



September 14, 2004

Report Number: A-06-04-00030

Mr. Dennis J. Campa
Director
Department of Community Initiatives
City of San Antonio
115 Plaza de Armas, #210
San Antonio, Texas 78205

Dear Mr. Campa:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG) report entitled "Review of Parent/Child, Incorporated's (PCI) Compensation Practices for Executives and Teachers." A copy of this report will be forwarded to the action official noted below for 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 the 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-06-04-00030 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 Office VI
1301 Young St. Room 914
Dallas, TX 75202

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF PARENT/CHILD,
INCORPORATED'S COMPENSATION
PRACTICES FOR EXECUTIVES AND
TEACHERS**



**SEPTEMBER 2004
A-06-04-00030**

Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
at <http://oig.hhs.gov>

In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), Office of Inspector General, Office of Audit Services reports are made available to members of the public to the extent the information is not subject to exemptions in the act. (See 45 CFR Part 5.)

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 Economic 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 asked us to audit Parent/Child, Incorporated (PCI).

Parent/Child Incorporated

The City of San Antonio, funded as a Head Start grantee, delegates the entire operation and the majority of administration of the Head Start program to PCI, the delegate agency. For each of the grant years 2000, 2001, and 2002, PCI received Head Start funding via the City of San Antonio ranging from approximately \$34,750,000 to \$44,800,000.

In addition to funding from the Head Start program, PCI receives funding from other Federal and State programs. For each of the grant years 2000, 2001, and 2002, PCI received funding from such programs as Early Head Start, the Child and Adult Care Food Program, Texas Head Start Education program, the Child Care Management System, and a literacy program. The total amount of funding received from the other Federal and State programs ranged from about \$5.9 million to \$6.7 million over the three grant years.

OBJECTIVE

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

SUMMARY OF FINDINGS

PCI's compensation practices for executives and teachers did not meet Federal requirements and guidelines. Specifically, PCI's wage comparability studies for

executives did not meet the requirements of §653 of the Head Start Act. In addition, PCI did not comply with the Office of Management and Budget (OMB) Circular A-122 when allocating executive compensation charges to Head Start and other programs. Finally, PCI did not use the information recommended by ACF to increase teacher's salary, and it did not adjust its pay scale to reflect cost of living adjustments required by ACF's Head Start program guidance.

Executive compensation appeared unreasonable. Compensation for PCI's five key executives appeared unreasonable compared to some of the top-level executive compensation at other Head Start programs. PCI based its executive compensation on a wage study that included dissimilar positions and organizations.

Executive compensation was inequitably allocated to Head Start. Each of PCI's top five key executives' had responsibilities over at least three programs. However the compensation for three of the executives was allocated exclusively to Head Start, and the compensation for the other two executives was only allocated to two of the three programs. These allocations were based on budgeted amounts, not an after-the-fact determination of actual time spent on each program.

Teachers may have been underpaid. The wages paid to PCI employees in the 'Teacher IV' position were significantly lower than the wages for the positions that ACF said grantees should use for comparison, and PCI did not adjust its pay schedule to reflect cost of living adjustments.

RECOMMENDATIONS

We recommend that the City of San Antonio:

- ensure that executive compensation at PCI is reasonable and that future wage comparability studies meet the requirements of §653 of the Head Start Act and any future clarification, guidance, or requirements set out by ACF
- ensure PCI establishes a time and effort reporting system that complies with OMB Circular A-122, Attachment B, §(8)m to ensure that employees with responsibilities over more than one program are properly allocated amongst the various programs
- consider bringing PCI's teacher wages in line with wages paid at local school districts or the minimum amount required for public school classroom teachers within the State of Texas as recommended by ACF
- ensure PCI adjusts its pay schedule for teachers to reflect past cost of living adjustments and ensure that future cost of living adjustments are also reflected in the pay schedules

CITY OF SAN ANTONIO COMMENTS

In written response to the draft report, the City of San Antonio agreed with our findings and recommendations with one exception. In addition, the City of San Antonio pointed out actions already taken in regard to our recommendations and stated that any actions taken regarding our recommendations would be reviewed and approved by the Policy Council and Head Start Commission.

