

PREPARED STATEMENT OF WADE F. HORN, PH.D.

Chairman Alexander and members of the committee, I am pleased to have this opportunity to appear before you today to discuss the recent report of the Government Accountability Office (GAO) on "Head Start: Comprehensive Approach to Identifying and Addressing Risks Could Help Prevent Grantee Financial Management Weaknesses." The President is committed to strengthening the quality of Head Start to improve the school readiness of low-income preschool children and has made ac-

countability a guiding principle of our work. Within this context, I can assure you that we take GAO's findings very seriously and for nearly 2 years we have been actively and aggressively engaged in addressing the weaknesses cited in the report.

The Head Start program is now in its 40th year. It is a nearly \$7 billion program, serving more than 900,000 low-income children and families through a network of 1,600 local grantees. There are 212,000 staff employed in Head Start programs and more than 1.3 million persons volunteer in local programs. Head Start children are served in nearly 50,000 classrooms located within more than 20,000 centers, which are located in more than 3,000 counties nationwide. Head Start is, in short, a program that has wide ranging presence and influence. It ought to be absolutely the best early childhood education program we can design. As stewards of this program, we are committed to making that goal a reality.

I will focus my testimony today on our ongoing efforts, as well as some of our planned efforts, to improve program oversight and stewardship. Several of GAO's findings mirror weaknesses we previously identified and are actively working to resolve. Other suggestions in the report will help us plan and implement additional strategies for enhancing the quality and the credibility of the Head Start monitoring system in order to ensure that all Head Start children receive the head start they deserve.

#### Head Start Monitoring

As discussed in the GAO report, we have several ongoing procedures to examine program compliance and to measure results. Key among these is the mandated, triennial, onsite monitoring of local programs. Under the Head Start Act, each grantee must be monitored at the end of the 1st year of operation and intensely at least once every 3 years thereafter. These reviews are conducted by consultants with professional expertise in their assigned area, under the direction of a Federal team leader. Most teams are composed of approximately six to eight reviewers; additional reviewers may be assigned to review larger or more complex programs.

Written reports containing findings from these reviews are provided to each grantee and corrective action must be implemented by the grantee. Programs identified as deficient must correct all deficiencies within a prescribed period of time or we must seek to terminate the grantee's authority to operate that Head Start program.

In fiscal year 2004, the Administration for Children and Families (ACF) conducted triennial reviews of 570 programs. Eighty-nine of these programs were identified as deficient. Each was issued a report by ACF mandating correction of their deficiencies within a specified time period, not to exceed 1 year. Any of these 89 grantees that do not correct their deficiencies must have their grant terminated. In fiscal year 2004, ACF replaced 20 grantees with unresolved fiscal and quality issues.

Monitoring is one of our best opportunities to measure the quality of Head Start programs. As Federal stewards, we must use our monitoring procedures to assure we are holding every Head Start program accountable to all applicable statutes and regulations.

In the last several months, and consistent with many of the GAO's observations and recommendations, ACF has implemented several efforts to improve our monitoring.

First, we have established for the first time minimum qualifications for all reviewers in the area they are reviewing. For example, a reviewer wanting to do fiscal reviews must have a minimum of a bachelor's degree with at least 12 credits in accounting, with a preference for a degree in accounting. Establishing these minimum qualifications helps assure that all individuals on a monitoring review team have the knowledge, skills and experience necessary to be part of a quality review. Reviewers not meeting these qualifications can no longer participate in Head Start reviews. Qualified individuals must be annually certified and meet our minimum requirements. Additional individuals will be recruited, trained, mentored, and added to the reviewer pool.

Second, we have implemented a formal assessment process in which the Federal team leaders and reviewers assess the performance of their team members. These assessments are conducted after every review. Assessment scores and comments are tracked for individuals over multiple reviews. Reviewers with identified patterns of "poor performance" are removed from the Head Start reviewer pool.

Third, in February and December 2004 we provided intensive, multi-day training for more than one thousand reviewers in the areas of fiscal, program management, and early childhood development. We also have provided and are continuing to provide professional development for Federal team leaders and Federal grants staff. Training for team members provides a very clear understanding of the nature of

their responsibilities as part of a monitoring team, and the important roles they play in helping to assure a quality Head Start experience for every child and family.

