

# EXAMINING GAO'S REVIEW OF SELECTED HEAD START GRANTEES

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## HEARING

BEFORE THE

COMMITTEE ON

EDUCATION AND LABOR

U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED ELEVENTH CONGRESS

SECOND SESSION

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HEARING HELD IN WASHINGTON, DC, MAY 18, 2010

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## **EXAMINING GAO'S REVIEW OF SELECTED HEAD START GRANTEEES**

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**Tuesday, May 18, 2010  
U.S. House of Representatives  
Committee on Education and Labor  
Washington, DC**

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The committee met, pursuant to call, at 1:40 p.m., in room 2175, Rayburn House Office Building, Hon. George Miller [chairman of the committee] presiding.

Present: Representatives Miller, Kildee, Payne, Scott, Tierney, Davis, Courtney, Shea-Porter, Biggert, and Guthrie.

Staff Present: Andra Belknap, Press Assistant; Jody Calemine, General Counsel; Patrick Findlay, Investigative Counsel; Denise Forte, Director of Education Policy; Ruth Friedman, Deputy Director of Education Policy; Jose Garza, Deputy General Counsel; David Hartzler, Systems Administrator; Ryan Holden, Senior Investigator; Broderick Johnson, Staff Assistant; Mike Kruger, Online Outreach Specialist; Bryce McKibben, Staff Assistant, Education; Alex Nock, Deputy Staff Director; Lillian Pace, Policy Advisor, Subcommittee on Early Childhood, Elementary and Secondary Education; Meredith Regine, Junior Legislative Associate, Labor; Alexandria Ruiz, Administrative Assistant to Director of Education Policy; Melissa Salmanowitz, Press Secretary; Michael Zola, Chief Investigative Counsel; Mark Zuckerman, Staff Director; Kirk Boyle, Minority General Counsel; Allison Dembeck, Minority Professional Staff Member; Angela Jones, Minority Executive Assistant; Susan Ross, Minority Director of Education and Human Services Policy; Mandy Schaumburg, Minority Education Policy Counsel; and Linda Stevens, Minority Chief Clerk/Assistant to the General Counsel.

Chairman MILLER. A quorum being present the committee will come to order, and I want to welcome all of the members of the committee who are participating today and thank our witnesses for their agreement to appear before the committee.

We are here today to learn about what appears to be serious fraudulent behavior uncovered by the Government Accountability Office during its investigation into the enrollment and eligibility process at some Head Start programs. We will also hear about what actions the Department of Health and Human Services is taking to strengthen its oversight and accountability of the Head Start programs.

I am very disappointed that there are Head Start programs and employees at the center of these allegations of fraud. Upon learning

of this investigation, I immediately wrote a letter to the Secretary of Health and Human Services, Secretary Kathleen Sebelius, urging her to take swift action to review the claims of fraudulent activities among some Head Start employees. Secretary Sebelius and I agree that we have an obligation to ensure Head Start is held to the highest standards, which starts with people who enroll the children in the program. One in five children under the age of 5 live in poverty in America, and less than 50 percent of the children who are eligible for Head Start are able to attend this critical program. So it is vital that Head Start enrollment procedures are followed and that taxpayer dollars are used as intended.

Unfortunately, the GAO has found that some Head Start employees are betraying the integrity of the program. The behavior on the part of some Head Start employees that we are going to hear about today is reprehensible and completely unacceptable, and I want to thank the GAO for bringing it to our attention.

I believe the Head Start community will likewise be outraged at this behavior, because the majority of the employees that work in Head Start represent the program with integrity and with a deep commitment to help the future of this country. We know if you invest in children before they enter the kindergarten classroom, they will have a much better chance of success in elementary school and throughout their lives.

Head Start receives bipartisan support for billions in Federal financial assistance. It is imperative that these programs be transparent, ethical, accountable, and maintain the confidence of the taxpayers. We intend to continue our oversight of this program to ensure prompt and effective enforcement by the Department and put a stop to the fraudulent conduct.

Head Start works for our children, and we are here today to help make sure that it will continue to do so.

I want to thank our witnesses and look forward to hearing about what can be and will be done to fix this problem. And I want to again thank them for being here today.

I want to say as an aside that when we had allegations of fraud, maybe embezzlement of funds back was in—was it 2004—in 2003, this committee responded under the leadership of Congressman, then-chairman, John Boehner, and we responded in a bipartisan fashion to deal with those issues of program integrity. And I want to thank Congressman Kline and the Republican staff and others for helping us to work on this problem when we were alerted to it. And we have been talking back and forth, and this hearing is proceeding along lines with suggestions and recommendations by Congressman Kline and the staff.

This program has had, as I have noted, tremendous bipartisan support both in administrations and throughout the Congress. And it is important that we do what we have to do to maintain the integrity of this. But I want to thank the staffs on both sides of the aisle and Congressman Kline for his response to this problem when he and I became aware of it.

[The statement of Mr. Miller follows:]

**Prepared Statement of Hon. George Miller, Chairman, Committee on  
Education and Labor**

Good afternoon.

We're here today to learn about what appears to be serious, fraudulent behavior uncovered by the Government Accountability Office during its investigation into the enrollment and eligibility process at some Head Start programs.

We will also hear what actions the Department of Health and Human Services is taking to strengthen its oversight and accountability of Head Start programs.

I am very disappointed that there are Head Start programs and employees at the center of these allegations of fraud.

Upon learning of this investigation, I immediately wrote a letter to Secretary of Health and Human Services Kathleen Sebelius urging her to take swift action to review the claims of fraudulent activities among some Head Start employees.

Secretary Sebelius and I both agree that we have an obligation to ensure Head Start is held to the highest standard, which starts with the people who enroll children in the program.

One in five children under the age of five live in poverty in America, and less than 50 percent of the children who are eligible for Head Start are able to attend this critical program.

So it is vital that Head Start enrollment procedures are followed and that taxpayer dollars are used as intended.

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We intend to continue our oversight of this program to ensure prompt, effective enforcement by the Department puts a stop to this fraudulent conduct.

Head Start works for our kids and we are here today to help make sure that it will continue to do so.

I want to thank our witnesses and look forward to hearing about what can and will be done to fix this problem.

Thank you for being here today.

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Chairman MILLER. With that, I want to recognize Congresswoman Judy Biggert, the senior Republican today.

Mrs. BIGGERT. Thank you, Chairman Miller, and thank you to the witnesses who are here this afternoon to discuss this extremely important and extremely troubling topic. As the name indicates, the Head Start program is designed to give our neediest children a head start before enrolling in school, because children who lag behind when they start school tend to remain behind. Head Start is supposed to help close the readiness gap between low-income children and their more affluent peers.

After my clerking for a judge at the U.S. court of appeals and before starting another job, I volunteered for a summer at the Head Start program in Chicago, at Hull House, the very first year that this program was offered. So I saw firsthand the value of early intervention in the lives of those that are in need and underprivileged children.

So that is why I was so disturbed to hear about the recent findings of the Government Accountability. At that time, I was rushing home every evening to turn on Sesame Street so I could learn a lit-

tle more Spanish before I went back the next day to be with these wonderful children.

But today we will hear about deliberate efforts to circumvent the program's income limitations, including compelling evidence of Head Start centers disregarding proof of income in order to pad their enrollment, absorb funding for children who are never served, and continue collecting a larger share of Head Start resources than they were due.

And this is not a victimless crime. Every dollar that goes to higher-income children or to centers not serving as many children as they claim is a dollar that cannot be used for the low-income children this program is meant to serve.

The GAO sampled but a few of the roughly 1,600 Head Start grantees across the Nation. Based on these preliminary findings, it is clear that further review is necessary. Indeed it is my understanding that investigations by GAO and other authorities are ongoing. For that reason, I believe that this is important to go on record to express reservations about the potential consequences of a public hearing.

The cases we will review this afternoon are part of an undercover investigation, and in such case, it is important that neither the identity of those who are targeted in the investigation nor the identities of undercover agents posing as prospective enrollees be compromised. We have received assurances from Chairman Miller that steps are being taken today to conceal individual identities and localities. And with those assurances, we are able to move forward today.

I think that we can all agree that additional congressional oversight, including future hearings, will be in order once these investigations are complete and the full results of GAO's work can be revealed. It is vital for Congress to expose and root out any of this type of waste, fraud and abuse, but I do not believe that any of us wishes to jeopardize an ongoing or potentially criminal investigation.

In fact, I and many others were so troubled by these preliminary findings that we believe the investigations into these specific incidents and the investigative authorities ought to be broadened. Upon being informed of the GAO's preliminary findings, Congressman John Kline, this committee's senior Republican member, wrote to the Department of Health and Human Services Inspector General to request a comprehensive investigation into the vulnerability of Head Start's verification processes to fraud and abuse. And I echo his concerns. The GAO has brought to light a disturbing pattern of abuse in a program designed to serve our most vulnerable children. And I expect the GAO will continue its important work in this area. And I am pleased its investigation will be bolstered by many more comprehensive reviews by the agency's independent watchdog. And I will insert the balance into the record.

Chairman MILLER. Thank you very much.

[The statement of Mrs. Biggert follows:]

**Prepared Statement of Hon. Judy Biggert, a Representative in Congress  
From the State of Illinois**

Thank you Chairman Miller, and thank you to the witnesses who are here this afternoon to discuss this extremely important—and extremely troubling—topic.



As the name indicates, the Head Start program is designed to give our neediest children a “head start” before enrolling in school. Because children who lag behind when they start school tend to remain behind, Head Start is supposed to help close the “readiness gap” between low-income children and their more affluent peers.

After leaving law school, I volunteered at the Head Start program in the Chicago Hull House—the very first year that the program was offered. I saw first-hand the value of early intervention in the lives of these underprivileged children. That’s why I was so disturbed to hear the recent findings of the Government Accountability Office.

We will hear today about deliberate efforts to circumvent the program’s income limitations, including compelling evidence of Head Start centers discarding proof of income in order to pad their enrollment, absorb funding for children who were never served, and continue collecting a larger share of Head Start resources than they were due.

This is not a victimless crime. Every dollar that goes to higher-income children—or to centers not serving as many children as they claim—is a dollar that cannot be used for the low-income children this program is meant to serve.

The GAO investigation sampled but a few of the roughly 1,600 Head Start grantees across the nation. Based on these preliminary findings, it is clear that further review is necessary. Indeed, it is my understanding that investigations by GAO and other authorities are ongoing. For that reason, I believe that it is important to go on record to express reservations about the potential consequences of a public hearing.

The cases we’ll review this afternoon are part of an undercover investigation. In such cases, it is important that neither the identities of those who are targeted in the investigation—nor the identities of the undercover agents posing as prospective enrollees—be compromised. We have received assurances from Chairman Miller that steps are being taken today to conceal individual identities and localities—and with those assurances, we are able to move forward today.

However, I think that we can all agree that additional congressional oversight—including future hearings—will be in order once these investigations are complete and the full results of GAO’s work can be revealed. It is vital for Congress to expose and root out this type of waste, fraud, and abuse, but I do not believe that any of us wishes to jeopardize an ongoing and potentially criminal investigation.

In fact, I and many others were so troubled by these preliminary findings that we believe the investigation into these specific incidents—and the investigating authorities—ought to be broadened. Upon being informed of the GAO’s preliminary findings, Congressman John Kline—this committee’s Senior Republican Member—wrote to the Department of Health and Human Services’ Inspector General to request a comprehensive investigation into the vulnerability of Head Start’s verification processes to fraud and abuse.

I echo his concerns. The GAO has brought to light a disturbing pattern of abuse in a program designed to serve our most vulnerable children. I expect the GAO will continue its important work in this area, and I’m pleased its investigation will be bolstered by a more comprehensive review by the agency’s independent watchdog. I also appreciate the steps announced yesterday by HHS Secretary Kathleen Sebelius to intensify program oversight.

The IG was quick to respond to Ranking Member Kline’s request for a broader investigation, recognizing the severity of this issue and agreeing to expand the investigation to determine whether there are systemic vulnerabilities that victimize both the taxpayers and the low-income children and families Head Start is intended to serve.

As lawmakers, we need to have confidence that the programs we authorize and the dollars we appropriate are serving their intended purpose. Today’s hearing is an important first step to determine whether the public trust has been broken and whether it can be restored to ensure that Head Start fulfills its mission of serving low-income children and families. Thank you, and I yield back.