The City of San Antonio did not agree to bring teacher wages in line with wages paid at local school districts or the minimum required for public school classroom teachers within the State of Texas. The City of San Antonio stated the PCI teacher wages are currently in line with those paid to pre-school teachers in the San Antonio area and are within 90 percent of the minimum salaries paid to public school teachers in Region 20 Education Service Center (includes San Antonio and Bexar County) of the State of Texas. The City of San Antonio's comments are included in their entirety as **Appendix A**.

OFFICE OF INSPECTOR GENERAL RESPONSE

We commend the City of San Antonio and PCI for actions taken and/or planned to address all but one of the recommendations in the draft report. However, we still believe that action should be taken on the recommendation regarding teacher wages.

Since the draft report was issued, we have received a copy of additional guidance provided by the ACF Region VI office to all head start grantees in the region with regard to teacher salaries that further supports our recommendation. This June 2004 document provides the entry-level degreed teacher salaries for each State in Region VI. ACF Region VI staff informed us that it is their expectation that all head start agencies in their region meet or exceed these teacher salary amounts. For the State of Texas, the degreed entry-level annual salary amount is \$24,240. Yet, the City of San Antonio states that PCI is currently paying only \$22,664 annually for the 'Teacher IV' (degreed) position.

The June 2004 document also provides the entry-level non-degreed teacher salaries for each State. For the State of Texas, the entry-level annual salary for non-degreed teachers was \$17,520. In response to the June 2004 guidance, PCI provided ACF with new hourly wages for its teacher positions. Based on this information, the entry-level salaries for PCI's non-degreed teachers are \$10,637 for a 'Teacher I', \$12,881 for a 'Teacher II', and \$17,054 for a 'Teacher III'. All of these entry-level salaries are less than the salary ACF expects head start agencies to pay non-degreed teachers. Therefore, we continue to believe that the City of San Antonio should consider bringing PCI's teacher salaries for both degreed and non-degreed teachers more in line with the entry-level salaries paid to degreed and non-degreed teachers within the State of Texas in accordance with the expectations of the ACF Region VI office.

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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.

Head Start agencies are classified as either grantees or delegates. Grantees are the entities that receive HHS funding for administering a Head Start program. However, a grantee may decide to delegate all or part of its responsibilities for operating a Head Start program to a separate agency, called the delegate agency. The City of San Antonio, funded as the Head Start grantee, delegates the entire operation and the majority of administration of the Head Start program to PCI.

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 asked us to audit PCI.

Parent/Child Incorporated

PCI was founded in 1979 and provides educational, nutritional, health, dental, disability services, day care, and social services to at-risk children and their families. PCI is a non-profit child development corporation that provides Head Start services at over 80 centers in San Antonio and Bexar County, Texas. PCI has 1,650 employees, including about 400 teachers, and provides Head Start and other services to over 6,700 children and their parents.

For each of the grant years 2000, 2001, and 2002, PCI received Head Start funding via the City of San Antonio ranging from approximately \$34,750,000 to \$44,800,000. In addition to funding from the Head Start program, PCI receives funding from other Federal and State programs. For each of the grant years 2000, 2001, and 2002, PCI received funding from such programs as Early Head Start, the Child and Adult Care Food program, Texas Head Start Education program, the Child Care Management System, and a literacy program. The total amount of funding received from the other Federal and State programs ranged from about \$5.9 million to \$6.7 million over the three grant years.

Wage Comparability Study

In 2002, PCI staff performed two separate wage comparability studies based on 2001 salaries. One study was for executive level staff, which included the five key executives. The other study was for all other positions not classified as executive, which included teachers. PCI used various local non-profit organizations and a private university as comparisons for the executive level study, while using the Hidalgo County Head Start program and statistics from the U.S. Department of Labor, Business and Legal reports and Texas Workforce reports as comparisons for the non-executive staff study.