Additional training will be conducted later this year for reviewers in the fields of health and nutrition services, disabilities services, mental health services, and family and community partnerships. We feel confident that these three changes will go a long way in helping us assure that only qualified, skilled reviewers perform the vital role of evaluating the comprehensiveness, local management, and quality of our Head Start programs.

Soon we will implement a quality assurance initiative in which specially trained reviewers will lead teams to conduct re-reviews of a sample of recently monitored grantees. We believe this effort will substantially address GAO's concern about consistency among reviewers and across ACF regional offices. The re-review teams will go onsite to grantees that have been monitored within the previous few months. A second, complete monitoring review will take place and the results will be evaluated by the Head Start Bureau. This will allow us to make better-informed professional judgments about the reliability of our current monitoring teams, including individual reviewers and Federal team leaders. We believe this approach also will allow us to achieve more complete, more accurate, and more consistent monitoring outcomes.

In addition, we are conducting indepth analyses of all triennial and 1st year monitoring reports. The results of these analyses are provided to regional administrators for regional quality assurance and staff training. The Head Start Bureau has created a two-part strategy to improve report quality, comprehensiveness, accuracy and uniformity within and across regions. First, draft deficiency reports are analyzed and reviewed for accuracy by the Head Start Bureau prior to release to grantees, with the results and recommendations of these analyses sent to the regional administrators. In the second part of this strategy the Head Start Bureau has established standards for all other letters and reports related to grantee monitoring.

Additionally, ACF is continuing our emphasis on improving each grantee's fiscal viability. For example, the *Fiscal Checklist*, now used by all fiscal reviewers, was substantially revised in fiscal year 2005 to use a "risk-based" assessment approach in alignment with GAO's recommendation. The *Fiscal Checklist* includes a set of very specific, prioritized indicators, or "red flags," designed to identify fiscal issues which may suggest underlying fiscal problems. These indicators focus on those areas or irregularities which are most likely to have the greatest adverse impact on the fiscal accountability of the grantee. Grantees whose indicators suggest current or possible future problems will be subject to a more detailed review of their fiscal systems and records to determine if there are indeed problems that impact the grantee's fiscal operations and management.

Further, ACF is requiring the Program Review Instrument for Systems Monitoring (PRISM) review teams to closely examine several specific areas that were not as carefully or consistently considered in the past. These include transportation services, condition and Federal interest in facilities, salaries and staff compensation, maintenance of full enrollment, and income eligibility.

Also, in fiscal year 2005, ACF is emphasizing the conduct of required grantee self-assessments. Grantees have been reminded that conducting quality, comprehensive program self-assessments are critical to ensuring the delivery of high-quality services to children and families. Grantees must conduct accurate, comprehensive self-assessments building on information from the triennial Federal monitoring review to further program improvement, regularly identify issues, correct problems, and improve services.

#### GAO Recommendations

I hope this information has provided a clear picture of our continued and more aggressive commitment to improving program monitoring. This is a goal we have undertaken in earnest over the past year. The GAO report synthesized many of the concerns we have had regarding program weaknesses. This report affirms that we are on the right track in strengthening our oversight and accountability efforts.

While my initial remarks today have provided some insight into our responses to the GAO recommendations, I would like to take this opportunity to briefly and specifically walk through each of the recommendations in their report and our response.

**1. (a) ACF should develop a strategy to produce a comprehensive risk assessment of the Head Start program which would provide reasonable assurance that a Head Start grantee's finances are reasonably sound and that program objectives are being met.**

We fully support the recommendation to develop a "comprehensive risk assessment" of the Head Start program. We are looking to both the HHS Office of Inspec-

tor General's Risk Assessment Protocol as well as tools used by GAO that have been adopted by other agencies in ACF in our efforts to develop this comprehensive risk assessment.

Over the next few months, we will continue developing an approach that will allow us to identify, early on, grantees that have issues that could suggest potential fiscal or programmatic problems. Beginning with the indicators in the fiscal checklist, we will identify the factors we should use in determining a grantee's fiscal and programmatic accountability. We then will identify the data source or sources we will use to consistently collect information about each of the factors. Finally, we will determine the relative risks associated with each of these factors and develop a rating system that tells us when a grantee is at risk of heading down a path to larger fiscal or programmatic problems. We believe that such a system will enable us to identify at risk grantees while there is still time to work with them and implement appropriate change.

