

Mr. Chairman and members of the committee, I am pleased to be here today to discuss our recent report on oversight of the Head Start program by the Department of Health and Human Services (HHS). Although Head Start is a popular program and millions of low-income children have benefited from the program over the past 40 years, it is important to ensure that all grantees are held accountable for achieving program results and properly managing their Federal funds. The reauthorization of Head Start presents an opportunity to address some of the management challenges facing the Head Start program.

Head Start is the Federal Government's single largest investment in early childhood education and care for low-income children. HHS's Administration for Children and Families (ACF) manages Head Start and relies on hundreds of different grantees throughout the country to provide services to more than 900,000 children and their families. Head Start funding increased three-fold in real terms during the 1990s. Currently, ACF disburses about \$6.8 billion annually to Head Start grantees. As you can imagine, managing a program of this size, with this many grantees and beneficiaries, can present many challenges.

My testimony today will focus on how well ACF manages the risks associated with the Head Start program. Specifically, I will discuss: (1) ACF's processes to assess financial risks; (2) how those processes can be improved to ensure the accuracy and reliability of the information ACF collects on its Head Start grantees; and (3) the effectiveness of the approaches ACF uses to make sure Head Start grantees address any financial management weaknesses in a timely manner.

My written statement is drawn from our recent report on Head Start risk management, which was completed for the committee in accordance with generally accepted government auditing standards.¹

In summary, ACF does not have a comprehensive risk assessment process it can use to collect information on how well grantees are performing and managing their Federal grant funds. Such an assessment should be able to provide ACF with the information it needs to target its oversight activities, reduce the risks inherent in

¹GAO, *Head Start, Comprehensive Approach to Identifying and Addressing Risks Could Help Prevent Grantee Financial Management Weaknesses*, GAO-05-176 (Washington, D.C.: Feb. 28, 2005).

managing a large Federal grant program, and help prevent grantees from failing financially, through earlier intervention. While ACF has many processes it uses to collect information on its grantees, these efforts are conducted by different organizations within ACF, and ACF does not have a process in place to systematically bring the information together in one place to do an assessment of how well the program is operating.

When we looked more closely at ACF's oversight processes, we identified flaws that limit the quality, accuracy, and reliability of the information ACF collects on its grantees. For example, ACF does not have a quality assurance process that could validate the findings of the reviews it conducts of its grantees at least every 3 years; it does not verify the accuracy of the data it asks its grantees to submit on key performance indicators each year; and it does not reconcile a grantee's actual withdrawals with its reported expenditures until all of the funds have been spent. These flaws limit the information ACF has on Head Start grantee's financial status and operations and, as a result, 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. 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. 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 grant funds too quickly and did not adequately manage their grants to ensure that there would be funds available throughout the school year.

When ACF identified grantees with financial management problems, we found that it took limited actions to ensure that grantees quickly corrected their problems and made lasting changes to their programs so the problems would not surface again. This is a concern because ACF's data show that more than 76 percent of Head Start programs that were reviewed in 2000 were out of compliance with financial management standards, and more than half of these grantees were still out of compliance during their next review. When we looked at the approach ACF takes to ensure that grantees correct their problems, we found that ACF most frequently relies on grantees to self-certify that they have corrected their problems without ever visiting the grantees for verification. One of the more aggressive approaches ACF can take to address longstanding 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 ACF regional offices to determine the severity of the problem. As a result, one grantee could be deemed deficient while another, with similar problems, would not. We also found that ACF makes limited use of its authority to terminate its relationship with poorly performing grantees. ACF does not seek competition for a grant until after the current grantee has exhausted all its appeals or it has convinced a poorly performing grantee to voluntarily relinquish its grant. The process to remove a grantee that fails to perform up to standards is protracted, and that grantee can continue to receive funds long after financial management weaknesses have been identified. In the meantime, the community has no other option for Head Start services and low-income children may not receive the quality or intensity of services that they need.