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Chairman MILLER. I would like now to introduce our panel of witnesses for this hearing. Gregory Kutz is the managing director of the GAO’s Forensic Audits and Special Investigations Unit. Mr. Kutz joined GAO in 1991 after 8 years at KPMG Peat Marwick. He previously served as a senior executive in GAO where he testified over 80 times at congressional hearings on matters related to fraud, waste and abuse and other special investigations. Mr. Kutz

graduated from the Pennsylvania State University in 1983. He is a certified public accountant and certified fraud examiner.

Carmen Nazario is the assistant secretary for the Administration of Children and Families within the Department of Health and Human Services. During the Clinton administration, she first served as associate commissioner of child care in the Administration for Children, Youth and Families. Ms. Nazario has held a number of leadership roles, including vice president of the board of directors of the American Public Welfare Association, president of the National Council of Local Public Welfare Administrators, secretary to the National Council of Human Service Administrators. Ms. Nazario graduated from the University of Puerto Rico in 1967 and was awarded her master's in social work degree from the Virginia Commonwealth University School of Social Work in 1993.

Welcome, and thank you for your willingness to be here today. And as you know the lighting system, Mr. Kutz, Ms. Nazario, we will put on a green light and a yellow light. This is a little unusual, your testimony, other parts, so take the time that you deem necessary to fully explain the case to us and we will make, likewise, time available to you, Ms. Nazario, so you can testify in the manner you are most comfortable. Thank you again. Mr. Kutz.

**STATEMENT OF GREGORY D. KUTZ, MANAGING DIRECTOR,  
GAO FORENSIC AUDITS AND SPECIAL INVESTIGATIONS**

Mr. KUTZ. Mr. Chairman and members of the committee, thank you for the opportunity to discuss the Head Start program. Today's testimony highlights the results of our investigation into allegations of fraud and abuse. My testimony has two parts. First, I will discuss the results of our investigation; and second, I will discuss the consequence of fraud and abuse in this program.

First, we are investigating allegations of fraud and abuse that we received on our hotline related to two nonprofit grant recipients. Specifically, 11 informants provided us with numerous allegations of fraud and abuse. It is important to note that enrollment of children from families with incomes over 130 percent of the poverty level is generally limited to 10 percent. Thus, with some exceptions, 90 percent of families must be under this income level, which, in 2009, was about \$24,000 for a family of three.

A key allegation is that grant recipients are manipulating records to enroll over-income children into under-income slots. This is being done to fill open slots that were intended for children from families with incomes below the 130 percent level.

Key findings to date for these two cases include at one grantee, staff encouraging parents to apply as homeless, which results in automatic enrollment; 353 of 1,587 children at this grantee are enrolled as homeless, or 22 percent of all children. For the other grantee, 63 children were moved between centers so that they could be double-counted. The incentive for management here was to boost enrollment so that they would not lose any of their \$13 million of Head Start grants.

Based on these two allegations, we decided to perform undercover testing across the country to look into this issue. The primary scenario that we used was to provide evidence to centers showing

that our bogus children and families were over the 130 percent of poverty level. We refer to these as our over-income tests.

Using bogus children and fabricated documents, our undercover testing was done in centers in California, Texas, Wisconsin, Pennsylvania, New Jersey, Maryland, and Washington, D.C. Seven centers in four of these States and D.C. fraudulently enrolled our over-income children into under-income slots.

We also successfully enrolled children using bogus documents showing that we were under-income. These tests clearly show that the Head Start program is vulnerable not only to grantee fraud but also to beneficiary fraud.

Here are two examples of what we found. First, as you can see on the two monitors, on the top, you see the W-2 we provided for our fictitious parent, Vinnie. Notice on the bottom that, rather than record the \$23,000 of wages, Vinnie was recorded in center records as being unemployed. Exclusion of this \$23,000 of income made Vinnie and his family under-income.

In the next case, the monitors show on the top left \$23,000 of wages for our fictitious grandfather, Gary. On the top right you see the \$9,500 of wages for Grandma. Once again, the \$23,000 of wages for Gary were excluded from center records. As you see on the bottom, the only income recorded in center records was the \$9,500 of wages for Grandma. In this case the Head Start employee who perpetrated this fraud agreed with our undercover agent that, and I quote, "Grandma wins," end of quote.

At the end of my presentation, as was mentioned, we will play audio excerpts showing Head Start employees facilitating the fraudulent enrollment of bogus over-income children into under-income slots.

Moving on to my second point, 450 of the 550 Head Start centers that we contacted had waiting lists. The parents we spoke to on these wait lists, assuming they were truthful, were generally under income. Some were unemployed, while others were making \$200 to \$300 a week.

My concern is that over-income families, fraudulently enrolled, are being served while the poorest children in our country are on wait lists. Without Head Start, the parents on these wait lists told us that they cannot work. They fear that their children will enter kindergarten substantially behind their peers. This, Mr. Chairman, is the answer to our "so what" question today.

In conclusion, the victims of fraud and abuse in the Head Start program are not only taxpayers but, more importantly, children from the very poorest families in our country.

I fear that enrollment fraud is not the only fraud in the Head Start program.

Mr. Chairman I look forward to working with you and this committee and HHS to prevent future fraud in the Head Start program.

I will now play audio excerpts from several of the undercover visits to Head Start centers. You will see the transcription of the conversations on the monitor as you watch.

[Video shown.]

Mr. Chairman, that ends my statement and I look forward to your questions.

Chairman MILLER. Thank you.  
[The statement of Mr. Kutz follows:]

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**GAO**

United States Government Accountability Office

Testimony  
Before the Committee on Education and  
Labor, House of Representatives

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For Release on Delivery  
Expected at 1:30 p.m. EDT  
Tuesday, May 18, 2010

**HEAD START**

**Undercover Testing Finds  
Fraud and Abuse at  
Selected Head Start Centers**

Statement of Gregory D. Kutz, Managing Director  
Forensic Audits and Special Investigations





Highlights of GAO-10-733T, a testimony before the Committee on Education and Labor, House of Representatives

**Why GAO Did This Study**

The Head Start program, overseen by the Department of Health and Human Services and administered by the Office of Head Start, provides child development services primarily to low-income families and their children. Federal law allows up to 10 percent of enrolled families to have incomes above 130 percent of the poverty line—GAO refers to them as “over-income.” Families with incomes below 130 percent of the poverty line, or who meet certain other criteria, are referred to as “under-income.” Nearly 1 million children a year participate in Head Start, and the American Recovery and Reinvestment Act provided an additional \$2.1 billion in funding.

GAO received hotline tips alleging fraud and abuse by grantees. In response, GAO investigated the validity of the allegations, conducted undercover tests to determine if other centers were committing fraud, and documented instances where potentially eligible children were put on Head Start wait lists. The investigation of allegations is ongoing.

To perform this work, GAO interviewed grantees and a number of informants and reviewed documentation. GAO used fictitious identities and bogus documents for proactive testing of Head Start centers. GAO also interviewed families on wait lists. Results of undercover tests and family interviews cannot be projected to the entire Head Start program. In a corrective action briefing, agency officials agreed to address identified weaknesses.

View GAO-10-733T or key components. For more information, contact Gregory Kutz at (202) 512-6722 or kutzg@gao.gov

May 18, 2010

**HEAD START**

**Undercover Testing Finds Fraud and Abuse at Selected Head Start Centers**

**What GAO Found**

GAO received allegations of fraud and abuse involving two Head Start nonprofit grantees in the Midwest and Texas. Allegations include manipulating recorded income to make over-income applicants appear under-income, encouraging families to report that they were homeless when they were not, enrolling more than 10 percent of over-income children, and counting children as enrolled in more than one center at a time. GAO confirmed that one grantee operated several centers with more than 10 percent over-income students, and the other grantee manipulated enrollment data to over-report the number of children enrolled. GAO is still investigating the other allegations reported.

Realizing that these fraud schemes could be perpetrated at other Head Start programs, GAO attempted to register fictitious children as part of 15 undercover test scenarios at centers in six states and the District of Columbia. In 8 instances staff at these centers fraudulently misrepresented information, including disregarding part of the families’ income to register over-income children into under-income slots. The undercover tests revealed that 7 Head Start employees lied about applicants’ employment status or misrepresented their earnings. This leaves Head Start at risk that over-income children may be enrolled while legitimate under-income children are put on wait lists. At no point during our registrations was information submitted by GAO’s fictitious parents verified, leaving the program at risk that dishonest persons could falsify earnings statements and other documents in order to qualify. In 7 instances centers did not manipulate information. The table provides details on two of GAO’s successful enrollments. To see selected video clips of GAO enrollments, see <http://www.gao.gov/media/video/gao-10-733T/>.

**Fictitious Over-Income Children Successfully Enrolled in Head Start Centers by GAO**

State	Test	Case details
NJ	Income exceeds poverty guidelines	<ul style="list-style-type: none"> <li>A Head Start associate disregarded over \$23,000 worth of income in order to qualify the family as under-income.</li> <li>The Head Start associate said with regard to the father’s income documentation, “Now you see it, now you don’t.”</li> </ul>
TX	Income exceeds poverty guidelines	<ul style="list-style-type: none"> <li>A Head Start associate disregarded over \$20,000 worth of income in order to qualify the family as under-income.</li> <li>With respect to the income documentation, the associate stated “we see this, but we don’t see this,” explaining that if both parents’ incomes were counted the family would be over-income and on a wait list.</li> </ul>

Source: GAO

In addition, GAO found that most of the 550 Head Start centers contacted had wait lists. GAO also found that 2 centers where it enrolled fictitious children later became full and developed wait lists after the fictitious children had been withdrawn. Only 44 centers reported that they had openings. GAO interviewed families on wait lists from other centers and found that many stated that their incomes were at or below the federal poverty level. In some cases, families stated they had experienced some type of domestic violence, or were receiving some type of public assistance, a group automatically eligible for Head Start. GAO did not attempt to verify family statements.

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Mr. Chairman and Members of the Committee:

Thank you for the opportunity to discuss our ongoing investigation into fraud and abuse at selected Head Start locations. The Head Start program, overseen by the Department of Health and Human Services' (HHS) Administration for Children and Families, and administered by the Office of Head Start (OHS), is one of the largest federal early childhood programs. It gives grants to local organizations to provide preschool education and other services to low-income children and their families. In fiscal year 2010, the Congress appropriated \$7.2 billion to serve approximately 900,000 children through approximately 1,600 Head Start grantees nationwide.<sup>1</sup> The American Recovery and Reinvestment Act of 2009 (Recovery Act) provided an additional \$2.1 billion in funding for Head Start and Early Head Start. According to OHS, Recovery Act funds are to be used for staff training, facilities upgrades, and cost-of-living increases and are intended to allow certain programs to serve an additional 59,000 children and their families.

In August 2008, we received allegations through GAO's FraudNet hotline that a Midwest nonprofit Head Start center manipulated information so over-income or otherwise ineligible families would appear to qualify for the program and the grantee would meet enrollment numbers required as a condition of receiving Head Start funds. In October 2009, we received additional allegations that a Texas nonprofit Head Start center was also enrolling over-income or otherwise ineligible children in the program in order to meet funded enrollment numbers. Based on the significance of these claims, we (1) investigated the allegations of fraud and abuse at these two Head Start grantees, (2) conducted undercover tests to determine if other grantees were committing similar abuses, and (3) documented instances in which potentially eligible children were put on wait lists for Head Start services at other centers.<sup>2</sup>

To investigate the allegations of fraud and abuse we received through our FraudNet hotline, we interviewed informants and the two Head Start

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<sup>1</sup>OHS awards Head Start funds directly to local organizations, called grantees. Many Head Start grantees contract out the operation of services to delegate agencies that operate programs at the community level. Throughout this testimony we refer to both grantees and delegates as grantees.

<sup>2</sup>Wait lists were documented because potentially eligible children could have been displaced by ineligible children fraudulently enrolled in the program.

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grantees in the Midwest and Texas. We reviewed grant documentation and enrollment information reported to OHS by grantees. Our investigation of allegations related to these two cases is ongoing. We plan to issue a final report once the investigation is complete.

To conduct undercover testing, we created fictitious identities and bogus documents, including pay stubs and birth certificates, in order to attempt to register over-income or otherwise potentially ineligible families and their children at 13 Head Start centers located in California, Maryland, New Jersey, Pennsylvania, Texas, Wisconsin and the Washington, D.C. metropolitan area. We also attempted to register two eligible families and their children to determine if centers would count these children toward reported enrollment numbers. We chose these centers for two reasons: they indicated that they had openings for new enrollees; and they were located either in states with a significant proportion of Head Start funding, the same geographic area as a GAO office, or in the same geographic area as the two programs accused of committing fraud. We created 15 fictitious scenarios and used fabricated documentation during our in-person applications. Scenarios were designed to determine if other Head Start centers were engaging in actions similar to those that were the basis of the allegations we received about centers in the Midwest and Texas. We used publicly available hardware, software, and materials to fabricate our supporting documentation. In situations in which our fictitious parents were told to bring our fictitious child to class, we monitored centers by making follow-up phone calls, to determine if centers still had openings in order to ensure that we were not occupying a space that could be used by an actual, eligible child. Subsequent to our applications, we requested, as GAO, that the centers provide us all information regarding the submitted applications and information as to whether these fictitious children ever were counted on center attendance records.