**1. (b) ACF should collect data on improper payments made by Head Start grantees.**

ACF will assure that grantees are held accountable for improper payments made with Head Start grant funds. For example, this year monitoring teams will be looking more carefully and more systematically at the way grantees expend all of their Head Start funds. Also, we are continuing our strong focus on improper payments begun last year by visiting 50 randomly chosen grantees to review grantees' enrollment files and determine whether they are serving only children who are eligible for Head Start.

As an additional strategy for examining improper payments, we have begun rigorously enforcing the new requirement enacted by Congress to cap the compensation of Head Start staff. We will move to disallow costs expended by a Head Start grantee when they are in violation of this cap. Further, we will continue our efforts to assure all grantees are serving the full number of children for which they have been funded by holding grantees accountable for upholding all terms and conditions of their grant award. Grantees failing to do so will see their funding levels reduced.

**2. ACF should train and certify all PRISM reviewers.**

As I discussed earlier, over the last several months, we provided PRISM training to Federal team leaders and to fiscal, program design and management, and early childhood consultants. ACF has and will continue to schedule additional training events for consultants in other areas of expertise to ensure that all reviewers have appropriate training. ACF agrees with GAO that reviewer training needs to be provided regularly and designed to assure reviewers have the knowledge and appropriate understanding of their roles in assisting ACF in determining the management and quality of our Head Start programs.

**3. ACF should develop an approach to assess the results of PRISM reviews and ensure consistency among Regional Offices.**

ACF's Head Start Bureau is continuing an effort begun last year in which all monitoring reports to be issued by the regional offices are reviewed and critiqued, providing feedback to the regions about the quality, comprehensiveness and accuracy of these reports and related letters to grantees. We also are analyzing data from monitoring findings and discussing areas of inconsistency within and across our regional offices. When regional data indicate inconsistencies in the number and types of problems found in Head Start grantees, we are working more closely with those regional offices to uncover the reasons for the inconsistencies and be certain they do not reoccur.

As mentioned earlier, in fiscal year 2005, ACF will be implementing a quality assurance system in which a selected number of programs will be "re-reviewed" a few months after their regularly scheduled PRISM review. This is another method that will help us achieve greater consistency across regions and among reviewers. Further, ACF is supportive of legislative change that can provide the Administration increased flexibility to use the best team leaders available for a particular review by not requiring every team leader to be a Federal employee.

We want to acknowledge our agreement with the GAO, that for too many years we have relied too heavily on a grantee's self-certification that serious non-compliances have been corrected. There may be some situations in which such certifications are sufficient; however, reliance on this practice for ensuring grantee corrective action must be dramatically reduced. Therefore, ACF is significantly increasing the use of onsite visits to verify corrective actions. These site visits will focus on whether the grantee has made systemic, sustainable changes to reduce the possibility of repeating problems in the future. This approach also will help regional offices more consistently assess a grantee's success in correcting identified problems in both the short and the long term.

**4. (a) ACF should implement a quality assurance system to assure onsite reviews are being conducted as intended to provide ACF with objective and accurate data about grantees.**

As noted above, in fiscal year 2005, ACF will be implementing a quality assurance system designed to enhance consistency and quality among both regional offices and reviewers. Specially trained review teams made up of some of the best reviewers in the country will visit grantees that have been monitored within the last few months. A complete monitoring review will take place; the results of which will be shared with the responsible ACF regional office. This process will allow us to make more informed, professional judgments about the reliability of our current monitoring teams; including individual reviewers and Federal team leaders. We believe this approach will help enhance the process of achieving more complete, more accurate, and more consistent monitoring outcomes.

**4. (b) ACF should assure the accuracy of its data collection forms.**

ACF and others rely upon the annual Program Information Report (PIR) and other data. We will, therefore, continue to explore ways to increase the accuracy of the PIR and other data sources. We will, for example, initiate an effort this year in which we will visit randomly selected Head Start programs to conduct a validation study of the data reported on the PIR. We also initiated procedures to assure that the information grantees report on their required salary comparability studies is accurate and current. In addition, Head Start staff currently is working with ACF information technology staff to develop a single, integrated database that will contain all the current Head Start data sources. This integrated database will allow us to take a comprehensive approach to examining the management, fiscal and programmatic status of Head Start grantees.

