certain types of costs, and (iii) did not result in a reasonable allocation of costs among programs. Thus, it was not possible to make a determination that the costs allocated to the various programs were in accordance with the relative benefits received by each program as required by Federal cost principles. The Council needs to develop and follow a cost allocation methodology that is reasonable and equitable to all the programs administered by the Council.

Background

The principal program operated by the Council was an enhanced Migrant Head Start program with extended hours of operation and supplementary child care services. The staff, facilities and other costs were shared and supported by multiple sources of funding, with the children collocated at the same service centers. The funding sources included:

- Funds received under Federal grants for operating a Migrant Head Start program.

- Funds received under contracts with the Washington Department of Social and Health Services to operate a Seasonal Child Care program for children of agricultural workers.

- Funds received from the Washington Office of Superintendent of Public Instruction for a Migrant Education program.

Under the enhanced Migrant Head Start program, which the Council generally referred to as a "blended program," the Council enrolled children eligible for Migrant Head Start in the other programs at the same time. Thus, it received additional funds for the same children from each of the funding sources. The benefits of the program were described in a document prepared by the Council, dated November 1998, titled, *Blended Resources, Meeting the Needs of Washington's Children & Families.*

In this document, the Council stated that it "...opted for the blended model in an effort to maximize resources and services to eligible families as well as provision of comprehensive quality services to children throughout the entire day." The Executive Director stated to us that the additional revenue allowed for better services to migrant children. He further commented that teachers were available and instruction was spread over the entire course of the operating day of the child development centers where the Migrant Head Start program was conducted.

The following information is provided on the Council's procedures to account for the Migrant Head Start and seasonal child care funds.

Migrant Head Start. These funds were classified by the Council as *restricted* funds to be used for the purposes authorized under the terms and conditions of the Head Start grant and related regulations and ACF guidelines. Generally, the Council budgeted the funds available at the beginning of each budget period and was reimbursed based on costs claimed up to the total amount of the award. With a few exceptions, there were little or no Migrant Head Start fund balances remaining at the end of budget periods. However, in some cases such as when supplemental awards were received toward the end of a budget period, fund balances were carried forward to the next period. Expenditure reports were prepared to support the amounts claimed as allowable expenditures under the grants.

Seasonal Child Care. The Council considered the funds received for providing seasonal child care to be *unrestricted* funds. They were obtained from the Washington Department of Social and Health Services under fee-for-service contracts at predetermined rates per child. The rates varied, based on whether the child received the child care services for a full day, one-half day, or less than one-half day. The rates paid to the Council were not unique to the Council but were statewide rates paid by the Department of Social and Health Services to all providers furnishing seasonal child care services. No expenditure reports were prepared for submission to the State contracting agency because they were not required and actual costs incurred did not affect the amount paid for the services. Since the Council considered these funds to be unrestricted, the excess of funds received over recorded expenditures for child care were considered to be available for purposes other than providing seasonal child care.

Criteria

Applicable Cost Principles. The cost principles regarding allocable costs, as set forth in Office of Management and Budget (OMB) Circular A-122, Attachment A, Basic Consideration No. 4, state that:

> "a. A cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received. A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it:
>
> (1) Is incurred specifically for the award.
> (2) Benefits both the award and other work and can be distributed in reasonable proportion to the benefits received, or
> (3) Is necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown.
>
> "b. Any cost allocable to a particular award or other cost objective under these principles may not be shifted to other Federal awards to overcome funding deficiencies, or to avoid restrictions imposed by law or by the terms of the award."

Information Memorandums. The ACF Information Memorandum ACF-IM-91-10, dated April 23, 1991, provided guidance to Head Start grantees with multiple sources of funding. The legal references cited by the Information Memorandum are the Head Start Act, as amended by Public Law 101-501, and Title 45, Code of Federal Regulations, Parts 74 and 92. The memorandum was intended to assist grantees as they seek non-ACF funding sources in order to expand the availability of Head Start and related services, and to help them avoid difficulties in meeting basic financial management requirements.

The Information Memorandum stated, "...we continue to encourage Head Start grantees to actively seek non-Federal sources of funding (including State funding) to augment Federal Head Start dollars." The Information Memorandum also stated that this is especially important with respect to broadening the scope of services to include more full-day child care as an adjunct to Head Start.

In operating a Head Start program with multiple funding sources, the above Information Memorandum states, "it is important that the Head Start Agency operate one comprehensive child development program, not a confusing array of differing service levels and categories of children." However, in doing so, the Information Memorandum states that it is "incumbent on the Head Start grantees to maintain adequate financial accounting records on all funding sources used to support these services." It further states that, in a program configuration in which an agency operates as a single program with shared resources (such as that operated by the Council), "a detailed cost allocation procedure is required. When operating a non-ACYF (Administration for Children, Youth, and Families) funded program that is added to ... an ACYF-funded Head Start program, it is important for grantees to be able to document the fair allocation of costs among the funding sources." Further, "Non-Head Start sources must be allocated their full share of the fixed costs of the program, not just the marginal costs of adding to the ACYF funded portion."

On July 24, 1995, ACF issued another Information Memorandum (ACYF-IM-HS-95-27) providing further guidance to Head Start grantees which related, in part, to reimbursement for child care services. It noted that, "as long as the child care services are part of the wide range of services provided to children enrolled in Head Start and the comprehensive nature of the service is maintained, 'child care' is an allowable cost under the Head Start program."

The Information Memorandum further stated that the Head Start grantees should develop cost sharing arrangements with other child care funding agencies in order to take advantage of other funding sources, and provided that "As long as cost sharing arrangements are worked out and approved in advance, no on-going cost allocation procedures would be necessary to separate the child care costs from other Head Start costs."

Cost Allocation Plans in Effect

The Council developed three different written cost allocation plans at various times during the audit period. The Council submitted the first of these three plans to ACF as part of its Migrant Head Start grant application for the year ending November 30, 1994. It was titled, "Co-Location of Programs" (Co-Location Plan) . The second plan was titled, "Agency Budget Implementation Plan" (Budget Plan), dated July 1996. The third plan was a revision to the Budget Plan (Revised Plan) developed by the Council's Director of Administration and Management, who served as the chief financial officer (CFO), and was introduced in 1997. Background information and brief details on these plans are provided below:

- The Co-Location Plan was the Council's first effort at developing a cost allocation plan. It defined the need for having a plan, but it was not complete or definitive, and generally related only to supply and maintenance expenditures. The plan did not cover the Council as a whole.

- The Budget Plan was incomplete, inconsistent, and did not clearly describe the procedures to be followed. It was basically a budget spending plan, and generally did not provide for allocating costs based on services or efforts provided. The plan indicated that Migrant Head Start would pay first, and then seasonal child care funds would supplement with additional funds when necessary. At the time of our field work, the Executive Director advised us that this was the cost allocation plan currently in use.

- The Revised Plan was similar to the Budget Plan, but was much shorter and treated some cost categories, such as travel and rent, differently. Although this plan was not used as the Council's official cost allocation plan, portions of the methodology in the plan were used for allocating certain costs.

None of the above plans was sufficient to provide for a reasonable allocation of costs among programs in relation to the relative benefits received. In actual practice, none of the plans was fully implemented or being followed in an ongoing and consistent manner. The following paragraphs describe the procedures followed for salary and nonsalary costs, and illustrate how those procedures were not adequate as a basis for charging costs among the various programs administered by the Council.

Allocation of Salary Costs

According to the Budget Plan, salaries and related fringe benefits were to be distributed based on actual hours worked for each program, or by an attendance formula for the children receiving services from the different programs operated by the Council.

Enrollment data provided by the Council for the Migrant Head Start program and the Seasonal Child Care program for the fiscal year 1997 harvest season showed the following:

- Children dually enrolled in both the Migrant Head Start and Seasonal Child Care programs 75%

- Children enrolled in Migrant Head Start only 15%

- Children enrolled in seasonal child care only 10%

The enrollment data for the other years included in the audit period were comparable to the above data for 1997.

Although the Budget Plan states that (i) staff costs will be allocated based on the direct number of hours worked on each program and (ii) the number of children enrolled in each program will be a factor in allocating expenses, these procedures were not implemented for charging staff salaries and related fringe benefits. The salaries and fringe benefits of most employees were directly charged in their entirety to one grant at a time, even though they provided services to children enrolled in two or more programs.

This was particularly true at the child development centers, where Migrant Head Start and seasonal child care services were provided. For example, the salaries and related fringe benefits of teachers, nurses, bus drivers, and social services staff were charged directly to one program in their entirety. Although the Budget Plan and the Revised Plan provided for the allocation of salaries and related fringe benefits among programs, the Council did not follow either plan, even though each employee provided services to children enrolled in more than one program. Generally, the methodology used by the Council for charging salary costs and fringe benefits of employees at the child development centers resulted in the preponderance of costs being charged to the Migrant Head Start program. The following table shows the salary distributions for some of the job groupings for the Council's fiscal years 1997 and 1998. The figures shown for combined salaries represent the salary charges for the Migrant Head Start and Seasonal Child Care programs.

	1997		1998	
Job Titles	**Combined Salaries**	**Percent to Migrant Head Start**	**Combined Salaries**	**Percent to Migrant Head Start**
Bus Drivers & Custodians	$861,981	91.1%	$997,254	87.8%
Nurses, Health Aides, & Disabilities Aides	$406,908	99.6%	$290,385	97.4%
Parent Involvement Advocates	$383,474	95.3%	$463,195	96.2%
Teachers & Teachers' Aides	$3,346,649	87.1%	$3,714,944	85.2%
Various Coordinators	$282,276	94.8%	$287,344	95.1%

The above table illustrates how the Migrant Head Start program was predominantly charged for salary costs incurred at the child development centers. The charges did not incorporate an attendance formula for equitably distributing the costs between Migrant Head Start or seasonal child care, although the cost allocation plan provided for this to be done.

We also identified allocation problems in the Regional Head Start and Early Childhood Education programs. Although those two programs did not share teachers or classrooms, they received services from other Council employees for which the programs were not charged. For example, the Regional Head Start and Early Childhood Education programs benefitted from services provided by the social services coordinator, family service center coordinator, and maintenance supervisor. However, our review of the salaries and related fringe benefits for these positions for the Council's fiscal years 1997 and 1998 showed that the costs were charged entirely to the Migrant Head Start and Seasonal Child Care programs; no costs were allocated to Regional Head Start and Early Childhood Education.

Allocation of Nonsalary Costs

For nonsalary costs, we determined that the cost allocation methodology followed did not distribute costs reasonably and consistently among the programs in proportion to the relative benefits received. Accordingly, the allocations did not meet the standards of OMB Circular A-122. The following paragraphs describe procedures followed for certain major nonsalary items.