We made a number of recommendations in our report and ACF agreed to implement many of them. Implementing these recommendations will go a long way 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. More importantly, however, these improvements should help ACF prevent grantee financial management weaknesses before the problems become too severe. We also recommended that ACF make greater use of its authority to seek competition by taking steps to seek qualified applicants where the current grantee fails to meet program requirements. While such a step should be taken after carefully considering all available options, competition would help to ensure that children are no longer served by poorly performing grantees. Ultimately, enforcing all the program's requirements—especially financial management requirements—strengthens the Federal commitment to poor children and their families by effectively managing scarce Federal resources and making sure as many eligible families as possible can participate in the program.

BACKGROUND

Begun in 1965 as part of the Johnson Administration's War on Poverty, Head Start offers poor children and their families a range of services, including preschool education, family support, health screenings, dental care, and assistance in accessing medical services. The program may either provide the services directly or facilitate access to existing services. Eligibility for Head Start is generally limited to children who are below the age of school entry and from families with incomes below the Federal poverty level or receiving cash assistance from the Temporary Assistance for Needy Families program. To accomplish Head Start's goals for these poor children and families, the Congress last year provided \$6.8 billion in Federal funds, which HHS awards directly to nearly 1,700 grantees nationwide. As funding for this longstanding program has grown, so has the risk associated with any mismanagement of program funds.

While effective oversight of Federal funds is always a guiding principle in managing the various Federal Government programs, accounting scandals in the private sector in 2001–02 reinforced the need for organizations to have stronger financial oversight. Since that time, both public sector and private sector organizations—including many not-for-profit organizations—are paying closer attention to managing the risks in their operations. Indeed, the Office of Management and Budget (OMB) recently revised its guidance for Federal Agencies' financial managers to better integrate and coordinate their risk assessments and other management activities.

The primary goal in managing any Federal program is to provide reasonable assurance that the program is operating as intended and is achieving expected outcomes. A key step in the process of providing this assurance is conducting a risk assessment. A risk assessment is a comprehensive review and analysis of program operations, especially the management of Federal funds, to identify risks and to measure the potential or actual impact of those risks on program operations. The potential for such risks exist in all Federal grant programs; for example, the diversion of funds to other purposes, inefficient use of funds, failure to contribute the grantee's share of funds, or other problems that reduce the effectiveness with which financial resources are brought to bear on achieving program goals. When a Federal program relies heavily on grantees to provide services, as the Head Start program does, the risk assessment process can become more complex. Processes must be developed to assess the operations of every grantee to ensure that each complies with program rules and to measure whether each achieves expected results.

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 of these grantees operate other Federal, State, or local programs in addition to the Head Start program. Many of these Head Start grantees also provide services by subcontracting with other organizations, known as delegate agencies. In 2003, there were about 800 delegates providing services in the Head Start program. Some grantees had multiple delegate agencies while others had none. The various layers of grantees, the administrative complexity of the program, and the interrelationship between programs operated by the same grantee add to the challenges of overseeing the Head Start program.

ACF uses a number of processes to collect information on grantee performance and financial management. Table 1 summarizes ACF key processes for monitoring Head Start grantees.

Various offices within ACF have roles in developing and implementing processes to monitor grantee performance and financial management. (See fig. 1). The Head Start Bureau develops program policies and designs the program-specific oversight processes to collect information on grantee performance. Staff from the 10 regional offices implement the policies developed by the other offices within ACF, ensure that all grantees are in compliance with program rules, and frequently develop additional policies to aid in their oversight responsibilities.

TABLE 1: ACF'S OVERSIGHT PROCESSES FOR MONITORING GRANTEES'
FINANCIAL MANAGEMENT

Monitoring process	Required frequency	Purpose and description
onsite 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, onsite 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.

ACF LACKS A COMPREHENSIVE STRATEGY TO ASSESS HEAD START RISKS

ACF uses many processes to collect information on grantee performance and financial management but does not bring together this information to comprehensively assess the program's risks or identify areas where it might need new or improved processes to collect information. Staff in ACF regional offices maintain day-to-day contact with the Head Start grantees and monitor the operations of those grantees throughout the country. Many of those regional office staff told us that they most frequently learn if a grantee is having a problem through a call from a parent or a teacher. The staff in the regional offices said these calls are a routine part of their day-to-day monitoring activities. Over-reliance on this approach can result in missed opportunities to help grantees address management challenges before they become problems. Greater linkages among the various programs offices and oversight activities could produce a more comprehensive approach to assessing program risks and help prevent financial management weaknesses in Head Start grantees. (See fig. 2).

