

February 2005

HEAD START

Comprehensive Approach to Identifying and Addressing Risks Could Help Prevent Grantee Financial Management Weaknesses





Highlights of [GAO-05-176](#), a report to congressional requesters

Why GAO Did This Study

In fiscal year 2004, Congress appropriated \$6.8 billion to serve 919,000 poor children through 1,680 Head Start grantees nationwide. Recent reports of financial improprieties at a number of Head Start programs raised questions about the effectiveness of the oversight by the Department of Health and Human Services' (HHS) Administration for Children and Families (ACF) in identifying and resolving financial management weaknesses in Head Start grantees. In this report, GAO provides information on whether (1) ACF can consistently identify financial management weaknesses, if any, in Head Start grantees and (2) ACF ensures that grantees effectively resolve any problems, in a timely manner, when detected.

What GAO Recommends

To improve oversight of Head Start grantees, GAO recommends that the Assistant Secretary for Children and Families develop a comprehensive risk assessment of the Head Start program and improve the processes it currently uses to collect information on program risks. ACF agreed with the recommendations. GAO also recommends that, once ACF makes the improvements, it should make greater use of its authority to seek competition in communities that are currently served by poorly performing grantees. ACF raised concerns about our interpretation of its authority to do so; therefore, Congress may wish to consider clarifying its intent on this matter.

www.gao.gov/cgi-bin/getrpt?GAO-05-176.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Marrie Shaul at (202) 512-7215 or shaulm@gao.gov.

HEAD START

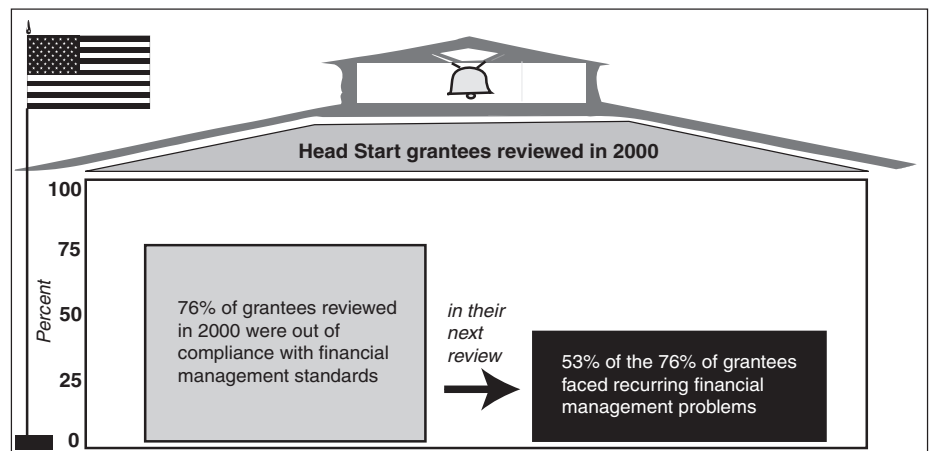
Comprehensive Approach to Identifying and Addressing Risks Could Help Prevent Grantee Financial Management Weaknesses

What GAO Found

While ACF uses many processes to collect and analyze information on Head Start grantees, it has not designed its processes and integrated this information to consistently identify Head Start grantees' financial management weaknesses. For example, ACF has not developed a comprehensive risk assessment to identify weaknesses that could limit the program's ability to achieve its objectives. Furthermore, ACF has no process in place to ensure that its on-site reviews are conducted in accordance with the framework it has designed to assess grantee compliance with program and financial management requirements. Moreover, financial reports and audits are not effectively used in day-to-day monitoring activities to identify high-risk grantees and resolve their problems.

Head Start grantees who were judged out of compliance in a review by ACF in 2000 with one or more of the program's financial management standards were about as likely to remain out of compliance as attain full compliance over the succeeding 3 years. ACF's failure to ensure that more grantees promptly resolve such problems creates opportunities for financial losses or instability that affect services to children and families. After working with one grantee to correct severe financial management problems for 3 years—including failure to account for over \$400,000 in grant funds that were not spent on Head Start services to children and their families—ACF notified the organization that it no longer would receive funding. While ACF may terminate grantees with serious financial weaknesses such as recurring failure to comply with federal management standards, this process is rarely used: ACF most often encourages grantees to voluntarily relinquish their grants. In a small number of cases, ACF must proceed with formal termination, which can be difficult and lengthy owing, in part, to grantees' right to continued funding during its appeal, regardless of merit, and their ability to finance appeals with grant funds.

High Incidence of Continued Noncompliance with Head Start Standards among Grantees Reviewed by ACF in 2000



Source: GAO analysis of PRISM data. Graphics in part by Art Explosion.

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Abbreviations

ACF	Administration for Children and Families
ACYF	Administration on Children, Youth, and Families
FBI	Federal Bureau of Investigation
FMFIA	Federal Managers' Financial Integrity Act
HHS	Department of Health and Human Services
IG	Inspector General
NEAR	National External Audit Review Center
OMB	Office of Management and Budget
PIR	Program Information Reports
PMS	Payment Management System
PRISM	Program Review Instrument for Systems Monitoring
TANF	Temporary Assistance for Needy Families

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United States Government Accountability Office
Washington, DC 20548

February 28, 2005

Congressional Requesters

Recent reports of financial improprieties at a number of Head Start programs around the country raised questions about the effectiveness of the Department of Health and Human Services' (HHS) oversight of Head Start grantees. Head Start is one of the largest federal early childhood programs, providing grants to local organizations to give preschool education and other supplemental services to poor children and their families. In fiscal year 2004, the Congress appropriated \$6.8 billion to serve 919,000 poor children through 1,680 Head Start grantees nationwide. HHS's Administration for Children and Families (ACF) administers the Head Start program through its network of regional offices. Head Start was last reauthorized in 1998 for fiscal years 1999 through 2003; it received appropriations in 2004 and 2005 to fund the program and it is currently scheduled for reauthorization.

Unresolved financial management weaknesses among Head Start grantees can reduce the quality or amount of services that are provided to children or result in a grantee's services being discontinued. Recently, some concerns have been expressed that the lack of reliable information on the financial integrity of Head Start grantees leaves little assurance that all the children the program is funded to serve are receiving the "head start" they deserve. In this report, we are providing information on (1) whether ACF can consistently identify financial management weaknesses, if any, in Head Start grantees and (2) whether ACF ensures that grantees effectively resolve any problems in a timely manner when they are detected.

To assess whether ACF can consistently identify financial management weaknesses, we reviewed and analyzed relevant agency documentation of the processes used to oversee Head Start grantees' financial management practices. To guide our work we used the Office of Management and Budget's (OMB) Circular A-123: Management Accountability and Control and our own Standards for Internal Control in the Federal Government as a basis to collect and analyze information on ACF's oversight structure for the Head Start Program. We interviewed senior Head Start and ACF officials in Washington, D.C., and four of ACF's 10 regional offices—Philadelphia, Pa. (Region III); Atlanta, Ga. (Region IV); Chicago, Ill. (Region V); and Dallas, Tex. (Region VI), which collectively administer

more than 50 percent of all Head Start funds and oversee more than 50 percent of the nation's Head Start grantees. These 4 ACF regional offices are among the nation's 5 largest in terms of total Head Start funding and funded enrollment. During each of our regional office visits we met with senior Head Start officials and regional office management to obtain their views on the strengths and weaknesses of the different processes used to oversee Head Start grantees. We also conducted interviews by telephone with Head Start officials and senior management from the six other ACF regional offices. To learn how ACF ensures that grantees effectively resolve their financial management problems, we reviewed ACF data on the reviews that it conducts of its Head Start grantees at least every three years and the Federal Audit Clearinghouse—a federal database that contains summary information on each of the grantee's annual audits. Based on this review we selected 55 grantees with known financial management weaknesses in the four regional offices and reviewed the regional offices' files on these grantees for the period 2001 through 2004 to follow the use of audit findings and actions related to the grantees' weaknesses. We also met with program and financial specialists who work with Head Start grantees in each of the four regional offices we visited. Finally, for all grantees ACF reviewed from 2000 through 2003, we examined patterns of results from those reviews in areas related to financial management. Furthermore, we tested the reliability of two data sets—Head Start's Program Review Instrument for Systems Monitoring (PRISM) and Head Start's Program Information Reports (PIR)—and found the PRISM data set to be sufficiently reliable for our purposes. Our tests identified some concerns about the reliability of the PIR database that we discuss more fully in this report. For additional details about our scope and methodology, see appendix I. Our work was conducted from January through December 2004 in accordance with generally accepted government auditing standards.

Results in Brief

Although ACF uses many processes to collect and analyze information on grantee financial management—such as on-site reviews, annual surveys of grantees, and reviews of financial reports and audits—ACF has not designed its processes or consistently used the findings from the existing processes to assess overall program risks. Such an assessment is an important step in identifying and addressing weaknesses that limit the program's ability to achieve its objectives. Moreover, the processes ACF uses to collect data on grantee financial management performance have significant flaws. For example, we found that ACF has no process in place to ensure that its reviewers consistently follow the standards for on-site reviews, lacks procedures to independently verify information from

grantee surveys, and makes limited use of financial reports and financial audits to identify high-risk grantees. ACF recently began to train its reviewers and certify that they have the skills they need to assess grantee compliance with the program's rules; however, the limited scope of the training and failure to conduct verification of the reviewers' credentials may limit the benefits of these new initiatives. With respect to financial reports, actual cash withdrawals are not routinely reconciled with the grantees' reported expenditures in a timely manner. As a result, unchecked problems may worsen. Although infrequent, there have been cases in which grantees have furloughed employees or temporarily closed centers—thereby disrupting services to children and their families—because they spent their grants too quickly and did not adequately manage their grants to ensure that funds were available throughout the school year. Many program specialists in ACF regional offices that we visited told us they most frequently learn that a grantee is having trouble through a call from a parent or teacher reporting a problem. Although program specialists said that such calls were a routine part of their day-to-day monitoring activities, over-reliance on this approach to identifying problems can result in missed opportunities to help grantees address management challenges before they become problems.

When ACF identifies grantees with financial management weaknesses, the agency does not consistently ensure that grantees effectively resolve problems. Lack of more aggressive action to ensure that grantees address their problems can allow weaknesses to persist that affect program services. Our analysis of the results of all of ACF's on-site reviews conducted in 2000 shows that 53 percent of the grantees identified by ACF with financial management problems were again cited in the grantee's next review. In our detailed review of the actions ACF takes to ensure that grantees address financial management problems focused on problems that were identified between 2000 and 2003, we found that in most of the 55 cases we reviewed ACF only required the grantee to self-certify that it corrected its problems and pursued no further action. One of the more aggressive approaches ACF can take to address long-standing problems is to require the grantee to develop and implement a quality improvement plan, but first ACF must declare the grantee "deficient"—a term it uses to identify grantees with severe problems. Yet, we noted inconsistencies in the process used by the regional offices to determine the severity of the problems. Some of the regional office managers we spoke with told us that they treated each case differently and largely based their decisions on their previous experiences working with the grantees, so one grantee might be deemed deficient while another, with similar problems, would not. Once a grantee is found deficient, ACF may allow it up to 1 year to

correct its problems and then must revisit the grantee. We found that ACF makes little use of its authority to replace an existing grantee that is not meeting performance or financial management requirements. When awarding new funds each year, ACF gives priority to the current grantee even if the grantee has financial management weaknesses. While ACF has the authority to terminate a grantee, this process is rarely used; ACF most often works to encourage grantees to voluntarily relinquish their grants. When ACF does turn to termination proceedings, it must continue to fund the grantee and to cover the legal costs of the grantee's appeal. Senior Head Start officials in two of ACF's regional offices we visited told us that they are reluctant to pursue terminations because the processes used to collect information to support such an action are inadequate, and the termination procedures are a drain on scarce staff resources. As a result, the process to remove a grantee that consistently fails to perform up to standards is protracted and that grantee can continue to receive funds long after financial management weaknesses have been identified. The community will frequently have no other options for Head Start services until the termination process is complete.

