



FINANCE COMMITTEE MEETING AGENDA

September 28, 2020 at 5:00 p.m.

1. CALL TO ORDER
2. ROLL CALL
3. APPROVAL OF AGENDA Approve
4. HEAD START QUALITY IMPROVEMENT PLAN (QIP)
 - A. Head Start Quality Improvement Plan (QIP) Approve
5. ADJOURNMENT Page 2

FINANCE COMMITTEE MEETING

Date: September 28, 2020	Program: Head Start
Agenda Item #: 4	Director: Rebecca Heinricy
Subject: Head Start Quality Improvement Plan (QIP)	Officer: Jim Rodriguez

Recommended Action

Staff recommends for full Board Approval the payment of any federal interest in Building A and resolution of any prior disallowed expenses.

Background

The U.S. Department of Health and Human Services (HHS) – Administration for Children and Families (ACF) Head Start (HS) conducted monitoring in October 2019 resulting in deficiencies in three areas: internal control, budget, and facility reporting. To resolve this matter, Fresno EOC submitted a quality improvement plan (QIP) to address those items which was approved by HHS. An external auditor - Hudson, Henderson & Company – was engaged to review procedures in place, determine potential disallowed costs, and provide recommendations as presented in the Attestation Report as part of a previous agenda item.

Staff reviewed the Attestation Report and evaluated potential courses of action for resolving questioned costs given the findings. Regardless of the path taken, HHS would conduct its own review to determine the total disallowed costs to be recouped. Each option is summarized below.

1. Seek retroactive approval of the acquisition of Building A (1900 Mariposa Mall) and associated costs. Staff determined this option was cost prohibitive.
2. Dispute the basis of the questioned federal interest percentage and associated reduction in claimed costs like depreciation. Staff determined this option was cost prohibitive.
3. Pay the federal interest in building A and seek resolution of questioned costs. Staff determined this was the most cost-effective option.

Staff determined retroactive approval of the acquisition of Building A and disputing the basis of the federal interest contained would generate costs that outweigh any potential reduction in amounts owed to HHS. These costs would come in the form of additional legal fees, personnel time, and, in the case of Option 1, additional regulatory requirements

to be met such as environmental studies. These two options have the greatest potential to increase costs and extend the QIP period.

Staff recommends paying back the federal interest in Building A and resolving questioned costs is in the best interest of EOC and to recommend this course of action to the Board of Commissioners. The agency has the necessary information to arrive at a reasonable estimate of the total cost to be incurred. This option requires only that HHS complete its next round of monitoring and Staff negotiate with HHS thereafter, additional costs would be minimal and a swift resolution achieved.

Fiscal Impact

The total fiscal impact will be determined by the results of additional monitoring to be completed by the Office of Head Start (OHS). OHS will conduct procedures to arrive at a final amount of any questioned costs to be recovered.

The amounts computed by the external auditor serve as a helpful guide. The total claimed questioned costs is computed to be \$411,662 by the external auditor. Similarly, the federal interest to be paid back is computed to be \$37,028. Taken together these result in a total cost estimate of \$448,690. However, the final amount will be determined by OHS upon completion of its procedures. Staff will keep the Board apprised of the outcome, any negotiations that take place, and any resultant liability as well as seek Board approval prior to agreeing to any settlement.

Pending Board approval and the outcome of OHS's audit, staff will begin negotiations for OHS to recover any prior disallowed costs as a reduction of future reimbursements over a reasonable period of time.

Conclusion

Staff recommend that the Board of Commissioners authorize staff to work with HHS to close this monitoring process by determining the total federal interest and any prior disallowed costs to be recovered.