In our review of ACF's management of the Head Start program, we noted a number of ongoing activities that were not well-integrated and did not present a comprehensive view of the program's risks. For example, Head Start's 2004 Management Initiative targeted risks that were identified in recent GAO reports, news articles, and congressional inquiries. The Initiative targeted well-known problems such as underenrollment, overenrollment of children from families that did not meet income eligibility requirements, and excessive executive compensation at some Head Start programs. However, efforts to address broader concerns about program governance—the skills and knowledge of local Head Start governing boards to effectively manage their programs—were notably absent from the Initiative.

In another example of an ACF oversight process that is too limited in scope, we reported that before 2004 ACF had not collected information it could use to estimate the extent of improper payments made by grantees or the Head Start Bureau. But when ACF began to collect this information, the agency focused on just one type of

improper payments to grantees—payments made to grantees that enrolled too many children from families that did not meet the program’s income eligibility requirements. These improper payments pose a program risk because eligible children may not have access to services. While this effort is an important step in systematically assessing risks, the study overlooked many other possible forms of improper payments, such as those made to contractors, to grantees that are significantly under-enrolled, or for unallowable program activities.

Finally, we noted in our report that ACF relies on its regional offices to assess their own operations for gaps that might pose risks to all ACF programs, including Head Start. Such gaps might include failure to follow ACF grant management policies or to maintain files on property acquired or renovated with Head Start funds. Self-assessments can be an important tool, but ACF had not recently conducted an independent compliance review to ensure that its own grant policies are enforced and that the Federal Government’s financial interests are protected.

PROCESSES ACF USES TO COLLECT AND ANALYZE INFORMATION ON GRANTEEES ARE
FLAWED

We found that the main processes ACF uses to collect information on its grantees’ financial management—onsite reviews, annual grantee surveys, and analyses of financial reports and audits—have flaws that limit the value of the information collected. The onsite review process, mandated by the Head Start Act and often known as PRISM—the name of the review protocol—is ACF’s main tool to assess whether grantees are in compliance with statutory and regulatory requirements. While the Head Start Bureau has made progress in improving its onsite reviews, we found that problems remain. We found that the Bureau has no process to ensure that the teams of reviewers follow the Bureau’s guidance. This is a concern because there is evidence that some PRISM reviewers might not follow the guidance for the onsite reviews. For example, comparisons of simultaneous onsite reviews of the same grantees by two different teams—a PRISM review team and an improper payments study team—revealed significant discrepancies. Notably, 21 of the 50 grantees in the improper payments study were cited for enrolling too many children that did not meet the income eligibility guidelines, but the PRISM review teams cited only 3 of those same grantees for failing to comply with income eligibility criteria.

The effectiveness of onsite reviews to systematically identify grantees with financial management weaknesses depends on some assurance that the onsite review is implemented as designed and that the reviewers have the necessary skills to assess grantees’ compliance with Head Start performance standards. The review teams are lead by staff from ACF’s regional offices and include a number of reviewers under contract with Head Start. Many of these contractors are employees of Head Start programs throughout the country. While this level of experience should indicate a familiarity with Head Start program requirements, ACF does not check reviewer credentials or test their knowledge of the rules before they are sent to conduct reviews. ACF seeks feedback, on a voluntary basis, on the contractors’ performance but ACF’s Director of Regional Operations expressed reluctance to solicit feedback on the team leaders’ performance.

ACF also uses an annual survey of its grantees to collect information on the status of their programs to measure results, but ACF does not verify the information collected. We reported last year that important information, such as enrollment in many Head Start programs, is often reported inaccurately. Also, our analysis raises concerns about the reliability of the survey data. ACF relies on 700 checks of internal consistency to ensure that data are reported accurately. Many ACF officials said that the checks make it difficult for grantees to provide inaccurate information. However, our own review of the internal consistency of the data found problems; as long as grantees complete the survey consistently, the data—whether accurate or not—would pass the tests. While ACF officials said they would be able to address the problems we identified in our analysis, because the data are used widely by policymakers and the public to assess the program’s results, until ACF takes steps to ensure the accuracy of the database we urge caution in using data from the survey to monitor Head Start grantees.