To address these issues and to improve oversight of the Head Start program, we are recommending that the Assistant Secretary for Children and Families develop a comprehensive risk assessment of the Head Start program and improve the processes it uses to collect information on program risks. Once these improvements have taken hold, ACF should make greater use of its authority to recompetite grants that are currently awarded to poorly performing grantees. ACF agreed with many of our recommendations to improve the oversight processes it uses to collect information on the financial management of Head Start grantees. ACF also agreed that it would explore ways to increase the accuracy of its annual survey of Head Start grantees. These improvements should go a long ways towards ensuring that those responsible for overseeing the Head Start program and its 1,680 grantees have the information they need to target oversight resources effectively and reduce the program's risks. ACF did not, however, directly address two of our recommendations that would increase the effectiveness of its oversight processes. Namely, ACF did not address our recommendation to more comprehensively estimate the extent of improper payments nor did it address our recommendation to hold ACF regional management, staff, and contract reviewers accountable for following its own guidance when conducting on-site reviews. Finally, ACF expressed concerns about our legal interpretation of its authority to recompetite Head Start grants. Congress may wish to consider clarifying ACF's authority to recompetite grants if ACF finds that

the Head Start grantee currently serving in a community fails to meet program or financial management requirements.

Background

Started in 1965 as part of the Johnson Administration's War on Poverty, Head Start was designed to deliver comprehensive educational, social, health, nutritional, and psychological services to poor children. Head Start offers poor children below the age of school entry and their families a range of services, including preschool education, family support, health screenings, dental care, and efforts to access medical insurance. The program may either provide the services directly or facilitate access to existing services. Head Start is authorized to serve children at any age prior to compulsory school attendance. The program was originally aimed at 3- to 5-year-olds. Early Head Start, a companion program begun in 1994, focuses on making these services available to children from birth to 3 years of age and to pregnant women.

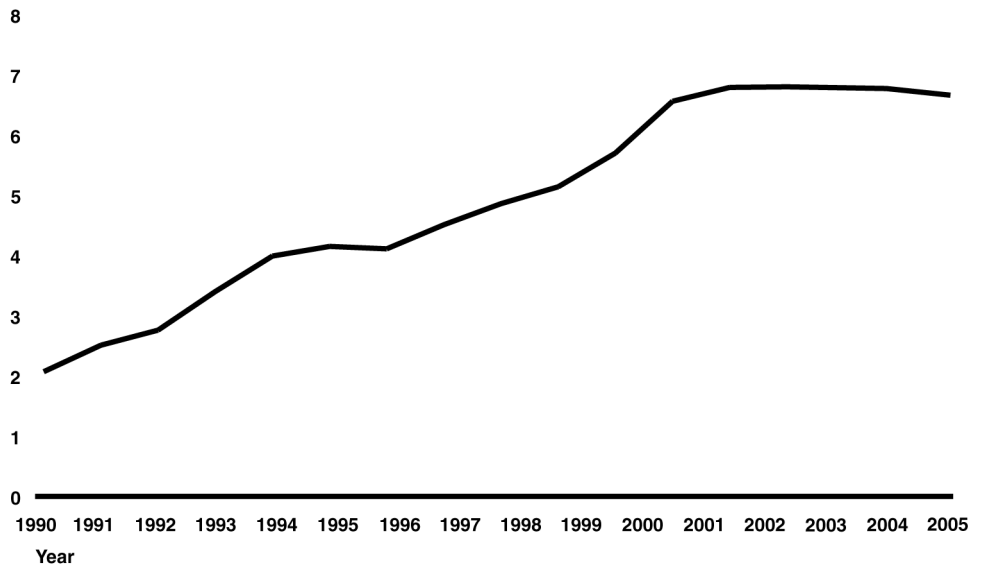
Head Start Grantees, Funding, and Eligibility

The federal government makes Head Start grants directly to nearly 1,700 local organizations, including community action agencies, school systems, for-profit and nonprofit organizations, other government agencies, and tribal governments or associations. Many Head Start grantees provide services by subcontracting with other organizations, known as delegate agencies.

To accomplish Head Start's goals, the Congress provided \$6.9 billion in federal funds for fiscal year 2005. In addition, Head Start grantees must match the federal grant with 20 percent of their own funds which can include in-kind contributions, local or state funds, and donations. Federal appropriations for Head Start increased threefold, in real terms, during the 1990s. While federal funds have not grown as quickly from 2000 to 2005 as they did in the 1990s, funding has kept pace with inflation. (See fig. 1.)

Figure 1: Federal Head Start Funding (Fiscal Years 1990-2005)

Appropriation (billions of inflation-adjusted dollars)



Source: GAO analysis of data from Head Start and House Report 108-792.

Head Start funds are allotted among the states based on their 1998 allocation and, for funds exceeding that amount, by a formula based on the number of children in each state under the age of 5 from families whose income is below the federal poverty level.¹ Head Start regulations require that at least 90 percent of the children enrolled in Head Start come from families with incomes at or below the federal poverty level, from families receiving public assistance, or from families caring for a foster child. Grantees may fill up to 10 percent of their slots with children from families that exceed the federal poverty level.

Grants Management

The Head Start program is one of more than 1,000 federally funded grant programs. Each of these programs has specific objectives and all rely on third parties—states, local governments, and not-for-profit organizations—to provide direct services to eligible beneficiaries. Federal grants have

¹For 2003, the federal poverty line for a family of four was \$18,400 within the 48 contiguous states and the District of Columbia. In Alaska and Hawaii, the guidelines were \$23,000 and \$21,160, respectively. The poverty guidelines are updated periodically in the *Federal Register*, by the U.S. Department of Health and Human Services under the authority of 42 U.S.C. 9902(2).

historically served as vehicles through which the federal government attempted to achieve a variety of national goals by providing funding to other levels of government to carry out specific federal policies. In particular, economists have cited the role federal grants play in encouraging state and local governments to provide more of the public goods and services deemed beneficial from a national, rather than a purely local, perspective.²

While funding third parties through grants provides many benefits to federal policymakers, the limited federal role in providing services creates challenges as well. Decades of research on federal grants and our own work have identified management and oversight challenges that federal agencies must work to overcome to ensure that their grant programs are operating effectively and are succeeding in meeting their goals. For example, we have reported in our series of reports on Major Management Challenges and Program Risks that HHS's ability to ensure financial accountability was hampered by weaknesses in key financial processes, including financial analysis, reporting, and grant accounting.³ Since the federal government relies on third parties to work directly with program beneficiaries, these management challenges stem, in part, from the limited federal role in grant programs: setting national goals and objectives, identifying qualified grantees, providing funds to grantees that agree to use the funds in accordance with federal laws and regulations, and monitoring the grantees' compliance with those conditions.

All recipients of federal grant funds must periodically report on their expenditures of federal funds, and every federal grantee that spends more than \$500,000 in federal funds each year must obtain an audit of its financial statement that includes verification of compliance with federal

²See GAO, *Federal Grants: Design Improvements Could Help Federal Resources Go Further*, [GAO/AIMD-97-7](#) (Washington, D.C.: Dec. 18, 1996), 36.

³GAO, *Major Challenges and Program Risks: Department of Health and Human Services*, [GAO-03-101](#) (Washington, D.C.: Jan. 2003).

rules.⁴ In addition, each grant program has specific rules. For example, Head Start has eligibility rules based on family income to target federal Head Start funds to those children in greatest need. The auditor need not check that every rule is followed in every instance; instead, the auditor checks if the grantee has a system of plans, methods, or procedures in place that would allow employees to prevent or detect problems in the normal course of their assigned duties. Federal agencies are required to have a similar system of internal controls in place to improve the accountability and effectiveness of federal programs and operations. Among other things, these systems should include the establishment of processes to collect information on grantee performance.

GAO's Internal Control Framework

Internal controls help government program managers achieve desired results through effective stewardship of public resources. Internal controls comprise the plans, methods, and procedures used to meet missions, goals, and objectives and, in doing so, support performance-based management. Internal controls also help managers safeguard assets and prevent and detect errors and fraud. Internal controls provide reasonable assurance that an organization achieves its objectives of (1) effective and efficient operations, (2) reliable financial reporting, and (3) compliance with laws and regulations.

Our publication, *Standards for Internal Control in the Federal Government*, provides a road map for entities to establish control for all aspects of their operations and a basis against which entities can evaluate their control structures. Also, our publication, *Executive Guide: Strategies to Manage Improper Payments: Learning from Public and Private Sector Organizations*, focuses on the internal control standards as they relate to

⁴These audits are conducted under OMB Circular A-133 and the Single Audit Act (31 U.S.C. §§ 7501-7507). Under the act and implementing guidance, independent auditors audit federal awards to state and local governments and nonprofit organizations to assess compliance with federal financial requirements, including those for Head Start. Organizations are required to have single audits if they spent at least \$300,000 in federal funds for fiscal years before December 31, 2003, and \$500,000 for years after. The single audit focuses audit resources on the grantees' internal controls which cover an entity's operations and financial reporting for all its federal awards. In addressing compliance issues, the single audit may only review provisions of laws and regulations that have a direct and material effect governing selected grant awards.

reducing improper payments—a focus of ongoing concern in Head Start and other programs for which ACF has oversight responsibility.⁵

The five components of internal controls are:

- Control environment—creating a culture of accountability within the entire organization—program offices, financial services, and regional offices—by establishing a positive and supportive attitude toward the achievement of established program outcomes.
- Risk assessment—identifying and analyzing relevant problems that might prevent the program from achieving its objectives. Developing processes that can be used to form a basis for measuring actual or potential effects of these problems and manage their risks.
- Control activities—establishing and implementing oversight processes to address risk areas and help ensure that management’s decisions—especially about how to measure and manage risks—are carried out and program objectives are met.
- Information and communication—using and sharing relevant, reliable, and timely information on program-specific and general financial risks. Such information surfaces as a result of the processes—or control activities—used to measure and address risks.
- Monitoring—tracking improvement initiatives over time and identifying additional actions needed to further improve program efficiency and effectiveness.

Through the implementation of these five internal control components, agencies can help ensure compliance with financial management requirements and strengthen program accountability.