PCI officials undertook two separate wage comparability studies because they could not find non-profit child care service agencies and Head Start programs in the San Antonio area of similar size and scope of service to encompass both executive and non-executive staff. A PCI official believed the Hidalgo County Head Start program was comparable for teachers' wages because duties and responsibilities would be similar. However, PCI officials did not believe Hidalgo county Head Start was comparable to PCI for purposes of evaluating executive salaries because the programs were not similar in size.

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

OBJECTIVES, SCOPE, AND METHODOLOGY

Objective

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

Scope

Our review covered PCI's grant years 2000, 2001, and 2002 (February 1, 2000 through January 31, 2003).

The five key executives were the highest paid employees at PCI 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 PCI 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 field work at the Region VI ACF office in Dallas, Texas and PCI's offices in San Antonio, Texas.

Methodology

To accomplish our objective we:

- reviewed Federal regulations relating to the Head Start program and OMB Circular A-122, Cost Principles for Non-Profit Organizations
- interviewed Region VI ACF, City of San Antonio, and PCI officials
- reviewed PCI organizational charts, payroll journals, and billing/invoice statements to determine the total compensation and funding sources for the five key executives
- reviewed PCI policies, procedures, and board of director meeting minutes to determine the compensation approval process
- reviewed PCI's wage comparability studies
- 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 adjustment 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

PCI's compensation practices did not meet Federal requirements and guidelines. Compensation for PCI's key executives appeared unreasonable compared to some of the top-level executives' compensation at other Head Start programs, and charges for executives' salaries did not comply with Federal requirements. At the same time, wages paid to employees in the 'Teacher IV' position were significantly lower than wages paid for positions that ACF designated as comparable, and PCI did not adjust its teacher pay schedules to reflect cost of living increases as required.

MANAGEMENT COMPENSATION

Executive Compensation Appeared Unreasonable

Compensation for PCI's five key executives appeared unreasonable compared to some of the top-level executives' compensation at other Head Start programs. OMB Circular A-122 and the Head Start Act require that compensation for Head Start employees be comparable to salaries for similar services. PCI performed a wage comparability study to establish compensation levels for executives, but the organizations included in the study did not provide comparable services to Head Start and the positions included in the study were not always comparable to the positions at PCI.

OMB Circular A-122 provides that in order to be reasonable, compensation for employees in organizations predominantly engaged in Federally sponsored activities should be comparable to that paid for similar work in the labor markets in which the organization competes for the kind of employees involved. Similarly, §653 of the Head Start Act (42 U.S.C. 9848) provides that Head Start employees may not receive compensation:

. . . in excess of the average rate of compensation paid in the area where the program is carried out to a substantial number of persons providing substantially comparable services, or in excess of the average rate of compensation paid to a substantial number of the persons providing substantially comparable services in the area of the person's immediately preceding employment

Compensation for PCI's five key executives appeared unreasonable compared to:

- (1) average executive compensation for the top 100 Head Start programs nationwide;
- (2) average executive compensation for 11 Head Start programs in Texas included in the top 100 Head Start programs nationwide; and
- (3) executive compensation at Texas Migrant Council, Inc., a non-profit organization with a Head Start program similar in size to PCI's. Our comparison is presented in the chart below:

OIG - Executive Compensation Comparison – 2002

Position	PCI	Nationwide Average	Texas Head Start Average	Texas Migrant Council, Inc.
CEO	\$229,913	\$133,578	\$162,383	\$155,791
Chief Financial Officer (CFO)	\$174,669	N/A	N/A	\$138,283*
Head Start Services Director	\$118,378	\$95,359	\$94,920	\$102,451
Employee Support Services Director	\$116,991	N/A	N/A	N/A
Chief Human Services Officer	\$117,597	N/A	N/A	N/A

* The CFO salary for Texas Migrant Council, Inc. was available for 2001, but not 2002. Therefore, we estimated the CFO's compensation for 2002 by applying the same percentage increase that Texas Migrant Council's CEO received from 2001 to 2002 (22.6 percent) to the CFO's 2001 salary.