All Head Start grantees report on the status of their funds through periodic financial reporting and annual audits of their financial statements. We found that ACF made limited use of the information collected through these two processes to analyze Head Start grantees’ financial status. For example, ACF does not routinely reconcile a grantee’s withdrawals with its reported expenditures until after the funds have all been spent. It is therefore difficult for ACF to identify grantees that might be drawing down excess funds at the beginning of the grant period and risking shortfalls at the end of the period. Regarding audits, all grantees must obtain an annual

audit of their financial statements and compliance with selected Federal laws and regulations. These audits are conducted under a framework mandated by the Single Audit Act. While these audits may not be as comprehensive as an onsite program review, they are designed to ensure that Federal grantees' financial statements are accurate, that they have adequate checks and balances in place to protect Federal funds, and that they are in compliance with key regulations. However, ACF officials cited limitations in the scope and timing of the audits for failing to use them more systematically in their day-to-day oversight activities. In focusing on the limitations of these audits, ACF officials may overlook some valuable information on grantees' financial management practices.

ACF DOES NOT ENSURE THAT GRANTEE EFFECTIVELY RESOLVE FINANCIAL
MANAGEMENT PROBLEMS

One way to assess the effectiveness of the approaches ACF uses to address grantees' financial management weaknesses is to examine whether grantees resolve their problems and then stay in compliance. ACF's data from its onsite reviews from 2000–03 show that many grantees that were cited for failing to comply with financial management requirements in one review still had problems in their next review.² Our analysis of the data shows that more than half of the grantees cited for failure to comply with financial management-related rules were out of compliance again with one or more financial management standards during their next review. (See fig. 3).

Moreover, the number of areas of financial management in which grantees were noncompliant did not decrease with subsequent reviews. As figure 4 shows, of the 70 grantees cited in 2000 for problems in all three major areas of financial management—fiscal management, program governance, and record keeping/reporting—69 still had one or more problems in each area at the next review.

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 consistently on time, the improved performance may not be sustained.

When grantee problems are identified through onsite reviews or audits, ACF often relies largely on grantees' self-certification that they have corrected problems rather than imposing special conditions or conducting a site visit. While self-certification may be appropriate in cases when minor problems can be corrected quickly, the analysis in figure 4 suggests that many grantees with problems are not getting the help they need to correct their problems and make lasting improvements in their financial management capabilities. We reviewed the files of 34 grantees with financial management problems identified by ACF during its onsite reviews. In 18 cases, ACF determined that the grantees' problems were not severe enough to be deemed deficient—a term ACF uses to identify grantees with severe problems. Of those 18 grantees ACF required 16 to submit letters certifying that they had corrected the problems and no further action was pursued. In the other two cases, ACF returned to review the grantees and found that they had not corrected their problems. It was not clear from our file review how ACF prioritized these two grantees for followup, but in revisiting these grantees ACF took an aggressive step to ensure compliance. Because the two grantees had not corrected their problems, as required by law, ACF deemed them deficient and required them to develop a quality improvement plan.

ACF also relies primarily on self-certification to resolve problems identified in grantees annual audits. In each of the 30 audits we tracked from the date the auditor completed a report identifying financial weaknesses until the regional office judged the audit findings resolved, that judgment was based on a letter from the grantee rather than a site visit or other followup. Regional staff said they relied on subsequent audits to ensure that such findings are resolved, but we found it frequently takes up to 2 years from the point an audit identifies a problem until the regional office receives the next audit, during which the grantee continues to receive Federal funds. While the results of our review in four regional offices may not rep-

²The data base for onsite reviews, PRISM, contains both grantees and grantees with any delegate agencies reviewed. The data presented in this section contains both types of entities. When we analyzed the grantees separately, we obtained the same results about percentages of grantees that were non-compliant and had recurrent problems in their next review.

resent the range of actions taken by all ACF regional offices nationwide, we interviewed managers in other regional offices who generally described similar procedures.