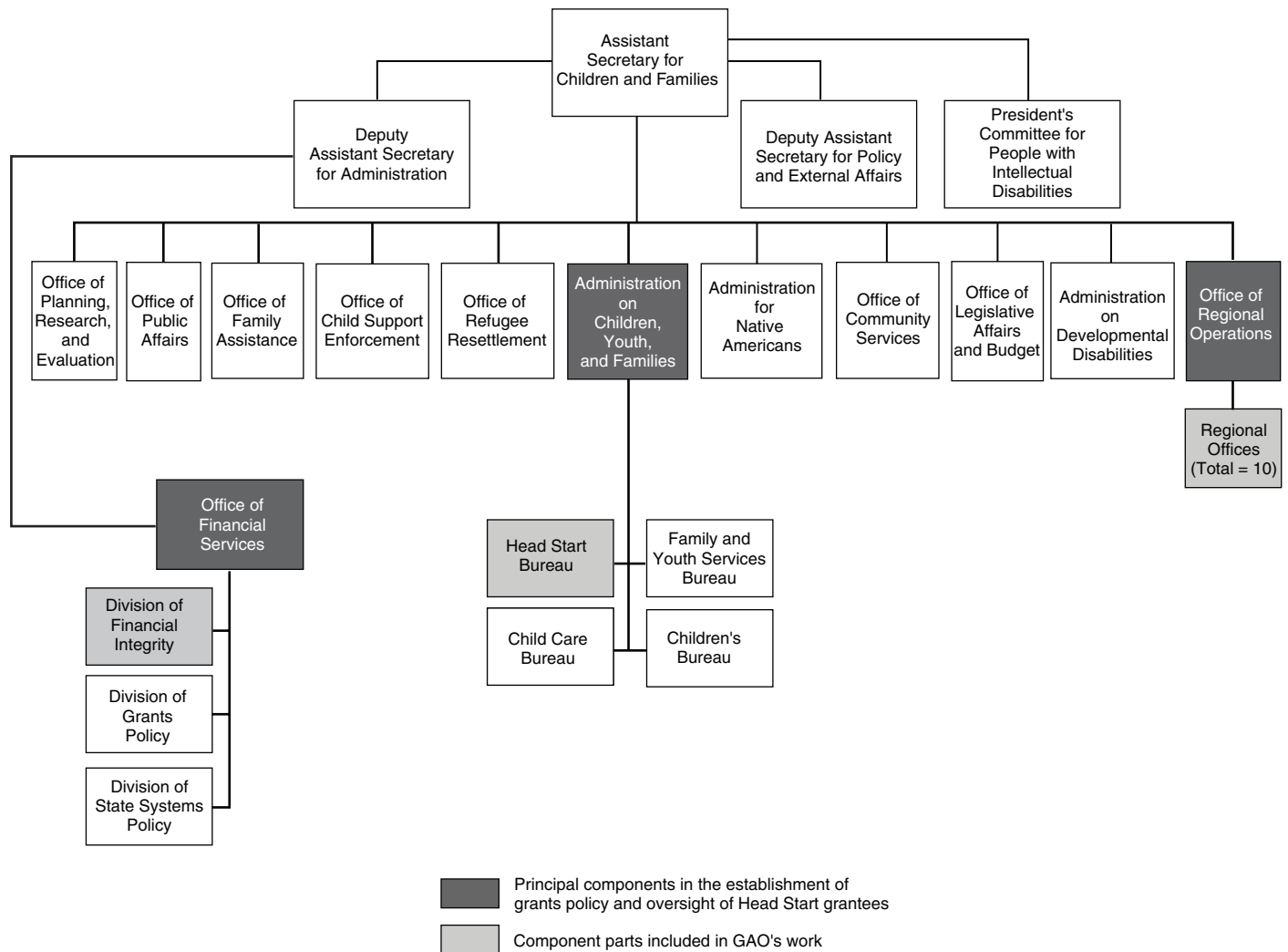
ACF’s Organizational Structure and Oversight Processes

ACF is responsible for federal programs that promote the economic and social well-being of families, children, individuals, and communities—such as the Temporary Assistance for Needy Families (TANF) program, the Child Care and Development Block Grant, and Adoption Assistance programs. ACF administers the Head Start program by awarding grants to nearly 1,700 grantees nationwide each year. The Head Start Bureau, a

⁵For more information on internal controls, see [GAO-02-69G](#) and [GAO/AIMD-00-21.3.1](#).

program office within ACF's Administration on Children, Youth, and Families (ACYF), develops program policy and designs the program-specific oversight processes. Other offices within ACF also play key roles in overseeing Head Start grantees. For example, ACF's Office of Financial Services develops and provides guidance on general grants management issues such as financial reporting processes for all ACF programs. ACF's 10 regional offices, operating through ACF's Office of Regional Operations, implement most of the oversight processes prescribed by the various program offices—such as the Head Start Bureau—and the Office of Financial Services. (See fig. 2.)

Figure 2: ACF Organizational Chart



Source: GAO analysis of ACF information.

ACF has a number of processes it uses to collect information on grantee performance and financial management. The Head Start Act mandates that each grantee and delegate be assessed at least once every 3 years to ensure compliance with Head Start's performance standards. The Head Start Bureau develops the protocols for these assessments—the Program Review Instrument for Systems Monitoring (PRISM) Guide. The Head Start

Bureau estimates that about 700 reviews are conducted each year—covering about one-third of all grantees and selected delegate agencies. During these on-site reviews, a team of reviewers assesses whether the Head Start program is in compliance with statutory, regulatory, and policy requirements. The Head Start Act specifies that, whenever possible, these teams should be led by an employee of HHS who is knowledgeable about the Head Start program. In most cases, these teams are lead by staff from ACF's regional offices. The act also specifies that the rest of the team be knowledgeable about Head Start programs and, whenever possible, be knowledgeable about the diverse needs of eligible children and their families. Head Start has more than 2,600 reviewers on contract that it sends out on week-long trips to visit grantees and conduct reviews. Many of the reviewers that ACF contracts to take part in PRISM reviews are employees of Head Start programs throughout the country. The size of each review team and the expertise of the various members of the team depends on the complexity of the issues anticipated at each grantee.

Another key process ACF uses to monitor grantees is the annual survey of grantees, or the Program Information Reports (PIR). PIR is the only source of national data on Head Start programs. PIR data describe important program characteristics that may provide information for assessing risks to program finances or specific program objectives, such as:

- the different program designs and staffing patterns;
- the funded and actual enrollment of children (and pregnant women in Early Head Start programs with children ages 0 to 3);
- the number and types of health, education, disability, and family services delivered to enrolled children and families; and
- the demographic, social, and other characteristics of the Head Start and Early Head Start children and families served.

ACF also uses its reviews of financial reports and audits to monitor grantees. ACF requires Head Start grantees to report on their expenditures of federal funds once every 6 months. These financial reports are standard reporting forms for all federal grantees and, as such, do not include great detail on how a grantee spent its Head Start funds. The reports identify how much the grantee has spent and how much is left unspent. In addition, Head Start grantees' withdrawals are recorded in the Payment

Management System (PMS)⁶ and made available for review by ACF staff monitoring grants. Grantees' Single Audits must be completed within 9 months of the end of the grantees' fiscal year. Table 1 summarizes ACF's key oversight processes.

Table 1: ACF's Oversight Processes for Monitoring Grantees' Financial Management

Monitoring process	Required frequency	Purpose and description
On-site review (PRISM)	Triennial	To determine whether a grantee meets standards established in the Head Start Act, including those related to financial management, teams of federal staff and contracted consultants' conduct a weeklong, on-site review using a structured guide known as the Program Review Instrument for Systems Monitoring (PRISM).
Survey of grantees (PIR)	Annual	To provide management information to the Bureau and policymakers, all programs (grantees and delegates) are mandated by federal regulations to submit performance data, including key financial measures such as enrollment and teacher salary ranges. Grantees report these data through a survey known as the Program Information Report (PIR).
Review of financial reports	Semiannual	To account for use of grant funds, all grantees must submit semiannual reports on the status and use of their federal funds.
Review of audits	Annual	To ensure that federal grantees' financial statements are accurate, that they have adequate controls in place to protect federal funds, and that they are in compliance with key regulations, under the Single Audit Act all grantees must obtain an annual audit of their financial statements and compliance with selected federal laws and regulations.
Day-to-day contacts with grantees	Variable	To assist Head Start programs, program specialists in ACF regional offices respond to grantee queries and other calls from grantee staff, parents, and others with an interest in their local Head Start programs.
Renewal application	Annual	To provide information to support determination of the grantee's future funding level, grantees are required to submit renewal applications each year to the ACF regional office.

Source: GAO analysis.

⁶The Payment Management System is a fully automated cash management system that is designed to receive payment requests from grantees, edit them for accuracy, transmit the payment to the grantee's bank account, and record the payment transactions and corresponding disbursements in the appropriate account. PMS is operated out of HHS's Division of Payment Management and is used by HHS agencies (including ACF) and other federal departments and agencies.

ACF Lacks a Comprehensive Strategy to Assess Head Start Risks

ACF uses many processes to collect information on grantee performance—including financial management performance—but does not bring together this information to comprehensively assess the program’s risks and identify areas where it might need new or improved processes to collect key information. A comprehensive risk assessment is an important step in identifying and addressing weaknesses that might limit the program’s ability to achieve its objectives. In a sign of their willingness to improve their own processes, during the course of our review, staff from ACF’s Head Start Bureau expressed an interest in incorporating a risk assessment strategy into the financial segment of the PRISM review process, and such actions were taken during our review. ACF has acted less effectively to elevate the risk assessment strategy to its own operations, such as grants management in its regional offices. Although ACF collects information that would be useful in assessing Head Start’s risks, we found that many of its monitoring processes have flaws that limit the reliability and usefulness of the information collected. Improving the reliability of the information it collects may help ACF identify financial management weaknesses in its grantees sooner.

ACF Has Engaged in Limited Analysis of Financial Risks to Head Start

Many of the efforts that ACF makes, through its component organizations, to collect information and assess program risks are poorly integrated. While we identified a number of risk assessment activities throughout ACF, we could not identify any effort to bring the various monitoring processes together and make a comprehensive assessment of Head Start’s risks—including financial management risks. All federal grant programs, including Head Start, face some risks from grantees that might fail to comply with program-specific requirements, such as Head Start’s income eligibility and enrollment restrictions. Other risks stem from failing to comply with general grants management requirements such as failure to develop cost allocation strategies to ensure that grantees spend federal funds on program beneficiaries and not on excessive overhead costs or other purposes.

Program-Specific Risk Assessments

In May 2004, the Head Start Bureau announced a new initiative focusing on increasing accountability in Head Start. But, this effort—ACF’s Head Start Management Initiative—targets risks that were identified externally—in our recent reports, news articles, and congressional inquiries—and does not represent a comprehensive, proactive effort. The Initiative focuses on four risks: underenrollment, improper payments, failure to comply with program regulations, and excessive executive and administrative personnel compensation. To address these risks, ACF plans to strengthen on-site monitoring and develop an online management

information system to track enrollment, fiscal, and programmatic data. Though these efforts are key first steps, ACF officials say they will be implemented in 2005, and it is too early to assess their effectiveness. However, the Initiative does not address other risks such as failures of board governance, which a senior Head Start official cited as a problem for most grantees with serious or persistent problems. The Head Start Bureau has offered governance training for Head Start program board members in (1) their fiduciary responsibilities, (2) their liability as board members if problems arise, and (3) effective board operations. ACF said that it is the responsibility of each grantee to train the members of its boards. ACF provided training on governance issues via satellite broadcast in September 2004 and ACF also said it made one-time training funds available to support such training needs.

Until recently, ACF had not collected information that it could use to estimate the extent of improper payments and recent efforts have been limited in scope. ACF has recently collected data on the extent to which grantees may be enrolling children from families that exceed the program's income eligibility guidelines—a program risk because many eligible children may not have access to the services they deserve. However, ACF's implementation of a governmentwide effort to reduce the risk of improper payments has focused solely on measuring the risks that payments were made to grantees that enrolled too many children from families that did not meet the income eligibility requirements. ACF's approach has excluded improper payments that might be made for other purposes such as payments for unallowable program activities, improper payments to contractors, payments to grantees whose programs are significantly under-enrolled, and other unauthorized payments. To estimate the extent of improper Head Start payments owing to enrollment of income-ineligible families, ACF sampled 50 grantees and—projecting this sample to the program as a whole—found that about 4 percent of the families served by the program should not have been allowed to participate in the program. While ACF plans to continue to monitor this risk of improper payments by sampling grantees each year, it does not have plans to identify and estimate risks brought about by other types of improper payments.