FRESNO ECONOMIC OPPORTUNITIES COMMISSION

**SCHEDULE OF OPERATING EXPENSES – HEAD START PROGRAM
AND
INDEPENDENT ACCOUNTANTS' REPORT**

**FOR THE YEARS ENDED
DECEMBER 31, 1999 THROUGH 2019**

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INDEPENDENT ACCOUNTANTS' REPORT

To the CFO and Board of Commissioners
Fresno Economic Opportunities Commission

We were engaged to examine the schedules of operating expenses applicable to the Head Start Program of the Fresno Economic Opportunities Commission (the Fresno EOC) for the years ended December 31, 1999 through 2019. The Fresno EOC's management is responsible for presenting the schedule of operating expenses applicable to the Head Start Program in accordance with the Federal statutes, regulations and the terms and conditions of the Head Start and Early Head Start grants. Our responsibility is to express an opinion on the schedule of operating expenses applicable to the Head Start Program based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the schedule of operating expenses applicable to the Head Start Program are in accordance with the Federal statutes, regulations and the terms and conditions of the Head Start and Early Head Start grants, in all material respects. An examination involves performing procedures to obtain evidence about the schedules of operating expenses applicable to the Head Start Program. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the schedule of operating expenses applicable to the Head Start Program, whether due to fraud or error.

Because of the inherent limitations of an examination engagement, together with the inherent limitations of internal control, an unavoidable risk exists that some material misstatements may not be detected, even though the examination is properly planned and performed in accordance with the attestation standards.

In accordance with the retention policies of the Fresno EOC, all supporting evidence of expenditures for the years ended December 31, 1999 through 2012 have been destroyed. Fresno EOC's retention policy conforms with the Code of Federal Regulations form 2 CFR 200.333 Retention Requirements for Records. As such, we were unable to perform testing over operating expenses for the years ended December 31, 1999 through 2012.

Because of the limitation on the scope of our examination discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on whether the schedule of operating expenses applicable to the Head Start Program of the Fresno EOC for the years ended December 31, 1999 through 2019 is presented in accordance with Federal statutes, regulations and the terms and conditions of the Head Start and Early Head Start grants, in all material respects.

As discussed in Note 1, the grant schedule of the Fresno EOC is designated to present the financial position and transactions of the grant as previously noted, for the years ended December 31, 1999 through 2019. They do not purport to, and do not present fairly, the financial position of the Fresno EOC as of December 31, 1999 through 2019, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with account principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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Our examination was conducted for the purpose of forming an opinion on the grant schedule as a whole. The supplementary information presented on pages 5, 6 and 7 are presented for purposes of additional analysis and is not a required part of the grant schedule. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the grant schedule.

The supplementary information has been subjected to the examination procedures applied in the examination of the grant schedule and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the grant schedule or to the grant schedule itself, and other additional procedures in accordance with attestation standards generally accepted in the United States of America. Because of the limitation on the scope of our examination as noted on the previous page, we do not express an opinion on the supplemental schedules referred to above.

HUDSON HENDERSON & COMPANY, INC.

Hudson Henderson & Company, Inc.

Fresno, California
September 24, 2020

**FRESNO ECONOMIC OPPORTUNITIES COMMISSION
SCHEDULE OF OPERATING EXPENSES – HEAD START PROGRAM
FOR THE YEARS ENDED DECEMBER 31, 1999 THROUGH 2019**