In order to document situations of families waiting to enroll in Head Start, we identified centers with wait lists through calls we made to approximately 550 centers and contacted families on these wait lists. We asked applicants for information on the length of time they spent on a wait list, the family's economic situation, and whether they had been affected by being waitlisted for Head Start services. We did not attempt to verify the accuracy of the information that families provided to us. We cannot project the results of our investigation of allegations, undercover tests, and family interviews to the entire Head Start program. We conducted our investigation from October 2008 through April 2010 in accordance with the standards prescribed by the Council of the Inspectors General on Integrity and Efficiency.

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## Background

The Head Start program was established in 1965 to deliver comprehensive educational, social, health, nutritional, and psychological services to low-income families and their children who are below the age of compulsory school attendance. These services include preschool education, family support, health screenings, and dental care. Head Start was originally aimed at 3- to 5-year-olds. A companion program, called Early Head Start, began in 1994, and focuses on making these services available to pregnant women and children from birth to 3 years of age. Head Start operates both full- and part-day programs—most only during the school year. The Migrant and Seasonal Head Start program is designed to meet the specific needs of migrant and seasonal farm worker families. OHS makes Head Start grants directly to approximately 1,600 local organizations, including community action agencies, school systems, tribal governments and associations, and for-profit and nonprofit organizations. To accomplish Head Start's goals, the Congress provided \$7.2 billion in federal funds for fiscal year 2010, as well as \$2.1 billion in Recovery Act funds.

Head Start statutes and regulations establish several primary eligibility criteria, one of which a child must generally meet in order to enroll in the program. These primary criteria include: the child's family earns income below the federal poverty level; the child's family is eligible or, in the absence of child care, would potentially be eligible for, public assistance; the child is in foster care; or the child is homeless. However, Head Start programs may also fill up to 10 percent of their slots with children from families who do not meet any of the above criteria, but who "would benefit" from participation in the program.<sup>3</sup> We refer to these children and their families as "over-income." There is no cap on the income level for the over-income families. If the Head Start program has implemented policies and procedures that ensure the program is meeting the needs of children eligible under the primary criteria and prioritizes their enrollment in the program, then the program may also fill up to 35 percent of their slots with children from families with income between the federal poverty line and 130 percent of the poverty line. Programs filling slots under this provision are subject to additional reporting requirements. Children from families with incomes below 130 percent of the poverty line, and children that qualify under one of the primary eligibility criteria, are referred to as "under-income" for the purposes of this testimony. In addition, unless a

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<sup>3</sup>A Head Start program operated by an Indian tribe or a program located in certain remote areas with small populations may enroll additional children who do not meet one of the primary criteria.



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program applies for and receives a waiver, at least 10 percent of each program's total slots must be filled with children with disabilities who are determined to be eligible for special education and related services or early intervention services. To qualify for the Migrant and Seasonal Head Start program, families must have changed their residence within the preceding 24 months for the purpose of engaging in certain agricultural work, and the families' incomes must come primarily from this type of work. In enrolling families in Head Start, program staff are to review documentation of income and employment to certify that each family is eligible. Head Start services are to be provided free of charge to eligible families.

OHS assigns each grantee a specific number of children and families it is required to serve, known as the funded enrollment. Head Start statutes and regulations require grantees to maintain enrollment at 100 percent of the funded enrollment level. If a child stops attending the program, after the grantee has attempted, unsuccessfully, to get the child back in regular attendance, the grantee must reopen that spot as a vacancy and no more than 30 calendar days may elapse before the grantee fills the vacancy; otherwise, OHS considers the grantee underenrolled.<sup>4</sup> To facilitate the prompt filling of vacancies, Head Start statutes and regulations require each grantee to maintain a wait list that ranks children according to its selection criteria and to select those with the greatest need for services. Grantees report enrollment numbers monthly, and those that are underenrolled for 4 consecutive months must receive technical assistance from OHS and work to develop and implement a plan to eliminate underenrollment. A grantee that continues to operate with less than 97 percent of its funded enrollment level may have its grant amount recaptured, withheld, or reduced by OHS. According to HHS, funds for 30 grantees were reduced in 2006. A Head Start grantee may also be terminated from participation in the program for continuously failing to meet other performance, education, administrative, and financial management standards that have been established by HHS.

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<sup>4</sup>If fewer than 60 days remain in the grantee's program year at the time an enrollment vacancy occurs, the grantee can choose not to fill the vacancy without OHS considering it underenrolled.

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### Allegations of Fraud and Abuse Involving Two Head Start Grantees

We are currently investigating the two allegations of fraud and abuse that we received involving Head Start nonprofit grantees in the Midwest and Texas. In Texas, individuals we spoke with told us that the grantee encouraged enrollment of over-income families in order to meet enrollment requirements. We were able to confirm, through records obtained from the grantee, that 9 of the grantees' 28 centers had more than 10 percent over-income families enrolled. The percentage of over-income families in the 28 centers ranged from centers with no over-income enrollments to one center where 44 percent of the families it enrolled were over-income. Two families enrolled by this grantee had a reported income in excess of \$110,000. However, the grantee as a whole did not report having more than 10 percent over-income families enrolled. An aggregate accounting of all centers operated directly by one grantee is permitted under the law for determination of the 10 percent over-income limit, therefore, we could not substantiate this allegation. Individuals we spoke with also told us that Head Start staff encouraged parents to report that they were homeless when they were not in order to qualify them for the program. Records we obtained indicate that 22 percent of all children enrolled by the grantee were classified as "homeless"—a group considered at-risk and categorically eligible for Head Start services regardless of income. Our concern, based on the allegation, is that some portion of these families classified as homeless in grantee records were actually over-income families that were not, in fact, homeless, but were encouraged to report that they were in order to qualify. In addition, we spoke with several individuals who described a number of fraudulent activities that they had witnessed. We are in the process of attempting to determine if other allegations are true, including

- classifying children as disabled when they were not,
- counting children in enrollment figures after they had left the program, and
- allowing staff to use company vehicles for personal use.

For the Midwest Migrant and Seasonal Head Start program, we were able to confirm through documents obtained from the grantee that more than 50 children were moved from one center to other centers with vacancies during the last 60 days of the grant period. According to OHS regulations, if fewer than 60 days remain in the grantee's program year at the time a child leaves the program, the grantee can choose not to fill the vacancy without OHS considering the grantee underenrolled. By using this process, the grantee was able to make records appear that both centers had reached full enrollment, when in fact 63 children were counted at more than one center. In addition, we spoke with several individuals who

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alleged that numerous fraudulent activities were occurring at the program. We are in the process of attempting to determine if other allegations are true, including

- manipulating family income documentation to make over-income families appear to meet Head Start poverty guidelines,
- enrolling families who do not meet the specific program requirements for the Migrant Head Start program, including earning at least 51 percent of the household income through agricultural work and migrating for work within the past 24 months, and
- misappropriation of property purchased with Head Start funds.

It is important to note that ultimate determination as to whether these allegations are true is a significant challenge because of the minimal requirement for records requested of families to be maintained by grantees. For example, there is no requirement for grantees to maintain support for income, such as pay stubs and Internal Revenue Service Form W-2. In addition, as the proactive testing in the next section discusses, and as alleged, it is possible the grantee records have been fraudulently altered including showing that children who are actually from over-income families are under-income.

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### Undercover Tests Show the Head Start Program Is Vulnerable to Fraud and Abuse

Our undercover tests determined that the types of eligibility and enrollment fraud schemes allegedly perpetrated by the two grantees are occurring at other Head Start locations around the country. Posing as fictitious families, we attempted to register children at Head Start centers in California, Maryland, New Jersey, Pennsylvania, Texas, Wisconsin, and the Washington, D.C. metropolitan area. For 13 of these tests our fictitious families were over-income or had disqualifying characteristics. For 2 additional tests, our fictitious families did not have any disqualifying characteristics and were under-income. These 2 tests were designed to determine whether a Head Start center would count our fictitious children toward enrollment numbers even if our children never attended the program. For our tests, we contacted each center in advance and were instructed in all cases to bring certain documents necessary for enrollment, which included income documentation.

In 8 out of 13 eligibility tests, our families were told they were eligible for the program and instructed to attend class. In all 8 of these cases, Head Start employees actively encouraged our fictitious families to misrepresent their eligibility for the program. In at least 4 cases, documents we later retrieved from these centers show that our applications were doctored to

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exclude income information for which we provided documentation, which would have shown the family to be over-income. Employees at seven centers knowingly disregarded part of our families' income to help make over-income families and their children appear to actually be under-income. This would have had the effect of filling slots reserved for under-income children with over-income children. At two centers, staff indicated on application forms that one parent was unemployed, even though we provided documentation of the parents' income. A Head Start employee at one center even assured us that no one would verify that the income information submitted was accurate. For the 2 tests in which our family did not have disqualifying characteristics, we were accepted into the program once and not accepted in the other. In the test where our eligible child was accepted into the program, the scenario was designed to test how long the center would keep a child who never attended the program on enrollment records before counting the spot as a vacancy and attempting to fill it with another child. Due to our concerns about occupying a slot for an actual child, we were forced to contact the center and voluntarily withdraw our fictitious child before sufficient time elapsed that would have allowed us to make a determination regarding how long the center would have kept our child on enrollment records. However, the enrollment of our family that appeared eligible for the program as well as our other successful tests highlight the ease with which unscrupulous parents could fabricate documentation designed to make it appear as though their children were under-income or otherwise eligible for the program. Our fictitious pay stubs and W-2s were made using information found on the Internet, commercially available word processing software, and a printer. At no point during our registrations was any of the information contained in fictitious documentation submitted by our parents verified, which indicates that the program is vulnerable to beneficiary fraud in addition to grantee fraud. For all 9 cases in which we were told that we were eligible for the program, we are taking steps to determine whether our fictitious children were counted on enrollment or attendance records.

Table 1 provides details on our approved applications, followed by our unsuccessful applications. We withdrew our fictitious families from the programs as soon as we documented that there were fewer than two openings at a center. To view selected video clips of these undercover enrollments, go to <http://www.gao.gov/media/video/gao-10-733T/>.

**Table 1: Head Start Enrollment Scenarios**

Case	State	Undercover scenario	Case details
<b>Information manipulated</b>			
1	California	Outside of service area	<ul style="list-style-type: none"> <li>A Head Start associate encouraged parent to provide falsified information about the family's address in order to make the family eligible for services by the center.</li> </ul>
2	New Jersey	Income exceeded poverty guidelines	<ul style="list-style-type: none"> <li>A Head Start associate disregarded over \$23,000 worth of income in order to qualify the family of three (mother, father, and child) as under-income.</li> <li>The Head Start associate said with regard to the father's income documents, "Now you see it, now you don't" after handing back one of two pay stubs provided.</li> <li>The Head Start associate explained that there were over 30 vacancies at the center.</li> </ul>
3	Pennsylvania	Income exceeded poverty guidelines	<ul style="list-style-type: none"> <li>A Head Start associate disregarded over \$23,000 worth of income in order to qualify the family of three (mother, father, and child) as under-income.</li> <li>In addition, we told the Head Start associate that the mother also received some cash income from a part-time job. The associate replied "that's your business."</li> </ul>
4	Texas	Income exceeded poverty guidelines	<ul style="list-style-type: none"> <li>A Head Start associate disregarded over \$20,000 worth of income in order to qualify the family of three (mother, father, and child) as under-income.</li> <li>With respect to the disregarded income, the associate stated "we see this, but we don't see this," explaining that if both parents' incomes were counted the family would be on a long wait list for over-income families.</li> <li>Our bogus applicant was assured that the government would never come back to verify the income.</li> </ul>
5	Texas	Income exceeded poverty and agricultural guidelines	<ul style="list-style-type: none"> <li>A Head Start associate disregarded \$11,700 in nonagricultural work in order to qualify the family of three (mother, father, and child) for migrant Head Start services. A requirement of migrant Head Start programs is that the families income must be derived primarily from certain agricultural work.</li> <li>Including the disregarded salary would have also put the family over 130 percent of the poverty guideline.</li> </ul>
6	Wisconsin	Income exceeded poverty guidelines	<ul style="list-style-type: none"> <li>A Head Start associate disregarded over \$23,000 worth of income in order to qualify the family of three (legal guardians grandmother, and grandfather, and child) as under-income.</li> <li>The Head Start associate said that she chose to report only the grandmother's income because it was lower than the grandfather's income.</li> </ul>