To the extent that grantees have recurring financial management problems, more aggressive approaches might be appropriate. ACF has the authority to impose special award conditions—such as requiring grantees to seek approval for every withdrawal of grant funds—but ACF rarely imposes these conditions. ACF can also make a follow-on visit to ensure that the grantee has implemented corrective actions and is in compliance with the program's rules. The Head Start Act requires ACF to conduct follow-on visits when it determines that a grantee has such severe problems that it deems the grantee deficient; ACF can also return to grantees with less severe problems, but we found ACF rarely does so. We could not discern an objective rationale for when ACF regional offices decide that a grantee is deficient and when they do not. For example, reports based on the onsite reviews for 20 of the grantees we reviewed showed similar problems in the quantity of violations and the severity of the problems cited, but the regional offices deemed only 10 of the grantees deficient. Regional office staff and their managers in the offices we visited said they meet to discuss any problems identified during the onsite review to determine whether to deem the grantee deficient, but they said they treat each case differently and largely base their determinations on their previous experiences with the grantee.

The most aggressive approach ACF can take to ensure that a community is served by a Head Start grantee with sound financial management is to seek a new grantee if the current grantee cannot perform as expected. However, we found that ACF rarely terminates its relationships with poorly-performing grantees. Instead, ACF said that, in lieu of terminating a poorly performing grantee, it will try to convince such a grantee to voluntarily relinquish its right to its grant. When ACF does undertake the protracted process of terminating its relationship with a grantee, the grantee will continue to receive funding even if it appeals ACF's decision—regardless of the appeal's merits. Under ACF's current regulations, it must also fund a grantee's legal costs until the grantee has exhausted its appeals before HHS' Departmental Appeals Board. According to an Administrative Judge on the Appeals Board, no other HHS grant program except Head Start allows grantees to continue receiving funding throughout the appeals process.

When ACF decides to award a grant, the Head Start Act requires that ACF give priority to grantees already operating a Head Start program in the community. This aspect of the law provides important continuity for Head Start services in a community. It also provides important stability for grantees. However, the act allows the Secretary to deny priority to any grantee the Secretary finds fails to meet the program's performance or financial management requirements. Denial of priority status to current Head Start grantees would open up the possibility of competition for the grant among other qualified applicants. ACF could seek a new grantee that can demonstrate the ability to manage Federal funds responsibly, in accordance with program rules, and that can provide high-quality Head Start services to eligible children in the community. Obviously, denying priority status to a grantee that has been a part of a community for years, has educated multiple generations of children from that community, and has employed a number of staff from the community is a major step that should be taken after carefully considering all available options. But, denial of priority status is a step that ACF should take if a grantee fails to make the necessary changes to effectively manage its program. Ultimately, enforcing all the program's requirements—especially financial management requirements—is really about strengthening our commitment to future generations of children, seeking better ways of managing scarce Federal resources, and making sure that we reach as many eligible families as possible.

We made 8 recommendations in our report to improve the overall management of the Head Start program, strengthen the tools ACF uses to collect useful information on its grantees, and improve ACF's analysis of the information it collects. Specifically we recommended that the Assistant Secretary for Children and Families:

Produce a comprehensive risk assessment of the Head Start program and update it periodically. Such an assessment should:

Consider plans to collect data on and estimate the extent of improper payments made for unallowable activities, payments to grantees that are significantly underenrolled, or other unauthorized activities,

Aim to improve the processes ACF currently uses to collect and analyze information on program risks; for example, ACF should:

Train and/or certify its onsite reviewers to ensure they have the skills and knowledge necessary to perform their responsibilities,

Develop an objective approach for regional office management to use in assessing the severity of the problems identified during onsite reviews and for finding grantees deficient or not, and

Implement a quality assurance process to ensure that the framework for conducting onsite reviews is implemented as designed, including holding ACF's regional management accountable for following this framework and for the quality of the reviews.

Verify key data from the annual survey of grantees to enhance the usefulness of this data in overseeing its grantees and managing the program, and

Seek ways to make greater use of the data it collects on the status and use of Federal funds through a periodic reconciliation of grantees' reported expenditures with their withdrawals.