Year	Claimed Costs	Claimed Costs Questioned			Total	Audited Costs Accepted
		Disallowed Depreciation	Federal Interest % Depreciation Reduction	FEP Rent Reduction		
1999	\$ 18,518,823	\$ -	\$ (3,284)	\$ -	\$ (3,284)	\$ 18,515,539
2000	20,971,235	-	(4,083)	-	(4,083)	20,967,152
2001	22,803,534	-	(4,831)	-	(4,831)	22,798,703
2002	27,161,128	(942)	(5,220)	(9,662)	(15,824)	27,145,304
2003	26,004,904	(1,569)	(6,682)	(12,487)	(20,738)	25,984,166
2004	28,197,205	(1,715)	(6,873)	(8,006)	(16,594)	28,180,611
2005	28,271,932	(1,783)	(6,905)	(8,469)	(17,157)	28,254,775
2006	28,357,097	(21,468)	(7,257)	(7,903)	(36,628)	28,320,469
2007	28,665,415	(21,115)	(7,607)	(7,268)	(35,990)	28,629,425
2008	28,693,842	(20,837)	(7,915)	(7,010)	(35,762)	28,658,080
2009	29,441,769	(24,205)	(8,829)	(6,698)	(39,732)	29,402,037
2010	29,435,324	(25,572)	(9,809)	(8,202)	(43,583)	29,391,741
2011	31,286,138	(10,059)	(10,759)	(7,820)	(28,638)	31,257,500
2012	32,328,299	(10,554)	(10,894)	(8,679)	(30,127)	32,298,172
2013	30,938,295	(5,685)	(10,137)	3,520	(12,302)	30,925,993
2014	32,469,417	(7,777)	(9,814)	7,841	(9,750)	32,459,667
2015	32,826,823	(8,492)	(9,049)	7,864	(9,677)	32,817,146
2016	33,560,097	(9,094)	(9,690)	7,911	(10,873)	33,549,224
2017	35,174,419	(9,125)	(10,023)	7,868	(11,280)	35,163,139
2018	37,538,974	(8,439)	(10,247)	(9,562)	(28,248)	37,510,726
2019	38,330,076	-	-	-	-	38,330,076
	<u>\$ 620,974,746</u>	<u>\$ (188,431)</u>	<u>\$ (159,908)</u>	<u>\$ (66,762)</u>	<u>\$ (415,101)</u>	<u>\$ 620,559,645</u>

The accompanying notes are an integral part of the grant schedule.

**FRESNO ECONOMIC OPPORTUNITIES COMMISSION
NOTES TO GRANT SCHEDULE**

NOTE 1 – BASIS OF ACCOUNTING AND PRESENTATION

Basis of Accounting: The Fresno Economic Opportunities Commission (the Fresno EOC) Head Start Program grant is accounted for as a governmental fund type, in which the current financial resources measurement focus and the modified accrual basis of accounting is used. Accounting for grant proceeds and expenditures using the modified accrual basis of accounting are recorded wherein revenues are recorded as received in cash, except that revenues, which are both measurable and available as a resource to operations of the current period, are accrued. These include amounts spent and not yet reimbursed. Expenditures are recognized when the liability is incurred.

Basis of Presentation: The accompanying grant schedule has been prepared from the latest contracts approved by the Office of Head Start, the annual federal financial reports and the Fresno EOC grant records in accordance with the Office of Head Start. This report represents only the Head Start Program and is not intended to present fairly the financial position and results of operation of the Fresno EOC, as a whole, or in conformity with accounting principles generally accepted in the United States of America.

NOTE 2 – CONTINGENCIES

The Fresno EOC has received federal and state funds for specific purposes that are subject to review and audit by the granting agencies. Although such audits and reviews could generate expenditure disallowances under terms of the grants, management believes that any required reimbursement will not be material.

NOTE 3 – SUBSEQUENT EVENTS

In compliance with accounting standards, management has evaluated events that have occurred after year-end to determine if these events are required to be disclosed in the grant schedule. Management has determined the events regarding the Novel Coronavirus require disclosure in accordance with accounting standards. On March 4, 2020, Governor Newsom issued an emergency proclamation declaring a State of Emergency in California due to the Novel Coronavirus (COVID-19). The COVID-19 outbreak is ongoing, and the ultimate geographic spread of the virus, the duration and severity of the outbreak and the economic and other actions that may be taken by governmental authorities to contain the outbreak or to treat its impact are uncertain. The ultimate impact of COVID-19 on the operations and finances of the Fresno EOC Head Start program is unknown.