Case	State	Undercover scenario	Case details
7	Wisconsin	Income exceeded poverty guidelines	<ul style="list-style-type: none"> <li>A Head Start associate disregarded over \$23,000 worth of income in order to qualify the family of three (legal guardians grandmother, and grandfather, and child) as under-income.</li> <li>The Head Start associate said that she chose to count only one guardian's income so the family would qualify.</li> </ul>
8	Washington, D.C.	Income exceeded poverty guidelines	<ul style="list-style-type: none"> <li>A Head Start associate disregarded \$9,600 worth of cash income in order to enroll the family of three (mother, father, and child) as under-income. After we reported the family's cash income, the Head Start associate stated "We don't need any extra; we need to keep you low".</li> <li>The Head Start associate explained that if nine more children were not enrolled by the end of the week, she might have to make staff cuts.</li> </ul>
Not approved or No Evidence of Manipulation			
9	Washington, D.C.	None-fictitious children were eligible	<ul style="list-style-type: none"> <li>The fictitious family of three (father, and two children) met program and income requirements and was approved with bogus documents. The test was also designed to see whether the Head Start center would count our fictitious children who never attended the program toward enrollment figures.</li> <li>The Head Start center left the fictitious children on the enrollment records for a month.</li> <li>We voluntarily withdrew our fictitious children from the center due to concerns about occupying a slot for an actual child. Because of this withdrawal, we were unable to determine how long the center would have kept our children on enrollment records.</li> </ul>
10	California	None-fictitious children were eligible	<ul style="list-style-type: none"> <li>The fictitious family of three (mother, father, and child) met program and income requirements. The test was designed to see whether the Head Start center would count our fictitious children toward enrollment figures.</li> <li>The application was accepted by in-take staff at Head Start center, but the main program office never called the family to complete enrollment procedures.</li> </ul>
11	California	Income exceeded poverty guidelines and outside service area	<ul style="list-style-type: none"> <li>The income for the family of three (mother, father, and child) was \$50,000—more than double what poverty guidelines allow.</li> <li>A Head Start associate denied our application because our address showed we lived outside the center's service area.</li> </ul>

Case	State	Undercover scenario	Case details
12	California	Income exceeded poverty guidelines	<ul style="list-style-type: none"> <li>The income for the family of three (mother, father, and child) was \$12,000 more than allowed for the family to be considered income-eligible.</li> <li>A Head Start associate denied this application because the family was over-income.</li> <li>The Head Start associate explained that families often lie about being separated or divorced in order to reduce their income and that Head Start is not strict about checking whether that is true.</li> </ul>
13	Maryland	Child already enrolled in another Head Start center	<ul style="list-style-type: none"> <li>The fictitious single mother of one stated that she wanted to enroll the child in this Head Start center certain days of the week and another nearby center on other days of the week—a violation of the program's requirement that children be continuously enrolled.</li> <li>The Head Start associate denied the application because we claimed that the child was already enrolled in another Head Start center.</li> </ul>
14	Texas	Income exceeded poverty guidelines	<ul style="list-style-type: none"> <li>The income for the family of two (mother and child) was \$2,000 more than allowed for the family to be considered income-eligible.</li> <li>We submitted initial paperwork, but were told that our application could not be processed further because we did not provide a full 12 months of pay stubs.</li> </ul>
15	Washington, D.C. metropolitan area	Income exceeded poverty guidelines	<ul style="list-style-type: none"> <li>The income for the family of three (mother, father, and child) was \$75,000—more than triple what poverty guidelines allow.</li> <li>We submitted a prescreening application indicating that the family was over-income and were never contacted by Head Start employees to continue the enrollment process.</li> </ul>

Source: GAO

We also identified a key vulnerability during our investigation that could allow over-income children to be enrolled in other Head Start centers: income documentation for enrollees is not required to be maintained by grantees. According to HHS guidance, Head Start center employees must sign a statement attesting that the applicant child is eligible and identifying which income documents they examined, such as W-2s or pay stubs; however, they do not have to maintain copies of them. We discovered that the lack of documentation made it virtually impossible to determine whether only under-income children were enrolled in spots reserved for under-income children.

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**Eligible Children May  
Not Receive Head  
Start Services  
Because of Significant  
Wait Lists**

We are concerned that eligible children at other centers do not receive services for which they are in need, given the vulnerabilities to fraud and abuse we found through our undercover tests. At 2 of the 9 centers where we enrolled fictitious children, we were later told, after withdrawing our children from the program, that the center was at full enrollment and was not accepting more children at that time. During the course of our work, we contacted approximately 550 Head Start centers to determine whether they had space for our fictitious children. We found that the majority of the centers stated that they had no open slots for enrollment, but maintained wait lists per program requirements. We found only 44 centers stated they had any openings. We interviewed 21 families on wait lists and found that the majority stated their income was at or below the federal poverty level. In some cases, families had experienced some type of domestic violence or were receiving some other type of public assistance, a group targeted specifically for assistance by Head Start program guidelines. We did not attempt to verify this information.

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**Head Start Center Wait  
Lists Were Substantial**

The length of these wait lists varied considerably; however, several of the centers we contacted had lengthy wait lists. For example, one grantee we contacted in Texas, which serves approximately 4,260 children in 36 centers, had over 1,150 children on its wait list. Another Head Start grantee told us that they average around 500 children on their wait list. A representative from one Pennsylvania Head Start center we contacted stated that there were around 120 applicants on the center's wait list. Furthermore, a review of media sources reveals that Head Start centers around the country face similar challenges meeting their communities' demand for services. We queried a news media search engine and found numerous reports of lengthy waiting lists to enroll in Head Start programs in many parts of the country. For example, according to one Florida newspaper, the state of Florida has 8,000 students on wait lists for Head Start programs. Another newspaper in Indiana, reported that a program in Indiana that serves 380 students has 170 students on the wait list. It is important to note that we found a discrepancy in enrollment levels among the centers we called. While several grantees had lengthy wait lists, other grantees were eager to accept our fictitious, over-income children to fill their rolls. The center in New Jersey that accepted our fictitious over-income family told us that it had more than 30 openings. Another center in California, which did not accept our application, told us that it had 40 part-day openings.



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**Eligible Applicants Cannot  
Be Admitted Because of  
Lack of Space**

We contacted 21 families who at the time of interview were on wait lists for Head Start programs. We received a list of 1,600 wait list applicants from a Head Start grantee in Texas—of these we were able to speak to 11 applicants. We also received a wait list of 30 applicants for services in Pennsylvania—of these we were able to speak to 10 applicants. We asked applicants for information on the length of time they spent on the wait list, on the family's economic situation, and whether they had been affected by being waitlisted for Head Start services. Several of the applicants we spoke with described circumstances that made them especially strong candidates for Head Start, including receiving other types of public assistance, such as Medicaid or Supplemental Nutrition Assistance, or having histories of domestic abuse. Additionally, several applicants reported that family members were unable to accept work opportunities as a result of not enrolling in Head Start, or experienced additional financial strain because they had to pay child care costs. Many applicants also cited concerns that their children would not be adequately prepared for school. Given the fraud committed by several grantees we investigated, and the relative ease with which GAO employees posing as fictitious parents were able to qualify for Head Start services, it is likely that some over-income or otherwise ineligible children are currently enrolled in Head Start programs while low-income children are put on wait lists and do not receive necessary services. For example, when a center manipulates information to make it appear that an over-income family is a low-income family this takes up a Head Start slot set aside for a low-income family. Table 2 summarizes the experiences of 10 applicants we contacted. We did not attempt to verify the applicants' statements.

Table 2: Summary of Selected Head Start Wait List Families

Case	State	Months wait-listed	Case details <sup>a</sup>
1	Pennsylvania	4 months	<ul style="list-style-type: none"> <li>The mother, a single parent of three children, is unemployed.</li> <li>The family has experienced domestic violence and is in an abuse protection program.</li> <li>The family is enrolled in several public assistance programs, including receiving Supplemental Nutrition Assistance Program (SNAP) benefits.</li> <li>The mother stated that enrolling the child in Head Start would allow her to look for work and help her child prepare for kindergarten.</li> </ul>
2	Pennsylvania	6 months	<ul style="list-style-type: none"> <li>The mother, a single parent of three children, earns \$150 to \$200 per week—less than half of what poverty guidelines allow.</li> <li>The family is enrolled in several public assistance programs, including Medicaid and SNAP benefits.</li> <li>The mother was told that her son was waitlisted because of a lack of government funding.</li> <li>The child's grandmother cannot work because she must care for the child.</li> </ul>
3	Pennsylvania	1 month	<ul style="list-style-type: none"> <li>The mother, a single parent of three children, is unemployed.</li> <li>The mother has experienced domestic violence and the family receives SNAP benefits.</li> <li>The mother received a letter from the Head Start center stating that her child was eligible, but had been put on the wait list because the center had no openings for funding reasons.</li> <li>The mother cannot work because she is taking care of her child.</li> </ul>
4	Texas	2 months	<ul style="list-style-type: none"> <li>The mother, a single parent caring for two children, earns \$1,025 per month—\$6,000 a year below the poverty level.</li> <li>The mother works nights, and sleeps only a few hours a day as a result of not having child care for her son during the day.</li> </ul>
5	Texas	3 months	<ul style="list-style-type: none"> <li>The family of four lives on \$290 per week—\$7,000 per year below the poverty level.</li> <li>The family is enrolled in Medicaid.</li> <li>The mother cannot work because she must take care of the child.</li> </ul>
6	Pennsylvania	2 months	<ul style="list-style-type: none"> <li>The single mother is unemployed, but her aunt provides for the family, giving them \$150 every 2 weeks.</li> <li>The family does not receive any type of public assistance.</li> <li>The mother is concerned about the child's education as a result of not attending Head Start.</li> </ul>
7	Texas	1 month	<ul style="list-style-type: none"> <li>The mother, a single parent of two children, is unemployed and receives \$500 per month in child support.</li> <li>The family is on two public assistance programs: Women Infants and Children (WIC) and Medicaid.</li> <li>The family has experienced domestic violence.</li> <li>The mother has offers for work but cannot accept them because she must care for the child.</li> </ul>

Case	State	Months wait-listed	Case details*
8	Texas	2 months	<ul style="list-style-type: none"> <li>The mother, a single parent of four children, made \$1,000 per month, almost \$14,000 a year below the poverty line. Since applying for Head Start services, she has become unemployed.</li> <li>The family is on two public assistance programs: Medicaid and SNAP benefits.</li> <li>The family has faced domestic violence, but the Head Start center did not ask the parent whether they had.</li> <li>When the mother was working, she had to pay over \$300 a month to hire a babysitter to take care of her child.</li> </ul>
9	Pennsylvania	2 months	<ul style="list-style-type: none"> <li>Both parents are unemployed, and the family lives with brother who currently provides for them.</li> <li>The mother feels that the child is missing out on an education as a result of not attending Head Start.</li> </ul>
10	Pennsylvania	7 months	<ul style="list-style-type: none"> <li>The family of three is \$8,000 a year under the poverty guidelines earning \$200 a week.</li> <li>The family is on several public assistance programs, including WIC, Medicaid and SNAP benefits.</li> <li>The applicant is concerned that his child will not be able to speak English when he starts school.</li> </ul>

Source: GAO.

\*Statements made by parents were not verified by GAO.

### Corrective Action Briefing

On April 20 and April 23, 2010, we briefed OHS and HHS officials on the results of our work. Officials indicated that HHS would work quickly to address the weaknesses we identified. We suggested a number of potential actions the agency should consider to minimize Head Start fraud and abuse, including the following:

- Creating an OHS program management fraud hotline for individuals to report fraud, waste, and abuse. These tips could be investigated by the program, the HHS Inspector General, or both;
- Establishing more stringent income verification requirements, documentation requirements, or both by Head Start employees responsible for certifying family eligibility, such as maintaining income documentation provided by the applicant (e.g., pay stubs or W-2s); and
- Conducting undercover tests, such as the ones we describe in our report, as a management oversight function.

Chairman MILLER. Secretary Nazario.

