



September 17, 2004

Report Number: A-06-04-00029

Mr. Santiago L. Rodriguez  
Board of Directors  
Region 19 Education Service Center  
6611 Boeing Drive  
El Paso, Texas 79925-1010

Dear Mr. Rodriguez:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Review of Region 19 Education Service Center's Compensation Practices for Executives and Teachers." A copy of this report will be forwarded to the action official noted below for his review and any action deemed necessary.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act (5 U.S.C. §552, as amended by Public Law 104-231), OIG reports issued to the Department's grantees and contractors are made available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5.)

To facilitate identification, please refer to report number A-06-04-00029 in all correspondence relating to this report.

Sincerely,

A handwritten signature in black ink that reads "Gordon L. Sato".

Gordon L. Sato  
Regional Inspector General  
for Audit Services

Enclosures-as stated

**Direct Reply to HHS Action Official:**

Leon R. McCowan  
Regional Administrator  
Administration for Children and Families  
U.S. Department of Health and Human Services  
Region VI  
1301 Young Street, Room 914  
Dallas, TX 75202-5433

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF REGION 19  
EDUCATION SERVICE CENTER'S  
COMPENSATION PRACTICES FOR  
EXECUTIVES AND TEACHERS**



**SEPTEMBER 2004  
A-06-04-00029**

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## **OAS FINDINGS AND OPINIONS**

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed, as well as other conclusions and recommendations in this report, represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the HHS divisions will make final determination on these matters.



## **EXECUTIVE SUMMARY**

### **BACKGROUND**

#### **Head Start**

The Head Start program was enacted under Title V of the Economics Opportunity Act of 1964 and is administered by the Administration for Children and Families (ACF) within the Department of Health and Human Services (HHS). The purpose of the Head Start program is to: (1) promote school readiness by enhancing the social and cognitive development of low-income children through the provision of comprehensive health, educational, nutritional, social, and other services; and (2) involve parents in their children's learning and help parents make progress toward their educational, literacy, and employment goals. To carry out the program, grants are awarded primarily to community-based non-profit organizations and school systems.

Following news articles and a congressional inquiry relating to excessive executive compensation at some Head Start agencies, Federal Head Start officials asked the Office of Inspector General (OIG) to initiate a nationwide review of nine Head Start agencies' compensation practices. Head Start officials agreed on the selection of Region 19 Education Service Center (Region 19) for review.

#### **Region 19 Education Service Center**

Region 19 is 1 of 20 Education Service Centers in the State of Texas that were founded by the Texas Legislature in 1967 to help school districts identify their needs and provide services to help meet those needs. Region 19, located in El Paso, Texas, has over 900 employees, including more than 200 Head Start teachers, and provides Head Start services to over 3,800 children and their parents.

For grant year 2002, Region 19's Head Start expenditures totaled over \$20 million. In addition to funding from the Head Start program, Region 19 receives funding for various other programs, including Early Head Start and the Child and Adult Care Food program. The total amount of expenditures for other programs was almost \$12.6 million in grant year 2002.

### **OBJECTIVE**

The objective of our audit was to determine whether Region 19's compensation practices for five key executives and teachers were reasonable and consistent with Federal requirements and guidelines.

## SUMMARY OF FINDINGS

Region 19's compensation practices did not meet Federal requirements and guidelines. While compensation for Region 19's key executives appeared reasonable based on our comparisons, teachers appeared to be underpaid. In addition, compensation charges for three executives were inequitably allocated to Head Start.

**Executive compensation appeared reasonable.** Compensation for Region 19's five key executives appeared reasonable compared to positions at other Head Start agencies and El Paso area hourly wage averages for similar positions.

**Teachers may have been underpaid.** The wages paid to Region 19 employees in the 'Teacher III' position were lower than the wages for the positions that ACF said Head Start agencies should use for comparison. In addition, Region 19 did not use its 2001 quality improvement funds to increase current staff salaries as required by ACF Head Start program instructions.

**Executive compensation was inequitably allocated to Head Start.** Region 19 did not comply with Office of Management and Budget (OMB) Circular A-87 when allocating executive compensation charges to Head Start and other programs. Three of Region 19's five key executives had responsibilities over at least two programs. However, the compensation for these three executives was allocated exclusively to Head Start.

## RECOMMENDATIONS

We recommend that Region 19:

- consider bringing its teacher wages in line with wages paid at local preschools or the minimum amount required for public school classroom teachers with the State of Texas as recommended by ACF
- ensure quality improvement funds are spent in accordance with ACF Head Start program instructions
- establish a time and effort reporting system that complies with OMB Circular A-87, Attachment B, §11h to ensure that employees with responsibilities over more than one program are properly allocated amongst the various programs

## REGION 19 COMMENTS

In written response to the draft report, Region 19 concurred with our findings and recommendations. In addition, Region 19 pointed out actions already taken or planned to address our recommendations. Region 19's comments are included in their entirety as **Appendix A**.