FRESNO ECONOMIC OPPORTUNITIES COMMISSION

SUPPLEMENTARY SCHEDULES

FRESNO ECONOMIC OPPORTUNITIES COMMISSION
SCHEDULE OF FRESNO EXECUTIVE PLAZA EXPENSES BY BUILDING – HEAD START PROGRAM
FOR THE YEARS ENDED DECEMBER 31, 2003 THROUGH 2019

<u>Year</u>	<u>Building A</u>	<u>Building B</u>	<u>Total</u>
2003	\$ 59,210	\$ 532,204	\$ 591,414
2004	38,349	344,699	383,048
2005	33,454	374,513	407,967
2006	15,289	340,136	355,425
2007	13,441	299,017	312,458
2008	14,080	300,234	314,314
2009	26,914	271,355	298,269
2010	41,128	329,117	370,245
2011	68,190	331,950	400,140
2012	106,390	356,655	463,045
2013	103,681	336,489	440,170
2014	115,694	354,700	470,394
2015	117,285	359,579	476,864
2016	117,149	359,160	476,309
2017	117,131	359,104	476,235
2018	147,482	281,577	429,059
2019	158,199	302,038	460,237
Total	<u>\$ 1,293,066</u>	<u>\$ 5,832,527</u>	<u>\$ 7,125,593</u>

FRESNO ECONOMIC OPPORTUNITIES COMMISSION
SCHEDULE OF FRESNO EXECUTIVE PLAZA FEDERAL INTEREST BY BUILDING – HEAD START PROGRAM
FOR THE YEARS ENDED DECEMBER 31, 1991 THROUGH 2020

Year	Building A					Building B					Total	
	Improve-ments	Mortgage Interest	Bond Issuance Cost	Total Costs	Federal Interest %	Improve-ments	Mortgage Interest	Bond Issuance Cost	Total Costs	Federal Interest %	Total Costs	Total Federal Interest %
1991	\$ -	\$ -	\$ -	\$ -	0.00%	\$ -	\$ 12,762	\$ -	\$ 12,762	0.24%	\$ 12,762	0.24%
1992	-	-	-	-	0.00%	-	22,062	-	22,062	0.60%	22,062	0.60%
1993	-	-	-	-	0.00%	-	29,215	-	29,215	1.01%	29,215	1.01%
1994	-	-	-	-	0.00%	-	50,040	3,675	53,715	1.73%	53,715	1.73%
1995	-	-	-	-	0.00%	-	66,779	5,106	71,885	2.59%	71,885	2.59%
1996	-	-	-	-	0.00%	-	70,023	5,106	75,129	3.40%	75,129	3.40%
1997	-	-	-	-	0.00%	-	95,469	6,811	102,280	4.44%	102,280	4.44%
1998	-	-	-	-	0.00%	-	132,473	9,446	141,919	5.82%	141,919	5.82%
1999	-	-	-	-	0.00%	-	127,370	9,951	137,321	6.90%	137,321	6.90%
2000	-	-	-	-	0.00%	-	125,233	10,062	135,295	7.96%	135,295	7.96%
2001	-	-	-	-	0.00%	-	125,828	10,425	136,253	8.96%	136,253	8.96%
2002	-	-	-	-	0.00%	-	118,745	10,188	128,933	9.82%	128,933	9.82%
2003	-	12,000	12,402	24,402	0.21%	5,389	110,309	114,006	229,704	11.16%	254,106	11.38%
2004	-	5,349	109	5,458	0.26%	-	49,169	1,004	50,173	11.44%	55,631	11.70%
2005	-	3,127	347	3,474	0.28%	-	35,806	3,974	39,780	11.65%	43,254	11.94%
2006	-	1,233	-	1,233	0.29%	-	28,043	-	28,043	11.70%	29,276	11.99%
2007	-	948	-	948	0.29%	-	21,577	-	21,577	11.73%	22,525	12.03%
2008	-	674	-	674	0.30%	-	14,689	-	14,689	11.81%	15,363	12.11%
2009	-	721	-	721	0.29%	-	7,434	-	7,434	11.22%	8,155	11.51%
2010	-	118	-	118	0.29%	-	963	-	963	11.10%	1,081	11.39%
2011	-	-	-	-	0.28%	53,992	-	-	53,992	11.37%	53,992	11.65%
2012	-	-	-	-	0.28%	-	-	-	-	11.26%	-	11.54%
2013	-	-	-	-	0.28%	-	-	-	-	11.26%	-	11.54%
2014	-	-	-	-	0.28%	-	-	-	-	11.26%	-	11.54%
2015	-	-	-	-	0.28%	-	-	-	-	11.26%	-	11.54%
2016	-	-	-	-	0.28%	-	-	-	-	11.26%	-	11.54%
2017	-	-	-	-	0.28%	-	-	-	-	11.26%	-	11.54%
2018	-	-	-	-	0.28%	-	-	-	-	11.25%	-	11.53%
2019	-	-	-	-	0.28%	-	-	-	-	11.24%	-	11.52%
2020 to date	-	-	-	-	0.28%	-	-	-	-	11.14%	-	11.41%
Total	\$ -	\$ 24,170	\$ 12,858	\$ 37,028	0.28%	\$ 59,381	\$ 1,243,989	\$ 189,754	\$ 1,493,124	11.14%	\$ 1,530,152	11.42%