**STATEMENT OF CARMEN R. NAZARIO, ASSISTANT SECRETARY,  
ADMINISTRATION FOR CHILDREN AND FAMILIES, U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES**

Ms. NAZARIO. Chairman Miller, members of the committee, I am pleased to have this opportunity to appear before you today to discuss GAO's review of selected Head Start grantees. I appreciate this committee's longstanding support for the Head Start program. I know that you, like me, are deeply disturbed by GAO's report. According to GAO, employees in approximately eight Head Start programs appear to have determined children eligible for services, de-

spite evidence that their income exceeded the eligibility limits. The Head Start program is designed to move our Nation's low-income children along the road of school success.

Diverting funds to children who are less needy is quite literally stealing away that opportunity from children who need it most. I want to assure the committee that we take these allegations very seriously.

As soon as we were given the names of the grantees, we referred the cases to the inspector general. The OIG has directed ACF to refrain from taking action against these grantees while they the investigation is pending.

I want to assure this committee that we are partnering with both GAO and the OIG.

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

On May 10, the Office of Head Start issued a program instruction designed to remind grantees of their obligation to verify income and encourage them to retain copies of verification documents for review and provide annual training to all employees responsible for income verification.

In addition, we will take a number of actions in the coming weeks to strengthen Federal oversight, including conducting unannounced monitoring visits; creating a Web-based hotline that will allow those with information of impropriety to report directly to me; developing new regulations that promote program integrity; increasing oversight, particularly of grantees with identified risk factors; issuing proposed regulations to implement a new system for recompeting grants to improve quality and ensure integrity; implementing an important reform enacted in the Head Start reauthorization; and continuing our partnership with the inspector general to conduct in-depth reviews of high-risk grantees.

At the same time, we are in the process of conducting a top-to-bottom review of our program monitoring, erroneous payment study, and risk management process to determine how we can improve program oversight.

While we have significant oversight and data collection mechanisms already in place, they can be strengthened to fight fraud and promote program integrity more effectively.

These efforts represent one aspect of our overall Head Start road map to excellence and effectiveness. This road map is designed to raise the bar on quality in the Head Start program. Additional elements of the road map include strengthening the Head Start performance standards and improving our training and technical assistance systems.

The Department's commitment to strengthening program integrity is not limited to reacting to fraud allegations in a particular program, but it is a broad-based priority for preventing, detecting and prosecuting, as appropriate, fraud in all our programs.

Last week, the Secretary announced the formation of the Secretary's Council on Program Integrity to look systematically across

all parts of HHS to determine how we can strengthen our fraud and error-fighting efforts.

I share the Secretary's commitment. A core part of ACF's strategic mission has been promoting a culture of integrity from the highest levels at ACF to the local level where children and families are served. I am establishing an ACF Office of Program Integrity chartered to strengthen internal procedures and improve grantee financial management and fiscal integrity in all ACF-funded programs.

Each year, Head Start programs provide almost 1 million of our country's most vulnerable children with a much-needed chance at success. ACF is committed to ensuring that all program resources are used appropriately and that every slot is filled with an eligible child in need.

We are eager to work with the GAO, Congress, and our grantees to ensure that we capitalize on every possible opportunity to strengthen Head Start and to help eligible, low-income children prepare for success in school and in life. I am confident that we can achieve these goals together.

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

Chairman MILLER. Thank you very much.

[The statement of Ms. Nazario follows:]

**Prepared Statement of Carmen R. Nazario, Assistant Secretary for Children and Families, U.S. Department of Health and Human Services**

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

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

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

*Response to GAO's Investigation Findings*

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

As soon as the Department was given the names of the grantees that GAO alleges to have engaged in fraudulent eligibility practices, we referred the cases to the HHS Inspector General, the Department's investigative arm. The OIG has directed the

Administration for Children and Families (ACF) to refrain from taking investigatory or disciplinary actions against any individuals or organizations implicated in the GAO study while the investigation is pending. The OIG—a law enforcement body—does not want our actions to interfere with their efforts. We must respect their judgment and support law enforcement in making sure they have the ability to determine whether there are potentially criminal acts warranting prosecution. To this end, we are fully cooperating with both GAO and the OIG while continuing to pursue broad program integrity enhancements to reduce any potential risks of fraud or abuse within Head Start.

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

#### *Bolstering Broader Head Start Program Integrity Efforts*

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

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

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

- Conducting unannounced monitoring visits to Head Start grantees. In the past, we have typically provided grantees with notice before coming to conduct monitoring or other onsite visits. We will increase our use of unannounced visits to ensure that we are able to review how Head Start programs operate on a daily basis.
- Creating and publicizing a web-based “hotline” that will allow those with information of impropriety of any kind to report it directly to me. We know that fraud is often detected and reported by scrupulous employees who stand up and do the right thing and, thus, we will ensure that all Head Start employees are informed about this hotline.
- Developing new regulations that promote program integrity. We are developing new regulations that will address verification requirements and staff training on eligibility criteria and procedures.
- Increasing oversight, particularly of grantees with identified risk factors. Each year, ACF conducts an assessment with grantees to identify programs at risk for program violations or management problems. ACF, in partnership with the grantees, develops and implements action plans to mitigate the risk factors. Our staff will be scrutinizing programs more carefully in the risk assessment process and the action plan phase.
- Reallocating grants when questions arise about whether grantees are offering high-quality services or have management lapses. We soon will issue proposed regulations that articulate which grantees will be required to compete for continued Head Start funding—implementing an important reform enacted by Congress in the Head Start for School Readiness Act of 2007. The goal of the regulations is to pro-

mote program integrity and strengthen the quality of services that Head Start provides.

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

#### *Partnership with the Office of Inspector General*

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

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

In 2010, this partnership shifted to focus on funding from the American Recovery and Reinvestment Act. OHS and OIG-OAS partnered to review pre-award Early Head Start applicants to ensure that funds were only provided to viable organizations. Applicants who did not demonstrate the capacity to properly account for and manage Federal funds were not awarded ARRA grants.

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

#### *Tools for Improving Program Integrity*

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

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

#### *Monitoring System*

The Head Start monitoring system is the most comprehensive tool currently available for ensuring accountability of Head Start grantees. All grantees receive an onsite review at least once every three years. New grantees are reviewed immediately after completion of their first year of providing services. Follow-up reviews are conducted for grantees that fail to meet any requirements identified during a review. Additionally, reviews may be initiated whenever an issue is identified that requires immediate attention.

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

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

When a review team finds areas in which Head Start programs are not in compliance, in all cases the grantee must demonstrate timely corrective actions. More severe instances of noncompliance—called "immediate deficiencies"—must be corrected in 30 days or less while less serious problems—called "noncompliances"—generally must be corrected within 120 days. Regional Office staff as well as Training and Technical Assistance providers support the grantee in their efforts to correct the findings. When a deficiency is identified that requires immediate corrective action, OHS works to ensure that the grantee takes immediate corrective action to ensure that: 1) staff and/or children are removed from imminent harm or immediate danger; or 2) threats to integrity of Federal funds are removed.

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

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

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

#### *The Risk Management Process*

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

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

#### *Erroneous Payment Study*

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

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

#### *Redesignation Renewal System*

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



In their 2005 report, the GAO criticized ACF because it did not recompute the grants of poorly performing grantees. GAO stated, “When grants are allowed to remain with poorly performing grantees, children being served may not be getting the “head start” they deserve because the grantees continuously fail to meet program and financial management standards.”

Congress, and this Committee in particular, addressed this issue in the 2007 Head Start reauthorization by establishing that Head Start grantees will be awarded grants for a five-year period and only grantees determined to be delivering high-quality services will be given another five-year grant non-competitively. The Act also provided HHS with the authority to recompute grants and required the Secretary of HHS to develop and implement a system for designation renewal to determine if a Head Start agency is delivering a high-quality and comprehensive Head Start program. We have been working to develop a vigorous recompetition plan that will leverage competition to improve quality program-wide and ensure program integrity. We anticipate publishing the Notice of Proposed Rulemaking describing the designation renewal system and our transition plans from continuous grants to five-year grants this summer.

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

#### *Head Start Performance Standards*

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

#### *Training and Technical Assistance*

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

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

#### *Program Integrity at HHS*

The Department’s commitment to strengthening program integrity is not limited to reacting to fraud allegations in a particular program, but is a broad-based priority for preventing, detecting, and prosecuting as appropriate fraud in all of our programs. Recently, Secretary Sebelius unveiled her Secretarial priorities and identified strengthening program integrity as one of nine priority areas. Last week, the Secretary announced the formation of the Secretary’s Council on Program Integrity to look systematically across all parts of HHS to determine how we can strengthen

our fraud and error-fighting efforts, from Medicare and Medicaid, to Head Start and LIHEAP, to medical research and public health grants. This effort is critical because the success of all of the important work we do—from providing comprehensive preschool to poor children or health benefits to seniors—depends on making sure that taxpayers' dollars are used wisely, efficiently, and according to the law.

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

*Conclusion*

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

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

Chairman MILLER. I will say to members who may have joined us, this panel may not be able to answer some questions that members have at this stage of the investigation, because this investigation has been referred to the Office of Inspector General, and the committee is working to be cooperative with GAO finishing its study and the Inspector General's investigation and the Department. And Secretary Sebelius has made it very clear that she intends to pursue this in a very forceful way.

So, again, members should feel free to ask whatever questions they want, but it may be that either the witnesses defer for the moment because of that investigation and, again, we have talked to Congressman Kline and staff about this.

If I might, the universe of your investigation is programs without a waiting list; is that correct, Mr. Kutz?

Mr. KUTZ. For the undercover testing to look for programs without a wait list, yes, at the time we did this, which was between September 2009 and March 2010. The other rush period of June, July, August, we did not test during that period. There would be a lot more places with wait lists then or open spots.

Our testing started in September, the undercover testing of 2009 through March of 2010, so I think a lot of the evidence we have seen is the big rush to recruit and get kids into the program happens right before the school year starts in the June, July, August time frame, so I think there were more centers with openings then, but we looked at places that, between between September and March, had openings at that time.

Chairman MILLER. What you presented on the audiotape are people, various people at different programs appearing to doctor the income requirements; is that correct?

Mr. KUTZ. I would say they didn't appear to. They did. They did commit fraud.

Chairman MILLER. I don't know how you want to handle these questions. But we don't know at this stage anything about what is behind that; is that correct? We have these actions on——

Mr. KUTZ. Correct. With respect to the undercover testing, we do not know whether management instructed these employees to do it. At the two case studies we have from our hotline allegations, part of that allegation was management was pressuring staff to boost enrollment through various fraudulence.

Chairman MILLER. That was the unsolicited call on the hotline?

Mr. KUTZ. Correct. The two hotlines. The other one, they didn't know who we were, what we were doing. We don't know the motivation behind it, except there were wait lists and open slots.

Chairman MILLER. The other one was that it appeared that from reading your report that documentation to support the decisions to make somebody eligible or not, that documentation, those files weren't complete; it may be that income records had disappeared. Do you want to explain that?

Mr. KUTZ. The requirements were fairly loose, and I assume they are tightening them up as part of the discussion here today. But in this cases of Vinnie, for example, they disregarded a W-2 showing \$23,000 of income. That was a common——

Chairman MILLER. So it is not just they chose Grandma or they disregarded Vinnie's income, the documentation disappeared?

Mr. KUTZ. For the income that was excluded, correct. It was not in the filing. In fact, they went in, Mr. Chairman, and actually checked that Vinnie was unemployed. We saw that in numerous cases. So they made the income go away and they wrote in the file "unemployed."

Chairman MILLER. These files are kept on computers? These files are kept in paper folders?

Mr. KUTZ. These appear to be handwritten enrollment files that are there for the applicants being made. We went back in after we did our undercovers as GAO, and asked for the records related to the bogus children, and we enrolled as if we were investigating the children and their parents, and that is how we got the evidence after the undercovers showing that our children were enrolled and that the parents had had income excluded and that they were checked off in some cases, for example, as being unemployed.

Chairman MILLER. But those are not computerized files?

Mr. KUTZ. Most of them looked like they are hand-filled-out application forms in the center.

Chairman MILLER. The question came also as to whether or not children were being double enrolled. As I read your report, I don't know whether or not one center could check that enrollment against a master enrollment role of that region or city, or how they do it, whether there is any ability to do that or not.

Mr. KUTZ. That is an excellent question and one of the reasons it is so difficult, is they don't keep Social Security numbers for these children. So you have very little information in the files about who the children actually are. So it would be difficult to determine in some cases whether children were being double counted.

But one of the cases we got on our hotline, we substantiated at least 63 children were counted twice, meaning the government paid

for them twice effectively, or they justified their grants from two different funding streams.

Chairman MILLER. Thank you.

