Testimony of

Carmen R. Nazario

Assistant Secretary for Children and Families

U.S. Department of Health and Human Services

Before the

House Committee on Education and Labor

United States House of Representatives

May 18, 2010

Chairman Miller, Ranking Member Kline, and members of the Committee, I am pleased to have this opportunity to appear before you today to discuss the Government Accountability Office's (GAO) review of selected Head Start grantees.

Just over 45 years ago, in the Rose Garden of the White House, Project Head Start was announced – a program dedicated to fighting the war on poverty so that millions of children could get a "head start" on their future by receiving the education, health, and social services they need to be prepared fully to enter Kindergarten ready to learn. Over the last four decades, over 26 million children and their families have participated in the Head Start program. This program is vital to the Administration's strategic focus on early learning and I share Secretary Sebelius' sentiments that "…for Head Start to achieve its full potential, we must improve its quality and promote high standards…."

I appreciate this Committee's long-standing strong support for the Head Start program and know that you, like me, are deeply disturbed by GAO's report that employees in approximately eight Head Start programs appear to have determined children eligible for Head Start despite being given evidence that their income exceeded the eligibility limits. The Head Start program is designed to move our nation's low-income children along the road of school success. Diverting funds to children who are less needy is, quite literally, stealing away that opportunity from children who need it most. I want to assure the Committee that we take these allegations very seriously. The matter was immediately referred to the Department's Inspector General. More broadly, we are taking steps to root

out fraud and errors program-wide and ensure that every Head Start slot is used to serve an eligible child. I now will discuss our response to the GAO investigation, our broader efforts to bolster program integrity in Head Start, and Secretary Sebelius' Department-wide program integrity initiative.

Response to GAO's Investigation Findings

While I have only seen GAO's statement for today's hearing, I understand that during its investigation undercover investigators posed as parents or grandparents with preschool age children in 15 different situations and allegedly uncovered approximately eight instances in which a Head Start employee made a determination that a child was eligible for services despite evidence that the family's income exceeded the eligibility limit.

As soon as the Department was given the names of the grantees that GAO alleges to have engaged in fraudulent eligibility practices, we referred the cases to the HHS Inspector General, the Department's investigative arm. The OIG has directed the Administration for Children and Families (ACF) to refrain from taking investigatory or disciplinary actions against any individuals or organizations implicated in the GAO study while the investigation is pending. The OIG – a law enforcement body – does not want our actions to interfere with their efforts. We must respect their judgment and support law enforcement in making sure they have the ability to determine whether there are potentially criminal acts warranting prosecution. To this end, we are fully cooperating

with both GAO and the OIG while continuing to pursue broad program integrity enhancements to reduce any potential risks of fraud or abuse within Head Start.

We will await completion of the OIG and GAO investigations before taking specific steps in these cases. Depending on the evidence and the findings by either the OIG or the Office of Head Start (OHS), a grantee may face a summary suspension leading to termination. If the OIG uncovers possible fraud or program violations, but does not develop sufficient evidence to support suspension or termination, then the Department will immediately conduct in-depth reviews of these grantees to gather additional data in the areas of enrollment, recruitment, selection, eligibility and attendance (ERSEA). If this additional evidence does not support suspension and termination (for example, if there are isolated instances of individual workers acting fraudulently rather than a systemic breakdown), we can require immediate corrective actions, including requiring grantees to pay back funds that were misspent.

Bolstering Broader Head Start Program Integrity Efforts

Since learning of the GAO review, we have taken immediate actions to bolster our broader program integrity efforts. Yesterday, the Secretary sent a letter to every Head Start grantee in the country to underscore the serious nature of these allegations and notify them that the Department is intensifying its oversight and enforcement actions.

On May 10, the Office of Head Start issued a Program Instruction (PI), entitled "Income Eligibility for Enrollment in Head Start and Early Head Start Programs," designed to remind grantees of their obligation to verify income and other factors of eligibility. The PI reinforces the requirements related to income verification and the consequences should an employee knowingly sign a verification form that contains false information. The PI also encourages grantees to use the Head Start Eligibility Verification Form, to retain copies of verification documents for review, and to provide annual training to all employees responsible for income verification. To highlight the importance of this PI, the Director of the Office of Head Start will hold a web cast with all Head Start grantees.