Travel. The Budget Plan stated that the costs should be allocated to the program to which the employee was assigned at the time of travel. The Revised Plan provided for the costs to be allocated to the activity for which the employee was traveling. Our review showed that generally the costs of travel were charged to a single program even though the traveler's salary was allocated between two programs, and/or the travel related to two programs. We also found that, in some instances, the total travel costs were charged to one program because the employee's salary was allocated to one program, while the trip clearly benefitted two programs. The combined mileage costs for the Migrant Head Start and Seasonal Child Care programs, and the percentages charged to Migrant Head Start, were as follows for the Council's fiscal years 1995 through 1997:

FY	Mileage Costs	Percentage to Migrant Head Start
1995	$109,931	90.66%
1996	$101,971	85.63%
1997	$101,559	89.24%

We could not determine from the available documentation the proportion of mileage costs that was attributable to providing services under the Migrant Head Start program. However, as the above table shows, the Council's practice was to allocate most of the mileage costs to Migrant Head Start.

Rent. The Budget Plan provided for allocating rental costs of facilities to Migrant Head Start, Regional Head Start, and Early Childhood Education based on utilization. During periods when the programs overlapped, the costs were to be prorated based on utilization of space to all applicable programs. No rent or use charge was to be assessed for buildings owned by the Council.

Neither the Budget Plan, nor the Revised Plan, provided for allocating costs to the Seasonal Child Care program. In actual practice, a relatively small proportion of rent was allocated to seasonal child care. However, for facilities which were used jointly for providing Migrant Head Start and seasonal child care services, there was no documented basis to show that costs were equitably allocated between the programs. The following table shows the combined rental costs for the Migrant Head Start and Seasonal Child Care programs for the Council's fiscal years 1995 through 1997, and the percentage of the costs allocated to Migrant Head Start:

FY	Rent Costs	Percentage to Migrant Head Start
1995	$198,721	95.61%
1996	$178,908	97.47%
1997	$188,918	93.46%

The documentation provided to us did not support an equitable allocation of costs that was prorated based on the utilization of space by applicable programs.

Utilities. The Budget Plan and the Revised Plan provided that the allocation of utilities costs among Migrant Head Start, Regional Head Start, and Early Childhood Education be based on the space usage. The Budget Plan made no specific provision for the allocation of costs to seasonal child care, except to say that if the seasonal child care enrollment was low then no utilities costs would be allocated to the Seasonal Child Care program. However, the Revised Plan provided for an allocation of costs between the Migrant Head Start and the Seasonal Child Care programs based on an attendance summary report. The Revised Plan provided a more equitable basis for sharing costs between the Migrant Head Start and Seasonal Child Care programs. However, the Revised Plan was implemented late in the audit period and the attendance summary report used in the allocation process was not updated on a timely basis to remain current with actual attendance.

In discussions with the Council's accounting staff and our review of financial documents, we determined that cost sharing of utilities between the Migrant Head Start and Seasonal Child Care programs did not start until about September of 1997. The combined costs of utilities for the Migrant and Seasonal Child Care programs and the percentage charged to the Migrant Head Start program were as follows:

FY	Utilities Costs	Percentage to Migrant Head Start
1995	$167,764	90.68%
1996	$189,902	91.38%
1997	$213,616	78.88%

Although the sharing of utilities costs between the Migrant Head Start and Seasonal Child Care programs improved in fiscal year 1997 with the implementation of the Revised Plan, it appears that the Migrant Head Start program was charged a disproportionate share of utilities costs during our audit period.

Building Repairs and Leasehold Improvements. The Budget Plan provided that seasonal child care funds would be used for building repair and leasehold improvements after the budgeted Migrant Head Start funds had been depleted. The Budget Plan further stated that the Regional Head Start and Early Childhood Education programs would be assessed costs for repairs needed during the time that they occupied the facilities, and be allowed a credit for major repair expenses incurred. The Revised Plan provided that building maintenance would be directly charged to the program using the building, and a significant portion of building repairs and maintenance would be charged to seasonal child care. The Revised Plan did not reference leasehold improvements. Neither allocation plan was reasonable because they did not allocate costs based on the relative benefits received by each program, but rather by the availability of funds from each program.

We determined that the Council did not actually allocate building repair and leasehold improvement costs in a reasonable manner. For the Council's fiscal years 1995 through 1997, 97 percent of the costs ($1,927,329 out of $1,987,556) for building repairs and leasehold improvements charged for the Migrant Head Start, Seasonal Child Care, Regional Head Start, and Early Childhood Education programs were allocated to the combined Migrant Head Start and Seasonal Child Care programs. In fact, the Early Childhood Education program was not charged for any leasehold improvement costs for the 3-year period ended October 31, 1997. The combined building repair and leasehold improvement costs for the Migrant Head Start and Seasonal Child Care programs and the percentage charged to Migrant Head Start were as follows:

FY	Building Repairs and Leasehold Improvements	Percentage to Migrant Head Start
1995	$881,939	96.43%
1996	$635,590	80.67%
1997	$409,800	47.48%
Total	$1,927,329	

Although fiscal year 1997 showed some improvement in cost sharing over the previous two years, it appears that the Migrant Head Start program was charged a disproportionate share of the combined building repair and leasehold improvement costs during our audit period.

Supplies (Program and Maintenance). The Budget Plan and the Revised Plan both provided that the costs for supplies were to be directly charged, if possible, to the benefitting program. However, both plans recognized that a sharing of costs was necessary in the combined Migrant Head Start and Seasonal Child Care programs at the child development centers. Thus, the Budget Plan stated that the costs of the combined programs were to be shared according to an attendance formula. The Revised Plan was consistent with the Budget Plan but provided more details about implementing the attendance formula. Although the Council generally followed the methodology presented in the plans, we determined that the methodology, as presented, did not provide an equitable basis for sharing the cost of supplies because the attendance formula did not consider the dual eligibility of the children when it assigned costs to both programs. The methodology was also overly complex, decentralized, and lacked some basic controls at the center level.

The attendance formula consisted of the calculation of two factors, attendance and center hours of operation. The attendance factor was the percentage of Migrant Head Start eligible children to total children in attendance. The hours of operation factor was the percentage of Migrant Head Start hours, i.e., 8 hours, to the average hours of operation for the child development center. The two factors multiplied together resulted in the percentage of supply costs to be charged to the Migrant Head Start program. The calculations were made every 10 days for each child development center. For example, if 90 percent of the children were eligible for Migrant Head Start and the average operating hours were 10 for a 10-day period of time, then for the next 10 days the Migrant Head Start program would be charged about 72 percent of the cost of supplies [$0.9 \times (8 \div 10) = .72$]. Each child development center had a separate attendance calculation.

The Council did not actually allocate supply costs using the attendance formula because its procurement system did not provide for allocating costs of purchases to more than one program, and the Council chose not to reallocate costs using adjusting journal entries. Instead, the Council used the formula to determine the number of days in a 10-day period that a program's supply cabinet would be open for use by other programs. The Council attempted to equitably distribute the costs to the Migrant Head Start program and Seasonal Child Care program by maintaining prepaid supplies in separate storage cabinets and opening one cabinet per day for the issuance of supplies to both programs. In the example above, the Migrant Head Start cabinet would be open for the issuance of supplies 7 days in a 10-day period. The combined costs for program, maintenance, and infant care supplies[2] for the Migrant Head Start and Seasonal Child Care programs and the percentages charged to Migrant Head Start were as follows:

[2]During FY 1997 the Council charged infant care supplies separately from maintenance where they had been charged previously.

FY	Type of Supply	Supply Cost	Percentage to Migrant Head Start
1995	Program	$447,398	89.43%
	Maintenance	$244,360	87.27%
1996	Program	$502,225	89.57%
	Maintenance	$259,174	85.62%
1997	Program	$255,517	80.52%
	Maintenance	$250,888	85.81%
	Infant Care	$101,773	100.00%

Unlike the attendance formula for utilities costs, the attendance formula for supplies included all dual eligible children in the total Migrant Head Start child counts instead of splitting them between the two programs. Thus, the Migrant Head Start program absorbed a disproportionate share of the combined supply costs.

Allocation of Costs by Funding Source

As noted in the Background section of this finding on cost allocation, the Council operated a single, enhanced Migrant Head Start program with shared staff and facilities with multiple funding sources, collectively referred to by the Council as a "blended program." The structure of the program conformed to a number of ACF objectives including the following which are contained in ACF Information Memorandums:

- The program included procedures for seeking nonfederal sources of funding (including State funding) to augment Federal Head Start dollars in order to meet the needs of the children and families the grantee serves.

- The program represented the operation of one comprehensive child development program, and not a confusing array of differing service levels and categories of children.

- The program included the development of its child care programs in conjunction with other child care funding agencies in order to take advantage of other funding sources.

However, although the Council had a Migrant Head Start program which operated with ACF objectives in mind, the deficiencies cited above illustrate that the Council did not have an acceptable system for the allocation of costs between funding sources. The principal problem involved allocations of costs between the two principal funding sources: the Migrant Head Start program and the Seasonal Child Care program. The funds provided under the Migrant Education Program were for specific staff positions and specific purposes, and cost allocation problems were not a significant issue with that program.

As noted previously in this report, the Migrant Head Start funds were classified by the Council as restricted funds to be used for the purposes authorized under the terms and conditions of the Head Start grant and related regulations and ACF guidelines. Generally, there were little or no Migrant Head Start fund balances remaining at the end of budget periods although sometimes supplemental funds were received toward the end of a budget period resulting in unexpended fund balances that were carried forward to subsequent periods.

On the other hand, as noted previously, the Council considered Seasonal Child Care program funds to be unrestricted funds and available for purposes other than providing child care. Financial records showed that for the Council's fiscal years 1993 through 1997, seasonal child care revenues exceeded expenditures by a significant amount. We obtained audited financial statements for the Council for those years, along with supporting schedules from the Council's independent certified public accountants which identified revenues and expenditures by each funding source. The documentation for the Council's 5 fiscal years 1993 through 1997 showed total Seasonal Child Care program revenue of $12,504,000 and total related expenditures of $11,573,000. Thus, there was a recorded excess (net gain) of seasonal child care revenue over expenditures totaling $931,000 which was classified as unrestricted and available for other purposes.

In addition, we identified an overcharge of $122,000 in recorded expenditures for seasonal child care during the above time period resulting from indirect costs that were charged in excess of the Council's final negotiated indirect cost rates. We also identified charges to the Seasonal Child Care program totaling $44,000 to cover overruns from the Women, Infant, and Children's programs. After adjusting for these items, the net recorded gain for operating the Seasonal Child Care program for the 5-year period totaled $1,097,000 ($931,000 +$122,000 + $44,000).

Recorded expenditures of seasonal child care funds for the above 5-year period included $635,000 for the purchase and/or construction of land and buildings. Without these acquisitions, the net gain from operation of the Seasonal Child Care program would have been $1,732,000. Since the purchase and construction were obtained through funds categorized as unrestricted, the Federal Government did not have a reversionary ownership interest in the property.

The audit for 1998 was in process at the time of our audit field work. However, the council's unaudited general ledger showed an excess of seasonal child care revenues over expenditures of $274,00 for that period. That amount is subject to adjustments by the council's independent auditors during the finalization of the audit of financial statements for that year.