**5. ACF should make greater use of information currently available to regional offices to more quickly identify potential risks.**

ACF will make more complete use of all data sources available to us to assure we are able to identify risks as quickly as possible. Central and regional offices will jointly develop specific protocols to assure that we are making full and timely use of the fiscal and other data available.

**6. ACF should recompetete Head Start grants when the current recipient has not met its obligations in the areas of program or financial management.**

ACF is looking forward to working with the Congress in the upcoming discussions on Head Start reauthorization to explore changes to the act that can enhance the Secretary's flexibility to replace poorly performing grantees. Without such statutory changes, we do not believe we can implement GAO's proposed recommendation in this area. It is our position that, because of current statutory language there can be lengthy delays before we can replace the grantee in charge of Head Start operations in that community.

More specifically, we would like to work with this committee to amend language in the current Head Start Act which provides current grantees with priority consideration for funding and which requires grantees to be given a hearing before being replaced, no matter how poor their operations and performance may be. We believe the current system makes it unnecessarily time consuming and difficult to remove grantees which are not responsibly delivering comprehensive, quality services. Like GAO, we are particularly dismayed by the increasing number of grantees with recurring problems that fail to correct or only temporarily correct areas of non-compliance and deficiencies. We look forward to working with Congress to give HHS the ability to quickly remove poor performing grantees so that we are providing the best quality services possible to Head Start children.

**Additional Program Improvement Efforts**

I would like to close my remarks by sharing with this committee several other efforts the Administration is engaged in designed to improve grantee quality and accountability. Foremost among these is working with this committee and this Congress to pass a Head Start reauthorization bill which will send a clear message that all Head Start grantees are expected, at all times, to deliver high quality services to every enrolled child and family.

First, we would like the Congress to help us increase the involvement of selected States in Head Start as we move to increase coordination between Head Start, State pre-K programs, and child care services. Second, we would like the Congress to provide the Secretary with greater discretion to use funds appropriated for Head Start in the most effective manner possible by enacting changes to the current statutory set-aside for training and technical assistance. Third, we would like the statute to more clearly state the expectation that all children should leave Head Start prepared for school and that the standards for school readiness are being met. Fourth,

we would like increased flexibility in the makeup of our monitoring teams so that we always can send out the most qualified individuals for the job. And fifth, we would like to work with Congress to ensure that the statute allows us to deal with poorly performing grantees fairly but expeditiously.

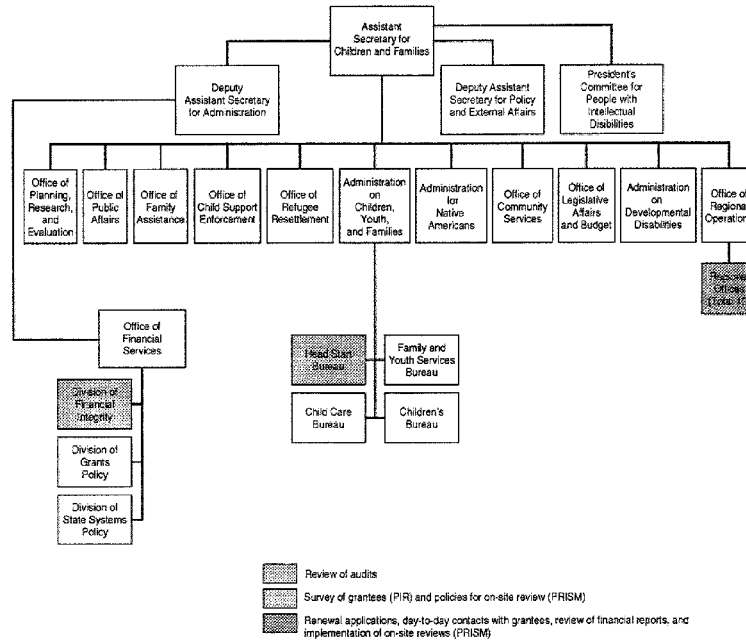
In addition to these proposed statutory changes, I would like to close by sharing information about one other training and technical assistance project which, although not directly related to monitoring, plays an important role in assuring grantees are providing high quality services to the communities they serve. We are in the 2nd year of a new training and technical assistance (T/TA) system that we believe will help improve grantee quality and, by so doing, address some of the underlying issues raised by GAO. We have, for the first time, hired T/TA specialists who are assigned to work on a regular basis with individual grantees. These specialists will help grantees identify T/TA needs and appropriate ways of meeting these needs. They will visit their assigned grantees several times a year to focus on improving grantees. The local specialists are supported by a team of content experts in each regional office to provide guidance to grantees and to support the local specialists in their technical assistance work within programs.