We are in the process of conducting a top-to-bottom review of our program monitoring, Erroneous Payment Study, and risk management process to determine how we can improve program oversight and modify regulatory requirements to assure compliance with the Head Start Act. While this review is ongoing, we will take a number of actions in the coming weeks and months to strengthen federal oversight of Head Start programs. These actions will include:

- **Conducting unannounced monitoring visits to Head Start grantees.** In the past, we have typically provided grantees with notice before coming to conduct monitoring or other onsite visits. We will increase our use of unannounced visits to ensure that we are able to review how Head Start programs operate on a daily basis.

- **Creating and publicizing a web-based "hotline" that will allow those with information of impropriety of any kind to report it directly to me.** We know that fraud is often detected and reported by scrupulous employees who stand up and do the right thing and, thus, we will ensure that all Head Start employees are informed about this hotline.

- **Developing new regulations that promote program integrity.** We are developing new regulations that will address verification requirements and staff training on eligibility criteria and procedures.

- **Increasing oversight, particularly of grantees with identified risk factors.** Each year, ACF conducts an assessment with grantees to identify programs at risk for program violations or management problems. ACF, in partnership with the grantees, develops and implements action plans to mitigate the risk factors. Our staff will be scrutinizing programs more carefully in the risk assessment process and the action plan phase.

- **Recompeting grants when questions arise about whether grantees are offering high-quality services or have management lapses.** We soon will issue proposed regulations that articulate which grantees will be required to compete for continued Head Start funding – implementing an important reform enacted by Congress in the Head Start for School Readiness Act of 2007. The goal of the

regulations is to promote program integrity and strengthen the quality of services that Head Start provides.

The improvements to the monitoring system, risk assessment system, and the role of recompetition are discussed in more detail below.

Partnership with the Office of Inspector General

Before this GAO investigation was made public, we already were working with the OIG to combat fraud in Head Start. Since 2007, OHS and the OIG Office of Audit Services (OIG-OAS) have had an ongoing partnership. In 2007, the OIG-OAS conducted an in-depth review of one grantee and notified OHS that the grantee was not in compliance with Federal Health and Safety regulations and Financial Management requirements. Based on the information, OHS stopped funding this grantee.

This success led to a more robust partnership with the OIG. In 2009, OIG-OAS and OHS partnered to conduct 24 Health and Safety Reviews and an additional 24 Capability Audits of existing grantees that were deemed high risk by OHS. The OIG audits led to one relinquishment, increased oversight of three high risk grantees that entailed restrictions on use of funds, and initiation of termination proceedings against two grantees.

In 2010, this partnership shifted to focus on funding from the American Recovery and Reinvestment Act. OHS and OIG-OAS partnered to review pre-award Early Head Start

applicants to ensure that funds were only provided to viable organizations. Applicants who did not demonstrate the capacity to properly account for and manage Federal funds were not awarded ARRA grants.

In 2011, OHS again will identify high risk grantees using program monitoring and risk management data and refer them to the OIG for in-depth audits.

Tools for Improving Program Integrity

While we have significant monitoring operations already in place that include triennial onsite reviews of every grantee, more frequent onsite monitoring of programs where problems have been identified, and significant data collection, we can do better. We look to GAO's review to help inform our efforts to improve Head Start program integrity.

The following are oversight mechanisms in place or called for in the statute that can be strengthened to fight fraud and promote program integrity more effectively: the monitoring system, Risk Management Process, the Erroneous Payment Study, the Redesignation Renewal System, Performance Standards, and Training and Technical Assistance.

Monitoring System

The Head Start monitoring system is the most comprehensive tool currently available for ensuring accountability of Head Start grantees. All grantees receive an on-site review at

least once every three years. New grantees are reviewed immediately after completion of their first year of providing services. Follow-up reviews are conducted for grantees that fail to meet any requirements identified during a review. Additionally, reviews may be initiated whenever an issue is identified that requires immediate attention.

On February 28, 2005 the GAO issued a report entitled, "Head Start: Comprehensive Approach to Identifying and Addressing Risks Could Help Prevent Grantee Financial Management Weaknesses" (GAO-05-176). Based on recommendations from this report, we took steps to strengthen the monitoring system in FY 2006 by centralizing the elements of quality control and setting a uniform set of standards and verification for validating the expertise and capacity of each reviewer.

The review teams include experts in fiscal, early childhood education, program management, health and nutrition services, mental health, social services, and health and safety. The expertise of all team members is verified using reference checks, degree checks, comprehensive screenings, and interviews. Reviewer performance in the field is monitored through a standardized assessment tool, as well as by analyzing the quality of the evidence collected.