Resolution of Prior Grant Years

Because of the deficiencies in the cost allocation procedures at the Council, it would not be possible to make a determination on the allowability of costs allocated to the Migrant Head Start and other programs. Further, it would not be possible to retroactively reconstruct records to provide a documented and verifiable allocation of costs to the various programs. For instance, salaries, wages and fringe benefits represented approximately 67 percent of the recorded Council program costs and were not supported by personnel activity reports or other forms of time and effort reports. Such records need to be prepared contemporaneously, and information would not be available to reconstruct them over prior years in a manner in which they would be reliable and verifiable.

Accordingly, the majority of costs claimed for reimbursement under the Migrant Head Start program could not be supported based on the requirements of OMB Circular A-122. However, our analyses of salary and nonsalary charges over prior years, as described in previous paragraphs, showed disproportionate charges to the Migrant Head Start program. The overall effect of the disproportionate charges could not be determined in the absence of an acceptable cost allocation system. Further, it was not possible to analyze the recorded net gain of $1,732,000 achieved under the Seasonal Child Care program for the Council's 5 fiscal years 1993 through 1997, nor to determine whether that program had been allocated its full share of costs in providing services to the children receiving services in the child development centers.

In the absence of an acceptable cost allocation system, the resolution of prior years' charges for the operation of the Council's Migrant Head Start program would need to be determined through the process of negotiation with ACF. Accordingly, we are recommending that the Council enter into negotiations with ACF for the purpose of adjusting recorded charges to the Migrant Head Start program to address the disproportionate charges to the program.

Conclusions

The cost allocation plans in effect during our audit period were not sufficient to meet Federal requirements that costs were allocated to programs, activities, and other cost objectives in accordance with relative benefits received. The plans were incomplete as to specific procedures to be followed; not fully implemented and inconsistently applied; and, in some cases, did not provide for the equitable allocation of costs to all benefitting programs.

The cost allocation process needed to be improved by having a single cost allocation plan in effect that represented the official policy of the Council to be followed by the Council's management, the accounting staff, and other employees of the Council with responsibilities that had an impact on the allocation of costs to benefitting programs. As noted above in this report, portions of different plans were being used for certain costs during our audit period. Further, the plan needed to be sufficiently detailed as to the specific procedures to be followed in allocating different categories of costs to the multiple benefitting programs. The plans in use during our audit period were in some instances incomplete and subject to interpretation.

In order to help ensure that the cost allocation plan is fully implemented and consistently followed, the Council should designate a management official with overall responsibilities for these activities. It appeared that some of these responsibilities had been delegated to various managers within the organization who managed specific programs, but we did not find evidence that overall authority had been specifically assigned.

In addition, the cost allocation plan should be officially incorporated into the Council's accounting manual or as a separate operating procedure that is published and made available to staff with cost allocation responsibilities. In our audit, we found that some of the staff responsible for making allocations of costs were not aware that a cost allocation plan was available. We were told that some staff had been performing their accounting responsibilities based on verbal instructions from their supervisors and did not have written instructions as guidance.

It would not be possible to retroactively develop a cost allocation plan and redistribute the costs between the Migrant Head Start and Seasonal Child Care programs that were disproportionately charged to the Migrant Head Start program during the period of audit. Accordingly, we recommend that the Council negotiate with ACF to resolve the disproportionate charges to the program.

Recommendations

We recommend that the Council:

1. Develop a cost allocation plan that is sufficient to meet Federal requirements for ensuring that costs are allocated to programs, activities and other cost objectives in accordance with relative benefits received.

2. Designate a specific management official with the overall responsibilities for the administration of the plan to ensure that the provisions of the plan are effectively implemented and consistently followed.

3. Incorporate the provisions of the cost allocation plan into the official written policies of the Council, either by inclusion in the Council's accounting manual or as a separate operating procedure, and make them available for the use of all staff with cost allocation responsibilities.

4. Negotiate with ACF to resolve the issue of disproportionate charges between the Migrant Head Start and Seasonal Child Care programs during the audit period.

Council Comments

The Council did not concur with the finding that it did not have an acceptable cost allocation system for ensuring that costs were allocated reasonably among the various Federal and State programs that it administered during the audit period, November 1, 1993 through October 31, 1998. The Council stated that it believed it fairly distributed all costs among both the Migrant Head Start and Seasonal Child Care programs and provided the following comments to support its position.

- The Council stated that ACF approved and funded the Council's application for grant year 1994 which included a cost allocation plan. The Council said that it followed, in all material respects, the subject cost allocation plan throughout the period audited. The Council argued that it would be unfair to penalize it for following the approved plan.

- The Council stated that it disputed our assertion that the 1993 cost allocation plan applied only to supplies. The Council said that the emphasis on supplies was premised on the fact that it had always charged labor costs directly to each program based on the approximate hours of service. The Council indicated that the seasonal child care funds were used to pay teacher trainees during custodial periods which were early morning hours (5 a.m. to 8 a.m.) and late afternoons (2:30 p.m. to 4:30 p.m.).

- The Council stated that ACF's on-site program reviews in 1993 and 1996 did not result in any negative findings regarding the allocation of costs under the Council's multi-funded program.

- The Council stated that ACF directed the grantee to submit several cost allocation plans. The Council also stated that, although ACF encouraged grantees to submit cost allocation plans for guidance and support, ACF never commented on the Council's plans submitted in 1993, 1996, and 1998 except for the approval of the 1994 refunding application that contained the 1993 cost allocation plan.

The Council concluded that the approval of the 1994 grant refunding application containing the 1993 cost allocation plan eliminated our cost allocation finding.

OIG Response

After considering the Council's comments, we reaffirm our determination that the cost allocation plans in effect during our audit period were not sufficient to meet the applicable Federal requirements. Our response to the Council's specific comments follow.

With regard to ACF's approval of the Council's application for grant year 1994 containing the 1993 cost allocation plan, the approval does not preclude a subsequent audit of the implementation of the plan and determinations of unallowable costs claimed under such cost allocation plan.

The regulations at 45 CFR Part 74 provide requirements applicable to nonprofit organizations such as the Council. Part 74.71(g) of the regulation states that:

> "In the event a final audit has not been performed prior to the closeout of an award, HHS retains the right to recover an appropriate amount after fully considering the recommendations on disallowed costs resulting from the final audit."

The Council did not follow the 1993 cost allocation plan throughout the period audited. There were no less than three plans used during our audit period as we described in our report. In a representation letter to us, dated January 21, 1999, the Executive Director stated that for the 1996 to 1997 grant period the Agency Budget Implementation Plan developed in 1996, not the 1993 plan, was used to distribute costs. The Executive Director further stated that the Agency Budget Implementation Plan continued to be used in 1998. The Council's 1997 refunding application discussed the Agency Budget Implementation Plan as using daily attendance records and not hours of service as described in the 1993 plan.

Although the Council stated that it has been in full compliance with the requirements concerning personnel activity reporting since October 1998, it did not comment on its compliance with personnel activity report requirements prior to that time. This period of noncompliance covered substantially all of our audit period, i.e., fiscal years 1993 through 1998. In fact, the Council was audited by three separate audit organizations that found that the Council lacked adequate personnel activity reporting. The three audit reports covered individually all or part of the period between July 1, 1993 and October 1, 1998. In addition, our audit work determined that the Council was still not in compliance with time and effort reporting requirements at least through the end of our audit period, October 31, 1998.

With regard to the contents of the cost allocation plan, our draft report stated that the 1993 plan generally related only to supplies and maintenance expenditures. The plan's reference to labor costs related to a limited number of job titles. The plan clearly lacked detail and specificity and was at variance with the other two plans in place during the audit period.

Concerning the on-site program reviews, we cannot comment specifically on the work performed by ACF. However, one of our four objectives was to review the cost allocation system for allocating costs among the various Federal and State programs. The ACF on-site program reviews were broader in scope with shorter time frames.

We are not in a position to comment on the extent to which ACF did or did not respond to each specific cost allocation plan submitted by the Council. The Council, not ACF, was responsible for establishing and implementing a reasonable cost allocation plan. During the period of our audit, the Council did not have a plan that provided for a reasonable allocation of costs among programs in relation to the relative benefits received.

We reviewed four ACF Information Memorandums issued between 1990 and 1995 that discuss cost allocation or cost sharing. From the earliest Information Memorandum, there has been an emphasis on complying with the criteria in 45 CFR Part 74 and OMB Circular A-122. One such Information Memorandum describes the requirements for maintaining adequate supporting documentation and assigning costs proportionately among all funding sources. The Council did not do this. Occasionally, as in a 1993 Information Memorandum, the grantees were encouraged to seek the assistance of their granting office in developing their cost allocation plans.

FINANCIAL MANAGEMENT

The Council did not maintain adequate financial and program management systems that met the uniform administrative requirements for awards to nonprofit organizations as set forth in Federal regulations. Our audit disclosed that the Council's systems did not provide (i) adequate internal controls, (ii) relevant budgetary information, (iii) effective procurement procedures, (iv) adequate property management, and (v) supported payroll costs. These weaknesses impaired the Council's ability to provide effective control over and accountability for all funds, property and other assets.

Internal Controls

The Council's financial management system did not provide adequate internal controls and the accounting policies and procedures were not sufficient to provide guidance to the accounting staff. This occurred because the Council gave a low priority to establishing and following written policies and procedures. These weaknesses impaired the Council's ability to provide effective control over and accountability for all funds, property and other assets as required by 45 CFR Part 74.21, Standards for Financial Management Systems, which states, in part, that recipients' financial management systems shall provide for:

- effective control over and accountability for all funds, property and other assets;
- comparison of outlays with budget amounts for each award; and
- accounting records, including cost accounting records, that are supported by source documentation.

Our audit disclosed internal control weaknesses in the Council's procedures for processing cash receipts, expenditures, cash disbursements, and journal entries. For example, the council did not (i) restrictively endorse checks immediately upon receipt; (ii) promptly deposit all checks and cash received; (iii) retain source documentation for purchases; (iv) develop written procedures for hand-written checks; (v) follow a control procedure that required dual authorization for issuing payments; (vi) cancel vouchers and invoices as paid; (vii) justify or explain adjusting journal entries; and (viii) support journal entries with adequate source documentation.

In addition, the Council did not properly segregate duties. For example, the CFO had (i) control of the checks, (ii) key and password for the check-signing machine, (iii) signatory authority over the checking account, and (iv) responsibility for the general ledger. The safe, where checks and cash received were stored, was easily accessible to anyone working in the administration offices.

Budgetary Information

The Council's budgeting system did not effectively provide for comparison of outlays with budgeted amounts for each award as required by 45 CFR Part 74.21. This occurred because the monthly program budgets were not developed to match the anticipated expenditures for those months. As a result, the program budgets were not effective as a management tool and program directors were not able to track and control their grant budgets.