Secretary Nazario, you point out in your testimony, I am looking at page 13, I don't know if that comports with your version, but this question of recompeting programs has been around the Head Start community for a long time. And it came up again, as you point out, in 2005 because we had these incidents in 2003-2004 and the general discussion about competition within the programs. And then in 2007, again as you point out in your testimony, this committee in particular and on a bipartisan basis was insistent on the recompetition of some of these programs as part of that reauthorization. So this kind of incident raises questions about how we will then decide that provision of reauthorization.

And I raise this not to get a definitive answer from you, but you point out in your testimony later that you anticipate publishing a notice of proposed rulemaking describing the designation of renewal system in our transition plans for continuous grants on a 5-year basis.

As is explained today, and I am not taking this as a final conclusion, but as explained today it appears that the system is not set up to detect fraud, and we don't know enough about whether children are being double counted, or we don't require sufficient documentation of income—or at least it appears that it can disappear. I don't know if that is in violation—we don't know whether that is in violation of requirements, or that is just done, or what have you.

But if we are going to talk about whether or not a program is required to be recompeted and whether or not it is sufficient for it to compete and win again or to be awarded the grant, or what others are competing, again, I think we have to look in light of this investigation, whatever its outcome, it raises some very serious red flags about the requirements for program integrity as part of that recompetition.

And unfortunately, most of the money taken out of Medicare fraud comes through doctors' offices. And it is not people going in to get a shot or a hip replacement voluntarily. They get charged for it, but it doesn't happen. So here we have people running the program, apparently involved in the fraud. And we are talking about tightening up and making this program more competitive to hopefully get better programs into the program and perhaps better alternatives for those grants.

I just would, before we rush to publish this summer, I would raise that concern. And I don't know if you want to respond. You are certainly welcome to.

Ms. NAZARIO. We absolutely agree with you, Mr. Chairman, on all of these counts. The system right now—this is why we are so grateful for this information, because we are going to now work to find out where it is happening, how much it is happening, and stop it.

We do intend to issue two sets of regulations. One is to strengthen what we just issued now as a program instruction. In the program instruction we are encouraging grantees to maintain the source documents; because you are absolutely right, because the current regulations do not require them to maintain the source doc-

uments. So it is not a violation of the requirements not to keep it. It is a violation of the requirements to lie and ignore it.

Right now what the grantee has to maintain is a form; that is, the verification form where the Head Start associate certifies that they have looked at the income source documents, but they are not required to keep the source document. The new regulations will indeed require them to maintain the source documents. And that is a separate rule that the one on recompetition, which we are also working on, that is long overdue in terms of being able to weed out the nonperforming programs so that the high-quality programs will be certified as Head Start grantees.

Chairman MILLER. And like all Members of Congress I am going to put competing agendas here. We obviously want the program integrity part of this, and we don't want recompetition to go without it. But we also want recompetition. It was a very serious matter and a very heated debate, as you know, in this Congress; and for this committee it was a very serious matter. We want that recompetition in place as soon as possible, but clearly this has to accompany it.

Ms. NAZARIO. Absolutely.

Chairman MILLER. Thank you. Mrs. Biggert.

Mrs. BIGGERT. Thank you, Mr. Chairman.

Director Kutz, your testimony talks about a number of investigations, I think it was around 15, and that there were eight that were found to result in misrepresentation or fraud. That seems to be certainly a high rate of fraud for a limited sample. But is there anything that these results tell us about the system in general or about under-enrollment programs in particular?

Mr. KUTZ. Yes. I believe that, by design, it appears that the system is vulnerable to fraud. And you mentioned the grantee fraud. But also the beneficiary fraud; some of our enrollments just walked in with basic counterfeit documents, saying that we were under-income, and there were no questions asked. They checked the boxes and they said, You can start tomorrow. So I think that the system is vulnerable to both grantee fraud and beneficiary fraud.

Mrs. BIGGERT. And it seems like most all of the paperwork was handwritten. There were no computers that were used to keep records of anything?

Mr. KUTZ. I can't say all, but most of the documents that I reviewed that we got back were handwritten, yes.

Mrs. BIGGERT. Would that be something as far as having maybe a standard program that has to be filled out for all of these enrollees?

Mr. KUTZ. Perhaps. And, again, certain things now are only voluntary or encouraged. They are not mandatory. So if you want consistency across centers, you are going to have to mandate certain requirements.

Mrs. BIGGERT. And you stated in the investigation that began in October of 2008—do you know how far back the alleged misconduct goes?

Mr. KUTZ. At one of the two centers, it is back 4 years; the other one is several years. So this potentially goes back into the 2006, 2007, 2008 time frame.

Mrs. BIGGERT. When we did the reauthorization, was there anything that we did that, I don't want to say incentivized doing this, because it is absolutely wrong, but made it easier for such fraud?

Mr. KUTZ. I don't know. I mean one of the things that came up I mentioned is the homeless issue and the definition of homeless, and they were actually 22 percent of people at one grantee—which is a large grantee, with 1,500 or so children—are in that center as being homeless. Now, I believe part of that is perhaps fraud, part of it may be the need to tighten up the definition of what constitutes homeless. Homeless in these cases is not people who are not living in a home; it might be a single mother living with her boyfriend who may be making \$100,000 a year, but because they are called homeless, they are automatically shown as effectively under-income.

Mrs. BIGGERT. Thank you.

Secretary Nazario, in your testimony you mentioned that you can require immediate corrective action for a Head Start center if the evidence does not support termination of the grant. Can you elaborate on what actions might be included and how often any of the remedies have been utilized in the past?

Ms. NAZARIO. I was looking at the last 3 years, and we have had about 10 centers per year where they have been terminated as a result of corrective action going back 2008, 2009 and 2010. We can reprogram the money. We can recover the money from the grantee, money that has been misspent. We can, if it is simply a matter of under-enrollment, we can give them technical assistance so they can convert into an early Head Start center, or that they begin a longer school day or school year. But if it is mismanagement, we take disciplinary action and either terminate or suspend them.

Mrs. BIGGERT. You stated that since you learned of the GAO review, HHS has taken immediate action to bolster the integrity of the programs. When did you first learn of this investigation and when did the first action to bolster the program integrity occur?

Ms. NAZARIO. The first briefing I believe was April 22.

Mrs. BIGGERT. Of?

Ms. NAZARIO. Of 2010. We already had a partnership with the IG's Office where they do in-depth review of grantees that we consider to be high risk. And we provide them—this has been going on since 2007 with just a couple of cases. And then in 2009 they began working on 25 percent—I am sorry, 25 cases of the grantees that the staff considered to be high risk. And so we have that, even prior to this investigations starting.

But from when we knew about the investigation, we immediately issued a program instruction to remind grantees of their obligation to verify income. And the Secretary, as I said, has sent letters to every Head Start grantee. We developed a Web-based mechanism—it is called Strengthen Head Start—so that grantees can share ideas on how to promote sound management, and that is already in place.

So those are things we have already done. But in the very short term, we are doing to do a Webcast to go over the program instruction that we have issued so that grantees understand very well the income verification, PI, and we are going to do a Web hotline so that that is overall for all of ACF programs, in addition to the

Head Start program, to collaborate in fraud and mismanagement notification directly to me, to my office.

And as I said, in the summer we plan to issue the regulations. And we are very cognizant and agree with the chairman that they have to be inclusive of the fraud and mismanagement.

Mrs. BIGGERT. Thank you. My time has expired.

Mr. KILDEE [presiding]. Thank you very much.

When this program started 45 years ago, many of the poverty programs were using maybe state-of-the-art at that time, which are quite archaic now, but if we had better technology, could we not centralize and spot maybe an inordinate number of homeless people in a program? Would that be of some help?

Mr. KUTZ. Absolutely. And not only for the HHS to have that visibility, but for Congress to have that visibility. That would seem to be something you and your staff might want to see various information across the country about wait lists, homelessness rates, children with disabilities enrolled. Just you can see across the country what is going on. I think that information would help not only from a management perspective but from a fraud perspective, because I don't think 23 percent passes the giggle test anywhere.

Mr. KILDEE. Because I think with our technology you could ring some bells, literally, when you saw certain numbers that seem to be not ordinary numbers; and you could check maybe they were appropriate, maybe they were not. But I think we might want to look into better technology for this.

How much of this was due to that agency fear of losing dollars for their agency? And was there any evidence of sweetheart arrangements, any significant arrangements of sweetheart arrangements, bringing people in who they knew did not qualify but said, By the way, there is a good program over here? Either one of you. How much was just to fill out the slots that were assigned to that agency to serve and to receive dollars for that?

Mr. KUTZ. Well, the allegations we received and what we see is the incentive to boost enrollment so that they do not lose any of their grant money. And so it is all about the dollars and it is all about—almost like Head Start and head count, and making sure you have enough people to fill the slots, even if you don't. And that is where the pressure came in where you did see—I saw e-mails, for example, from management, saying we have got to look at some of these over-income and see if we can turn them into under-income. Let's call some parents and see if they are willing to say they are under-income, things like that. So there is pressure especially, perhaps in the time leading up to the September period when you are trying to get enrolled for the beginning of the year. But even after that, you see some of the centers where they were trying to fill their slots, it was almost the middle of September, late September. They almost panicked and said, Hey, we are short 10 or 15 kids, we have to do something about it.

Mr. KILDEE. You indicated that not only did you detect enrollment fraud, but other types of fraud. Could you go into that further with us?

Mr. KUTZ. Yes. There were a lot of allegations, almost too many to investigate in a lifetime, because you never know which ones are

credible. But the boosting of enrollment seemed to be the most prevalent.

But let me give you some other examples. And I mentioned we substantiated the moving children around to double-count between two separate funding streams, intimidation of staff to get them to do this kind of boosting of enrollment, manipulation of the in-kind contribution. That is where the centers have to come up with in-kind matching contributions.

One of the allegations was they were using the hours parents used at home to help their kids do school work as an in-kind contribution. For example, allegations of family vacations taken with Head Start money. You name it, there were a lot of different allegations out there. But the most prevalent were related to the boosting of enrollment with ineligible children.

Mr. KILDEE. To what degree at this point are criminal charges being pursued in this area of Head Start?

Mr. KUTZ. As with any investigation, we do dozens of these investigations for committees across Congress. We identify hundreds of thousands of cases of fraud. We refer these to law enforcement. And in this case, the HHS OIG will get an official referral from us and all evidence that we have collected to provide this investigation to Congress will be provided to the inspector general, which is what we always do. And typically these things result in action.

Whether anyone can get a prosecution out of this depends on whether a U.S. attorney is interested or not. But that doesn't mean the fraud wasn't committed. Fraud is fraud. Very little fraud is ever identified. Very little fraud is ever actually taken to a U.S. attorney and actually prosecuted successfully. So, hopefully, in several of these cases we will see some consequences.

And one fear I have is that the employees will be the ones blamed in these cases, and management will claim they had nothing to do with it. And what you saw in the videos there, I have to believe management knew what was going on and perhaps encouraged those people to do that to fill their rolls

Mr. KILDEE. To what degree could the change in regulations by the Department help minimize what is going on now with fraud?

Mr. KUTZ. The current change or the 2007 changes.

Mr. KILDEE. The changes that you could implement now.

Mr. KUTZ. I think that what they have put on their letter—and again the devil is in the details—but we agree that a hotline for management would be one way for them to weed out bad actors and get information from employees or parents where there is fraud. We certainly believe going in on a surprise basis, the unannounced Federal reviews, is important, because again the allegations are—they know when these people are coming, weeks and months in advance, and so there are allegations that they are doctoring their records up for the Federal review. One way to perhaps deal with that is to show up on a surprise basis. And, of course, the undercover visits that we made, there is nothing that says management can't do a little of that on their own to keep people straight out there.

Mr. KILDEE. Mr. Scott.

Mr. SCOTT. Thank you, Mr. Chairman.



Mr. Kutz, as I understand it, you have mentioned a lot of different allegations. The only allegations you actually investigated involved enrollment fraud; is that correct?

Mr. KUTZ. Primarily enrollment fraud, and there was a little bit on personal use of automobiles that, although it doesn't appear to be a lot of money, it appears to be substantiated at this point.

Mr. SCOTT. The tests were done only at programs where there, in fact, was no waiting list; is that right?

Mr. KUTZ. There were open slots, correct.

Mr. SCOTT. Is there any evidence that the fraud, enrollment fraud, involved the enrichment of employees; that is, that the employee involved in the fraud made money?

Mr. KUTZ. We saw no evidence of that.

Mr. SCOTT. Did you see any evidence that the fraud resulted in favoritism so that the relatives, friends, or associates of the Head Start employees benefited to the detriment of others?