When a review team finds areas in which Head Start programs are not in compliance, in all cases the grantee must demonstrate timely corrective actions. More severe instances of noncompliance – called "immediate deficiencies" -- must be corrected in 30 days or less while less serious problems – called "noncompliances" – generally must be corrected

within 120 days. Regional Office staff as well as Training and Technical Assistance providers support the grantee in their efforts to correct the findings. When a deficiency is identified that requires immediate corrective action, OHS works to ensure that the grantee takes immediate corrective action to ensure that: 1) staff and/or children are removed from imminent harm or immediate danger; or 2) threats to integrity of Federal funds are removed.

Follow-up reviews are conducted for all grantees that have one or more areas of noncompliance or a deficiency. An area of noncompliance that remains uncorrected within the timeframe specified will become categorized as a deficiency. Deficiencies that remain uncorrected will result in termination of the grant.

While the monitoring reviews are in-depth and expose areas of noncompliance as well as more serious deficiencies, we think the process can be strengthened. This summer, we will begin conducting unannounced monitoring visits. This will help us ensure that we are reviewing Head Start programs as they operate on a daily basis. We also intend to step up our monitoring visits of programs that are not performing up to our standards. Moreover, we are going to look more carefully at certain aspects of programs' operations during monitoring reviews, including whether grantees are providing regular training to employees who verify eligibility income and whether grantees have waiting lists that include relevant eligibility information.

Following my confirmation in September 2009, we began an analysis of the Head Start Monitoring protocol and guidance to improve the quality of information collection; stimulate more comprehensive program analysis; and maintain transparency in the monitoring system. We will continue those efforts with more vigor to be certain our programs are held to the highest standards and grantees are provided the assistance they need to run successful Head Start programs.

The Risk Management Process

In the same 2005 report referenced above, GAO found that ACF had not undertaken a comprehensive assessment of risks which might limit Head Start's ability to meet its objectives. In response, in 2008 HHS implemented a Risk Management Process (RMP) through which staff conducts a risk assessment of each Head Start grantee annually and works with grantees to develop action plans to mitigate areas where the grantee is at risk of failing to meet program requirements. The action plan may include changes that the grantee will make as well as training and technical assistance that OHS will provide.

The RMP is used to address a range of issues throughout the year, including post-monitoring concerns; progress in meeting goals or sustaining improvements for grantees at high risk; grantees with under-enrollment; and program expansion. We are reviewing the Risk Management Process to determine how to strengthen the process to ensure that staff correctly identify grantees with problems and develop effective action plans to mitigate those problems.

Erroneous Payment Study

The Office of Head Start conducts an annual Erroneous Payment (EP) study which entails a review of documentation related to children's eligibility in 50 Head Start grantees. During regularly scheduled monitoring visits, these grantees' eligibility files are reviewed. The objective of the EP study is to produce a nationally representative error rate that represents the share of children served in Head Start or Early Head Start who did not meet eligibility criteria. The study is conducted to comply with the Improper Payments Information Act of 2002 and the Office of Management and Budget (OMB) requirements that Federal programs susceptible to payment errors report annually on erroneous payments in their programs.

A payment error in the Head Start program is defined as "enrollment of more than the allowed percentage of children whose family income exceeds the income eligibility guidelines." The study has yielded a relatively low error rate in recent years, but it is important to note that the design would not uncover many types of errors or intentional fraud. The study examines whether the program met the administrative requirements regarding eligibility determinations – namely, the monitors review whether the program staff signed the form certifying that each child is eligible for the program. This study, as currently conducted, cannot identify cases where a program has intentionally certified an ineligible child as eligible or where a program has not correctly verified income and, thus, unintentionally made an incorrect eligibility determination. We recognize the limited utility of this methodology, and we are considering different options, including revising the study design to be certain we are attaining the most benefit from this study.

Redesignation Renewal System

Another key program integrity and quality initiative involves implementation of the new Redesignation Renewal System. Since 1965 there have been few opportunities to introduce competition into the Head Start grant process. If an entity was awarded a Head Start grant and complied with the standards (or, at a minimum, corrected deficiencies when they arose), it has been able to keep the grant in perpetuity. Compared to the many other Federal grant programs, this is highly unusual.

In their 2005 report, the GAO criticized ACF because it did not recompete the grants of poorly performing grantees. GAO stated, "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."