PCI's wage comparability study for the executive staff included the following limitations:

- The study included agencies that did not provide services comparable to Head Start. PCI compared itself to organizations such as the United Way of San Antonio and Bexar County, and a local university - organizations that do not provide early childhood educational services. The study did not include more comparable organizations. For example, Texas Migrant Council, Inc. administers a Head Start program located in Laredo, Texas that serves 22 counties, and provides services to more than 6,000 children. It also administers many more Federal and State programs than PCI. Texas Migrant Council, Inc. received about \$108 million in total funding from all program sources, including more than \$48 million in Head Start funds.
- The study compared dissimilar positions. PCI simply compared its five highest paid officials to the five highest paid officials at each of the organizations used for comparison purposes without regard for the type of position or duties and responsibilities. For example, the CFO at PCI was compared to an Executive Vice President of a large non-profit organization and a Vice President at a University.

Executive Compensation was Inequitably Allocated to Head Start

PCI did not properly allocate salaries paid to its five key executives' to the Head Start program. Each of PCI's top five key executives had responsibilities over at least three programs. However, the compensation for three of the executives was allocated exclusively to Head Start, and the compensation for the other two executives was only allocated to two of the three programs. These allocations were based on budgeted amounts, not an after-the-fact determination of actual time spent on each program.

OMB Circular A-122, Attachment B, §8m, 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 or supervisory official with first hand knowledge of the employee’s activities
- 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, OMB Circular A-122 specifically states “Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards.”

Charges to the Head Start program for PCI’s five key executives were based on budget estimates, not personnel activity reports. PCI interviewed five key executives during the budget process to determine how their salaries would be allocated. PCI did not determine how much time the five key officials actually spent on various programs and did not adjust the initial allocations.

PCI charged salaries to the Head Start program that should have been partially allocated to other programs. The job descriptions for each of the five key executives showed that they had responsibilities over at least three programs, including Head Start, Early Head Start,¹ and the Child and Adult Care Food Program. However, PCI charged compensation for three of the officials exclusively to Head Start, and charged compensation for the other two officials to only two of these three programs, Head Start and the Child and Adult Care Food Program. Because the five key executives did not prepare personnel activity reports, we were unable to determine the amount of overcharges to the Head Start program.

PCI did not allocate executive salaries in accordance with OMB Circular A-122 because, according to a PCI official, he was not aware of the requirement to do so.

TEACHER COMPENSATION

Teachers May Have Been Underpaid

PCI’s compensation practices for teachers did not comply with ACF guidelines. While PCI used quality improvement funds to increase teacher salaries, wages paid to PCI employees in the ‘Teacher IV’ position were significantly lower than the wages for the positions that ACF said Head Start agencies should use for comparison. In addition, PCI did not adjust its pay schedule to reflect cost of living adjustments as required.

¹ Early Head Start is a program separate from the Head Start program. Early Head Start serves low-income families with infants, toddlers, and pregnant women.

PCI Did Not Increase Teacher Compensation as Advised

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 PCI’s board of directors 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.”

In response to ACF’s letter, PCI obtained entry-level wages for teachers from the Texas Education Agency and several local school districts. As illustrated in the table below, wages for entry-level teachers in the San Antonio school districts and the minimum teacher wage mandated by the Texas Education Agency were higher than PCI’s wages for the ‘Teacher IV’ position by as much as \$6.90 an hour in 2001. However, PCI did not adjust its ‘Teacher IV’ wages based on that data.