Grants Management Risk Assessments

ACF relies on each of its regional offices to assess grant management risks in their own operations; but ACF has not recently conducted an independent compliance review, which is important to ensure that grants policies are followed and ACF's financial interests are protected. The Federal Managers' Financial Integrity Act (FMFIA) requires federal agencies to conduct self-assessments to ensure that their internal controls

are adequately maintained and evaluated. As part of its self-assessment, each regional office reports on weaknesses it identified each year, efforts to correct previously identified weaknesses, and potential material weaknesses that represent broader threats to ACF's operations as a whole.⁷ For example, one region reported its Head Start property grant files did not contain complete, permanent records on all real property acquired or renovated with Head Start funds—a problem also identified in a HHS Inspector General (IG) report as early as 1996.⁸ Both the IG and the regional office reports said that as a consequence ACF was unable to protect federal interests in facilities acquired or renovated with Head Start funds. Although in its next FMFIA self-assessment the region reported that it was making progress addressing those risks and expected to complete rebuilding the files by March 2005, ACF told us in its comments on a draft of this report that it currently expected that this project would not be complete until September 2005.

While the FMFIA self-assessments enable the regional offices to focus on some grants-management risks, periodic independent compliance reviews are also key to ensuring that the regional offices follow ACF's own oversight processes. As part of HHS's Balanced Scorecard Initiative,⁹ ACF reported in 2000 that some grants management offices received late reports from grantees, did not have systems in place to monitor grantee funds to identify excessive drawdowns, and might not be accounting for grant funds in a timely manner. The scorecard report recommended that ACF consider conducting formal compliance reviews of ACF regional offices to identify risks and correct any grants management problems. Officials with ACF's Office of Administration said that constraints on staffing and travel funds have prevented them from conducting any

⁷A material weakness is a condition in which the design or operation of one or more internal control components—or monitoring processes—does not reduce to a relatively low level the risk that any noncompliance would be material and not be detected within a timely period by employees in the normal course of performing their assigned duties.

⁸Department of Health and Human Services, Office of Inspector General, Review of Facility Purchases by the Head Start Program during Fiscal Years 1993 and 1994 (A-09-94-00085) (Washington, D.C.: 1996).

⁹HHS's Balanced Scorecard initiative seeks to improve its management activities by measuring its performance, making improvements, and assessing how well the organization is positioned to perform in the future. The balanced scorecard is a private-sector concept introduced by Robert Kaplan and David Norton in 1992 to assess organizational performance and is used by several federal agencies.

compliance reviews to ensure that regional offices staff follow ACF's oversight processes.

ACF Has Multiple Processes to Oversee Grantees' Financial Management, but Each Has Weaknesses

ACF's main processes for collecting information on the financial management of Head Start grantees—on-site reviews, annual grantee surveys, and analyses of financial reports and audits—could form the foundation for systematically collecting and analyzing grantee information, but we found flaws in each method that limit the value of the information collected.

Lack of Effective Evaluation of On-Site Reviews

Although ACF has made some progress in improving its on-site reviews, we found that it has no process to ensure that the review teams follow the Head Start Bureau's guidance or that managers and staff in ACF regional offices are held accountable for the quality of the reviews. PRISM reviews are ACF's primary tool to assess whether grantees are in compliance with statutory and regulatory requirements. Since the last time we reported on the on-site review process in 1998,¹⁰ ACF has made substantial revisions to its PRISM guide, which now focuses on three elements of a successful Head Start program: Child Development and Health Services, Family and Community Partnerships, and Program Design. Financial management issues are addressed under the Program Design component. The effectiveness of the PRISM review in systematically identifying grantees with financial management weaknesses depends on some assurance that PRISM is implemented as designed and the team members who are conducting the reviews have the skills they need to assess grantee compliance with the Head Start performance standards.

There is evidence that some reviewers may not follow PRISM guidelines and, as a result, some grantees are not reviewed as rigorously as others. In 2003 and 2004, the Head Start Bureau re-reviewed 5 grantees after the initial PRISM reviews, which was conducted by regional office staff and contract reviewers, found few problems. In each case, the subsequent review, which was led by reviewers selected by the Head Start Bureau, found that each grantee was out of compliance with many Head Start performance standards. Head Start regional managers said the reviewers selected by the Head Start Bureau were more skilled and that they

¹⁰GAO, *Head Start: Challenges in Monitoring Program Quality and Demonstrating Results*, [GAO/HEHS-98-186](#) (Washington, D.C.: June 30, 1998).

followed the PRISM guidelines more closely than the teams of reviewers lead by the regional office staff.

In addition, different review teams reported different findings for the same grantees. For example, to limit disruption to Head Start grantees, ACF's team reviewing improper payments accompanied PRISM reviewers in 2004 and conducted their review of the grantees' eligibility and recruitment systems simultaneously. In its sample of 50 grantees, ACF's improper payments reviewers found that 42 percent (21 grantees) failed to meet the program's income eligibility requirement. However, the PRISM teams that were supposed to have reviewed the children's files at the same grantees and at the same time, found only 3 grantees—of the same 50 reviewed in the sample—out of compliance with the income eligibility requirements. Both sets of reviewers should have come to the same conclusions as both assessed compliance with the same standard.

It is unclear whether the failure to reach similar conclusions in these specific cases was the result of poor training, lack of skills, or other causes. The Head Start Bureau has raised concerns about the lack of independence of PRISM review team leaders, who are employees of ACF's regional office with responsibility for the Head Start programs in their region. Until 2001, the PRISM reviews were led by the same employee responsible for the day-to-day communications with that grantee. In 2001, the Head Start Bureau asked that ACF regional office staff not lead the reviews on grantees that they work with on a regular basis.

ACF's new team leader policy is intended to help ensure that the results of the review are independent and credible but, as the examples noted above illustrate, there are still concerns about whether the PRISM teams are rigorously applying the PRISM framework to achieve a thorough and reliable result. Although regional office staff no longer lead reviews for grantees for which they have day-to-day oversight responsibilities, the way many regional offices implement the PRISM process may still affect the independence—and, therefore, the credibility—of the PRISM reviews. Once the review team has returned from its on-site visit, the regional office management team responsible for working with those grantees on a day-to-day basis reviews the findings of the PRISM team and prepares the PRISM report. This management team makes the determination regarding the status of the grantee and any corrective actions the grantee needs to take to address problems identified in the review.

Regional office staff we spoke with told us that the contractors on their teams were ill-prepared and lacked the knowledge necessary to conduct a

PRISM review. The Head Start Bureau has the responsibility for identifying and training qualified reviewers to conduct the reviews.¹¹ In 2004, Head Start embarked on an effort to begin training the members of its reviewer pool. They began the effort by training fiscal reviewers because they said this was the area of PRISM that had the greatest and most immediate need. In October 2004, Head Start trained about 400 fiscal reviewers in a 2-day session on a new fiscal management checklist to prepare them for the 2005 reviews. While there was no assessment at the end of the training, Head Start plans to require that more experienced fiscal reviewers accompany new reviewers during their first few PRISM reviews. In August 2004, the Head Start Bureau also provided a 2-day training course for nearly all its reviewers that focus on program design and management issues—a critical area that senior Head Start officials said needs more attention.

It is unclear whether this training on the PRISM process alone will adequately equip those responsible for assessing the management of the Head Start grantees. ACF may need to seek greater assurances that its reviewers have the skills and knowledge they need to apply the PRISM process to the circumstances at every grantee they review. In 2004, the Head Start Bureau began to develop qualifications for PRISM reviewers and began asking the reviewers to provide a list of their qualifications. Head Start officials said that the first set of qualifications they developed were for fiscal reviewers. The new qualifications include a bachelor's degree or higher in accounting—or other business-related degree—and experience with the Head Start program and federal grants management. According to officials responsible for overseeing contractor recruitment, they do not check reviewers' credentials or references. The lack of verification of the reviewers' qualifications and the limited scope of any training provided to these reviewers may present challenges, especially as the Bureau tries to implement PRISM's new fiscal management checklists.

The Head Start Bureau also implemented two new procedures to support improvements on PRISM reviews. First, contracted team members are encouraged to evaluate each others' performance during the PRISM review. Head Start Bureau officials said they plan to use the assessments

¹¹The Head Start Act requires that whenever possible the review teams are lead by HHS staff familiar with the Head Start program—PRISM team leaders are usually ACF regional office staff that work on the Head Start program. In October 2004, the Head Start Bureau provided regional office staff that will lead PRISM reviews in 2005 with a half-day training course via video conference on recent changes to the PRISM guide for 2005.

Lack of Procedures to
Independently Verify the
Accuracy of Grantee
Performance Data

of the contracted PRISM reviewers to determine future training needs and to evaluate whether poorly rated reviewers should continue to participate in PRISM reviews. However, there is no process to evaluate the federal team leader's performance. Second, in 2002 the Head Start Bureau began to critique final PRISM reports to ensure that the reports were issued within 45 days of the PRISM review and to improve the quality of the evidence that supported the findings. For example, a finding of noncompliance with a regulation should be supported by two forms of corroborating evidence.

These two procedures may help Head Start improve the quality of the PRISM reviews and the written reports, but neither provides the independent verification needed to ensure that all reviewers consistently follow the PRISM guidelines. There is no procedure to independently—and systematically—verify the quality of the review nor whether the team of reviewers rigorously followed the framework. The Director of ACF's Regional Operations expressed reluctance to solicit feedback on the team leaders' performance from nonfederal contract workers. However, one of ACF's regional office administrators said that she would welcome such information. According to this administrator, the Head Start Bureau does not provide the regional offices with information on the PRISM reviews that they can use to compare their staff's performance with staff in other regional offices.

ACF surveys all grantees annually to measure key aspects of the program's performance nationally, but does not independently verify the data submitted by the grantees. The PIR survey—the only source of national data on Head Start grantees—provides the Congress, the administration, federal agencies, Head Start grantees, legislatures, state and local agencies, and the public a description of Head Start program performance in order to oversee grantee progress, manage federal resources, and develop Head Start policies. Despite its widespread use in providing the public with information on the national Head Start program and in overseeing grantees, our analysis raises significant concerns about the reliability of the data from this survey.

We found discrepancies in the database that raise questions about the accuracy of the data that grantees provided. Our December 2003 report on Head Start enrollment found that ACF does not know if grantees are fully-enrolled because the data it collects on enrollment through the PIR survey contained inaccuracies that we determined made the data unreliable for our purposes. Moreover, when ACF attempted to verify the data submitted by 75 grantees that had reported particularly higher or low enrollment, it

found that approximately half had erroneously reported their actual numbers.¹²

During the current review, we found, despite more than 700 checks for internal inconsistency, instances where the data were not internally consistent. For example, data from the 2003 survey showed that the number of Family and Community Partnership staff without degrees but in career path training vastly exceeded the total number of Family and Community Partnership staff reported in the survey. We conducted 29 tests to check for data consistency. Our tests were designed to ensure the reliability of (1) some of the more 700 tests already included in the PIR database and (2) grantee data that were not covered by PIR checks for data consistency. These tests included all three sections of the PIR database: enrollment and program operations, program staff and qualifications, and child and family services. In 18 of our 29 tests, PIR data summed to different totals than they should have, given the internal consistency checks, or contained inconsistent data that did not sum to the expected total. (See app. I for more information about our testing and analysis of the PIR database.)