The Council's monthly program budget report compared outlays with budgeted amounts by program. This comparison was ineffective because budgeted amounts were equally distributed throughout the calendar year while most program expenditures occurred over a 7-month period during which services were provided. For example, expenditures for the Migrant Head Start program start off relatively slowly in the winter months of the grant year when planning and preparation activities are taking place and increase quickly in the spring and summer when teachers and children are in the child development centers. The budgeted amounts and variances shown on the program budget reports were meaningless for programs that were fully operating for only six or seven months of the year. Almost all of the programs run at the Council were seasonal programs and operated less than a full year.

According to the Council, its accounting software was only capable of presenting budgetary information in equal monthly allotments as presented in the program budget reports. The monthly reports showed the total budget by program, estimated year-to-date (YTD) budget, expenditures to date, comparison of YTD expenditures with budget (variance), and encumbrances. The reports did not provide an effective means for measuring and guiding performance by comparing planned expenditures against actual data. Planned YTD expenditures by program month were not reflected in the estimated YTD budget column and, therefore, the variance was irrelevant.

Procurement Procedures

The Council did not always make purchases in an effective manner and in compliance with the provisions of 45 CFR Part 74.40, Procurement Standards. This occurred because the Council's procurement process was fragmented with some procurement transactions being conducted outside of the central procurement office. As a result, the Council could not ensure getting the best prices, reducing risks, and avoiding waste.

Sections 74.41 through 74.48 of the above regulations set forth standards for use by recipients in establishing procedures for the procurement of supplies and other expendable property, equipment, real property and other services with Federal funds. For example:

- Section 74.44 requires all recipients to establish written procurement procedures.

- Section 74.46 requires procurement records and files for purchases in excess of the simplified acquisition threshold, i.e., $100,000, to include the basis for contractor selection, justification for lack of competition when competitive bids or offers are not obtained, and the basis for the award.

- Section 74.47 requires a system for contract administration to be maintained to ensure contractor conformance with the terms, conditions and specifications of the contract.

- Section 74.48 requires the recipient to include certain provisions in all contracts, including provisions for termination by the recipient, bid guarantees, performance bonds and payment bonds for 100 percent of the contract price.

Although the procurement activities done by the procurement officer, such as purchasing food and supplies, were generally done in accordance with sound procurement practices, the procurement activities performed outside of the accounting office by project directors and the Executive Director such as the procurement of consulting services, health care services, and major equipment and properties were often not done in accordance with sound procurement practices and Federal regulations. The following examples illustrate some of the deficiencies:

Bids not obtained. The Council contracted with health care providers for services such as physical examinations and mental health evaluations. Although procurement policies require three verbal bids for purchases between $500 and $5,000 and three written bids for purchases over $5,000, the Council's records often could not support such competitive bids. As a result, the Council may not be getting the best prices.

No written contract. The Council had no written contract for a large procurement of $2 million for modular buildings purchased in 1995 and paid for in 1996. In addition, no performance bond was required from the contractor. Without a written contract and bond, the Council placed itself in a high risk position if the contractor failed to deliver the modular buildings on time and in acceptable condition.

Davis-Bacon Act. In reviewing documents for a major construction project in Sunnyside, Washington, we found that one contract contained no provisions for the contractor to pay prevailing wages to workers in compliance with the Davis-Bacon Act. Another contractor posted no performance bond. The Council had no way of ensuring compliance with Davis-Bacon in the first instance and assumed unnecessary risk if the contractor did not perform in the second.

Real Property. The Council purchased land in western Washington for future use in conducting Head Start classes. The Council purchased the land even though it knew of certain environmental restrictions which subsequently caused delays, use limitations, and additional costs for impact studies and revised architectural drawings. The land was purchased in 1993 and has not been used to date. In connection with the land purchase, the Council also purchased a number of modular buildings using Migrant Head Start funds. The modular buildings have remained in storage since 1996 and are continuing to deteriorate over time.

In addition, the written policies and procedures for procurement were not sufficiently detailed to provide the necessary guidance to Council staff. The policies and procedures that were available were not being followed by those staff outside of the accounting office.

Property Management

The Council did not effectively manage property in accordance with the provisions of 45 CFR Part 74.30 through 74.37, Property Standards, and OMB Circular A-122. This occurred because the Council did not give sufficient priority to the development of policies and procedures for property management. As a result, the Council could not accurately determine the value of equipment, identify cost overruns on capital projects, determine the Federal interest in property, and dispose of idle or surplus property.

Sections 74.31 through 74.37 of the above regulations set forth uniform standards governing management and disposition of property furnished by HHS or whose cost was charged directly to a project supported by an HHS award. The regulation allows the recipient to use its own property management standards and procedures provided they meet the provisions of the regulation.

The following weaknesses were identified relating to the capitalization policy, capital projects, leasehold improvements, Federal interest in real property, and idle facilities.

Capitalization Policy. The Council did not establish a capitalization/depreciation policy for equipment. We found that the inventory records maintained for equipment showed equipment ranging from as little as $15 up to $70,000 in value. The Council did not establish a capitalization threshold for equipment and could not reconcile capitalized equipment shown in its financial statements with inventory records. In addition, capitalized equipment had not been appropriately reduced in value using standard depreciation methods.

Capital Projects. The Council did not maintain control over capital projects. We found that the Council did not establish budgets for capital projects or record leasehold improvement, equipment set-up, and site development costs by project.

Leasehold Improvements. The Council misclassified land improvement, site development, and equipment set-up costs as leasehold improvements in its accounting records. The leasehold improvement account was used to accumulate costs involving not only leased facilities but also owned facilities. A leasehold improvement account should only be used to accumulate costs for renovation or major improvements to leased property. In addition, the Council did not capitalize the labor costs associated with site development and equipment set-up as advised by its independent auditor. According to generally accepted accounting principles, these labor costs should be capitalized.

Federal Interest in Real Property. The Council had not recorded the appropriate liens nor disclosed the Federal interest in real property as required by regulation 45 CFR Part 74.37 which states, "...Recipients shall record liens or other appropriate notices of record to indicate that real property has been acquired or constructed or, where applicable, improved with Federal funds and that use and disposition conditions apply to the property."

Idle Facilities. The Council maintained idle facilities consisting of four surplus modular classroom and kitchen units (costing $226,000) in storage since February 1995 and two surplus modular classroom units (costing $138,600) in storage since February 1996. The Council had planned to place some of the modular classroom units on property in Mount Vernon, Washington, which was purchased in 1993. (See subtitle, "Real Property" under "Procurement" finding above.) However, the property was never developed, so the units were never placed into service. The Council received funding authorization from the Head Start Bureau in 1995 for site development, but did not complete the site development as planned. The Council indicated that it intends to sell the property. The surplus modular classroom and kitchen units remain in storage.

Payroll Costs

The Council did not maintain time and effort records necessary to support the allocation of payroll charges to Federal and State programs. We found that Council employees did not record the amount of time they actually worked on each Federal and State program on time records as required under OMB Circular A-122. The salary allocations to individual Federal and State programs were based on budgeted rather than actual time and effort. This occurred because the Council misunderstood the requirement to maintain time and effort records for staff who split their time between two or more programs. As a result, there is no way to determine whether the payroll costs charged to these programs were accurate or appropriate.

OMB Circular A-122, Cost Principles for Non-Profit Organizations, Attachment B, Paragraph 7.m. states in part that the distribution of salaries and wages to awards must be supported by personnel activity reports. Such reports must :

- reflect an after-the-fact determination of the actual activity of each employee. Budget estimates do not qualify as support for charges to awards.

- account for the total activity for which employees are compensated.

- be signed by the individual employee or by a responsible supervisory official having first hand knowledge of the activities performed by the employee.

- done at least monthly.

Instead of using actual time and effort records to record payroll costs to Federal and State programs, the Council supported payroll costs with budget proposals, appointment letters, and payroll allocation change forms, none of which were acceptable alternatives. Teachers and other staff worked on the single, enhanced Migrant Head Start program, but did not distribute their time by individual programs or funding sources making up the combined program. Although the Council used time cards that reflected the employees actual attendance at the job site, the time cards did not allocate the employees' time among the various Federal and State programs on which they worked during the pay period.

As noted in the prior finding titled "Cost Allocation," the Budget Plan provided that when Migrant Head Start and Seasonal Child Care programs were operating, salaries would be allocated based on an attendance formula. The Revised Plan provided that salaries would be allocated based on actual hours worked under each program. It further provided that if an employee was working for more than one program, time and effort records must be maintained and submitted to the human resources office on a monthly basis. Our audit disclosed that the human resources office collected time and effort records for some employees. However, the time and efforts records were not complete and were not used by the human resources or accounting offices to determine actual salary allocations. Neither plan was followed for salary allocations during the audit period.

Recommendations

We recommend that the Council:

1. Take the necessary steps to correct the internal control weaknesses and policy and procedural deficiencies relating to internal controls.

2. Incorporate monthly budgets in the accounting records that more accurately compare outlays with budgeted amounts.

3. Develop adequate written policies and procedures for procurement and assign the responsibility for all procurement to the procurement officer.

4. Revise its policies and procedures to include minimum amounts for capitalization of equipment; track project costs; identify and segregate costs for site development and land improvements for its own property from leasehold improvements made to leased

property; identify in its accounting records the Federal interest in real property owned by the Council; and dispose of surplus equipment in accordance with Federal requirements.

5. Develop a time and effort reporting system to record the actual amount of time that employees spend each day working on individual Federal and State programs and use the time and effort reporting system to support the allocation of payroll charges to individual Federal and State programs.

Council Comments

The Council did not entirely concur with the finding that it did not maintain adequate financial and program management systems that met the uniform administrative requirements for awards to nonprofit organizations as set forth in Federal regulations.

- The Council stated that accounting literature defines internal control as the process of safeguarding the assets of an organization. The Council stated that it maintained a comprehensive accounting manual, gave a high priority to internal controls, and followed adequate internal control procedures. The Council also cited prior audits that found no fraud, misconduct, or malfeasance with regard to disbursements, or noncompliance with procedures for determining authorization for disbursements or maintaining adequate records to support disbursements and receipts.

- The Council stated that it had implemented a new computerized accounting system on December 20, 1999 that can compare outlays to budgeted amounts. The Council indicated that it planned to supplement the new system with a revised accounting manual effective in the Spring of 2000.

- The Council stated that it recently finalized its procurement manual and would provide training to its program directors and field staff in February and March of 2000.

- The Council stated that its policies and procedures included a capitalization policy which was followed for all annual audits. In contrast, for internal tracking purposes, the Council said that it maintained fixed asset listings of all capital items regardless of size to ensure that no assets of any value were misappropriated. Further, the Council indicated that it had not adopted a policy of depreciating fixed assets because (i) Governmental Accounting Standards did not require it, (ii) such a policy would require a reconciliation between internal records and reports submitted to granting agencies, and (iii) allowable depreciation expense charged to grants would have resulted in the creation of cash reserves available to spend on additional fixed assets.