**Conclusion**

In conclusion, I can assure this committee that the President, the Department and ACF are committed to strengthening the quality of Head Start. In keeping with the findings of this GAO report—we can do better. The Administration for Children and Families will continue to improve program oversight to ensure program quality and effectiveness. At the same time, we look forward to working with you to make appropriate changes to Head Start’s legislation that will hold all grantees accountable for all requirements and for providing quality service. I feel confident that together we will achieve these goals.

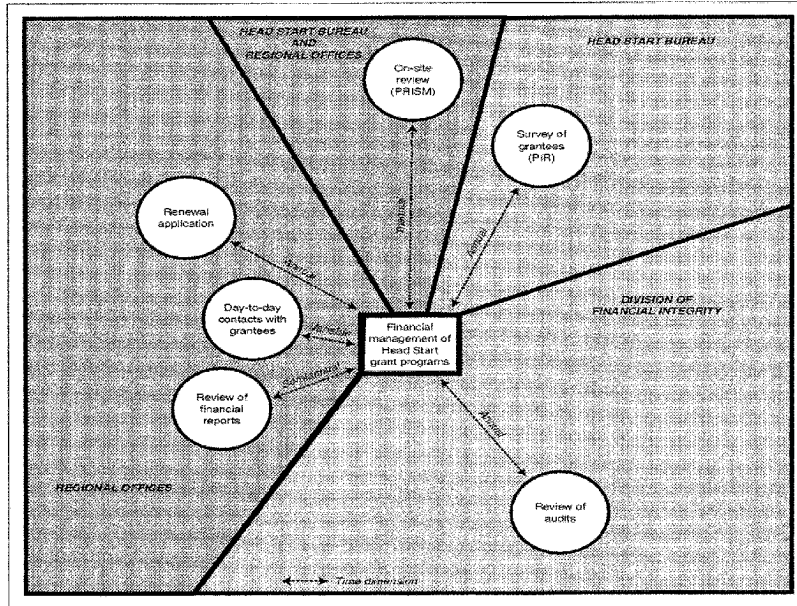
Thank you. I would be happy to answer any questions.

**Figure 1: ACF Organizational Chart**



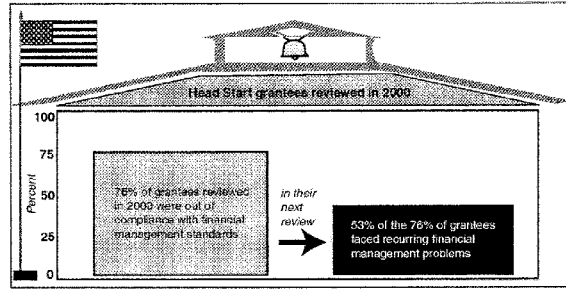
Source: GAO analysis of ACF information.

Figure 2: Head Start Oversight Activities Undertaken by Several Offices



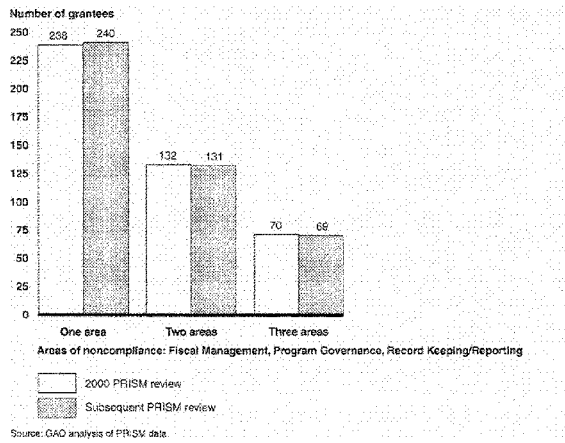
Source: GAO analysis.