ACF relies on PIR's internal consistency checks and the regional offices to ensure the accuracy of the PIR data. However, as long as the grantee reports data consistently throughout its PIR report, internal checks will not detect inaccurate data. The only way to determine whether the grantee has accurately completed its survey is to verify the data against the grantee's own records, but regional office staff have only about 6 weeks from the time they receive preliminary data until the database is finalized each year. During this time, regional office staff will work with grantees that have not finished their surveys and with grantees that have filed a survey that did not pass the internal consistency checks. Regional office staff said there is little time to verify even key data—such as enrollment and teacher qualifications—before the database is finalized and closed for further data entry.

Limited Use of Financial Reports and Audits

ACF officials do not routinely reconcile a grantee's withdrawals with its reported expenditures until after all the funds have been spent. Regional ACF staff said that such a reconciliation is difficult because the reporting format for the expenditure information is different from the format used to

¹²GAO, *Head Start: Better Data and Processes Needed to Monitor Underenrollment*, [GAO-04-17](#) (Washington, D.C.: Dec. 4, 2004).

report withdrawals. For example, Head Start grantees report aggregate expenditures every 6 months whereas information on the grantees' withdrawals is not aggregated and cannot be easily reconciled to the same time period. However, not reconciling withdrawals and expenditures more frequently impedes ACF's ability to identify grantees that might be drawing down excess funds at the beginning of the grant period and creating shortfalls at the end of the year.

Regarding audits, ACF officials cited limitations in the scope and timing of the audits as an explanation for failing to use them more systematically in their day-to-day monitoring activities.¹³ However, this explanation reflects a misunderstanding of the nature and meaning of the audit findings. For example, many Head Start grantees spend funds from a number of federal programs. While it is true that, under a single audit, a large entity that runs multiple federal grant programs might not have its Head Start grant audited every year, the auditor would focus its attention on the grantee's internal controls—the management systems it has in place to ensure that it can comply with all federal regulations—regardless of the specific programs to which they apply.

ACF regional office staff also cited lengthy delays in receipt of the audit reports as a limitation in the usefulness of the audits for oversight purposes. ACF officials told us that it can take up to 6 months from the date the audit is completed to receive the official copy of the audit report.¹⁴ As a result of these delays, regional staff told us that they wait for the next audit to verify that findings from previous audits have been corrected. To address the problems created by these delays, some regional offices ask for copies of the audits from the grantees so they can identify problems earlier, but it was not clear they had authority to do so.

In focusing on the limitations of the audits, these ACF officials may overlook some valuable information on the grantee's financial management practices. Even if an audit does not cite the Head Start program in particular, any material weaknesses in internal controls should raise concerns about the grantee's ability to manage its federal funds and

¹³We have previously reported that ACF made limited use of audit reports. See GAO, *Welfare Reform: Federal Oversight of State and Local Contracting Can Be Strengthened*, [GAO-02-661](#) (Washington, D.C.: June 11, 2002) for more information.

¹⁴Grantees are required to have their financial statements audited within 9 months after the end of their fiscal year.

should be factored into the overall assessment of the risks associated with that grantee and the impact those risks might have on the entire program.

ACF Does Not Ensure That Grantees Effectively Resolve Financial Management Problems

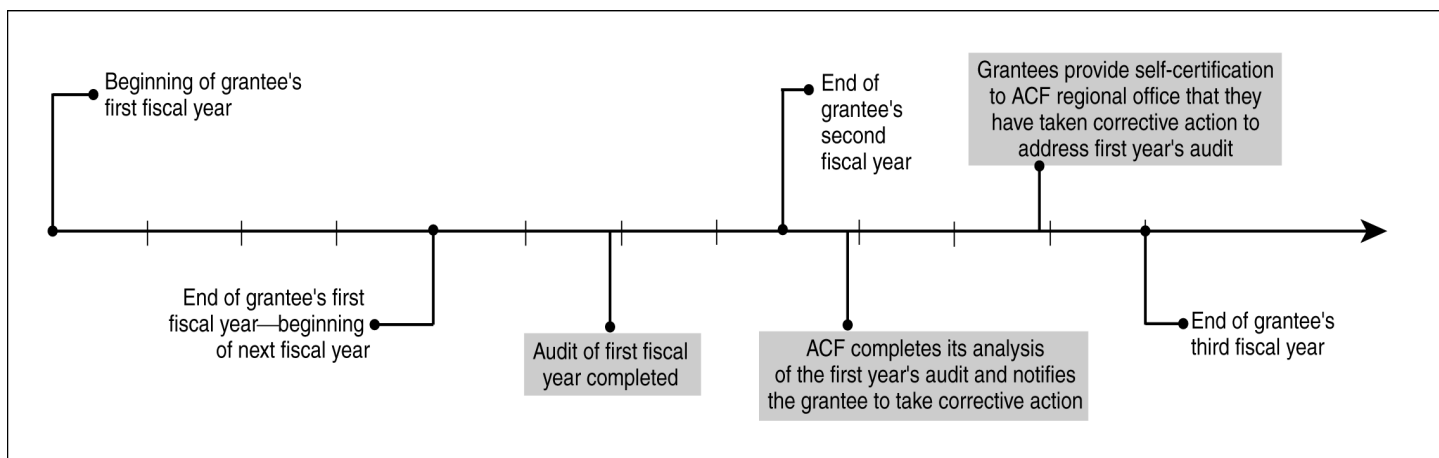
We found that longstanding financial management problems continued in many grantees even after ACF had identified their problems and cited the grantees for failing to comply with program requirements. In our review of the files of 55 grantees with financial management weaknesses and interviews with agency staff, we assessed the range of actions taken by ACF staff responsible for overseeing these grants. While our review of selected files was limited to 4 of ACF's regional offices and may not represent the entire range of actions employed nationwide by ACF officials to resolve such weaknesses,¹⁵ we found a limited use of ACF's authority to require grantees to take corrective action. We also noted inconsistencies in the process used by the regional offices to determine the severity of the grantees' problems. As a result, grantees with similar problems may be treated differently. When problems are severe, ACF may try to convince grantees to relinquish their grants in order to expedite transition to a different provider. ACF makes limited use of its authority to deny funding to problematic grantees.

ACF's Approach to Addressing Grantee Problems Does Not Resolve Many Grantees' Long-standing Management Challenges

Among the tools available to ACF to resolve grantees' problems—including self-certification, special award conditions, and site visits—ACF most commonly relied on grantees to self-certify that they had corrected any problems identified during audits or PRISM reviews. We tracked 30 audits from the date the auditor completed the audit and identified financial management weaknesses until the regional office staff considered the auditors' findings resolved. In all 30 cases, the ACF regional office asked the grantee to send a letter explaining how those findings had been resolved and did not conduct a site visit or other follow up with the grantee. Regional staff said that they do not typically visit grantees to resolve audit findings but instead rely on subsequent audits to ensure that all findings have been addressed. We found that it frequently takes up to 2 years from the point the first audit identifies a problem until the regional office receives the second audit, during which time the grantee continues to receive federal grant funds. (See fig. 3.)

¹⁵We interviewed managers in other offices who generally described similar procedures. For more information on selection criteria and our methodology, see appendix I.

Figure 3: Average Timeline for Audit Review Process for Files Reviewed



Source: GAO analysis.

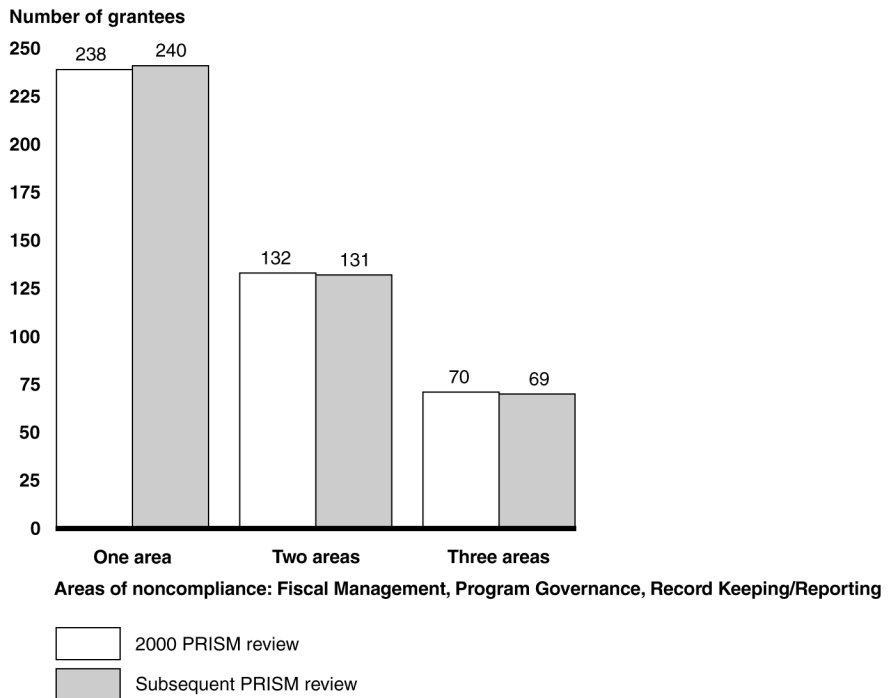
ACF rarely uses other tools, such as special award conditions, to ensure that grantees are working to correct problems. When ACF designates a grantee high-risk, it imposes more restrictive conditions (a special award condition) than normally required of grantees, such as more frequent financial reporting, or it can require the grantee to seek prior approval from the ACF program specialist before it can spend any federal funds. However, we found that the regional offices take such steps infrequently.

The third tool, site visits, is used infrequently to help grantees' resolve their financial problems. Program specialists in the regional offices cited a heavy workload as the key reason they are not able to make more frequent visits to grantees with financial management problems. As a result, many grantees are only visited by ACF officials once every three years during their regularly scheduled PRISM review. Many program specialists in ACF regional offices that we visited told us they most frequently learn that a grantee is having trouble through a call from a parent or teacher reporting a problem. Although program specialists said that such calls were a routine part of their day-to-day monitoring activities, over-reliance on this approach to identifying problems can result in missed opportunities to help grantees address management challenges before they become problems. ACF regional office managers said that program specialists with responsibility for overseeing Head Start grantees typically are responsible for about 12 grantees. Regional office managers working on Head Start programs noted concerns that future caseloads may increase as staff retire and limits on future hiring constrain their ability to replace these workers.

Our review of files showed that ACF relied most often on self-certification rather than its other tools. We reviewed the files of 34 grantees with financial management weaknesses that were identified during PRISM reviews. In 18 cases, ACF determined that the grantees' problems were not severe enough for the grantee to be deemed deficient. Of those 18 grantees, the regional office required 16 to submit letters indicating resolution had been achieved, and no further action was pursued. In the 2 cases that ACF decided to return to visit, it found that the grantees had not corrected the problems identified in the PRISM review. Because they had not corrected their problems as required by law, ACF deemed the grantees deficient and required them to develop and implement a quality improvement plan. When ACF then revisited these grantees, it verified that the problems had been corrected. It was not clear from our file review how ACF prioritized these 2 grantees for follow-up, but in revisiting these grantees ACF took an aggressive step to ensure compliance. Similar assurances that the other 16 grantees addressed their problems cannot be ascertained until they are visited again during their next PRISM review.