**FRESNO ECONOMIC OPPORTUNITIES COMMISSION
SCHEDULE OF FRESNO EXECUTIVE PLAZA FEDERAL INTEREST BUILDING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 1991 THROUGH 2020**

Year	Total					Head Start				Non-Federal (Agency)				
	Acquisition	Improve-ments	Mortgage Interest	Bond Issuance Cost	Total	Improve-ments	Mortgage Interest	Bond Issuance Cost	Total	Acquisition	Improve-ments	Mortgage Interest	Bond Issuance Cost	Total
1991	\$ 4,988,858	\$ 841	\$ 243,100	\$ -	\$ 5,232,799	\$ -	\$ 12,762	\$ -	\$ 12,762	\$ 4,988,858	\$ 841	\$ 230,338	\$ -	\$ 5,220,037
1992	-	96,582	483,225	-	579,807	-	22,062	-	22,062	-	96,582	461,163	-	557,745
1993	-	23,145	476,850	-	499,995	-	29,215	-	29,215	-	23,145	447,635	-	470,780
1994	-	-	469,848	33,050	502,898	-	50,040	3,675	53,715	-	-	419,808	29,375	449,183
1995	-	-	462,188	33,050	495,238	-	66,779	5,106	71,885	-	-	395,409	27,944	423,353
1996	-	-	453,900	33,050	486,950	-	70,023	5,106	75,129	-	-	383,877	27,944	411,821
1997	-	-	444,975	33,050	478,025	-	95,469	6,811	102,280	-	-	349,506	26,239	375,745
1998	-	-	435,200	33,050	468,250	-	132,473	9,446	141,919	-	-	302,727	23,604	326,331
1999	-	170,669	422,733	33,050	626,452	-	127,370	9,951	137,321	-	170,669	295,363	23,099	489,131
2000	-	-	411,117	33,050	444,167	-	125,233	10,062	135,295	-	-	285,884	22,988	308,872
2001	-	-	398,650	33,050	431,700	-	125,828	10,425	136,253	-	-	272,822	22,625	295,447
2002	-	-	385,050	33,050	418,100	-	118,745	10,188	128,933	-	-	266,305	22,862	289,167
2003	-	5,389	375,715	388,311	769,415	5,389	122,309	126,408	254,106	-	-	253,406	261,903	515,309
2004	-	-	159,125	3,287	162,412	-	54,518	1,114	55,632	-	-	104,607	2,173	106,780
2005	-	-	115,817	12,877	128,694	-	38,933	4,321	43,254	-	-	76,884	8,556	85,440
2006	-	101,528	90,838	-	192,366	-	29,275	-	29,275	-	101,528	61,563	-	163,091
2007	-	81,634	70,230	-	151,864	-	22,525	-	22,525	-	81,634	47,705	-	129,339
2008	-	-	48,250	-	48,250	-	15,362	-	15,362	-	-	32,888	-	32,888
2009	-	673,254	24,745	-	697,999	-	8,155	-	8,155	-	673,254	16,590	-	689,844
2010	-	143,841	3,163	-	147,004	-	1,080	-	1,080	-	143,841	2,083	-	145,924
2011	-	169,740	-	-	169,740	53,992	-	-	53,992	-	115,748	-	-	115,748
2012	-	131,628	-	-	131,628	-	-	-	-	-	131,628	-	-	131,628
2013	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2014	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2015	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2016	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2017	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2018	-	8,763	-	-	8,763	-	-	-	-	-	8,763	-	-	8,763
2019	-	10,653	-	-	10,653	-	-	-	-	-	10,653	-	-	10,653
2020 to date	-	125,786	-	-	125,786	-	-	-	-	-	125,786	-	-	125,786
Total	\$ 4,988,858	\$ 1,743,453	\$ 5,974,719	\$ 701,925	\$ 13,408,955	\$ 59,381	\$ 1,268,158	\$ 202,613	\$ 1,530,152	\$ 4,988,858	\$ 1,684,072	\$ 4,706,563	\$ 499,313	\$ 11,878,806