- The Council stated that the classification of fixed assets into land improvements versus leasehold improvements was a matter of semantics only which did not affect the allocation of program costs or misstate the financial position of the organization.

- The Council said that it has been in full compliance with time and effort requirements since October 1, 1998.

OIG Response

In its response to our recommendation that the Council correct its internal control weaknesses and policy and procedural deficiencies relating to internal controls, the Council implied that its independent auditor and other outside auditors took no issue with its internal control structure. The Council cited prior audits that found no fraud, misconduct, or malfeasance and no instances of non-compliance relating to disbursements. In fact, the Council's independent auditor called multiple internal control deficiencies and other management weaknesses to the attention of the Board of Directors in its letter dated November 20, 1998. The Council's "Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133" states, "Our consideration of internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses."

While internal control is a process of safeguarding the assets of an organization, the Council's response does not address other components of an adequate internal control structure. Safeguarding assets also involves protecting the assets from fraud, waste, and abuse. For example, by leaving new modular buildings, originally valued at $364,600, to deteriorate for years in storage, management did not provide adequate protection for valuable facilities resources which were paid for by Migrant Head Start funds.

Internal control weaknesses that we identified created opportunities for theft of checks, conversion of funds for unauthorized uses, duplication of payments to vendors, and perpetration of errors or irregularities. Deficiencies also obscured the audit trail and created the potential for the improper allocation of expenditures. When advised of internal control deficiencies and other asset management weaknesses by its independent auditor in previous years, management did not implement the auditor's recommendations. Management's operating style reflected an inadequate control environment, as described in Statement of Accounting Standards (SAS) 78.

Corrective action undertaken by the Council's management addressed two of our audit recommendations relating to budgeting and procurement. The Council's new computerized accounting system may now allow for the flexibility of setting monthly budgets that can compare outlays with budgeted amounts; however, the Council did not indicate whether or not it now utilizes this procedure. Finalizing its procurement manual is responsive to our recommendation for correcting the procurement system deficiencies disclosed in our audit. However, the Council's response does not address the fragmented procurement process with procurement transactions being conducted outside of the central procurement office.

Though the Council stated that its policies and procedures included a capitalization policy, it did not have a written capitalization policy at the time of our audit field work and has not provided us with one since.

Misclassification of fixed assets as leasehold improvements rather than land improvements is more than simply a matter of semantics, as the Council claims, because land improvements should reflect the Federal interest in the property whereas leasehold improvements would not.

The Council's statement that it has been in full compliance with time and effort requirements since October 1, 1998, is inconsistent with the facts. We obtained audit evidence during the course of the audit that time and efforts requirements were not implemented on October 1, 1998, as stated by the Council. Further the Council's independent auditor's letter to the Council's Board of Directors dated November 20, 1998 contained information which indicated that time and effort provisions had not yet been implemented.

The Council did not respond to a number of significant issues identified by our audit, as follows:

- Procurement activities performed outside of the procurement office which illustrated deficiencies relating to bids, administering contracts, and purchasing real property,
- Capital projects budgets,
- Federal interest in real property, and
- Idle facilities.

NONFEDERAL MATCH REQUIREMENT

The Council did not comply with the nonfederal match requirement for the Migrant Head Start program in grant years ended November 30, 1997 and November 30, 1998, as specified in the applicable grant award documents. This occurred because the Council could not generate sufficient nonfederal match amounts from parent volunteer services and other sources as planned. As a result, the Council claimed Federal reimbursement of $1,014,755 ($669,817 in 1997 and $344,938 in 1998) beyond the level of Federal financial assistance allowable for the two grant years.

Provisions for Nonfederal Matching

The Head Start regulations at 45 CFR 1301.20 state that Federal financial assistance to Head Start grantee shall not exceed 80 percent of the total costs of the program. However, according to 45 CFR 1301.21, ACF can approve Federal financial assistance in excess of 80 percent if the grantee has made a reasonable effort to meet its required nonfederal share but was unable to do so.

The Migrant Head Start grant documents set forth the Federal amounts awarded to the Council for the grant years, as well as the nonfederal match requirements for that level of Federal financial assistance. The Federal expenditure reports (SF 269s) prepared by the Council present the total program costs (Federal and nonfederal) incurred by the grantee.

Based on an evaluation of the refunding applications submitted by the Council, ACF awarded the grantee Federal financial assistance of 95.1 percent, 90.2 percent, and 94.45 percent for grant years 1996, 1997, and 1998, respectively.

Meeting Nonfederal Matching Requirement

The Council did not obtain sufficient nonfederal match for the level of Federal financial assistance claimed in FYs 1997 and 1998 for the Migrant Head Start program. The Council did meet the nonfederal match requirements for FY 1996.

The ACF's Grants Administration Manual, Section 3.05.410 sets forth the procedures for calculating a disallowance if the nonfederal match is not met. The disallowance by grant year was as follows:

In grant year 1997 the Council claimed on its expenditure report total Federal costs of $10,041,596 and nonfederal costs of $348,403 or total program costs of $10,389,999. According to the grant award, no more than 90.2 percent of the $10,389,999 or $9,371,779 of total program costs could be Federal funds. Therefore, the Council claimed $669,817 ($10,041,596 minus $9,371,779) beyond the level of Federal financial assistance allowable for the grant year.

In grant year 1998 the Council claimed on its expenditure report total Federal costs of $10,109,669 and nonfederal costs of $228,850 or total program costs of $10,338,519. According to the grant award, no more than 94.45 percent of the $10,338,519 or $9,764,731 of total program costs could be Federal funds. Therefore, the Council claimed $344,938 ($10,109,669 minus $9,764,731) beyond the level of Federal financial assistance allowable for the grant year.

The $669,817 for grant year 1997 and the $344,938 for grant year 1998 represent a total disallowance amount of $1,014,755. The calculation was based on the unaudited expenditure reports submitted to ACF by the Council.

The Council requested a reduction of the 9.8 percent nonfederal match requirement for grant year 1997. However, the Head Start Bureau advised us that the nonfederal match request was not approved. We could not find any documentation to support a request for a further reduction of the 1998 nonfederal match requirement.

Subsequent to our audit field work ACF performed an on-site review and included in its deficiency report the Council's unmet nonfederal match requirement for 1998. The Council in its Quality Improvement Plan (QIP), a corrective action plan submitted to ACF, requested approval to use the State portion of seasonal child care funds to satisfy the unmet match requirement. The ACF approved the QIP. However, the Council needs to revise its expenditure reports for grant years 1997 and 1998 thus certifying as to the total outlays of the Council's Migrant Head Start program and maintain records to support the amount of State funds used to satisfy the unmet nonfederal match requirements.

Recommendation

We recommend that the Council submit revised expenditure reports to ACF for grant years 1997 and 1998 and maintain records to support the amount of State funds used to satisfy the unmet nonfederal match requirements.

Council Comments

The Council did not agree with the finding and commented as follows:

- The Council stated that ACF unreasonably denied approval to reduce the matching requirement, based on the Council's understanding of eligible matching funds at the time the waiver of the matching requirement was requested.

- The Council stated that ACF often did not respond to requests for waiving the nonfederal match requirement in a timely manner, and should have approved the waivers for the audit period because the requests were no different from waiver requests in past years that were routinely granted.

- The Council further stated that $500,000 in funds from the Seasonal Child Care program was included in the 1997 grant year application as match for the 1997 grant year. At the time of the application, the Council asked for a waiver of the match requirement because it did not know how much of the Seasonal Child Care program funding was nonfederal and could be used for matching purposes.

- According to the Council, it is now convinced that it overmatched the Migrant Head Start grant for the years in question. The Council stated that ACF has recently approved the use of the nonfederal portion of seasonal child care funds for matching per a letter to the Council dated December 17, 1999. The letter from ACF approved the Council's Quality Improvement Plan dated December 10, 1999, which contained a statement that nonfederal funds received from the State for the Seasonal Child Care program would be more than sufficient to meet its matching requirement for the 1998 grant year.

OIG Response

The Council received Migrant Head Start grant awards that set forth the Federal amounts awarded to the Council for the grant years, as well as the nonfederal match requirements for that level of Federal financial assistance. The Council prepared and submitted Federal expenditure reports showing total program costs (Federal and nonfederal) incurred by the grantee for the Migrant Head Start program. Our review of the award documents and the unaudited expenditure reports clearly showed that the Council was undermatched in both years.

The Council's independent auditors, in their audit report to the Council for the year ended October 31, 1998, disclosed that the Council did not appear to meet the terms of the in-kind matching under the Migrant Head Start grant award. The independent auditor's report for the prior year indicated the same thing.

The Council's response indicates that waivers should be automatically approved. According to Federal regulations, the starting match requirement for the Head Start program is 20 percent. The Council was only required per the grant documents to provide 9.8 percent and 5.6 percent for grant years 1997 and 1998, respectively. This was an initial waiver of 10.2 percent for grant year 1997 and 14.4 percent in grant year 1998. The Council should consider other ways of fulfilling its matching requirements, rather than to routinely request waivers.

As stated above, ACF approved the Council's QIP. However, the Council needs to revise its expenditure reports for grant years 1997 and 1998 and maintain records to support the amount of State funds used to satisfy the unmet nonfederal match requirements.

BOARD OF DIRECTORS ACTIVITIES

The Council needed to increase the involvement of its Board of Directors in the management, direction, and control of the business activities of the Council. The bylaws of the Council's Board of Directors state that "the activities, affairs and poverty [sic][3] of the Corporation shall be managed, directed and controlled and its powers exercised by, and vested in, the Board of Directors." Our review of written records (minutes) of Board meetings indicated that the Executive Director did not provide the Board with sufficient financial information to perform its fiduciary responsibilities. As a result, the Board did not effectively function as a governing body as required by the Council's bylaws.

At the time of our review the Board of Directors consisted of nine members representing the: private business sector (one member), early childhood education discipline (one member), Migrant Head Start parent policy council (one member), and geographic regional areas served by the Council (six members).

The minutes showed that the Board did not concern itself with the overall operation of the Council. Our review of the Board minutes for 25 meetings held during a 3-year period (1996, 1997, and 1998), disclosed the following activities which indicated a lack of direct involvement in the business activities of the Council:

- The Board did not examine any periodic, e.g., monthly, quarterly, financial statements, or become involved in the approval of the Council's organizational budget. The CFO attended only two meetings in the 3 years included in our review. It would seem to be incumbent upon the CFO to periodically discuss the financial status of the organization as a whole, as well as other financial and business issues, with the Board on a regular basis. Further, the Board needed to actively seek out this information, and be involved in the decision-making process on these issues.

- The Board was not involved in taking corrective action to ensure that findings resulting from audits and reviews by various independent auditors and program reviewers were promptly resolved. Unresolved past findings include issues involving procurement, cost allocation, departure from generally accepted accounting principles, time and effort reporting, enrollment, and nonfederal match requirements.