Comparison of Teacher IV Wages to Entry Level Teacher Wages²

	Degree Required	Experience Level	Applicable Time Period	Hourly Wages
PCI-‘Teacher IV’	Bachelor	Entry Level	2001 Grant	\$14.49 ³
San Antonio Area School Districts	Bachelor	Entry Level	2000-2001 School Year	\$21.39 ⁴
Texas Education Agency	Bachelor	Entry Level	2000-2001 School Year	\$16.20 ⁵

Instead of using the wage data for teachers from the Texas Education Agency and local school districts as a comparison, PCI used the Hidalgo County Head Start program and statistics from Business and Legal reports. The entry-level wages were \$8.45 in the Hidalgo County Head Start program, and \$12.98 as reported in Business and Legal reports. Because these wages were lower than the \$14.49 PCI paid to an entry-level ‘Teacher IV’, PCI did not increase wages for the ‘Teacher IV’ position.

According to a PCI official, PCI did not use Texas Education Agency and San Antonio school districts in its wage comparability study because PCI does not have the same continuing professional education and State certification requirements as school districts within the State of Texas.

² The table only compares the ‘Teacher IV’ position, as this is the only teacher position at PCI with the same educational requirements as the teachers within Texas school districts.

³ This hourly wage reflects a cost of living increase.

⁴ This hourly wage is the average for nine independent school districts in the San Antonio, TX area.

⁵ This hourly wage is the minimum salary 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.

Cost of Living Adjustments Were Not Reflected in PCI's Pay Schedule

ACF program instructions require Head Start agencies to use cost of living adjustment funds in a manner that permanently increases the Head Start agencies' pay schedules (subject to Section 653), rather than only increasing the salary of current employees.

At the time of our review, PCI had not increased its teachers' pay schedule to reflect cost of living adjustment increases since at least January 2000. PCI used cost of living adjustment funds to increase salaries of teachers it currently employed. However, because PCI did not update its pay schedule to reflect cost of living adjustments, newly hired teachers or teachers promoted to a new teacher level did not benefit from the cost of living adjustments. For example, a 'Teacher I' received a cost of living increase during grant year 2001. Subsequently, during the same grant year, this 'Teacher I' was promoted to a 'Teacher IV'. However, since PCI did not adjust its pay scale for cost of living increases, this teacher was paid less than the other teachers in the same 'Teacher IV' position because this teacher did not receive the cost of living increase.

A PCI official explained that he was not aware of the requirement to use cost of living adjustments to increase the pay schedule. This official also stated that PCI would start increasing its pay schedule to reflect any future cost of living adjustments.

RECOMMENDATIONS

We recommend that the City of San Antonio:

- ensure that executive compensation at PCI is reasonable and that future wage comparability studies meet the requirements of §653 of the Head Start Act and any future clarification, guidance, or requirements set out by ACF
- ensure PCI establishes a time and effort reporting system that complies with OMB Circular A-122, Attachment B, §(8)m to ensure that employees with responsibilities over more than one program are properly allocated amongst the various programs
- consider bringing PCI's teacher wages in line with wages paid at local school districts or the minimum amount required for public school classroom teachers within the State of Texas, as recommended by ACF
- ensure PCI adjusts its pay schedule for teachers to reflect past cost of living adjustments and ensure that future cost of living adjustments are also reflected in the pay schedules

CITY OF SAN ANTONIO COMMENTS

In written response to the draft report, the City of San Antonio agreed with our findings and recommendations with one exception. In addition, the City of San Antonio pointed out actions already taken in regards to our recommendations and stated that any actions taken regarding our recommendations would be reviewed and approved by the Policy Council and Head Start Commission.

The City of San Antonio did not agree to bring teacher wages in line with wages paid at local school districts or the minimum required for public school classroom teachers within the State of Texas. The City of San Antonio stated the PCI teacher wages are currently in line with those paid to pre-school teachers in the San Antonio area and are within 90 percent of the minimum salaries paid to public school teachers in Region 20 Education Service Center (includes San Antonio and Bexar County) of the State of Texas. The City of San Antonio's comments are included in their entirety as **Appendix A**.

OFFICE OF INSPECTOR GENERAL RESPONSE

We commend the City of San Antonio and PCI for actions taken and/or planned to address all but one of the recommendations in the draft report. However, we still believe that action should be taken on the recommendation regarding teacher wages.