**FRESNO ECONOMIC OPPORTUNITIES COMMISSION
SCHEDULE OF OPERATING EXPENSES – HEAD START PROGRAM –
FRESNO EXECUTIVE PLAZA BUILDING A FEDERAL INTEREST ADJUSTMENT
FOR THE YEARS ENDED DECEMBER 31, 1999 THROUGH 2019**

Year	<u>Claimed Costs Questioned</u>					Audited Costs Accepted
	Claimed Costs	Disallowed Depreciation	Federal Interest % Depreciation Reduction	FEP Rent Reduction	Total	
1999	\$ 18,518,823	\$ -	\$ (3,284)	\$ -	\$ (3,284)	\$ 18,515,539
2000	20,971,235	-	(4,083)	-	(4,083)	20,967,152
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2018	37,538,974	(8,439)	(10,247)	(9,562)	(28,248)	37,510,726
2019	38,330,076	-	-	-	-	38,330,076
	<u>620,974,746</u>	<u>(188,431)</u>	<u>(159,908)</u>	<u>(66,762)</u>	<u>(415,101)</u>	<u>620,559,645</u>
Adjustment: Elimination of Federal Interest in Building A of the Fresno Executive Plaza						
	<u>-</u>	<u>-</u>	<u>3,439</u>	<u>-</u>	<u>3,439</u>	<u>3,439</u>
Adjusted Totals:						
	<u>\$ 620,974,746</u>	<u>\$ (188,431)</u>	<u>\$ (156,469)</u>	<u>\$ (66,762)</u>	<u>\$ (411,662)</u>	<u>\$ 620,563,084</u>

**FRESNO ECONOMIC OPPORTUNITIES COMMISSION
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEARS ENDED DECEMBER 31, 1999 THROUGH 2019**

Finding 2019-001: Federal Interest Calculation

Criteria:

Per the instructions in completing the SF-429 Federal Interest reporting form, line 41f, Real Property Cost, the total cost of the real property acquired is to include the purchase or acquisition price, plus any applicable improvements.

Condition:

It was noted that initial submissions and filings of the SF-429 Form, total costs for the calculation were based on total depreciation over the Federal Executive Plaza (FEP) properties charged as the basis, along with interest and bond amortization charges. In addition, per our review of the calculation as performed by the Fresno EOC, not all improvements of the property were properly included in the calculation, including those paid for by the Fresno EOC and/or the Head Start program.

Cause of Condition:

In review of the Fresno Economic Opportunities Commission (the Fresno EOC) procedures of the computation of the federal interest at the FEP, the calculation was to be based on total depreciation, along with interest and bond amortization charges.

Effect of Condition:

The Fresno EOC was deficient in performing the calculation in using the total depreciation expense cumulatively at the corresponding year-end and not the original purchase/acquisition price of the properties as well as not including all applicable improvements for the calculation of the federal interest.

Recommendation:

We recommend that management reperform the calculation, using the true purchase/acquisition costs plus any and all improvements, less any suite specific improvements as per Head Start program guidelines, made on the property to properly calculate the federal interest percentage applicable to the Head Start program. This was performed in conjunction with a prior agreed-upon-procedures agreement with our firm and was done without exception.