Figure 3: 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.

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



Source: GAO analysis of PRISM data.

RESPONSE TO QUESTIONS OF SENATOR ENZI BY WADE F. HORN

*Question 1.* The Senate bill to reauthorize the Head Start program from the 108th Congress included provisions that would require Head Start grantees to recompete for those funds periodically. One of the GAO's recommendations to the Department is to provide the current grantee with a certain degree of priority over other grantees. How should Congress help support these efforts to ensure high quality grantees are able to continue serving children, while still weeding out less effective or troubled programs?

*Answer 1.* We would welcome the opportunity to work with you on language that would enhance the Secretary's ability to periodically recompete Head Start grants and replace poorly performing grantees. In conjunction with this type of change, statutory change also is needed to allow the Secretary to defund a deficient grantee which has not corrected its deficiencies within the required timeframe. Currently, section 646(a) of the Head Start Act precludes terminating funding of a grantee pending appeal and a full and fair hearing, which often can take several months and, sometimes more than a year.

*Question 2.* In the GAO report where the comments from the Department of Health and Human Services are included, the Department suggests that it will take action or continue to take action to address many of the concerns raised in the report. Since the report suggests that the Department may have an interest in having



Congress clarify our intent in statute, are there specific recommendations you can make that will help Congress support your activities to improve the program?

Answer 2. My testimony provided a number of suggested changes to Head Start that we would like to explore with the Congress. First, we would like the Congress to help us increase the involvement of selected States in Head Start as we move to increase coordination between Head Start, State pre-K programs, and child care services. Specifically, we would like Congress to include in the reauthorization of the Head Start Act a provision that will allow interested States to include Head Start in their preschool plans. Under the proposal, States are offered the opportunity to coordinate preschool programs with Head Start programs in exchange for meeting certain accountability requirements. Second, we would like the Congress to provide the Secretary with greater discretion to use funds appropriated for Head Start in the most effective manner possible by enacting changes to the current statutory set-aside for training and technical assistance. Third, we would like the statute to more clearly state the expectation that all children should leave Head Start prepared for school and that the standards for school readiness are being met. Fourth, we would like increased flexibility under section 641A of the Head Start Act in the makeup of our monitoring teams so that we always can send out the most qualified individuals for the job. And fifth, we would like to work with Congress to ensure that the statute allows us to deal with poorly performing grantees fairly but expeditiously. As I indicated earlier, the current statute requires a protracted hearing process before we can defund deficient grantees. I would be pleased to work with the committee to provide details on each of these proposals.

*Question 3.* According to the GAO report, more than half of the grantees identified as having financial management problems also demonstrated recurring financial management issues. Even so, the Department of Health and Human Services has not taken action to deny grant funding to these programs. What can Congress do to ensure that appropriate action is taken against grantees with severe and recurring financial management problems?

Answer 3. One problem is that in the past ACF Regional Offices often accepted grantee letters of compliance stating that non-compliances were corrected. Although there are legitimate situations in which a letter and corresponding documentation may be sufficient to determine that a non-compliance has been corrected, there also are many situations that should be verified through an onsite visit. In fiscal year 2005, ACF is establishing a new policy that reduces the acceptance of letters of compliance and greatly increases the use of onsite followup reviews to verify compliance. This will help reduce the number of repeat findings by assuring, onsite, that all problems have indeed been corrected.

In addition, ACF is developing a "comprehensive risk assessment" of the Head Start program. This approach will allow us to identify, early on, grantees that have issues that could suggest potential fiscal or programmatic problems. Beginning with the indicators in the fiscal checklist, we will identify the factors we should use in determining a grantee's fiscal and programmatic accountability. We then will identify the data source or sources we will use to consistently collect information about each of the factors. We also will determine the relative risks associated with each of these factors and develop a rating system that tell us when a grantee is at risk of heading down a path to larger fiscal or programmatic problems. This type of system will enable us to identify at risk grantees while there is still time to work with them and implement appropriate change.

Finally, Congressional action is needed to allow the Secretary to defund a deficient grantee which has not corrected deficiencies within the required timeframe. Currently, section 646(a) of the Head Start Act precludes terminating funding of a grantee pending appeal and a full and fair hearing.