Take steps to obtain competition for a grant if ACF has determined that the current grantee fails to meet program, financial management, or other requirements. Such a competition could be held without giving priority to the current grantee.

ACF agreed to implement most of our recommendations. However, ACF expressed concerns about our last recommendation, suggesting that it did not have the authority to seek competition from other qualified applicants for grant funds in communities that are currently served by poorly performing grantees without first terminating its relationship with such grantees. Seeking other qualified applicants under these circumstances would strengthen the linkages between a program's performance—including financial management—and its funding. Congress may wish to seek other qualified applicants and clarify the extent of ACF's authority to deny priority status to grantees it determines fail to meet program, financial management, and other requirements.

Mr. Chairman, that concludes my prepared statement. At this time, I would be happy to take any questions you or other committee members may have.

GAO CONTACT AND STAFF ACKNOWLEDGMENTS

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RESPONSE TO QUESTIONS OF SENATOR ALEXANDER BY GAO

Question 1. According to the 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 1. While only about 24 percent of the grantees reviewed in 2000 passed their reviews without any findings of non-compliance with financial management standards, nearly half—about 47 percent—of those with problems passed their next review with no financial management problems.

The Head Start Act requires HHS in awarding new Head Start grants to give priority to current Head Start grantees. We are aware that this provision is designed to ensure the continuity of high quality programs and avoid unnecessary and disruptive changes in grantees that serve a particular community. However, HHS may deny priority to a grantee if it determines that the grantee fails to meet financial management or performance standards. In such a situation, HHS may, as we suggested, choose to conduct a competition which could ultimately result in a new grantee being selected and the current grantee being terminated. The Congress may wish to consider amending the current law by providing for alternative termination procedures and timeframes to minimize disruption under these circumstances. Congress may also wish to more explicitly specify the circumstances under which a grantee could maintain its priority status and the level of failure to meet financial management or performance standards that would be necessary for a grantee to be denied priority status.

Question 2. The Senate bill to reauthorize the Head Start program from the 108th Congress included provisions that would require Head Start grantees to re compete 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 grant-

ees. 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 2. Our recommendation was based on current law that generally provides priority to grantees that operate programs that meet financial management and program requirements. Among those grantees that were reviewed in 2000, 24 percent met their financial management requirements and, of those that did not, 47 percent were able to correct any noncompliances before their next review. Clearly, we do not want to lose the experience and expertise such providers bring to the program. On the other hand, of the grantees reviewed in 2000 that had financial management weaknesses, 53 percent continued to have financial management problems in subsequent reviews. ACF will need to focus its oversight resources on these grantees in order to ensure that such programs can succeed; if no improvements are forthcoming, then ACF may need to exercise its authority to re compete those grants.

While we did not address the Senate bill to reauthorize the Head Start program, we generally believe that competition on a level playing field will result in the consistent selection of high quality grantees and that a grantee's past experience can and should be an important factor in these selection decisions.

As noted in our report, 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. Reliable, accurate, and transparent processes are needed in order for ACF to be effective in separating stronger grantees from poorly performing grantees.

Question 3. Testimony that will be given later today suggests that the data used in the report could be improved by separating grantees into categories based on whether or not they had multiple findings, or whether the findings were severe or not. Is that data available, and how might the GAO report be different if the data were reported in this way?

Answer 3. ACF provided us with its databases summarizing the results of its on-site reviews for fiscal years 2000–03. The 2000 database contained approximately 1,100 records reflecting reviews done by ACF in 2000. These records include both grantees and grantees with any of their delegates. We have run the analysis for both the entire database and for grantees separately and the results are the same: 76 percent of the grantees had at least one of the three areas with non-compliance and 53 percent had recurrent problems.

Of the 76 percent that were out of compliance with at least one financial management standard in 2000:

- 14 percent were out of compliance with only 1 financial management standard,
- 32 percent were out of compliance with 2–5 financial management standards,
- 54 percent were out of compliance with 6 or more financial management standards, and
- 36 percent were out of compliance with 10 or more financial management standards.