Since the draft report was issued, we have received a copy of additional guidance provided by the ACF Region VI office to all head start grantees in the region with regard to teacher salaries that further supports our recommendation. This June 2004 document provides the entry-level degreed teacher salaries for each State in Region VI. ACF Region VI staff informed us that it is their expectation that all head start agencies in their region meet or exceed these teacher salary amounts. For the State of Texas, the degreed entry-level annual salary amount is \$24,240. Yet, the City of San Antonio states that PCI is currently paying only \$22,664 annually for the 'Teacher IV' (degreed) position.

The June 2004 document also provides the entry-level non-degreed teacher salaries for each State. For the State of Texas, the entry-level annual salary for non-degreed teachers was \$17,520. In response to the June 2004 guidance, PCI provided ACF with new hourly wages for its teacher positions. Based on this information, the entry-level salaries for PCI's non-degreed teachers are \$10,637 for a 'Teacher I', \$12,881 for a 'Teacher II', and \$17,054 for a 'Teacher III'. All of these entry-level salaries are less than the salary ACF expects head start agencies to pay non-degreed teachers. Therefore, we continue to believe that the City of San Antonio should consider bringing PCI's teacher salaries for both degreed and non-degreed teachers more in line with the entry-level salaries paid to degreed and non-degreed teachers within the State of Texas in accordance with the expectations of the ACF Region VI office.

OTHER MATTERS

Executive Compensation Included Car Allowances That Were Not Based on Actual Vehicle Usage

As part of their compensation, PCI's key executives were provided with car allowances that were not based on actual vehicle usage. Car allowances ranged from \$150 to \$200 a month and totaled \$24,956 for all 5 executives for the 3 grant years reviewed. A PCI official informed us that the car allowances were based on job classifications and a study performed about 10 years ago. PCI could not produce the 10-year old study or any other documentation to support that sufficient business related miles were driven each month to justify the allowances.

PCI gives eligible employees an option to receive a car allowance or be reimbursed on a mileage basis. PCI's policies require employees who choose to be reimbursed on a mileage basis to submit documentation of their business related mileage, but does not require employees receiving car allowances to document their business related mileage. We believe that PCI should base car allowances on periodic, documented studies of actual vehicle usage for business purposes.

APPENDIX



CITY OF SAN ANTONIO

Department of Community Initiatives
Office of the Director

P.O. BOX 839966
SAN ANTONIO, TEXAS 78283-3966

September 8, 2004

U.S. Department of Health and Human Services
Office of The Inspector General
Attn: Ms. Sylvie Witten, Audit Manager
8000 Centre Park Drive, Ste #375
Austin, TX 78754

FAX: 512-339-2812

Report Number: A-06-04-00030

Dear Ms. Witten,

Enclosed please find the City of San Antonio, Department of Community Initiatives' response to the Department of Health and Human Services (HHS), Office of Inspector General (OIG) draft report entitled "Review of PCI's Compensation Practices for Executives and Teachers."

Should you have any questions or concerns, please contact me directly at (210) 207-7209 or Melody Woosley, Special Projects Manager, at (210) 207-8134.

Sincerely,


Dennis J. Campa
Director

DLC: pcm

Enclosure: Response to OIG Report

cc: Lupe V. Gonzales, PCI Board President

Blanche A. Russ-Glover, Chief Executive Officer, Parent/Child, Inc.

Melody Woosley, Special Projects Manager, City of San Antonio, DCI

Xavier Urrutia, Fiscal Planning Manager, City of San Antonio, DCI

City of San Antonio, Department of Community Initiatives (DCI)
Formal Response – HHS OIG Report Number: A-06-04-00030

Recommendation #1: Ensure that executive compensation at PCI is reasonable and that future wage comparability studies meet the requirements of §653 of the Head Start Act and any future clarification, guidance, or requirements set out by ACF.