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## **INTRODUCTION**

### **BACKGROUND**

#### **Head Start**

The Head Start program was enacted under Title V of the Economics Opportunity Act of 1964 and is administered by ACF within HHS. Its purpose is to : (1) promote school readiness by enhancing the social and cognitive development of low-income children through the provision of comprehensive health, educational, nutritional, social, and other services; and (2) involve parents in their children's learning and help parents make progress toward their educational, literacy, and employment goals. To carry out the program, grants are awarded primarily to community-based non-profit organizations and school systems.

Following news articles and a congressional inquiry relating to excessive executive compensation at some Head Start agencies, Federal Head Start officials asked us to initiate a nationwide review of nine Head Start agencies' compensation practices. Head Start officials agreed on the selection of Region 19 for review.

#### **Region 19 Education Service Center**

Region 19 is 1 of 20 Education Service Centers in the State of Texas that were founded by the Texas Legislature in 1967 to help school districts identify their needs and provide services to help meet those needs. Region 19, located in El Paso, TX, has over 900 employees, including more than 200 Head Start teachers, and provides Head Start services to over 3,800 children and their parents.

For grant year 2002, Region 19's Head Start expenditures totaled over \$20 million. In addition to funding from the Head Start program, Region 19 receives funding for various other programs, including Early Head Start<sup>1</sup> and the Child and Adult Care Food program. The total amount of expenditures for other programs was almost \$12.6 million in grant year 2002.

#### **ACF Compensation Study**

In October 2003, Congress asked the Secretary of HHS to conduct a review of financial management at Head Start grantees, to include information on the salaries and benefits of Head Start executives, and the portion thereof charged to Head Start. To obtain the requested information, ACF contracted with Xtria, the Head Start Bureau's Program Information Report (PIR) contractor, to conduct a salary survey of all Head Start programs. The survey results included detailed information on compensation provided to most Executive Directors and Head Start Directors in grant years 2000, 2001, and 2002.

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<sup>1</sup> Early Head Start is a program separate form the Head Start program. Early Head Start serves low-income families with infants, toddlers, and pregnant women.

ACF provided us with data collected by Xtria that we used in evaluating executive salaries.

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

### **Objective**

The objective of our audit was to determine whether Region 19's compensation practices for five key executives and teachers were reasonable and consistent with Federal requirements and guidelines.

### **Scope**

Our review covered Region 19's grant years 2000, 2001, and 2002 (September 1, 2000 through August 31, 2003).

The five key executives were the highest paid employees at Region 19 who received some or all of their compensation from Head Start funding. For the review, we defined compensation as anything that increases the personal assets of the individual, such as salary and wages, fringe benefits, bonuses, retirement, etc.

We did not review the overall internal control structure of Region 19 for the Head Start program. Our review of internal controls was limited to those controls related to the approval of compensation packages.

We performed our on-site fieldwork at the Region VI ACF office in Dallas, Texas and Region 19's offices located in El Paso, Texas.

### **Methodology**

To accomplish our objectives we:

- reviewed Federal regulations relating to the Head Start program and OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments
- interviewed Region VI ACF and Region 19 officials
- reviewed Region 19 organizational charts, payroll journals, and billing/invoice listings to determine the total compensation and funding sources for the five key executives
- reviewed Region 19 policies, procedures, and board of director meeting minutes to determine the compensation approval process
- reviewed Region 19's wage comparability study

- determined the top 100 Head Start programs based on funded enrollment using the 2002 PIR and calculated the average Chief Executive Officer (CEO) and Head Start Director compensation for the top 100 programs and for those Texas programs represented in the top 100 using the survey data collected by Xtria. However, the data did not include information on salaries for all of the top 100 programs
- reviewed teachers' wages to determine if cost of living adjustments and quality improvement funds were used in accordance with Head Start program instructions

Our audit was conducted in accordance with generally accepted government auditing standards.

## **FINDINGS AND RECOMMENDATIONS**

Region 19's compensation practices did not meet Federal requirements and guidelines. While compensation for Region 19's key executives appeared reasonable based on our comparisons, teachers appeared to be underpaid. In addition, compensation charges for three executives were inequitably allocated to Head Start.

### **EXECUTIVE COMPENSATION APPEARED REASONABLE**

Compensation for Region 19's five key executives appeared reasonable. OMB Circular A-87 and the Head Start Act require that compensation for Head Start employees be comparable to salaries for similar services. Based on our comparison to positions at other Head Start agencies and El Paso area hourly wage averages for similar positions, Region 19's executive compensation appeared reasonable.