Despite the application of tools such as self-certification, special award conditions, and follow up visits to the grantee, our review of Head Start's PRISM databases for fiscal years 2000-2003 showed that many of the same grantees that were noncompliant with financial management standards in 2000, were noncompliant in those same areas in their subsequent reviews. The 2000 PRISM reviews identified 838 grantees (about 76 percent of all those reviewed) out of compliance with one or more financial management standards—either in fiscal management, program governance, or record keeping and reporting. Many of those grantees were cited in more than one of those three areas. The next time those same grantees were reviewed, 440—or 53 percent—were cited again for problems in those same areas. As figure 4 shows, for those 440 grantees, there was little change from one review to the next. The repeat problems could be a result of failure to correct the problems in the first place—something that might have been identified with a follow up review—or an initial correction that did not take hold. One senior official in a regional office said that many Head Start grantees will fix a problem identified in the PRISM report in the short term but fail to make lasting changes to their financial management systems. For example, a grantee might try to meet financial reporting deadlines for a few months after being cited by a PRISM review team for missing deadlines, but if the grantee did not implement a system to ensure that these reports are on time consistently, the improved performance may not be sustained.

Figure 4: Grantees with Recurring Financial Management Problems (2000-2003)



Source: GAO analysis of PRISM data.

While grantees usually self-certify the resolution of problems identified through their financial audits, when the PRISM review identifies a severe problem—deemed a deficiency—there are specific actions required by law that grantees must take to resolve the deficiency. However, we noted inconsistencies in the process used by the regional offices to determine the severity of the problems. For example, reports based on the on-site reviews for 20 of the grantees we reviewed showed similar problems in the quantity of violations and the severity of the weaknesses, but only 10 were deemed deficient by the ACF regional office. In comparing the problems cited in two grantees' PRISM reports, we noted that both had serious violations in program governance and fiscal management issues, but the ACF regional office only deemed one deficient and not the other. According to each grantee's PRISM report, the governing boards of both grantees failed to exercise their responsibilities fully, did not participate in the development of the funding applications, did not participate in developing the strategies associated with planning the grantees' program, and did not help develop the grantees' eligibility and recruitment procedures. Similarly, both grantees were cited for failing to meet a number of financial management requirements, such as comparing actual

expenditures to their budgets or ensuring that they had adequate insurance coverage. The first grantee was not found deficient and was required to correct the problems cited in its report and self-certify that all problems had been resolved. The other grantee, deemed deficient, was required to develop and implement a quality improvement plan that was monitored closely by the regional office staff throughout the next year and in a follow-up review a year later. While regional office staff and their managers in all the regional offices we visited said they meet to discuss any problems identified during the review process to determine the severity of the problems, they said they treat each case differently and largely base their decisions on their previous experiences working with the grantees. However, based on our discussion with regional office staff, we could not discern an objective pattern justifying such disparate treatment.

ACF Has Made Little Use of Authority to Fund New Grantees to Replace Poorly Performing Grantees

ACF has not made full use of its authority to identify new organizations to take over from poorly performing grantees. The Head Start Act requires that, when awarding funds for Head Start service, ACF give preference to current Head Start grantees. But, under the Head Start Act, ACF is not required to give a priority to the grantee if it determines that the grantee fails to meet program, financial management, and other requirements established by the agency.¹⁶ However, we found that ACF continues to fund a grantee—even a deficient grantee—until the grantee either relinquishes the grant or the grantee is terminated. Of the 55 files we reviewed of grantees with known financial management weaknesses, we found that in less than half (26 cases) the program specialist noted problems identified in a PRISM review or audit in deciding whether to recommend refunding the grant. In each of these 26 cases, the ACF approving officer recommended continued funding despite the problems cited in the reports. In the other 29 cases, ACF's approving officer also recommended refunding without noting in the files that there were concerns relating to financial management weaknesses.

While ACF may remove grantees that have demonstrated poor performance—including poor financial management—through termination, ACF rarely uses its authority to do so. Between 1993 and

¹⁶ 42 U.S.C. 9836(c)(1). See also, *Action For Boston Community Development, Inc., v. Shalala*, 136 F.3d 29 (1st Cir. 1998). In that case, the court found that a Head Start grantee with deficiencies at one of the Head Start centers it operated was not entitled to priority in a competition for a grant to replace another grantee at a different location.

2001, 27 grantees were terminated. Senior Head Start officials in 2 of the ACF regional offices we visited told us that, although mechanisms are in place to ensure continuity of Head Start services following a termination,¹⁷ they are reluctant to pursue terminations because the processes used to collect information to support such an action are inadequate and the procedures required to terminate a grantee can be a drain on scarce staff resources.

More often, when dealing with poorly performing grantees, ACF tries to convince them to relinquish the grant in lieu of initiating termination proceedings and then seeks another grantee to serve the community. Between 1993 and 2001, 117 grantees voluntarily relinquished their grants or did so at HHS's request; about 54 percent of those grantees experienced problems with fiscal management issues. If a grantee refuses to relinquish its grant, ACF can proceed by notifying the grantee that its grant will be terminated.

Both termination and negotiations toward relinquishment can be protracted, in part because a Head Start grantee's right to receive funding throughout its appeal may prolong the termination process. A senior Head Start official noted that there is an incentive for grantees to appeal ACF decisions to terminate programs, because their legal costs are covered and they can continue to operate their programs while their appeal is pending. According to an administrative judge with HHS's Departmental Appeals Board, continued receipt of funding through the appeals process makes Head Start unique among other HHS grant programs. While grantees of other programs can appeal an adverse funding decision, they cannot continue to receive federal funds unless the decision is reversed.

When grants are allowed to remain with poorly performing grantees, children being served may not be getting the "head start" they deserve because the grantees continuously fail to meet program and financial management standards. For example, in 2003, ACF tried to convince a New Mexico grantee to relinquish its grant; at the time the grantee had been accused of failure to provide pertinent information to federal officials investigating allegations of fraud and abuse and meet other program standards. Although the ACF regional office had demanded repayment of \$526,000 after records obtained by the Federal Bureau of

¹⁷Whenever ACF terminates or suspends a grant, it brings in a contractor to continue serving children and families until a new grantee is found to serve that community.

Investigation (FBI) and HHS's Inspector General indicated that many of the enrolled families were ineligible, the grantee appealed that decision, maintaining that it required records taken by the FBI and without them it could not properly prepare for its appeal. The appeal was still pending as of our file review, but on July 1, 2004, ACF awarded \$2 million to this grantee to serve a reduced number of children and their families in its community.

Similarly, a West Virginia grantee announced that it would appeal ACF's July 2004 decision to terminate its grant. This grantee had been cited for failing to meet federal financial requirements in every audit since 1997. Moreover, a 2002 PRISM review could not determine how the grantee had spent over \$400,000 in grant funds but noted that it was clearly not spent providing Head Start services to children and their families. Before initiating the termination process with this grantee, ACF worked for more than a year to get the grantee to develop and implement a quality improvement plan. During this time, the grantee continued to receive federal funding and was the only Head Start program available to families in that community. (See fig. 5 for a detailed description of some of the challenges ACF faced addressing one grantee's financial management problems.)

Figure 5: A Case Study: Northwest Arkansas Head Start Human Services, Inc.

Northwest Arkansas Head Start Human Services, Inc., provides Head Start services in Rogers, Arkansas, and surrounding communities. The grantee has operated a Head Start program since 1982 and expanded considerably in the last decade. In 2004, the grantee received a \$3.5 million grant to serve 504 children and their families. After 2 decades of operation, the program still faces financial management problems.

Single audits as early as 1998 showed that the grantee had not complied with financial management requirements. Specifically, the 1998 and 1999 audits reported significant cash management problems. Grantee staff and board members attribute these problems to a general lack of financial management expertise and unsound financial management practices. For example, the grantee did not set aside reserves for accrued leave time and other contingencies. As a result, when employees left the organization and they were paid for their accumulated leave, there were shortfalls in the program's budget for current operating expenses. Moreover, audits for 2000 and 2001 were never completed and submitted to the grantee's board.

The problems persisted until June 2002, when the regularly scheduled PRISM review deemed the grantee deficient for failing to comply with many of Head Start's financial management requirements and other program requirements. The grantee was given a year to develop and implement a quality improvement plan. When a PRISM review team returned in April 2003, it found that the grantee had resolved all its financial management problems.

Despite this positive assessment from the April 2003 review team, the fiscal year 2003 audit reported that the grantee had given \$25,000 of its grant funds to another program it operates—a violation of federal grants management policies. Moreover, in August 2003, a newly hired fiscal director reported to the press that the grantee faced a severe budget crisis and would not be able to stay open without additional funding. Calls from parents and teachers to the Head Start Bureau spurred ACF officials to conduct a fourth PRISM review in December 2003. This team—selected by the Head Start Bureau—found the grantee deficient and took aggressive action to protect federal Head Start funds by requiring that the regional office approve every expenditure that grantee makes.

The Northwest Arkansas Head Start Human Services, Inc., board president said the agency has been working to implement its quality improvement plan to ensure that improved financial management practices are lasting.

Source: GAO analysis.

Unless ACF exercises its authority to remove problematic grantees from the program, poor links may persist between a grantee's funding and its performance. Poorly performing grantees—such as those noted above—continue to receive federal grant funds for years without making the improvements to program design and management that are called for. Children and their families in communities served by these grantees continue to have access to a federally funded Head Start program, but, because their Head Start grantee continually fails to meet the program's

requirements, it is unclear whether these children are receiving the level of services they should.

Conclusions

The federal government relies on nearly 1,700 grantees to provide Head Start services to nearly one million children and their families each year. As the federal investment in Head Start grew in the 1990s, the challenges of overseeing nearly \$7 billion in federal grant funds also grew. While federal policymakers and program managers are continually seeking ways to improve accountability for Head Start, ACF has not implemented a well-integrated monitoring system to oversee the Head Start program, including its financial management.

Until ACF builds a foundation for overseeing its Head Start program that incorporates a comprehensive assessment of the program's risks—including financial management risks—whenever poor grantee performance attracts attention ACF will be unable to ascertain how widespread the problems are. A risk assessment can help to identify what type of information an organization needs to gather on grantee performance—especially financial management. Some of the processes ACF currently uses to collect data have flaws that prevent the agency from being able to rely on the data to ensure that Head Start is indeed achieving the expected outcome of helping poor children and their families. Until ACF's data collection processes are improved and reasonable assurances are put in place to ensure the reliability of the data collected, ACF is not in a strong position to base future funding decisions on grantee performance. Similarly, while it has begun to train staff and to implement key monitoring processes, it is unclear whether these efforts are sufficient to ensure the reliability of the data ACF collects on grantee financial management.

If ACF improves the processes it uses to collect and analyze data on grantee financial management, ACF will be in a stronger position to link funding opportunities to performance. For example, ACF may be able to make greater use its authority to recompetete grants that are currently awarded to poorly performing grantees. Currently, in order to ensure the continuity of Head Start services in a given community, ACF relies on current grantees—even those with weak financial management systems—to provide those services until it completes the termination process and the current grantee has exhausted all appeals or has voluntarily agreed to relinquish its grant. Competition for grants might create a stronger incentive for those grantees that are not performing up to standards to correct their problems and develop sound systems of financial

management; if these grantees are unable to correct their problems, ACF may be able to more quickly identify a grantee that can better meet the program's performance standards.