Mr. KUTZ. I believe there were allegations of that, but we have not substantiated that.

Mr. SCOTT. Because the only places that you investigated in fact had waiting lists?

Mr. KUTZ. The two Head Start centers that came in through our hotline, there was some allegations of that, but we have seen no evidence.

Mr. SCOTT. I am talking about the ones you investigated.

Mr. KUTZ. The undercover ones, we did not do anything except the undercover visits.

Mr. SCOTT. So you have no evidence based on investigations that any Head Start employee looked out for their relatives, friends, or associates to the detriment of anybody else?

Mr. KUTZ. No. We have come up with no evidence of that ourselves, no.

Mr. SCOTT. Ms. Nazario, can you tell me how much money is stolen in Medicare and Medicaid fraud?

Ms. NAZARIO. I know it is a substantial amount, Congressman, but I don't know.

Mr. SCOTT. Round numbers, more than the total Head Start budget? Probably?

Mr. KUTZ. Most people estimate it is double digits, low double digits, and that would be more than the Head Start program substantially.

Mr. SCOTT. Good. Now that these irregularities have been made known to the Department, you mentioned that you are going to be doing professional development to make sure that the programs know that this is serious?

Ms. NAZARIO. Yes, sir.

Mr. SCOTT. And will you be doing random checks and audits to be make sure the programs are complying?

Ms. NAZARIO. Yes, sir. We do that routinely, every 3 years. At least every 3 years, every program is audited in depth. We will now increase the monitoring and conduct unannounced visitation.

Mr. SCOTT. And that the programs will be warned that they could lose their program, they will not be renewed, if they are caught with these irregularities?

Ms. NAZARIO. Yes. We will instruct them of the consequences of fraud and mismanagement.

Mr. SCOTT. And do you feel that the irregularities, which seem to be widespread based on the random checks, can be fixed with this professional development, random checks and warnings about funding?

Ms. NAZARIO. We will absolutely look at every possible way, and we will have that Web site for other ideas to correct the situation, including recoupment of funds from the grantee.

Mr. SCOTT. And do you think this will be—the things that you are doing will be sufficient to fix the problem?

Ms. NAZARIO. We are going to stop it. We are going to find the mechanism to be sure that this is not occurring, so that slots are not taken away from poor children who do need it.

Mr. SCOTT. Thank you, Mr. Chairman.

Mr. KILDEE. Thank you. Mr. Tierney.

Mr. TIERNEY. Thank you Mr. Chairman.

Well, thank both of you for your testimony here today; Mr. Kutz, for your good work in a number of different areas in the GAO whom we rely on so often.

Ms. Nazario, how long have you been in your position?

Ms. NAZARIO. I arrived September 26, 2009.

Mr. TIERNEY. The system that you have in place now for program oversight, is that something that was inherited by you or is that something you have implemented on your own?

Ms. NAZARIO. The system was in place. What we have been doing since I arrived and since the new Head Start director, Yvette Sanchez Fuentes, arrived, is to, as I said, do a top-to-bottom review. And we established the Head Start Road Map to Excellence, which is looking at everything Head Start: standards, monitoring, technical assistance. We are turning the tables upside down in how we do technical assistance. So we are looking at revamping the entire system. We call it the “new Head Start.”

Mr. TIERNEY. How many people would you say are in your integrity department, in the departments responsible for the integrity of this program, the monitoring of the funds?

Ms. NAZARIO. We have, I would say—I have to count, but I can get you the exact number. But we have 60 people in grants management and we have a total staff of Head Start. Around 229 Head Start staff.

Mr. TIERNEY. How many Head Start programs around the country?

Ms. NAZARIO. We have 1,600 grantees and approximately 3,300 programs.

Mr. TIERNEY. Three thousand three hundred programs with 60 people that are monitoring them?

Ms. NAZARIO. This is grants management; am I correct? Ballpark? And 229 Head Start. That includes regional program specialists. We also have contractors who assist in technical assistance.

Mr. TIERNEY. I guess my question is, how many people on your staff dealing with program integrity are actually available to go out and implement some sort of a system that would make sure this doesn't happen, the complaints that we received today?

Ms. NAZARIO. It is hard to say, full-time, because the way we operate is that for the monitor and review, we build teams who then go to the grantees and spend a week with the grantee looking at—and these are not people who are full-time on integrity but are pulled to do the reviews in addition to the fiscal accountability staff.

Mr. TIERNEY. When you took over and started your top-to-bottom review, did you consult the GAO or any other investigative-type body for how you might go about setting up systems that would prevent this kind of abuse?

Ms. NAZARIO. We have not to my knowledge consulted GAO, but we consult the inspector general and have an ongoing partnership with the inspector general.

Mr. TIERNEY. Did the IG make recommendations to you as to what standards or systems you might put in place to help you make sure this didn't happen?

Ms. NAZARIO. One of the things that we have already put in place tried to address that, but there is a lot more that we can do and will do. As we have received this information, we have uncovered even more things that can be done. And we will put them in place.

Mr. TIERNEY. Do you think you have the personnel that will enable you to do the type of job that is necessary to stop this kind of behavior and ensure Congress that it won't happen with any regularity in the future?

Ms. NAZARIO. As of this moment, we have not identified the need for additional personnel, but we will be looking at that and we will submit requests accordingly.

Mr. TIERNEY. And will you be relying on GAO for any advice and counsel in this process?

Ms. NAZARIO. Yes, absolutely. We want to partner with both the IG and GAO.

Mr. TIERNEY. The point of my questioning is that we have a special resolution here that, when we have money in trust, as we do, for a program that people on both sides of the aisle have confidence it has the potential to lift people out of a bad situation and provide a service, we have a special obligation to make sure the money just doesn't go south on us. We neglect enough with the Department of Defense, which is only about \$296 billion overspending on just 93 programs; and we do it, as Mr. Scott mentioned, on Medicaid and Medicare or whatever. But people are always looking sometimes for the narrowest little areas on that.

So we have to make sure we are resolute and get this in place. And so I urge you—and I congratulate you, first of all, for doing your top-to-bottom review. I understand it takes time. But let's make sure we nail it down so we don't spend our time debating this but, rather, debating how the program is implemented and whether or not it is working and whom it is benefiting. And that would be appreciated on that.

And I really do think you should use GAO in an advice and counsel role in addition to the IG. They have the systems in place and they have the way to help you through that. And it is important that we do it.

Ms. NAZARIO. We completely concur, sir.

Mr. TIERNEY. Thank you. I yield back.

Mr. KILDEE. Thank you very much. And I yield to the gentleman from Kentucky, Mr. Guthrie.

Mr. GUTHRIE. Thank you, Mr. Chairman. I appreciate that.

And, Mr. Kutz, I have been watching and looking at the testimony. One of the concerns, you said 8 of 15 undercover investigations of Head Start employees actively encourage undercover investigators, posing as parents or guardians, to misrepresent their eligibility; and in four of those cases, the information that was provided had been doctored by Head Start employees to remove income information that had been provided. And I know that is correct, what you said, and the question is you said at least four, and I was wondering if there were more than four.

And you had a more than 50 percent—I wouldn't say success rate—but your undercover investigators, 50 percent of them were able to enroll fraudulently. And in your experience as an investigator, is this typical in these kinds of environments? Is that high? Can you extrapolate what this means pervasively? And then, finally, just how widespread do you think this may be?

Mr. KUTZ. It is hard to tell whether widespread-wise, I think as I mentioned earlier, the system is vulnerable to not only grantees doing what we are talking about, but some of the undercover tests we did we went in actually with documents showing we were eligible. They were just bogus documents, and they would have bought our story. We could have walked in and said we were unemployed, and they would have bought that. So it is vulnerable to beneficiary fraud in addition to the grantees on their own, without our prompting, telling us, "Hey, you are over-income, here is what we do to make you under-income. Give me that one pay stub and I will pretend I didn't see it." So you had both of those things ongoing.

So the system is vulnerable. There is no way to tell how widespread this is, but it is particularly vulnerable for those places trying to fill empty slots so they can maintain their grant funding. So that would be—we were looking at this between September 2009 and March 2010 in the undercover piece. Many of the schools were part of the places that were already full, probably, by the beginning of September. You probably have another period of vulnerability coming up in the next few months, so the timing of this hearing and the actions here are very good because the rush to recruit and enroll is coming up this summer for the next year.

Mr. GUTHRIE. Well, there is a difference, in my mind, if an investigator presented fraudulent documents and said, I'm eligible to have this and presented documents. They were so, and Head Start accepted that. Versus the Head Start employee helping you be fraudulent in your submission. So they are vulnerable for the—did you just say, I'm unemployed, and they took that for your word? Or you are saying you submitted fraudulent unemployment documents?

Mr. KUTZ. Just fraudulent pay stubs, or said we were unemployed or we were under-income in several cases. Most of our tests were on the over-income, because that was really the primary focus. But we also wanted to see if there were—any due diligence done, if they ever asked us for Social Security numbers any of that

kind of thing. And, again, there was very little requirement for any of that type of documentation.

I will say there was a lot of requirements for dental records, medical records, things like that. And so that gets into the nonfraud issues which are also very important to the program.

Mr. GUTHRIE. Well, just in my mind, it is a little different for the Head Start employee if you present something and they take it. Are they required to go two or three steps further? Are they meeting the requirements and the problem is the system.

Mr. KUTZ. Absolutely. I don't think they are required to verify anything. They are required to get paper. It is a paper process. You get paper, or someone tells you something, you write it down, and you move forward.

Mr. GUTHRIE. That is a problem with the system, but not necessarily a problem with the employee. But it is a problem with the employee if they are telling you not to submit pay stubs and so forth.

Mr. KUTZ. Yes. That is fraud.

Mr. GUTHRIE. Thank you.

Mr. KILDEE. Thank you, Mr. Guthrie. Mrs. Davis.

Mrs. DAVIS. Thank you, Mr. Chairman, and thank you to both of you for being here.

I wanted to go back to the recompetition requirements, I think you were speaking to the chairman about that earlier, and try to understand some of the issues, particularly for those grantees who have had a longstanding record, and then there are a number of issues that are coming forward.

Could you just expand on the pending regulations, then, that are part of the authorization passed in 2007, talking about the automatic indicators and what will change in light of these GAO findings now?

Ms. NAZARIO. We will issue regulations that will take into account public comments and we will take those public comments very seriously. We want to issue regulations that are fair, but that also provide for swift action for recompetition, so the poorly performing programs are weeded out and the high-performing programs remain; because when you allow programs to continue to serve indefinitely, then the children are not receiving the best care possible.

So we want to be sure that grantees meet performing standards in terms of quality, and, at the same time, performing in terms of financial management standards.

Mrs. DAVIS. The automatic indicators that you are looking at now, as a result of some of the work that you have been sharing with us today, do you see those changes? Those have more to do with management, or more to do with performance, or is it both?

Ms. NAZARIO. I think both, a combination. I will be happy to get you a statement for the record as to what those will be, but we should be issuing the rule very soon.

Mrs. DAVIS. Okay. And you think—when are those coming forward again?

Ms. NAZARIO. In the summer.

Mrs. DAVIS. In the summer. Okay. Could you talk a little bit more about some of the deficiencies that could cause a grant to be rebid? What sorts of things are we talking about?

Ms. NAZARIO. Right now, or under the new rule? I think I will get a statement for you for the record.

Mrs. DAVIS. Okay. All right.

You are talking about both performance and both management, correct?

Ms. NAZARIO. Yes.

Mrs. DAVIS. Is that something that is not known to people? When you are saying you are going to get it—

Ms. NAZARIO. The new rule is still being developed, so I hesitate to speak about it. But when it comes out, it will come out for substantial public comment.

Mrs. DAVIS. Do you think that grantees are going to be able to understand why that might be new indicators? Is that something that is going to come as a surprise, do you think, or is it something that they would recognize pretty easily?

Ms. NAZARIO. I think they will recognize it. First of all, we already have issued a program instruction that gives very clear indications of where we are going. We will then also issue a rule that makes the program instruction mandatory. Then we will issue the redesignation rule. So by this time, we will be doing Webcasts and we will be doing training, so it should not be a surprise.

Mrs. DAVIS. Do you think that that discussion that would be held with grantees, whether on line or otherwise, would it address trying to get at fraud and abuse in this system?

Ms. NAZARIO. Absolutely.

Mrs. DAVIS. Directly, in terms of why something is being done?

Ms. NAZARIO. Yes. And it will give indications as to what are the actions that will result from a worker on their own doing something, and what we can expect from the grantee to correct it. And we will require swift directive action on the part of the grantee, even if it is a rogue worker.