DCI Response - Concur. PCI's current wage comparability study is due to DCI on or before September 21, 2004. DCI will review the study to ensure that more comparable organizations and similar positions are used. DCI will also examine new HHS salary guidelines when issued and ensure the PCI's executive compensation meets these guidelines. Any actions regarding wage comparability will go to the Policy Council and Head Start Commission for review and approval.

Recommendation #2: Ensure PCI establishes a time and effort reporting system that complies with OMB Circular A-122, Attachment B, §8(m) to ensure that employees with responsibilities over more than one program are properly allocated amongst the various programs.

DCI Response - Concur. PCI has been directed to contact HHS's Division of Cost Allocation to request assistance in determining an indirect cost rate methodology that matches PCI's non-profit operations and complies with the requirements of OMB Circular A-122. DCI will require PCI to submit a new Cost Allocation Plan by October 31, 2004. The plan needs to identify the indirect cost methodology selected and provide the specific details of the implementation phase including the accumulation and allocation of all indirect costs as defined in OMB Circular A-122. DCI will review and coordinate the prepared plan with HHS's Division of Cost Allocation. The cost allocation plan will be reviewed and approved by the Policy Council and Head Start Commission and a final coordinated and approved plan will be in place by January 31, 2005 and incorporated into the 2005 Delegate Agency contract between The City of San Antonio and PCI.

Recommendation #3: Consider bringing PCI's teacher wages in line with wages paid at local school districts or the minimum amount required for public school classroom teachers within the State of Texas as recommended by ACF.

DCI Response –Non-Concur. PCI teacher wages are currently in line with wages paid to pre-school teachers in the San Antonio area and within 90 percent of the minimum salaries paid to public school teachers in Region 20 Education Service Center (includes San Antonio and Bexar County) of the State of Texas. Specifically, PCI pays Teacher Level IV (teacher with a degree, but without teacher certification) \$15.15 per hour or \$22,664 annually. The Texas Work Force Commission shows the median salary paid to pre-school teachers in the San Antonio Metropolitan Statistical Area was \$19,385. The State of Texas Region

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20 Education Service Center provided an entry wage of \$24,240 for all non-certified teachers with degrees. DCI will continue to monitor PCI's teacher salaries and ensure there is comparability with wages paid to teachers in local San Antonio School Districts and the State of Texas. DCI will forward any actions regarding teacher wages to the Policy Council and Head Start Commission for review and approval.

Recommendation #4: Ensure PCI adjusts its pay schedule for teachers to reflect past cost of living adjustments and ensure that future cost of living adjustments are also reflected in the pay schedules.

DCI Response - Concur. PCI reported that its pay schedules were adjusted to reflect past COLAs in August 2004. DCI will examine these pay scale adjustments in a September 2004 monitoring review. PCI will be directed to prepare an accounting report by September 30, 2004 that provides the total liability to teachers who were not properly paid COLAs. The report will list the affected teachers (both current and former PCI teachers) who incurred salary losses by not receiving cost of living adjustments for program years 2000 through 2004. The report will include all new teacher hires and teachers who were promoted into a higher level that did not receive a salary that was inclusive of the current and prior year cost of living adjustments.

If financially feasible, DCI will direct PCI to retroactively pay teachers for incurred salary losses. DCI will also direct PCI to pay all new hires and promoted teachers on a pay schedule inclusive of past cost of living adjustments. In addition, DCI will direct PCI to apply future cost of living adjustments to their pay scale rather than issuing a market adjustment. DCI will forward all actions regarding PCI staff cost of living adjustments to the Policy Council and Head Start Commission for review and approval.

OTHER MATTERS

Executive compensation included care allowances that were not based on actual vehicle usage.

DCI Response - Concur. PCI's 2004 Delegate Agency contract directs that mileage reimbursement to all employees, including the executive level, will be based on a standard mileage rate no more liberal than that paid by the City of San Antonio and consistent with IRS rules. PCI employees will be required to record daily odometer readings, keep records in the vehicle, and make records available for spot checks by City and Federal auditors and monitors.