### **TEACHERS MAY HAVE BEEN UNDERPAID**

Region 19's compensation practices for teachers did not comply with ACF guidelines. While Region 19 used cost of living adjustments to increase teacher salaries, wages paid to Region 19 employees in the 'Teacher III' position were significantly lower than the wages for the positions that ACF said Head Start agencies should use for comparison. In addition, Region 19 did not always use its quality improvement funds to increase existing staff salaries and benefits as required by ACF Head Start program instructions.

#### **Region 19 Teacher Wages Were Lower Than Wages for Comparable Positions**

Section 640 of the Head Start act states that the quality improvement funds are intended ". . . to improve the compensation (including benefits) of classroom teachers and other staff of Head Start agencies and thereby enhance the recruitment and retention of qualified staff . . ." Consistent with the intent of the Act, the Region VI ACF office sent a letter to all of its Head Start agencies in May 2001, which stated that Head Start agencies "...should be using for comparison, at a minimum, the salary entry level used by the state education agency and/or local education agency."

Based on these criteria, we conducted our own wage comparison for Region 19's 'Teacher III' position. Our comparison is presented in the table below.

**Comparison of Teacher III Wages to Entry Level Teacher Wages<sup>2</sup>**

	<b>Degree Required</b>	<b>Experience Level</b>	<b>Applicable Time Period</b>	<b>Hourly Wages</b>
<b>Region 19 – 'Teacher III'</b>	Bachelor	Entry Level	September 2001- August 2002	\$12.88
<b>El Paso Area Preschool Teachers</b>	None	Entry Level	January 2002- December 2002	\$14.36 <sup>3</sup>
<b>Texas Education Agency</b>	Bachelor	Entry Level	August 2001- May 2002	\$16.20 <sup>4</sup>

As illustrated in the table above, the minimum teacher wage mandated by the Texas Education Agency and the entry level wage for El Paso area preschool teachers were higher than Region 19's 'Teacher III' position by as much as \$3.32 an hour in grant year 2001.

According to a Region 19 official, Region 19 did not use the minimum teacher wage mandated by the Texas Education Agency for comparison because Region 19 does not have the same state certification requirements as school districts within the State of Texas. In addition, Region 19 believes that the education requirements may also be different for teachers within the State of Texas.

**Quality Improvement Funds Were Not Used in Accordance with ACF Program Instructions**

ACF Head Start program instructions require 50 percent of an agency's allotted quality improvement funds be used to increase the salary and benefits of current staff (subject to §653 of the Head Start Act).

Region 19 budgeted to use around 90 percent of its grant year 2001 quality improvement funds to add new staff, rather than using at least 50 percent to increase the salary and benefits of current staff. We could not confirm that Region 19 actually spent the quality improvement funds as budgeted, however a Region 19 official stated that the quality improvement funds were spent as budgeted. Because Region 19 did not comply with ACF Head Start program instructions, Region 19 teachers did not receive the full benefit of grant year 2001 quality improvement funds.

<sup>2</sup> The table only compares the 'Teacher III' position, as this is the only teacher position at Region 19 with the same educational requirement as teachers within Texas school districts.

<sup>3</sup> This hourly wage was obtained from the Texas Workforce Commission's Labor Market Information Department website. These preschool teachers include both non-degreed and degreed teachers.

<sup>4</sup> This hourly wage is the minimum amount set forth by the Texas Education Agency for classroom teachers. This minimum salary amount applies to all school districts within the State of Texas.

According to a Region 19 official, Region 19 did not comply with the ACF Head Start program instructions because she believed Region 19 already paid its employees competitive salaries, and the funds were still used to improve the quality of services provided to Head Start children.

## **EXECUTIVE COMPENSATION WAS INEQUITABLY ALLOCATED TO HEAD START**

Region 19 did not properly allocate salaries paid to three of its five key executives to the Head Start program. These three key executives had responsibilities over at least two programs, Head Start and Early Head Start. However, the compensation for these executives was allocated exclusively to Head Start in an effort to maximize the Early Head Start funding.

OMB Circular A-87, Attachment B, §11h, states that salaries and wages charged to awards must be supported by personnel activity reports that meet the following standards:

- reflect an after-the-fact determination of an employee's actual activity
- account for the total activity for which an employee is compensated
- are signed by the employee
- are prepared at least monthly and coincide with one or more pay periods

This requirement applies to all staff members, including professionals, whose compensation is charged, in whole or in part, directly to awards.

In addition to Head Start responsibilities, two of these executives also had responsibilities over Early Head Start and the Child and Adult Care Food Program, while the third executive also had responsibility over Early Head Start.