In both 2000 and 2003, the four standards with which grantees were most often found out of compliance were:

- The requirement to maintain an effective reporting system to generate reports on grantee financial status and program operations to advise governing bodies, policy groups, and program staff of program progress;
- The requirement that grantees maintain a recordkeeping system to provide accurate and timely information regarding children, family and staff and assure appropriate confidentiality of this information;
- The requirement that the grantee establish procedures describing how the governing body and the appropriate policy group will implement shared decision-making;
- The requirement that each grantee and delegate agency establish written procedures for resolving internal disputes between the governing body and the policy group.

In 2000, 13 percent of grantees reviewed were judged deficient based on financial management standards. However, in our review we found that ACF did not use common criteria to determine deficiency.

Question 4. 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 4. All of the recommendations we set forth in our report are actions that, we believe, ACF can take without seeking further authorities and ACF has indicated that it intends to act on most of these recommendations. However, congressional oversight is always necessary to ensure that Federal Agencies demonstrate continued commitment to improvements. If asked, we are prepared to assist the committee to monitor ACF's progress in implementing our recommendations.

Question 5. As we've heard from Assistant Secretary Horn, the Administration on Children and Families is committed to strengthening the Head Start accountability process. He's outlined a number of recent policies that have been put in place, as well as a number of new initiatives that will help ensure Head Start program dollars are being used most effectively. Do you expect that these activities will be sufficient, and are there additional activities you might suggest?

Answer 5. The steps set forth in Assistant Secretary Horn's statement should lay a solid foundation to ensure that ACF can do a better job identifying and addressing the program's risks and preventing grantee financial management weaknesses. However, continued monitoring may be necessary.

The Congress may wish to ask ACF to conduct additional systematic analyses of other types of improper payments in order to provide a better estimate of program risks. In Assistant Secretary Horn's statement, he expressed support for looking more carefully and systematically at the way grantees expend all of their Head Start funds. However, he did not indicate that ACF would specifically look at other types of improper payments the same way it reviewed compliance with the income-eligibility rules in 2004 as we recommended in our report that HHS should do so. In February, ACF provided technical comments on a draft of our report and noted that audit reports and other reviews would be used to 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.

Question 6. In your testimony you stated that the Head Start program is the only program operated by the Department of Health and Human Services that allows a grantee to continue grant operation while appealing the termination of the grant. Could you determine in your review why this is the case? Are there other Federal programs that allow this?

Answer 6. Our work did not cover grant conditions in Federal grant programs in other Federal Agencies. We limited the scope of our work to the Head Start program specifically and sought supplementary information from the HHS' Departmental Appeals Board in order to draw comparisons to other programs under its oversight authority.

Question 7. Also mentioned often in your testimony and in the GAO report is that regional staff believe they are overworked and have control over too many grants. How pervasive is this problem? Do you believe that additional staff at the regional level would help earlier detect some of the financial and programmatic problems at the grantee level? Or would additional staff simply add to the Federal bureaucracy of the program?

Answer 7. We did not assess the human resource capacity in ACF's regional offices. We did report that regional office program specialists working with Head Start grantees typically are responsible for about 12 grantees. According to the Assistant Secretary for Children and Families' testimony before the committee, ACF fully supports our recommendation to develop a comprehensive risk assessment of the Head Start program. Once completed, ACF should be in a position to make more efficient use of its human resources and better target its oversight resources to identify financial and program problems at the grantee level. Additional training for ACF's existing staff is also an area discussed in the report.

Question 8. It is often stated in the GAO report that ACF rarely uses the authority it has to recompet a grant if a grantee has been found deficient. The report also states that deficient grantees are often given bonus points during renewal, even though ACF is not required to give priority to a grantee that has failed to meet program, financial management or other requirements established by an agency. Do you believe that increased use of this authority would strengthen current grantees or would it hurt the continuity of the program?

Answer 8. We believe that ACF has the authority to deny priority status to a grantee that fails to meet program or financial management requirements—i.e., deficient grantees—when awarding grants and that ACF should use its authority in order to open up the possibility of competition for grants to other qualified providers. Denial of priority status is a major step that should be taken after carefully

considering all available options so as to avoid unnecessary and disruptive changes in grantees that serve a particular community. However, denial of priority status is a step ACF should take if a grantee fails to make the necessary changes to effectively manage its program.