- The Board meetings were attended mainly by the Board members and the Executive Director. The Council's program managers attended only infrequently. For the most part, the only items up for consideration were those presented by the Executive Director. The items presented by the Executive Director, such as specific program issues, wage

[3] We were not able to determine with certainty what word was intended to be used in the by-laws instead of the word "poverty." However, from discussion with staff we believe that "policies" was intended.

comparability studies, lines of credit, lawsuits, and land purchases, were almost always unanimously approved whenever they were brought up for a vote.

Thus, the minutes show that the Board became involved with issues whenever the Executive Director brought them up for consideration, but the minutes did not show that the Board took the initiative to bring up issues of concern. Further, the minutes did not show that the Board was involved with the Council's overall fiduciary and other business activities.

Recommendations

We recommend that:

1. The Executive Director provide the Board of Directors with sufficient financial and other business information to enable it to perform its responsibilities of managing, directing and controlling the activities, affairs and other business aspects of the Council's operations.

2. The Council's Board of Directors take a more proactive role in the Council's management, especially with regard to the examination of periodic, organization-wide financial information such as monthly or quarterly financial statements and the approval of organization-wide budgets.

Council Comments

The Council stated that the Board was more involved in the Council's management than the finding indicated because the Board (i) met at least six times a year for several hours, (ii) reviewed programmatic and budgetary information, and (iii) heard from other parties besides the Executive Director such as attorneys and auditors employed by the Council.

The Council stated that the Board is designed to reflect the populations served by the organization and these populations are not sophisticated in corporate financial analysis. However, the Council added that it is taking steps to broaden the financial knowledge and responsibility of the Board by having the Board review and approve the overall budget, examine the overall financial results of the Council, and examine the detailed operations of each program.

OIG Response

The Council's response indicates that it is responsive to the audit recommendations.

APPENDIX

Washington State Migrant Council

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February 4, 2000

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FEB - 4 2000

Mr. Lawrence Frelot
Regional Inspector General for Audit Services
Department of Health and Human Services
Office of Inspector General, Region IX
Office of Audit Services
50 United Nations Plaza, Room 171
San Francisco, California 94102

Re: Response to Draft Audit Report A-10-99-00050

Dear Mr. Frelot:

This letter constitutes the response of the Washington State Migrant Council ("WSMC") to the draft audit referenced above. This response does not attempt to address every statement in the report with which WSMC does not agree but, instead, addresses only facts and findings essential to WSMC's position. Stated otherwise, the failure by WSMC to address a particular issue does not constitute an agreement by WSMC with the position of the Office of the Inspector General ("OIG").

Instead of addressing each finding in order, WSMC will first address the findings and recommendations entitled "Cost Allocation," "Program-Related Revenue" and "Nonfederal Match Requirement" together as they are all related. WSMC will then address the remaining two findings, i.e., "Financial Management" and "Board of Directors Activities."

"COST ALLOCATION," "PROGRAM-RELATED REVENUE" AND "NONFEDERAL MATCH REQUIREMENT"

WSMC has grouped these findings together because they all fundamentally concern the interaction of the two major programs operated by WSMC for migrant farmworker children, specifically, the Migrant Head Start ("MHS") program and the Seasonal Child Care ("SCC") program. As the report points out, MHS is entirely funded by the Federal government while SCC is funded by State and Federal funds.

WSMC does not concur with any of the findings or recommendations.

Office of Audit Services Note - The above comments included in the shaded area pertain to material included in the draft report but not included in this final report.

A. ACF approved WSMC's Cost Allocation Plan

First, WSMC's cost allocation plan was, in all significant respects, approved by ACF several years ago. Accordingly, to penalize WSMC with a substantial cost disallowance, for merely following the ACF approved plan would be unfair.[1] In particular, Attachment 1 contains selected pages of WSMC's comprehensive refunding application for the 1993-94 program year. That application, which included the cost allocation plan, as noted on your work papers (P/1-1) was approved and funded by ACF. The approved cost allocation, was followed by WSMC, in all material respects, throughout the period audited.

In this regard, WSMC specifically disputes the claim by your office in your work papers (P-1/1-3) that the 1993 cost allocation plan only applied to supplies. This is incorrect. The emphasis on supplies in 1993 was premised on the fact that WSMC had always charged labor costs directly to each program based on the approximate hours of service, i.e. SCC paid for teacher trainees during "custodial periods" which were early morning hours (5 a.m. to 8 a.m.) and late afternoons (2:30 p.m. to 4:30 p.m.). This allocation method was also part of WSMC's grant application (see p. 84, Attachment 1). It also bears noting that under the old "On-site Program Review Instrument" the issue of co-location of funding was addressed specifically in Item No. 190.[2] This means, quite simply, that WSMC's allocation was reviewed twice during the triennial reviews (1993 and 1996) that are mandated by the Head Start Act. Significantly, no negative finding resulted from the reviews concerning Item 190.

WSMC would like to point out that it submitted several cost allocation plans (1993, 1996 and 1998 respectively) at ACF's direction. As the work papers supporting the draft audit point out (P-6/3-1) ACF has issued numerous "Information Memorandum" over the years that encourage grantees to submit cost allocation plans to ACF and claim that ACF will provide guidance and support. WSMC took ACF at its word and submitted plans and amendments to plans for approval. Other than the grant approval noted above, ACF never commented on or addressed WSMC's submissions. This repeated failure on the part of ACF should not result, as your draft suggests, in a significant financial penalty to WSMC but should, instead, be used as justification to call for significant reforms in ACF's operations.

In any event, the approval by ACF of WSMC 1993-94 refunding grant application is significant. Not only does it eliminate this finding in the draft audit but it also eliminates any question about whether the SCC funds should be treated as program income since the draft report uses the lack of an acceptable cost allocation plan as justification for treating the SCC funds as program

[1] We have no reason to believe that ACF does not have the authority to approve cost allocation plans. If this belief is incorrect, we would appreciate a statement to that effect.

[2] Item 190 required the reviewer to determine, "[i]f the grantee is operating a multi-funded program, records adequately identify the other costs and reimbursement amounts."

Office of Audit Services Note - The references to program income included in the shaded area above pertain to material included in the draft report but not included in this final report.

income. Moreover, as discussed below, the SCC funds simply do not fit the legal definition of program income.

WSMC believes that it is extremely important to note, as the draft confirms, that all of the extra cash generated by the SCC program was used to purchase land and/or build facilities (all of which the MHS program uses free of charge) and to pay other necessary costs of operating the MHS and other migrant farmworker programs. A tour of WSMC facilities will reveal, we believe, that WSMC has put the SCC funds to very good use.

Finally, in any event, we believe that all costs were fairly distributed among both programs, Migrant Head Start and Seasonal Child Care

B. <u>SCC Funds Cannot Be Program Income</u>

With respect to the finding that all of the SCC funds should be treated as program income, the recommendation is flawed not only because the rationale for the finding, i.e. that WSMC did not have a cost allocation plan in place, is incorrect but also because the funds in question do not fit the legal definition of program income.

Specifically, the term "program income" is defined under federal regulations as:

> . . . gross income earned by the recipient that is *directly generated* by a supported activity or earned as a result of the award. . . .

45 C.F.R. § 74.2. Stated otherwise, funds received by a grantee can only constitute program income if the grantee received those funds as a result of having a federal award, here the MHS program.

In WSMC's case, the SCC funds cannot meet the definition because WSMC did not and does not receive the SCC funds "as a result of" the MHS program. There is plenty of evidence supporting WSMC's position including the fact that:

(1) WSMC had its SCC program <u>before</u> it had its MHS program,
(2) up until very recently some of the WSMC centers, e.g. Sunnyside were SCC only centers and some centers are MHS only,
(3) operating an MHS program is not a condition of the SCC award.

In short, the proposed treatment of SCC funds as program income is wholly inconsistent with the regulatory definition.

C. <u>WSMC Overmatched Its Migrant Head Start Grant</u>

The draft audit also questions over $1.0 million in federal funds due to a failure on the part of WSMC to meet the matching requirement for the MHS grant in Program Years 1997 and 1998.

Office of Audit Services Note - The above comments included in the shaded area pertain to material included in the draft report but not included in this final report.

After reviewing the report and the available *information*. WSMC is now convinced that it overmatched the MHS grant for the years in question and, at a minimum, ACF unreasonably denied WSMC's routine request for (based on its understanding of eligible matching funds at the time) approval to reduce the matching requirement.

First, Attachment 2 contains a number of letters over a period of a year on the issue of waiving the non-federal match. ACF has never specifically responded to any of these letters and responded for the first time in December of 1998, over a year after the request was made. Thus, similar to the cost allocation issue address above, much of the problem with the waiver of the matching share was created by ACF's failure to address issues in a timely manner, if at all. The correct action here, we believe, is for ACF to provide approvals of the waiver requests for the years in question. We would note also, in contrast to the statements by Mr. Dennis Penland of the Migrant Programs Branch, to your office (Work papers S-3/1-1). WSMC's requests for these years were no different than in past years when they were routinely granted. More importantly, Mr. Penland never requested additional information from WSMC or, as noted above, commented in any way upon WSMC's requests. Indeed, Mr. Penland's comments to your office on this issue do not contain any substantive analysis but merely a cursory dismissal of a very important matter.[3]

Next, as the work papers to the draft audit show (WP S-3/1-1) WSMC included in its 1997 proposal over $500,000 in funds from the SCC program as match for the 1996/1997 program year. These funds, which were the non-federal share of the SCC funds used to extend the service day for children who were eligible for both the SCC and MHS programs, where incorporated and specifically identified in the non federal share budget of the grant application, and approved by ACF as such. WSMC was not able to determine until very recently the non-federal share of the SCC program. Thus, at the time, WSMC had to seek a waiver from ACF. WSMC has now learned from the State Auditors Office that the non-federal share was 42%. Based on this percentage, WSMC believes (as shown on the attached spreadsheet, Attachment 3) that it was overmatched in 1997 and would be again in 1998 using SCC funds. This treatment of the non-federal share is consistent with the regulations concerning matching share found at 45 C.F.R. § 74.23 and was recently approved by ACF (December 17, 1999). See Attachment 4.

Moreover, we believe that your office is taking inconsistent positions in the draft on this issue. Specifically, if the SCC funds are program income, then WSMC has overmatched, as noted above, since approximately 42% of the SCC funds are Washington State funds not federal. Using non-federal program income as matching funds is an acceptable practice under applicable federal regulations. See 45 C.F.R. § 74.24(b)(2). Accordingly, if your office is correct in the findings on cost allocation and program income, it cannot be correct that WSMC failed to meet its matching requirement. Similarly, the proposed disallowance of indirect costs under the program income finding should, if it is sustained, be used again to meet the matching requirement. Under 45 C.F.R. § 74.23(b), grantees can use unrecovered indirect costs as matching funds.

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[3] It is important to note that few, if any, migrant Head Start programs meet the matching requirement.

Office of Audit Services Note - The references to program income included in the shaded area above pertain to material included in the draft report but not included in this final report.