*Question 4.* The GAO report and your testimony today identifies self-certification by grantees that they have resolved audit or site-visit findings as one of the reasons the Administration on Children and Families is having difficulty preventing recurring financial or other types of mismanagement. What role do you see self-certification playing to resolve concerns in the future, and what can Congress do to support efforts by the Administration to ensure programs are independently reviewed?

Answer 4. As I discussed in my response to your previous question, ACF is making significant changes in the way we determine if grantees have corrected identified areas of non-compliance. In the past, we have often accepted grantee self-certification and to do onsite visits to verify compliance only on occasion. We are fundamentally revising this approach to require that verification of compliance be determined through an onsite visit and only, for a relatively small number of cases, will we accept grantee self-certification.

*Question 5.* The issue of recompetition appears to be the only area where the Administration on Children and Families suggests they need Congress to be involved in addressing the suggestions within the report. Are there additional ways that Congress can improve the accountability process within the Head Start program, and is there a role for Congress to play in the other recommendations made by GAO?

*Answer 5.* The issue of recompetition and a related issue of the grantee appeal process are key areas in need of statutory change to assist us in improving the quality of Head Start programs. Specifically, with respect to the grantee appeal process, we would like to work with the Congress to change provisions in the Head Start Act which allow Head Start grantees which have been judged to be poorly performing and, consequently, have been sent letters terminating their grant to continue receiving their full Head Start grant during the appeals process. Most Head Start appeals take several months, some have lasted for well over a year and the grantee which already has been determined to be deficient is allowed, during this time, to continue to operate its failing Head Start program. We would like to change this and give Head Start grantees the same appeal rights as all other HHS grantees whose funding is discontinued as soon as a determination is made that performance is deficient. Interim grantees would be put in place to ensure that services are not interrupted.

RESPONSE TO QUESTIONS OF SENATOR ENSIGN BY WADE F. HORN

*Question 1.* The GAO report stated that many individuals hired as PRISM (Program Review Instrument for Systems Monitoring) reviewers do not have their references checked prior to hiring. This has led to widespread outcome differences across regions during triennial PRISM reviews at Head Start Centers. I am very concerned about this trend and the part it may have played in allowing grantees to continue receiving Federal funds despite poor accountability and fiscal controls. As part of the implementation of minimum requirements for these reviewers will references and qualifications be checked prior to hiring? What benefits do you see of having private sector individuals complete these PRISM reviews?

*Answer 1.* ACF will, within the next few weeks, begin a policy of checking reviewer references and qualifications. We appreciate that it is important to assure that all Head Start reviewers have the skills and background needed to properly perform their job of monitoring the performance of Head Start programs. This effort, coupled with additional efforts we are currently undertaking—such as implementing a quality assurance system in which a selected number of programs will be re-reviewed within a few months of their initial onsite review, establishing a rating system for reviewers and providing all reviewers indepth training—will help address the problem of Regional inconsistency. We also are working closely with our Regional Offices to assure that all Federal Team Leaders fully understand the importance of doing a professional and objective assessment of each Head Start program, and we will explore cross regional review efforts, where appropriate, as another way to enhance regional consistency.

We will assure that all fiscal reviewers are competent to do the job for which they have been hired. These reviewers now have to meet, for the first time, minimum qualifications and have been provided indepth training on how to conduct a fiscal review. Fiscal reviewers are, in fiscal year 2005, using a new fiscal checklist which will, we believe, go a long way to identifying Head Start grantees with fiscal problems early on when there is still time to correct the problem.

We think we must continue to take advantage of using reviewers who are not Federal employees. There are many individuals available to the Head Start review system who are expert in their fields. We would not be able to even approach this level of expertise using only the staff in the Federal Government who work on Head Start. Most Federal Head Start staff are generalists who, while certainly knowledgeable about Head Start and early childhood education, do not have the kinds of specific skills, experiences or training that our private reviewers have. We have, for example, dentists, certified public accountants, early childhood experts and many other well qualified contractors who are vital to a comprehensive, quality monitoring system.