Matter for Congressional Consideration

Because of ACF's uncertainty about the scope of its authority to implement our recommendation to make greater use of its authority to recompet Head Start grants, Congress may wish to clarify ACF's authority to recompet grants if ACF determines that the current grantee fails to meet Head Start's program or financial management requirements.

Recommendations for Executive Action

To improve oversight of the Head Start program and the financial management of Head Start grantees, we are making the following 8 recommendations to the Assistant Secretary for Children and Families to:

- Produce a comprehensive risk assessment of the Head Start program that incorporates information from the various components of ACF with oversight responsibilities for Head Start grantees and assesses actual or potential risks of mismanagement. This assessment should be updated periodically to provide reasonable assurances to Head Start management that the program's grantees are financially sound and that program objectives are being met.
- To better establish and assess program risks, ACF should develop plans to collect data on and estimate the extent of improper payments made for unallowable activities, payments to grantees whose programs are significantly underenrolled or other unauthorized payments. ACF currently collects data on the extent to which over-income families are enrolled in Head Start programs and has estimated the number of such families nationwide. Additional efforts should be made to collect data on other types of improper payments and to use the data to more comprehensively assess the program's risks.
- To improve the processes it currently uses to collect and analyze information on program risks, ACF should:
 - ensure that training and certification for all PRISM reviewers, including federal team leaders, is provided to enable the reviewers to perform their responsibilities in accordance with the review framework developed by the Head Start Bureau;

-
- develop an approach that can be applied uniformly across all of ACF's regional offices to assess the results of the PRISM reviews and ensure consistent treatment of grantees with similar problems when determining whether grantees should be deemed deficient; and
 - implement a quality assurance process to ensure that the framework for conducting on-site reviews is implemented as designed, including holding ACF's regional management accountable for following this framework and for the quality of the reviews.
 - To enhance the usefulness of the data ACF collects through its annual PIR survey in assessing the program's risks, ACF should ensure that information it uses for program management—and reports to the Congress and the public—is accurate. This may require independently verifying key data submitted through the annual survey or ensuring that the grantee has a system in place to collect and report accurate, verifiable data.
 - To more quickly identify financial risks associated with mismanagement of federal funds, ACF should make greater use of the information it currently collects on the status and use of federal funds. For example, ACF should reconcile all grantees' reported expenditures with their actual withdrawals more frequently to ensure that grantees are not drawing down excess funds at the beginning of their grant period and have enough funds to provide services to eligible children and their families for the entire year.
 - Prior to refunding a grant, ACF should take steps to obtain competition for the grant if it has determined that the current recipient of those grant funds fails to meet program, financial management, or other requirements. In these instances, ACF should use its existing authority to conduct such competitions without giving priority to the current grantee, while ensuring that the grantee is afforded all applicable statutory protections, including reasonable notice and an opportunity for a full and fair hearing.

Comments from the Administration for Children and Families and Our Evaluation

ACF provided written comments on a draft of this report; these comments appear in appendix II. ACF also provided technical comments that we incorporated as appropriate. ACF agrees that Head Start grantees must be efficient, effective, and held accountable. ACF agreed to implement a number of our recommendations to improve the processes it uses to collect and analyze information on grantee performance—including financial management.

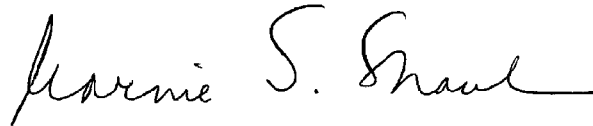
ACF did not directly address our recommendation that it seek ways to hold regional management accountable for following the PRISM framework and for the quality of the reviews. ACF regulations require that regional management assess grantee compliance with program requirements. In order to ensure that grantees are held accountable, it is also important to create a culture of accountability throughout ACF, including the regional offices. To aid in accomplishing this objective, we continue to recommend that ACF develop a method to hold regional management accountable for following the PRISM framework and for the quality of the PRISM reviews.

ACF did not directly address our recommendation that ACF develop plans to collect data on and estimate improper payments made for unallowable activities. ACF's technical comments noted that audit reports and other reviews will identify other possible improper payments. However, reliance on these oversight tools will not provide ACF with a systematic way to assess risks associated with other types of improper payments. We continue to recommend that in order to better estimate program risks, ACF should develop plans to collect data on and estimate the extent of improper payments made for other unallowable activities.

ACF expressed concerns about its authority to implement our recommendation to recompet Head Start grants under certain circumstances. ACF did not elaborate on its concerns other than to state that in order to replace a grantee it must terminate the grant. Because of ACF's uncertainty about the scope of its authority, Congress may wish to consider clarifying ACF's authority to obtain competition for any grant if it determines that the current recipient of those grant funds fails to meet program or financial management requirements.

As agreed with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after its issue date. At that time, we will send copies of this report to the Assistant Secretary for HHS's Administration for Children and Families, relevant congressional committees, and other interested parties. We will also make copies available to others upon request. In addition, the report will be made available at no charge on GAO's Web site at <http://www.gao.gov>.

Please contact me at (202) 512-7215 if you or your staffs have any questions about this report. Other contacts and major contributors are listed in appendix III.

A handwritten signature in black ink, reading "Marnie S. Shaul". The signature is fluid and cursive, with the first name "Marnie" being more prominent and the last name "Shaul" following in a similar style.

Marnie S. Shaul
Director, Education, Workforce,
and Income Security Issues

List of Congressional Requesters

The Honorable Michael B. Enzi
Chairman
Committee on Health, Education, Labor, and Pensions
United States Senate

The Honorable Lamar Alexander
Chairman
Subcommittee on Education and Early Childhood Development
Committee on Health, Education, Labor, and Pensions
United States Senate

The Honorable Judd Gregg
United States Senate

The Honorable John A. Boehner
Chairman
Committee on Education and the Workforce
House of Representatives

The Honorable Michael N. Castle
Chairman
Subcommittee on Education Reform
Committee on Education and the Workforce
House of Representatives

Appendix I: Scope and Methodology

To assess whether the Department of Health and Human Services' (HHS) Administration for Children and Families (ACF) can consistently identify Head Start grantees' financial management weaknesses, we reviewed and analyzed agency policies, manuals, publications, and other documents to identify the oversight framework and processes it uses to manage grants and oversee Head Start grantees. We confirmed our understanding of the key oversight processes in interviews with ACF and Head Start Bureau headquarters officials. To learn how these oversight processes are implemented, we interviewed Head Start officials and reviewed selected case files during site visits to 4 ACF regional offices. We also conducted telephone interviews with Head Start officials at the 6 other ACF regional offices.

We viewed financial management¹ weaknesses as occurring when ACF, the grantee's auditor, or HHS' Office of Inspector General (IG) determined that a grantee did not adhere to financial management requirements contained in applicable laws, federal regulations, Office of Management and Budget (OMB) circulars, and related HHS guidance. ACF identifies financial management weaknesses through its monitoring activities, such as its triennial reviews or its audit resolution activities.² The grantee's independent auditor identifies financial management weaknesses as it performs the required annual audit, and the IG's National External Audit Review Center (NEAR) identifies financial management weaknesses through its review of the annual audit and related documents.³ For example, a grantee is required to have source documents and accounting records to support the periodic statements it provides to its governing board, the semiannual financial reports it sends to ACF, and the annual financial statement that is subject to the Single Audit process. Other examples of financial management weaknesses include failure to establish and adhere to accounting policies or to maintain the source documents and/or accounting records necessary to prepare periodic or annual

¹Financial management encompasses the systems and processes (policies) a grantee uses to authorize, document, record, and report transactions and related events.

²We identified financial management weaknesses as occurring when ACF cited a PRISM noncompliance in either fiscal management or recordkeeping and reporting. We included record-keeping and reporting as indicators of financial management weaknesses because of the close relationship, recognized in the PRISM guidance, between authorizing and recording financial transactions and reporting them to the appropriate parties.

³We identified financial management weaknesses as occurring when the auditor or the IG NEAR office reports included reportable conditions, questioned costs, or weaknesses in the grantee's internal controls.

statement, concerns that a grantee has inadequate operating funds to remain a going concern, and failure to obtain and properly account for the required nonfederal 20 percent share of program costs.

We analyzed the Head Start oversight framework using the internal control framework contained in our *Standards for Internal Control in the Federal Government* and required by federal program management in accordance with OMB's *Circular A-123: Management Accountability and Control*. Our analysis of the Head Start oversight framework addressed Head Start's control environment, ACF's analysis and assessment of the risks the program faces, the control activities that ACF established to address these risks and help ensure that program objectives are met, ACF's methods of communicating the results of its oversight activities, and ACF's efforts to monitor and track the results of its efforts to improve program efficiency and effectiveness.

We assessed the reliability of information from two computer-based systems that ACF uses to manage the program, report to Congress and the public on program results, and record the results of on-site PRISM monitoring reviews. The systems are the Program Information Reporting (PIR) system used to collect enrollment, staffing, and program information from each Head Start grantee and delegate; and the Program Review Instrument for Systems Monitoring (PRISM) used to record the results of on-site PRISM monitoring reviews. We conducted the data reliability assessments to ascertain the internal consistency, completeness, and timeliness of these automated data.

We assessed the reliability of PIR data for the 2002-2003 program year, the most recent reporting year for which complete data were available at the time of our review. Using software provided by the contractor, grantees submit PIR survey data to the contractor for inclusion in the PIR database. Grantee data undergoes internal consistency checks developed by the contractor in consultation with the Head Start Bureau. We conducted 29 tests to check for data consistency. Our tests were designed to ensure the reliability of (1) some of the more than 700 tests already included in the PIR database and (2) grantee data that were not covered by PIR checks for data consistency. These tests included all three sections of the PIR database: enrollment and program operations, program staff and qualifications, and child and family services. In 18 of the 29 tests, PIR data contained different totals than they should have, given the internal consistency checks, or contained inconsistent data that did not sum to the expected totals.

Table 2: Summary of Results for PIR Data Reliability Tests, 2002-2003 Program Year

Section of PIR database	Number of PIR data elements tested	Number of tests that passed	Number of tests failed
Enrollment and Program Operations	6	5	1
Program Staff and Qualifications	10	1	9
Child and Family Services	13	5	8
Total	29	11	18

Source: GAO analysis.

These data inconsistencies occurred in 9 cases for which the PIR contractor had already developed checks for data consistency and among data for which such checks had not been developed. ACF, Head Start, and contractor officials concurred with the technical approach we followed as an appropriate strategy to assess the reliability of PIR data and with the results of our assessment. As noted in our report, we found some discrepancies in the database that raise questions about the accuracy of the underlying data that grantees provided. As a result, we did not use this database in our analysis.

We also assessed the reliability of automated data maintained in PRISM data sets from the 2000 through 2003⁴ reporting periods. PRISM review teams submit electronic information to the database contractor, and the contractor enters the information in the PRISM data sets. The database contractor reviews the information, submitted by review teams to help prevent inaccuracies in the reported information and the database contains other quality assurance procedures to help ensure the consistency of the information it contains. To assess the reliability of the PRISM data sets, we tested whether information for each of the years 2000 through 2003 related only to PRISM reports compiled for that year, whether chronological information had been compiled in the correct order, and whether each year's database contained all required information, including the information required to determine if a grantee complied with standards for each area reviewed. Our reliability

⁴Because ACF was in the midst of its 2004 PRISM cycle at the time of our review, we did not include that information in our reliability assessment.

assessment found the information contained in the databases to be reliable for our purposes.