In short, WSMC should have been granted a waiver of the matching requirement but, even in the absence of a waiver, WSMC provided sufficient matching support to its grant.

FINANCIAL MANAGEMENT

WSMC does not concur with this finding in its entirety. Accounting literature defines internal control as the process of safeguarding the assets of an organization. The Washington State Auditor's Office issued a report dated June 10, 1999, subsequent to their review of the Washington State Migrant Council that stated, "Our extensive audit tests of the Council's disbursement transactions during fiscal 1997 found no fraud, misconduct or malfeasance." WSMC's independent auditors annually selected samples of disbursements and receipts for testing including vouching of supporting documentation, proper authorization, proper recording in the general ledger and conformance with internal policies. They found no instances of non-compliance.

WSMC maintained a comprehensive accounting policy and procedure manual. Adequate internal controls were, and are, a high priority of management and the Board of Directors. The report does not indicate the frequency of the noted findings. However, checks were routinely deposited in a timely and reasonable manner. Management's policy was to maintain source documentation for all purchases. Procedures for handwritten checks were no different than those in place for automated checks and journal entries routinely included explanations unless entries were recurring monthly adjustments. As with any system, Management believes improvements in the system of internal controls can be made. One such improvement is the implementation of a new accounting computer system that began on December 20, 1999. The new system will be supplemented by a revised accounting manual that will be in effect by Spring of 2000. The new accounting computer system allows for the flexibility of setting monthly budgets that can compare outlays with budgeted amounts.

WSMC has also recently finalized its Procurement Manual. WSMC Program Directors and field staff will be provided with in-depth training in February 2000 and again in March 2000.

In regards to capitalization, WSMC's policies and procedures have historically included a capitalization policy, and this policy was followed for all annual audits. However, for internal tracking purposes, the WSMC maintained fixed asset listings of all capital items regardless of cost. The reason for this practice was to insure that no fixed assets of any value were misappropriated. WSMC had not adopted a policy of depreciating fixed assets because this was not required by Governmental Accounting Standards and depreciation expense would have resulted in a reconciliation between internal records and reports submitted to granting agencies. If WSMC had depreciated its assets, the allowable depreciation expense charged to grants would have resulted in the creation of cash reserves available to spend on additional fixed assets. Instead, WSMC used these funds for the direct provision of program services.

The classification of fixed assets into land improvements versus leasehold improvements is semantic only. This policy in no way affected the allocation of costs to programs or misstated the financial position of the organization.

In regards to Time and Effort, WSMC has been in full compliance with time and effort requirements since October 1, 1998. Training and monitoring is conducted regularly and available to all staff.

BOARD OF DIRECTORS ACTIVITIES:

WSMC agrees that the Board has the ultimate responsibility for managing the affairs of the corporation. However, WSMC feels the Board has been much more involved that the draft report indicates.

First of all, the Board has consistently, frequently and regularly met during the entire existence of WSMC. The Board has never met less frequently than six times per year and each of these meetings has lasted for several hours and involved detailed examination of the affairs of the organization. Secondly, the Board has always reviewed both programmatic and budgetary information on each program operated by WSMC. This has included the review of all audit results for these programs. Because the Executive Director serves at the pleasure of the Board, and is the one staff person responsible for all corporate activities, the Board of necessity directs most of its communications to the Executive Director. However, the Board has frequently heard from other parties including attorneys and auditors employed by the organization. Nonetheless, it is true that WSMC's Board is designed to reflect the populations served by the organization and these populations are not sophisticated in corporate or financial analysis. For this reason, the Board's understanding and activities will always differ from those of major corporations. Nonetheless, WSMC feels that a Board truly representative of its constituencies is consistent with its mission and the requirements of the federal Head Start Act.

WSMC has recently taken steps to broaden the overall financial knowledge and responsibility of the Board. The Board is now undertaking to review and approve the overall budget of the agency and to examine overall financial results in addition to examining the detailed operations of each program. In this fashion, the Board will be able to better manage the overall direction of the organization and take a more proactive role.

In closing, WSMC looks forward to the resolution of this audit report.

Sincerely,

WASHINGTON STATE MIGRANT COUNCIL

Carlos M.

Carlos M. Diaz
Executive Director

Cc: WSMC Board Chair

Office of Audit Services Note - Although the above page is numbered "Pg 6 of 7," the letter consisted of only 6 pages.

ATTACHMENT 1

A-10-99-00050

CO-LOCATION OF PROGRAMS -

DSHS (TITLE XX) AND CHAPTER I MIGRANT EDUCATION PROGRAM

The two programs that are operated in the same centers and operate during the same time period as the Migrant Head Start program are the state child care program and Migrant Education's Chapter I, Migrant Preschool Program.

CHAPTER I, MIGRANT EDUCATION

The MHS Program believes that the Chapter I, Migrant does not meet the co-location definition since the Chapter I, Migrant program is supplemental to the Migrant Head Start and can not operate solely on its own. It is supplemental in that the MHS program must meet the basic licensing staff to child ratios in the preschool classroom. Then and only then will Chapter I Migrant Education provide additional teachers. The ratios in the classroom which Chapter I, Migrant teachers are utilized, are five (5) children to one (1) Teacher.

The Chapter I Migrant Education Program funds are an important financial resource to Washington State Migrant Council's Migrant Head Start program. These funds are specifically utilized to improve the quality of the preschool instructional/educational services to migrant children ages three to five. WSMC has been approved a total budget of $499,500 to provide supplemental instructional and support services in the 1993-94 program year.

The program service objectives of the Chapter I Migrant Education Program are to improve the learning environment in the preschool classrooms by providing additional instructional teachers.; to introduce English as a second language to monolingual Spanish speaking children and increase their language skills; to prepare preschool children to transition into the public schools system by providing instruction designed to develop their social and educational skills; and to assist parents in understanding the social and educational development of their preschoolers by providing them with educational information and parent involvement training.

The overall goal is to utilize the Chapter I Migrant Education funds to reduce the child/teacher ratio therefore improving the quality of education. Chapter I Migrant Education funds are available for eighteen (18) centers. These are Grandview, Granger,

College Place, Mabton, Mattawa, Mt. Vernon, Lynden, Moses Lake, Othello, Pasco, Quincy, Toppenish, Wapato, Walla Walla, Whistran, Burlington and Eltopia.

DSHS - TITLE XX

In response to the directives issued in an Informational Memorandum of July 15, 1993, regarding the formulation of a cost allocation plan when a Head Start agency is providing services which are not funded by ACYF or is serving children who are not eligible for Head Start, WSMC presents the following cost allocation procedure to address the co-location of Title XX and MHS program.

Where direct cost can not be determined, the Migrant Head Start program has designed and implemented a reasonable and rational yet a simple, most straight forward way of allocating costs fairly between program. This plan identifies the number of children in each program and allocates expenses accordingly. The percentages are determined by taking into consideration the total enrollment of MHS and DSHS children at the center, and hours of operation. This WSMC cost allocation plan is implemented the first day of MHS program operation and continues until the end of the program. The plan is implemented at the local level by determining the total number of children enrolled by each program. This number is reviewed every two weeks by the Center Director. Guidance has been devised for each Center to follow and determine what their allocation should be. The allocation chart is used for the program office, classroom and for maintenance supplies as well as gas and the maintenance of the vehicles, and any other costs related to program operations. Each grant and/or contract has their own supply cabinets and reorder guide with pre-approved supplies. All items on reorder guides have been selected by a committee comprised of a Teacher, Head Teacher, Center Director, Coordinators, Program Director, and Procurement Officer.

The following is a worksheet such as the ones that we utilize at the centers to compute the allocation percentages.

SAMPLE WORKSHEET

Computation of Percentage

(Figures are taken from attendance form.)

Date	Day	MHS Children	DSHS Children	Total Children
2-Aug	Monday	70	30	100
3-Aug	Tuesday	80	20	100
4-Aug	Wednesday	75	25	100
5-Aug	Thursday	70	30	100
6-Aug	Friday	55	45	100
7-Aug	Saturday	0	0	0
8-Aug	Sunday	0	0	0
	LINE {1} TOTAL	350	150	500
9-Aug	Monday	70	30	100
10-Aug	Tuesday	70	30	100
11-Aug	Wednesday	75	25	100
12-Aug	Thursday	65	35	100
13-Aug	Friday	70	30	100
14-Aug	Saturday			
15-Aug	Sunday			
	LINE {2} TOTAL	350	150	500
		A	B	C
	GRAND TOTAL	700	300	1000

1. Add Line 1 and 2 to get grand total of children's attendance.
2. Divide Grand Total A by Grand Total C to get MHS percentage (ex. 700/1,000 = 70% MHS and 30% DSHS.
3. Check Allocation Chart for appropriate distribution of supplies.

Please be assured that Washington State Migrant Council's approach is not "Migrant Head Start has the largest budget, so Migrant Head Start should pay the largest share of the cost". WSMC's intent is to implement a fair allocation table.

COST ALLOCATION CHART UTILIZED AT THE CENTERS

Cost Allocation - MHS/DSHS

Percentage of MHS Children If your percentage of DSHS children is	Utilization of DHS Supplies based on Two Weeks Then your supplies for these many hours will be charged to DSHS	Based on 80 hours This means so many days	Based on 120 hours This means so many days
5%	4	0.5	0.5
10%	8	1	0.5
15%	12	1.5	1
20%	16	2	1
25%	20	2.5	1.5
30%	24	3	2
35%	28	3.5	2
40%	32	4	2.5
45%	36	4.5	3
50%	40	5	3
55%	44	5.5	3.5
60%	48	6	4
65%	52	6.5	4
(A) 70%	56	7	4.5
75%	60	7.5	5
80%	64	8	5
85%	68	8.5	5.5
90%	72	9	6
95%	76	9.5	6
100%	80	10	6.5

How to compute your percentage of cost allocation:

MHS Children (A)	DSHS Children (B)	TOTAL (C)	PERCENTAGES
700	300	1000	MHS= 70%; DSHS = 30%

To calculate MHS Percentage: Take number of MHS children (A) and divide by total number of children (C). (in the example 700 divided by 1000 = 70% MHS). Then multiply the results by 100
Round down your percentage to the closest round figure in the chart, when necessary.

Washington State Migrant Council is appropriated $2 million to administer a state child care program for migrant and seasonal farmworker children. Of the $2 million, WSMC utilizes $ 553,163 to administer a seasonal program during the months of October to March. Children of seasonal farmworkers are served if both parents are working in agricultural related activities. Inclusive in the eligibility criteria for Title XX is working in dairies, and working with social services agencies which provide services to low income individuals and the migrant population.

Title XX utilizes $ 774,991 to serve seasonal farmworker children during the summer months during which the MHS programs is operating. Past experience has provided us with the projected number of seasonal children served by center to be the following.