A Region 19 official explained that Early Head Start is a costly program because Region 19 is required to employ one caregiver for every four children in the program. Therefore, Region 19 decided to charge the executives' compensation to Head Start because Early Head Start funding was better spent on direct care costs, rather than support costs. Further, the official believes any allocation to the Early Head Start program and the Child and Adult Care Food Program would be minimal.

## **RECOMMENDATIONS**

We recommend that Region 19:

- consider bringing its teacher wages in line with wages paid at local preschools or the minimum amount required for public school classroom teachers with the State of Texas as recommended by ACF

- ensure quality improvement funds are spent in accordance with ACF Head Start program instructions
- establish a time and effort reporting system that complies with OMB Circular A-87, Attachment B, §11h to ensure that employees with responsibilities over more than one program are properly allocated amongst the various programs

## **REGION 19 COMMENTS**

In written response to the draft report, Region 19 concurred with our findings and recommendations. In addition, Region 19 pointed out actions already taken or planned to address our recommendations. Region 19's comments are included in their entirety as **Appendix A**.

# **APPENDIX**



**Region 19**  
**Education Service Center**  
El Paso & Hudspeth Counties

6611 Boeing Drive  
El Paso, Texas 79925-1010  
www.esc19.net

Office: (915) 780-1919  
Fax: (915) 780-6537

James R. Vasquez  
Executive Director

Board of Directors: September 10, 2004

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Chairman

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Vice Chairman

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Member

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Member

Mr. Gordon L. Sato  
Regional Inspector General  
for Audit Services  
Department of Health and Human Services  
1100 Commerce, Room 632  
Dallas, Texas 75242

Dear Mr. Sato:

**Reference: Report Number A-06-04-00029**

Please find enclosed our formal response to the referenced report. If additional information and/or clarification are required please feel free to write the Executive Director of the Region 19 Education Service Center, Dr. James R. Vasquez, at the address noted on this correspondence. If you wish to speak with him directly please call him at (915) 780-5052.

Sincerely,

Santiago L. Rodriguez  
Board of Directors

CC: Blanca Enriquez, Executive Director  
Region 19 ESC Head Start

James R. Vásquez, Executive Director  
Region 19 Education Service Center

Enclosure





Date: September 10, 2004  
To: James R. Vasquez  
Executive Director  
Re: Review of Region 19's Compensation Practices for  
Executives and Teachers

We are in receipt of a draft copy of the results of the audit performed by the Office of the Inspector General to determine whether Region 19 ESC's compensation practices for five key executives and teachers were reasonable and consistent with Federal requirements and guidelines. Following is our response to the findings noted in the review:

**Executive compensation appeared reasonable.** Compensation for Region 19's five key executives appeared reasonable compared to positions at other Head Start agencies and El Paso area hourly wage averages for similar positions.

*Response: All Region 19 ESC employees are paid based on a salary schedule developed using data from other ESC's as well as comparable El Paso agencies. Although the schedules need to be updated, they still provide a good indication of comparable salaries.*

**Teachers may have been underpaid.** The wages paid to Region 19 employees in the "Teacher III" position were lower than the wages for the positions that ACF said Head start agencies should use for comparison. In addition, Region 19 did not use its 2001 quality improvement funds to increase current staff salaries as required by ACF Head Start program instructions.

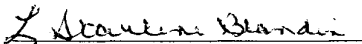
*Response: As of August 31, 2004, Region 19 ESC employed ten "Teacher III" positions. Based on the information in the schedule provided showing entry level teacher wages, these teachers were underpaid from a little under \$400 annually to a little under \$4,000 annually depending on experience levels. The salaries for these employees will be increased to the appropriate level beginning September 1. Additionally, the administration has determined that a comprehensive salary study will be conducted during the 2005 fiscal year to evaluate the ESC's compensation plan. At that time, all salary levels will be studied to assure comparability with salaries at other similar agencies as well as to assure compliance with federal and state mandates.*

*In the future, the ESC will insure that Head Start funds earmarked for specific purposes by the granting agency are properly coded to assure proper tracking of expenditures as well as proper use of the funds as intended by the grantor.*

**Executive compensation was inequitably allocated to Head Start.** Region 19 did not comply with Office of Management and Budget (OMB) Circular A-87 when allocating executive compensation charges to Head Start and other programs. Three of Region 19's five key executives had responsibilities over at least two programs. However, the compensation for these three executives was allocated exclusively to Head Start.

*Response: Region 19 ESC currently maintains a time and effort reporting program as part of our system of collecting contact data. Head Start employees whose time is split between two or more programs will be asked to use this automated system to properly account for time spent on each program to assure that each program is properly charged.*

Region 19 Education Service Center concurs with the recommendations noted in the audit and will comply with them as quickly as possible. If you have questions or comments, please let us know.



L. Starlene Blandin

Associate Executive Director for Support Services