Management Response and Corrective Action Plan:

As noted in the recommendation above, the recalculation of the federal interest portion for Fresno Executive Plaza (FEP) has been recomputed as a result of the prior audit engagement. Any retroactive report filings to update the federal interest will be filed and communicated to the Board and Finance Committee.

Finding 2019-002: FEP Fixed Asset Listing

Criteria:

Federal awards require compliance with allowable activities and costs to ensure that only costs charged to the Head Start program actually benefit the program.

Condition:

It was noted in the FEP fixed asset listing from which depreciation was charged to the Head Start program, certain fixed assets were included in the listing for which a direct or indirect benefit was not present to the Head Start program.

**FRESNO ECONOMIC OPPORTUNITIES COMMISSION
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 1999 THROUGH 2019**

Finding 2019-002: FEP Fixed Asset Listing (continued)

Cause of Condition:

The Fresno EOC lacked proper internal controls and monitoring procedures to ensure that fixed assets being charged in the FEP fixed asset listing only included assets that can be allocated to all tenants, including Head Start, and not suite specific fixed assets that can't be allocated accordingly.

Effect of Condition:

As a result, depreciation and costs were overcharged to the Head Start program, resulting in unallowed costs being charged to the program.

Recommendation:

We recommend that management implement enhanced internal controls and monitoring procedures over the FEP fixed asset listing to ensure that only fixed assets with a benefit to the Head Start program are being charged to the Head Start program. Controls should include prevention measures as well as detection measures when assets are being purchased and recorded to properly identify fixed assets that will benefit the program, and only those fixed asset's depreciation is being charged to the Head Start program.

Management Response and Corrective Action Plan:

Management will conduct a review of its accounting procedures for fixed assets, including monthly monitoring by the Finance management team, especially as it relates to Head Start and any other federally funded program to identify assets that have been procured with federal funds to prevent any future misallocations of depreciation expenses. Updated accounting policies and procedures will be communicated to the Board and Finance Committee

Finding 2019-003: Allocation Charges

Criteria:

Federal awards require compliance with allowable activities and costs to ensure that only costs charged to the Head Start program actually benefit the program.

Condition:

It was noted during our examination that fixed assets that have a federal interest ownership percentage associated with them were not having depreciation reduced by that federal interest ownership percentage, resulting in excess depreciation and costs being charged to the Head Start program. It was also noted that Fresno EOC was not properly allocating square footage to the Head Start program, resulting in higher allocations of indirect costs associated with the Head Start program. Lastly, the Fresno EOC does not have proper documentation of approval with the Head Start program to be charging FEP expenses associated with Building A of the FEP.

Cause of Condition:

The Fresno EOC lacked proper internal controls and monitoring procedures to ensure that depreciation and the associated federal interest being charged from the FEP fixed asset listing, along with indirect cost allocations were properly charged to the Head Start program.

Effect of Condition:

As a result, depreciation and costs were overcharged to the Head Start program, resulting in unallowed costs being charged to the program. Also, without proper approval from the Head Start program for allocation of indirect expenses from Building A of the FEP, all prior expenses charged associated with Building A could be disallowed.

**FRESNO ECONOMIC OPPORTUNITIES COMMISSION
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 1999 THROUGH 2019**

Finding 2019-003: Allocation Charges (continued)

Recommendation:

We recommend that management implement enhanced internal controls and monitoring procedures over the federal interest and depreciation charges to ensure that correct expenses are being charged to the Head Start program. Controls should include prevention measures as well as detection measures when assets are being purchased, have a federal ownership percentage associated with them and recorded to properly identify depreciation and indirect charges that are properly allocated to the Head Start program. We also recommend that management work with the Head Start program to get proper retroactive approval of Building A of the FEP for allocation of indirect expenses associated with that portion of the FEP.

Management Response and Corrective Action Plan:

Management will ensure the Finance department receives the proper training to prevent misallocations of depreciation expense and other indirect costs. Trainings will be provided by an independent auditing firm and by Head Start's Technical Assistance team. In addition, Finance Committee members and future Finance Committee members will participate in training to ensure proper oversight is being conducted. Management will seek retroactive approval for prior year costs associated with Building A.