Center	Seasonal Only	Intra-State*
Basin City	none	0
Burlington	5 children	12
College Place	32 children	12
Dayton	none	12
Eltopia	none	12
Grandview	35 children	12
Granger	27 children	12
Harrah	6 children	12
Kennewick	5 children	12
La Conner	5 children	12
Lynden	6 children	12
Mabton	21 children	12
Mattawa	5 children	12
Moses Lake	5 children	12
Mt. Vernon	10 children	12
Othello	16 children	12
Pasco	11 children	12
Royal City	5 children	12
Toppenish	8 children	12
Walla Walla	13 children	12
Wapato	39 children	12
Warden	5 children	12
Whitstran	5 children	12

* Basis for supplementation of MHS program is because it meets MHS criteria; funds are used to extend the day, add personnel pay for additional operations and repair cost factor.

Please note that these numbers may fluctuate and that reimbursement of Title XX is based on actual attendance.

Program costs are budgeted to support this service Title XX Clerk, Teachers, Bus Aides (Center Directors 50% MHS, DSHS 50%) Although the Title XX design of child care services is not comprehensive, WSMC attempts to replicate the comprehension design of the MHS program for seasonal children to the extent that funds allow.

In addition, the Title XX supplements the MHS program with $742,781 for children who qualify as Intra-state migrants. We define the supplementation of the MHS program as: provision of services beyond the eight hours of budgeted options of MHS, ie, the addition of teachers and teacher aides for four - six hour period. It's WSMC's position to have a teacher and an aide, at any given time of the day (4:00 am - 5:00 pm), at the minimum, for the safety of children and personnel. Multiple Bus Aides, for morning and afternoon bus routes, are provided to adhere to ratios; additional Custodian Aides, to assure timely repairs/maintain center up-keep at a time center is being used, 15 hours a day; Teachers, to reduce ratios in centers where Chapter I Migrant Education funds are not available or very limited.

The allocation of cost to reflect the co-location of the Title XX program is projected to be implemented in the following manner:

1) Staff is hired on DSHS budget to serve the DSHS only eligible children.

2) Contracts are negotiated for comprehensive services for DSHS children.

3) Program supplies are set up in different cabinets and utilization is based on cost allocation. Different purchase orders charging orders to the different grants are set up.

4) Allocation formula for utilization of supplies is in place.

Executive Office
301 North 1st Street, Suite 1
Sunnyside, Washington 98944
(509) 839-WSMC
1-800-223-8515
Fax (509) 839-5220

Program Operation Office
301 North 1st Street, Suite 1
Sunnyside, Washington 98944
(509) 837-8909
1-800-821-4113
Fax (509) 839-5803

ATTACHMENT 2
A-10-99-00050

November 27, 1997

Mr. Dennis Penland, Program Specialist
Migrant Programs Branch
Department of Health and Human Services
P. O. Box 1182
Washington, D.C. 20013

Dear Dennis:

As you well know, the fiscal year for our Migrant Head Start Program will end Friday, November 28, 1997. However, there are various actions for the 1997 fiscal year that have remained in pending status until you and the team were able to conduct the on-site review on November 18 & 19, 1997.

Items that remain pending are:

- Request for waiver of non-federal share from 10% to 5%;
- Budget modification request of $179,348;
- Change of Indirect rate from 9.5% to 9.2% with funds going to staff training and;
- Approval of contract funds for mental health services.

Based on this situation, I formally request that fiscal year 1997 be extended to March 1, 1998, so that we have time to clear up unresolved business.

I look forward to hearing from you. Please give me a call at (509) 837-8316, if you have any question regarding this request.

Sincerely,

WASHINGTON STATE MIGRANT COUNCIL

Genoveva Morales-Ledesma
Migrant Head Start Director

GML/ii

cc: Carlos M. Diaz, Executive Director
Rodolfo Meza, Policy Council President
Dawn Rasmussen, Director of Management and Administration

An Equal Opportunity Employer

Washington State Migrant Council

W S M C

Fax (509) 839-5220

Executive Office
301 North 1st Street, Suite 1
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Program Operation Office
301 North 1st Street, Suite 1
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June 11, 1998

Dennis Penland
Program Specialist
Migrant Programs Branch
Head Start Bureau
Department of Health and Human Services
Administration on Children, Youth & Families
330 C. Street, South West
Washington, DC 20201

Dear Mr. Penland:

The purpose of this letter is to follow up on Washington State Migrant Council's (WSMC's) request for a waiver on the non-federal share for our Migrant Head Start program submitted to your office on September 30, 1997, and November 27, 1997, and again as part of our agency report on May 18, 1998. Copies are attached for your reference.

The independent auditing firm responsible for our WSMC Corporate Audit has pointed out to me this issue as a potential non-compliance item in our 1997 audit review.

Thank you for your cooperation on this matter, and I would appreciate an expedient response so we can close our corporate audit for the year ending November 30, 1997. If you have any questions, please call me at (509) 839-9762.

Sincerely,

WASHINGTON STATE MIGRANT COUNCIL

Carlos M. Diaz
Executive Director

CMD/sc

Att.

cc: Genoveva Morales, Migrant Head Start Director
Jose Luis Ornelas, Chairman, MHS Policy Council
Oscar Galvan, Chairman, WSMC Board of Directors

An Equal Opportunity Employer

Washington State Migrant Council

MEMORANDUM

TO: Dennis Penland, MPB Program Specialist

FROM: Genoveva Morales-Leddesma, MHS Director

DATE: June 25, 11998

RE: Items that are pending

Dennis, the following items are pending for a response from your office:

- Request for waiver of non-federal share for program year December 1, 1996 - November 30, 1997
- Budget modification request of $179,348
- Change of indirect rate from 9.5% to 9.2%
- Carry-over proposal of $979,209
- HISFIS request of $20,000
- Request to utilize fund from 1997-1998 to send 200 MHS staff to the NHSA Conference in April
- Clarification Letter (attached).

If you have any questions regarding the above, don't hesitate to contact me at (509) 837-8316. Thank you.

Enc.

Washington State Migrant Council

file

Executive Office
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Fax (509) 839-5803

mailed original 11/25/98

November 24, 1998

Mr. Dennis Penland
Migrant Programs Branch
330 C Street SW
Mary E. Switzer Bldg. Rm. 2225
Washington, DC, 20201

Dear Dennis,

Attached are copies of correspondence forwarded to your office requesting your approval to waive the 5% non-federal share for the 1997 fiscal year.

Washington State Migrant Council was able to attain 3.3% of the non-federal share requirement but we did not reach our full 5%.

Please advise if you are able to consider approval of this request, if you intend to approve this or if you are not able to consider this request. A response would be appreciated so that we can have documentation for program activity closure.

If you have any questions, do not hesitate to call me at 509.837.8316.

Sincerely,
WASHINGTON STATE MIGRANT COUNCIL

Genoveva Morales-Ledesma
Migrant Head Start Director

cc: Carlos Diaz, Executive Director
Jose Ornelas, Policy Council President

GML/lg

ATTACHMENT 3
A-10-99-00050

WSMC - MHS Non Federal Share Calculations for PY 96/97 and 97/98

		1997	
Federal Funds Awarded	$	11,020,805.00	90.2
Non Federal Share	$	1,192,755.00	9.8
Total project costs awarded	$	12,213,560.00	100%
Federal Funds Expended	$	**10,041,596.00**	
Non Federal Share processed	$	348,403.00	
SCC child care expenditures	$	2,227,941.00	
42% state funds of SCC expenditures	$	935,735.22	
Total Project Costs	$	**11,325,734.22**	
Maximum Federal Share		90.20%	
	$	10,215,812.27	
Federal Funds Awarded and Expended	$	10,041,596.00	
Federal Funds expenditures allowed	$	10,215,812.27	
Total over match	$	174,216.27	

		1998	
Federal Funds Awarded	$	10,320,789.00	94.45
Non Federal Share	$	606,141.00	5.6
Total project costs awarded	$	10,926,930.00	100%
Federal Funds Expended	$	**10,109,669.00**	
Non Federal Share processed	$	228,850.00	
SCC child care expenditures	$	2,968,440.00	
42% state funds of SCC expenditures	$	1,246,744.80	
Total Project Costs	$	**11,585,263.80**	
Maximum Federal Share		94.45%	
	$	10,942,281.66	
Federal Funds Awarded and Expended	$	10,109,669.00	
Federal Funds expenditures allowed	$	10,942,281.66	
Total over match	$	832,612.66	

DEPARTMENT OF HEALTH & HUMAN SERVICES

ATTACHMENT 4
A-10-99-00050

Administration for Children and Families
Administration on Children, Youth and Families
330 C Street, S.W.
Washington, D.C. 20447

DEC 17 1999

Ray Candia
Chairman of the Board
Washington State Migrant Council
2405 E. McGomery
Mt. Vernon, Washington 98273

Dear Mr. Candia:

Thank you for submitting your Revised Quality Improvement Plan (QIP) dated December 10, 1999.

The revised QIP in its entirety is approved. Please proceed with full implementation.

We wish to thank the Washington State Migrant Council Head Start Program, as well as the board and policy council for their cooperation in submitting the revised QIP. Please feel free to call Paul Blatt, Program Specialist, at (202) 260-6656 if you have any questions.

Sincerely,

Paul Blatt for
Iran Rodriguez

Iran Rodriguez, Chief
Migrant Programs Branch

Cc: Carlos M. Diaz, Executive Director
Jose Luis Ornelas, Policy Council President
Dora Moreno Daniel, Migrant Head Start Director

	camps. In some cases, it involves paid advertisements in Hispanic radio stations and publications throughout the State of Washington and Southwest Texas. The first step in monitoring enrollment begins at local centers where daily enrollment and attendance information is collected and sent, via fax, to the MHS office. The information is then compiled into a single enrollment and attendance report which is forwarded to the Executive and Accounting Office by the end of the day. This information is then compiled into a monthly report that is reviewed by the MHS Policy Council and WSMC Board of Directors when they meet. (Please see Exhibit B) In a related matter, WSMC implemented a new initiative (Traveling Trophy) as part of the enrollment and attendance program. The new initiative proved to be a challenging factor for staff as evidenced by the different centers that won during the course of the year. This initiative helped in meeting WSMC's funded enrolment and attendance.				
(8) 1301.20 The agency was required to maintain a non-federal share of 5% of total program costs. Based on review of records and interviews with agency personnel it was noted that for the fiscal year ending 11/30/98, the agency only accounted for $228,850 of the $606,141 required match. The agency does not	WSMC has finally received a response regarding the percentage of state funds included in the Seasonal Child Care funding. We have now been able to identify and record $377,291 in state funds (through the Seasonal Child Care program) that was used to extend the service day to Migrant Head Start eligible children for fiscal year ending 11/30/98. This amount is being processed and will bring WSMC MHS into compliance with the non federal share requirement for Program Year 97/98. WSMC will develop a non federal share	Migrant Head Start Director Director of	Director of Administration and Management In-Kind	November 30, 1999 March 1, 2,000	Non Federal Share documents Washington State Auditor's Report Program year 1997/98 attendance information and children's rosters. Non Federal Share