To assess the number of grantees with recurring financial management problems, we analyzed the results of PRISM reviews conducted from 2000 through 2003. We identified grantees with financial management problems as those cited for not complying with program requirements in financial management, record-keeping and reporting, or program governance. Financial management requirements include the development and certification of grantee accounting systems for checking the accuracy and reliability of financial information and promoting operating efficiency. Record-keeping and reporting requirements include communicating timely and accurate financial information to control program quality, maintain program accountability, and advise grantee management of program progress. Program governance requirements include establishing and implementing appropriate internal controls to safeguard federal funds.

To learn how ACF ensures that grantees effectively resolve their financial management problems, we visited 4 regional offices and selected a nonprobability sample⁵ of 55 grantees with known financial management weaknesses and reviewed the regional offices' files for these grantees for the period 2001 through 2004. The 4 regional offices we visited accounted for more than 50 percent of grantees and more than 50 percent of Head Start funds allocated for fiscal year 2003.

⁵A nonprobability sample is selected on the basis of a population's characteristics. The results from a nonprobability sample cannot be generalized to the population from which the selections were made.

Table 3: Grantees and Head Start Funds Allocated to the Largest Regional Offices

Regional office	Grantees (FY 2003)		Allocated funds (FY 2003)	
	Number	Percent of total grantees	Amount (in millions)	Percent of total Head Start funds
Atlanta	288	17	1,119	18
Chicago	269	16	983	16
Dallas	219	13	800	13
Philadelphia	178	11	481	8
Total of 4 offices^a	954	57	3,382	56

Source: GAO analysis of ACF data.

^aTotals may not add due to rounding.

We limited our selection to grantees that received \$1 million or more annually. Furthermore, in selecting grantees with deficiencies and noncompliances, we also considered the existence of audit findings. At each office, we selected grantees from each group in proportion to their prevalence. We reviewed 55 grantees in the 4 offices for the reasons shown in table 4.

Table 4: Reasons for Selecting and Reviewing Grantees, by Region

ACF region	Basis for Selection			Total
	PRISM deficiency	PRISM noncompliance	Single Audit findings only	
Atlanta	2	9	3	14
Chicago	4	9	1	14
Dallas	4	8	3	15
Philadelphia	3	7	2	12
Total	13	33	9	55

Source: GAO analysis.

In making our selection, we used data from the information system used to record PRISM data, which as discussed above, we had found reliable for our purposes; and from the Single Audit Clearinghouse database maintained by the Bureau of the Census. The Department of Commerce's Inspector General determined that a high reliance can be placed on the system of internal controls covering the accuracy and completeness of the data in the clearinghouse database.

In reviewing each grant file, we recorded information on:

- the grantee's funding levels, years in the program, and contact information,
- results of PRISM reviews and the related follow-up actions,
- Single Audit reports and related follow-up actions,
- PIR information,
- grant application processing, and
- grantee monitoring.

Where necessary, we also met with program and financial specialists for these grantees to obtain relevant information that was not in the grant files. A second GAO analyst reviewed the data collection instrument to ensure that information from the grant file was properly recorded.

Our work was conducted from January through December 2004 in accordance with generally accepted government auditing standards.

Appendix II: Comments from the Department of Health and Human Services

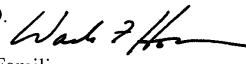


DEPARTMENT OF HEALTH AND HUMAN SERVICES

ADMINISTRATION FOR CHILDREN AND FAMILIES
Office of the Assistant Secretary, Suite 60
370 L'Enfant Promenade, S.W.
Washington, D.C. 20447

DATE: FEB 8 2005

TO: Marnie S. Shaul
Director, Education, Workforce,
and Income Security Issues

FROM: Wade F. Horn, Ph.D.
Assistant Secretary 
for Children and Families

SUBJECT: Comments on the General Accounting Office's Draft Report entitled,
"Head Start: Comprehensive Approach to Identifying and Addressing
Risks Could Help Prevent Grantee Financial Management Weaknesses,"
(GAO-05-176)

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

Should you have any questions regarding our comments, please contact Joan E. Ohl, Commissioner, Administration on Children, Youth and Families at (202) 205-8347.

Attachment

**COMMENTS OF THE ADMINISTRATION FOR CHILDREN AND FAMILIES
ON THE GENERAL ACCOUNTING OFFICE'S DRAFT REPORT TITLED,
"HEAD START: COMPREHENSIVE APPROACH TO IDENTIFYING AND
ADDRESSING RISKS COULD HELP PREVENT GRANTEE FINANCIAL
MANAGEMENT WEAKNESSES," (GAO-05-176)**

The Administration for Children and Families (ACF) appreciates the opportunity to comment on this General Accounting Office (GAO) draft report.

GAO Recommendations:

To improve oversight of the Head Start program and the financial management of Head Start grantees, GAO made the following eight recommendations to the Assistant Secretary for Children and Families:

- Produce a comprehensive risk assessment of the Head Start program that incorporates information from the various components of ACF with oversight responsibilities for Head Start grantees and assesses actual or potential risks of mismanagement. This assessment should be updated periodically to provide reasonable assurances to Head Start management that the program's grantees are financially sound and that program objectives are being met.
 - To better establish and assess program risks, ACF should develop plans to collect data on and estimate the extent of improper payments made for unallowable activities, payments to grantees whose programs are significantly underenrolled or other unauthorized payments. ACF currently collects data on the extent to which over-income families are enrolled in Head Start programs and has estimated the number of such families nationwide. Additional efforts should be made to collect data on other types of improper payments and to use the data to more comprehensively assess the program's risks.
 - To improve the processes it currently uses to collect and analyze information on program risks ACF should:
 - ensure that training and certification for all Program Review Instrument for Systems Monitoring (PRISM) reviewers, including federal team leaders, is provided to enable the reviewers to perform their responsibilities in accordance with the review framework developed by the Head Start Bureau;
 - develop an approach that can be applied uniformly across all of ACF's regional offices to assess the results of the PRISM reviews and ensure consistent treatment of grantees with similar problems when determining whether grantees should be deemed deficient; and

- implement a quality assurance process to ensure that the framework for conducting on-site reviews is implemented as designed, including holding ACF's regional management accountable for following this framework and for the quality of the reviews.
- To enhance the usefulness of the data ACF collects through its annual Program Information Reports (PIR) survey in assessing the program's risks, ACF should ensure that information it uses for program management—and reports to the Congress and the public—is accurate. This may require independently verifying key data submitted through the annual survey or ensuring that the grantee has a system in place to collect and report accurate, verifiable data.
- To more quickly identify financial risks associated with mismanagement of federal funds, ACF should make greater use of the information it currently collects on the status and use of federal funds. For example, ACF should reconcile all grantees' reported expenditures with their actual withdrawals more frequently to ensure that grantees are not drawing down excess funds at the beginning of their grant period and have enough funds to provide services to eligible children and their families for the entire year.
- Prior to refunding a grant, ACF should take steps to obtain competition for the grant if it has determined that the current recipient of those grant funds has failed to meet program, financial management, or other requirements. In these instances, ACF should use its existing authority to conduct such competitions without giving priority to the current grantee, while ensuring that the grantee is afforded all applicable statutory protections, including reasonable notice and an opportunity for a full and fair hearing.

ACF Comments

ACF believes effective results-oriented oversight and management of the Head Start program is vital to ensure that local Head Start programs are providing high-quality services and achieving the Administration's ultimate goal of strengthening Head Start for the children and families of this great nation. Therefore, ACF agrees that the nation's 1,670 Head Start grantees must be efficient, effective and accountable so that children will achieve better outcomes as they prepare for school.

ACF will take the necessary steps to develop and implement an annual comprehensive risk assessment that draws information from a variety of data sources and Operating Divisions, including data relating to Head Start program oversight and/or management

responsibilities, either directly or indirectly. Also, with regard to other specific recommendations:

- ACF will continue to focus on ensuring that Head Start grantees are serving all of the children for which the grantees have been funded and will take appropriate steps in those situations where grantees are found to be underenrolled.
- ACF, in the last several months, has provided PRISM training to federal team leaders and to fiscal and early childhood consultants. ACF will schedule additional training events for consultants in other areas of expertise later this year to ensure that all reviewers have been appropriately trained.
- ACF, in FY 2005, will be implementing a quality-assurance system designed to ensure that all reviews are being conducted in an appropriate manner and that there is consistency among ACF Regional Offices in the conduct and outcomes of PRISM reviews.
- ACF will continue to explore ways to increase the accuracy of PIR data.
- ACF has serious concerns about GAO's legal interpretation of ACF's authority to recompet Head Start grants. Therefore, the Head Start Bureau will work with GAO to resolve this issue.
- ACF agrees that improving ACF's reconciliation of funds drawn to funds expended could be improved. ACF will explore a variety of methods for comparing expenditure data that ACF has with grantee drawdown information provided by the Program Support Center's Payment Management System.

Appendix III: GAO Contacts and Staff Acknowledgments

GAO Contacts

Betty Ward-Zukerman, (202) 512-2732, wardzukermanb@gao.gov
Bill J. Keller, (202) 512-8971, kellerbj@gao.gov

Acknowledgments

In addition to those named above, Kimberly Brooks, Richard Burkard, Gabrielle Fagan, Neal Gottlieb, Curtis Groves, Diane Morris, Luann Moy, Corinna Nicolaou, James Rebbe, Tovah Rom, Kathryn Rooney, and Mark Ward made key contributions to the report.

Related GAO Products

Head Start and Other Early Childhood Programs

Head Start: Better Data and Processes Needed to Monitor Underenrollment. [GAO-04-17](#). Washington, D.C.: December 4, 2003.

Head Start: Increased Percentage of Teachers Nationwide Have Degrees, but Better Information on Classroom Teachers Qualifications Needed. [GAO-04-3](#). Washington, D.C.: October 1, 2003.

Education and Care: Head Start Key among Array of Early Childhood Programs, but National Research on Effectiveness Not Completed. [GAO-03-840T](#). Washington, D.C.: July 22, 2003.

Head Start and Even Start: Greater Collaboration Needed on Measures of Adult Education and Literacy. [GAO-02-348](#). Washington, D.C.: March 29, 2002.

Early Childhood Programs: The Use of Impact Evaluations to Assess Program Effects. [GAO-01-542](#). Washington, D.C.: April 16, 2001.

Title I Preschool Education: More Children Served, but Gauging Effect on School Readiness Difficult. [GAO/HEHS-00-171](#). Washington, D.C.: September 20, 2000.

Early Education and Care: Overlap Indicates Need to Assess Crosscutting Programs. [GAO/HEHS-00-78](#). Washington, D.C.: April 28, 2000.

Early Childhood Programs: Characteristics Affect the Availability of School Readiness Information. [GAO/HEHS-00-38](#). Washington, D.C.: February 28, 2000.

Education and Care: Early Childhood Programs and Services for Low-Income Families. [GAO/HEHS-00-11](#). Washington, D.C.: November 15, 1999.

Head Start: Challenges in Monitoring Program Quality and Demonstrating Results. [GAO/HEHS-98-186](#). Washington, D.C.: June 30, 1998.

Head Start Programs: Participant Characteristics, Services, and Funding. [GAO/HEHS-98-65](#). Washington, D.C.: March 31, 1998.

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TANF and Child Care Programs: HHS Lacks Adequate Information to Assess Risk to Assist States in Managing Improper Payments. [GAO-04-723](#). Washington, D.C.: June 18, 2004.

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