In addition, it would be extremely helpful if the committee would consider a statutory change providing flexibility in the makeup of monitoring teams so that we can always send out the most qualified individual for the job. Currently, section 641A(c)(2) requires that monitoring reviews are performed and supervised by departmental employees knowledgeable about Head Start. We would like this changed to provide the Secretary the flexibility to ensure that reviewers are experts in the fields they are responsible for reviewing.

*Question 2.* In the case of the Economic Opportunity Board (EOB) in Las Vegas, the entity was required to submit annual audits. It is unclear to me how these audits were used and whether onsite review teams relied on the audit data. In fact, the GAO report stated that many regional staff do not effectively use the audit data provided, often because of the lag in reporting the audit outcomes. Over the course of 2 years EOB had two different onsite reviews, first the triennial PRISM review, and second, a follow up review by the Head Start Bureau to determine if the deficiencies found in the PRISM review had been resolved. What happens with this audit data once it is reported to the Head Start Bureau and the Administration for Children and Families? As part of the comprehensive risk assessment, is the Bureau going to put in place policies that utilize these audits in determining whether a grantee is a financial risk, or having financial difficulties?

Answer 2. ACF currently reviews all grantee audits which have findings in order to help inform us about the state of our grantees' fiscal health.

OMB Circular A-133 requires non-Federal entities that expend \$500,000 or more in a year in Federal awards to have an audit conducted for that year. Audits are to be submitted to the Federal Audit Clearinghouse which reviews the audit reports to assure they meet the A-133 requirements. HHS Audits are then sent to the HHS Office of the Inspector General (OIG), where they are reviewed and those with any findings are assigned to the appropriate HHS office. For audits with findings in the Head Start program, the audit is sent to the responsible ACF regional office for resolution. ACF makes a determination as to how to resolve the audit findings and so informs the grantee. Findings with monetary values typically require the grantee to pay back funds. Non-monetary findings require the grantee to correct its problems to the satisfaction of the ACF office.

Onsite review teams look at many documents in assessing grantee performance, including the annual audit. While no one document necessarily provides all the information needed to fully understand the fiscal state of any Head Start program, using many documents, plus using the newly revised fiscal checklist, should provide reviewers with a full understanding of the financial situation of a Head Start grantee. ACF will certainly include audit findings as part of its risk assessment strategy to look holistically at the programmatic and fiscal health of all Head Start programs.

*Question 3.* I was pleased to see in your testimony that the Head Start Bureau and the Administration on Children and Families are working on a comprehensive risk assessment that will help identify grantees that have potential fiscal or programmatic problems. However, it did greatly concern me to read in GAO's report that 838 grantees, or 76 percent of those reviewed using the PRISM system in 2000 were out of compliance with one or more financial management standards. It disturbed me even more that 440 or 53 percent of those same grantees were cited again for fiscal or programmatic problems in the subsequent 2003 review. About half of those grantees were found to have two or more areas of concern. It is my hope that in creating the comprehensive risk assessment that the Head Start Bureau and ACF will seriously look at this problem and come up with viable answers. Do you anticipate that the new risk assessment will help in reducing the number of repeat offenders? Also, do you believe that this new assessment will help grantees find long-term solutions to fiscal management concerns?

Answer 3. ACF anticipates that risk assessment will help in reducing the number of "repeat offenders" in the future. ACF already has identified the risk factors that we are moving quickly to address. For example, in the past, Regional Offices often accepted grantee letters of compliance stating that non-compliances were corrected. Although there are legitimate situations in which a letter and corresponding documentation may be sufficient for a Regional Office to determine that non-compliance has been corrected, there are also many situations that should be verified through an onsite visit. In fiscal year 2005, ACF is establishing new policy that reduces the acceptance of letters of compliance and greatly increases the use of onsite followup reviews to verify compliance. This will help reduce the number of repeat findings by assuring, onsite, that all problems have indeed been corrected.

ACF believes that some repeat non-compliances occur because the original review team did not establish and report the connection between a non-compliance and the underlying governance and/or management systems that should have detected and corrected the non-compliance as part of their ongoing local oversight responsibilities. Through training, policy development, and quality assurance ACF will insist on review teams addressing these interrelationships and making them known to grantees in monitoring reports so that grantee corrective action is completed in a way that ensures that changes are long-lasting and sustainable in fiscal as well as programmatic areas.