Congress, and this Committee in particular, addressed this issue in the 2007 Head Start reauthorization by establishing that Head Start grantees will be awarded grants for a five-year period and only grantees determined to be delivering high-quality services will be given another five-year grant non-competitively. The Act also provided HHS with the authority to recompete grants and required the Secretary of HHS to develop and implement a system for designation renewal to determine if a Head Start agency is delivering a high-quality and comprehensive Head Start program. We have been working to develop a vigorous recompetition plan that will leverage competition to

improve quality program-wide and ensure program integrity. We anticipate publishing the Notice of Proposed Rulemaking describing the designation renewal system and our transition plans from continuous grants to five-year grants this summer

Vigorously implementing the Redesignation Renewal System is one aspect of our overall *Head Start Roadmap to Excellence and Effectiveness.* This roadmap is designed to raise the bar on quality in the Head Start program. Additional elements of the roadmap include strengthening the Head Start performance standards and improving our training and technical assistance system.

Head Start Performance Standards

The Head Start Program Performance Standards provide a standard definition of quality services for all Head Start grantees. We are in the process of revising the Head Start Program Performance Standards regulations to reflect the changes made in the 2007 reauthorization and the latest research on quality services for children and families. The revised program performance standards will incorporate best practices in the field of early education and child development to ensure that Head Start programs meet the educational, health and nutritional needs of the children and families they serve, along with improving program integrity and fiscal management.

Training and Technical Assistance

While we hold grantees to the highest standard, it is our responsibility to provide the training and technical assistance needed to achieve those standards. OHS has a State

Training and Technical Assistance (T&TA) System that builds program capacity by providing comprehensive, individualized technical support to Head Start grantees. Currently, we are working to modify the State T&TA System to improve teacher training and prepare children to enter school ready to learn and create a National Training and Technical Assistance System that would provide targeted information, resources, and assistance to individual Head Start grantees to promote positive, sustained child outcomes. Under the new integrated system, trainers and practitioners specialized in early education and child development will provide support to improve classroom practice and promote family engagement to support their children's learning.

Also this summer, we will establish five new National Centers of Early Childhood Excellence designed to provide targeted information on critical aspects of the Head Start program. The five new National Centers include: National Center on Program Management and Fiscal Operations that will focus on fiscal accountability, management oversight, and training; National Center on Parent, Family, and Community Engagement that will focus on strengthening training provided directly to staff at the local level addressing a range of issues including verifying income eligibility, recruitment and selection; National Center on Quality Teaching and Learning; National Center on Cultural and Linguistic Responsiveness; and National Center on Health, Nutrition, Dental, and Mental Health. These five centers, along with the existing Early Head Start National Resource Center, will provide experts who can offer training and resources regarding best practices to assist local Head Start programs along with State efforts to

build a quality early childhood and development infrastructure for local early childhood providers.

Program Integrity at HHS

The Department's commitment to strengthening program integrity is not limited to reacting to fraud allegations in a particular program, but is a broad-based priority for preventing, detecting, and prosecuting as appropriate fraud in all of our programs. Recently, Secretary Sebelius unveiled her Secretarial priorities and identified strengthening program integrity as one of nine priority areas. Last week, the Secretary announced the formation of the Secretary's Council on Program Integrity to look systematically across all parts of HHS to determine how we can strengthen our fraud and error-fighting efforts, from Medicare and Medicaid, to Head Start and LIHEAP, to medical research and public health grants. This effort is critical because the success of all of the important work we do – from providing comprehensive preschool to poor children or health benefits to seniors – depends on making sure that taxpayers' dollars are used wisely, efficiently, and according to the law.

I share the Secretary's commitment. Since my arrival last year, a core part of ACF's strategic mission has been promoting a culture of integrity from the highest levels of ACF to the local level where children and families are served. I also am in the process of establishing an ACF Office of Program Integrity chartered to strengthen internal procedures and improve grantee financial management and fiscal integrity in all ACF

funded programs. Stamping out any fraud or erroneous payments in Head Start is a key priority.

Conclusion

Each year, Head Start programs provide almost one million of our country's most vulnerable children with a much-needed chance at success. ACF is committed to ensuring that all program resources are used appropriately, and that every slot is filled with an eligible child in need. I hope my testimony has provided the Committee with a clearer picture of our continued and aggressive commitment to eliminate fraud and strengthen the quality of Head Start. We are eager to work with the GAO, Congress, and our grantees to ensure we capitalize on every possible opportunity to strengthen Head Start and help eligible, low-income children prepare for success in school and in life. I am confident that we can achieve these goals together.

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