Mrs. DAVIS. Is it likely that there will be more recompetition as a result of this across-the-board for grantees?

Ms. NAZARIO. Yes. Absolutely. Like the chairman said, we will be sure that it is included.

Mrs. DAVIS. Just very, very quickly, you mentioned keeping track of the information. It just struck me: Why we are not doing that now? You said it wasn't required that they keep some of the information that is presented, some of the paperwork, et cetera.

Ms. NAZARIO. Well, you know, I wasn't here when these rules were developed, but we always are struggling in public services, particularly in social services, to walk the line between being responsive to people's needs and maintaining the same administration. So the way it has been developed up to now is that they have to look at the eligibility documents, but they were not required to keep them in the record.

Mrs. DAVIS. Do you think it is going to be difficult for them to do that? Will they be able to computerize that so that they really have all that at their fingertips, essentially.

Ms. NAZARIO. Well, at this point, we haven't looked into the details of whether it is going to be computerized files or manual files,

but, at any rate, they will have something. Right now, they should be able—they will be able, both the grantee and the parents, to furnish the documents. They have to have them in order to apply. So they will have the documents and the grantees can even scan them, which is now very commonplace.

Mrs. DAVIS. Thank you very much, Mr. Chairman.

Mr. KILDEE. Thank you, Ms. Davis.

First of all, I want to thank both of you. I know that HHS is very angry over this. That is good. You should be angry, because this is a program that you supervise and that you care a great deal for. Thank God for the GAO. I have been in Congress for 34 years, and I have learned more when GAO gets involved with the other parts of the government to make sure that the taxpayers' dollars and those dollars meant for, in this instance, poor children are used properly.

So I am sure that with the attitude both of you have and the beliefs that both you have, that we are going to get to the bottom of this and take those reforms that are necessary to make sure that this program reaches the goals that were set 45 years ago.

The last official action I had with Ted Kennedy, I was chief sponsor of the reauthorization of this bill, and Ted and I went over to the White House with Mr. Enzi and George Miller. And George Bush signed the bill. We felt very proud. And it was only about a month later that Ted Kennedy discovered that he had that fatal illness, and I think one of the greatest tributes we can pay to his memory is to make sure we get this back to where it should be, and I know both of you want to do that, and I appreciate that.

Without objection, members will have 14 days to submit additional material or questions for the hearing record.

[Additional submissions of Mr. Miller follow:]

*Washington, DC, May 17, 2010.*

DEAR HEAD START GRANTEE: I am writing to address fraud and mismanagement in Head Start and to notify you of the steps the Department of Health and Human Services will be taking to strengthen program integrity in the Head Start Program. Recently, I was informed of an investigation initiated by the Government Accountability Office (GAO) into potentially fraudulent eligibility determination procedures and other types of misconduct. According to GAO, individuals employed by approximately eight Head Start grantees determined that certain children were eligible for Head Start services despite being given evidence that their families' incomes were above the eligibility limit. Our Office of Inspector General is now following up on these allegations. If proven, these actions not only violate Head Start's rules and regulations, but would represent serious breaches of the public trust.

As you know, Head Start is designed to put our nation's low-income children on a road to opportunity. Allowing ineligible children to enroll in the program is a blatant violation of Head Start's rules and it steals opportunity from children who need it most. This Department will not stand for it.

On May 10, the Office of Head Start issued a Program Instruction entitled, "Income Eligibility for Enrollment" (ACF-PI-HS-10-02), which reminds grantees of their obligations to verify income eligibility and determine eligibility in accordance with the Head Start statute and regulations. This was just the first step in our efforts to strengthen program integrity in the Head Start program.

The following are additional concrete steps that we are undertaking to ensure that every Head Start slot is reserved for a child eligible for the program.

- Refer fraud allegations to the HHS Inspector General. When HHS discovers potential fraud, those cases are referred to the Department's Inspector General who can pursue a criminal investigation. Knowingly falsifying documents and determining a child eligible for Head Start when the child does not meet the eligibility criteria can lead to criminal charges.

- Move to suspend and terminate grantees where pervasive fraud or misuse of funds is found. The Head Start statute provides us with ample authority to suspend and then terminate grants in such instances.
- Require grantees that have inadequate controls to prevent errors in eligibility or other critical lapses in program management to take swift, decisive corrective action. This could include firing employees that are found to be knowingly violating Head Start rules, as well as tightening eligibility determination procedures.
- Conduct unannounced monitoring visits to Head Start grantees. In the past, we have typically provided grantees with notice before coming to conduct monitoring or other onsite visits. We will increase our use of unannounced visits to ensure that we are able to review how your programs operate on a daily basis.
- Create and publicize a web-based “hotline” that will allow those with information of impropriety of any kind to report it directly to me. When this hotline is up and running, we will issue guidance to you about how to access the site. I expect that every grantee will ensure that all Head Start employees are informed about this hotline. We know that fraud is often detected and reported by scrupulous employees who stand up and do the right thing.
- Increase oversight and reviews of programs with identified risk factors. Each year, the Administration for Children and Families (ACF) conducts a risk assessment with every grantee to identify risks for program violations or management problems. ACF, in partnership with the grantee, develops and implements an action plan to mitigate the risk factors. Program specialists will be scrutinizing programs more carefully in the risk management process and the action plan phase.
- Develop new regulations that promote program integrity. We are developing new regulations that will address verification requirements and staff training on eligibility criteria and procedures.
- Recompete grants when questions arise about whether grantees are offering high-quality services or have management lapses. We will soon issue proposed regulations that articulate which grantees will be required to compete for continued Head Start funding—implementing an important reform enacted by Congress in the Head Start for School Readiness Act of 2007. The goal of the regulations is to promote program integrity and strengthen the quality of services that Head Start provides.

As these initiatives gear up, you will be kept fully apprised of new requirements and changes in our operating procedures. Now that you know of our increased focus on program integrity, I hope you will immediately review your own oversight and quality assurance mechanisms and begin to develop ways to strengthen your own programs. If we work together, we can build an even stronger Head Start program.

I know our Head Start grantees can be a source of good ideas for how to promote sound management and ensure that this program meets the highest possible program integrity standards. If you have an idea, please send it to [strengthenheadstart@headstartinfo.org](mailto:strengthenheadstart@headstartinfo.org). You are our partners in this important program, and we want to hear your thoughts and ideas.

Program integrity is one of my key priorities and goes well beyond Head Start. I recently established the Council on Program Integrity, which will look at all areas within the Department from Medicare and Medicaid, to Head Start and LIHEAP, to medical research and the public health grants—to conduct risk assessments of programs or operations most vulnerable to waste, fraud, or abuse; enhance existing program integrity initiatives or create new ones; share best program integrity practices throughout HHS; and measure the results of our efforts. I look forward to partnering with you as part of this Department-wide initiative.

I know the great majority of people who work at Head Start centers are dedicated professionals who make tremendous efforts to provide quality care and early education to more than 900,000 children and carry out their work each day with great integrity. We—grantees and federal officials alike—cannot allow a few unscrupulous individuals or grantees to get in the way of the services that Head Start provides to our nation’s low-income children.

Sincerely,

KATHLEEN SEBELIUS.



## MAJORITY MEMBERS:

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 DALE E. KAUFMAN, MICHIGAN, Vice Chairman  
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May 10, 2010

Mr. Daniel R. Levinson  
 Inspector General  
 Office of the Inspector General  
 U.S. Department of Health and Human Services  
 330 Independence Avenue, S.W.  
 Washington, D.C. 20201

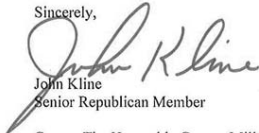
Dear Mr. Levinson:

As you may know, House Education and Labor Committee Chairman George Miller recently wrote to Secretary Sebelius regarding a forthcoming Government Accountability Office report documenting incidents of fraud and abuse by various Head Start grantees. I join Chairman Miller in expressing serious concerns that the integrity of the Head Start program's eligibility and enrollment process has been compromised.

I join Chairman Miller in asking Secretary Sebelius to initiate an immediate investigation into the specific cases of Head Start fraud uncovered by the GAO. A review of the grantees known to have engaged in fraudulent behavior is an important first step, but I believe the documented severity and frequency of abuse warrants a broader investigation. To determine the pervasiveness of this problem among the 1,600 individual Head Start grantees across the nation, I request a comprehensive investigation by your office of the Head Start and Early Head Start eligibility, enrollment, and attendance verification processes to assess the vulnerability of Head Start programs to the type of fraud and abuse exposed by the GAO's limited investigation.

I look forward to reviewing the results of your investigation, including any recommendations you can provide to assure the American people fraudulent spending within Department of Health and Human Services programs is exposed and eliminated. Please contact Allison Dembeck or Kirk Boyle on my staff at (202) 225-4527 if you have any questions regarding this request. Thank you for your assistance.

Sincerely,

  
 John Kline  
 Senior Republican Member

Cc: The Honorable George Miller, Chairman



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**VIA FACSIMILE: 202-690-7203**

The Honorable Kathleen Sebelius  
 Secretary  
 U.S. Department of Health & Human Services  
 200 Independence Avenue, SW  
 Room 615-F  
 Washington, DC 20201

Dear Secretary Sebelius:

I have learned of an undercover investigation and upcoming report by the Government Accountability Office (GAO) that has found reportedly unlawful actions by local Head Start grantees regarding their admissions and eligibility practices.

These allegations raise significant concerns about the integrity of the admissions and family eligibility process administered by Head Start grantees. This issue requires your immediate attention and action.

As fiscal steward of the Head Start program, I know you take seriously the Department's responsibility to administer and oversee the program with the highest degree of accountability. This investigation appears to have identified a significant weakness in HHS's oversight and program requirements.

Accordingly, I request that HHS immediately review the grantees identified by the GAO investigation to determine what action is needed to ensure that grantees operating Head Start Programs are complying with the law, including evaluating the appropriateness of the grantee continuing to receive Head Start funds, and determining whether the employees identified by the GAO investigation should be placed on administrative leave pending further investigation.

I also urge you to undergo an immediate, comprehensive review of grantee admissions and eligibility practices, and communicate the Department's intention to aggressively enforce the Head Start admission and eligibility requirements. Individuals who violate these requirements – and the programs that employ them – must face meaningful consequences.

The Honorable Kathleen Sebelius  
 May 3, 2010  
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It is my intention to hold a Committee hearing this month to fully explore GAO's findings. I ask that an official from HHS testify about the steps the Department has taken and the additional steps the Department expects to undertake to ensure the integrity of this vital program. Please feel free to contact me or direct your staff to coordinate your response with Michael Zola, Chief Investigative Counsel and Ruth Friedman, Deputy Director of Education Policy, who can be reached at (202) 225-3725. I look forward to your prompt response.

Sincerely,



**GEORGE MILLER**  
 Chairman

[Additional submission of Messrs. Miller and Kline follows:]

DEPARTMENT OF HEALTH & HUMAN SERVICES,  
 OFFICE OF INSPECTOR GENERAL,  
 Washington, DC.

Hon. GEORGE MILLER, *Chairman*; Hon. JOHN KLINE, *Senior Republican Member, Committee on Education and Labor, U.S. House of Representatives, Washington, DC.*

DEAR CHAIRMAN MILLER AND RANKING MEMBER KLINE: I am writing regarding the hearing, scheduled for Tuesday May 18, 2010, before the House Education and Labor Committee, to examine an investigation by the Government Accountability Office (GAO) of allegedly fraudulent behavior by certain Head Start grantees regarding enrollment and eligibility. As you know, the Office of Inspector General, Department of Health & Human Services (OIG), recently opened an investigation stemming from preliminary information provided by GAO regarding allegations of enrollment fraud in certain Head Start programs. As part of its investigation, GAO conducted undercover operations at a number of Head Start centers. The operations yielded video and audio tapes of interactions between Head Start employees and GAO investigators.

Last week, GAO informed us that it anticipates making a formal referral to OIG of its findings within the next 10 days. After reviewing that investigative material, our office will be in a better position to evaluate the allegations and finalize an investigative plan.

Earlier today, Assistant Inspector General for Investigations Gerald Roy and OIG Chief Counsel Lewis Morris met with your staff to view excerpts of four of the GAO video tapes. During that meeting your staff asked that OIG apprise the Committee whether display of the video tapes during the hearing would adversely impact OIG's investigation. Upon review, we have determined that if the Committee shows the four video tapes during the hearing or otherwise makes them available to the public, it would be problematic. Although we have not received a formal referral of this matter from GAO and therefore cannot speak to the merits of the allegations or where an investigation may lead, we are concerned that disclosure of identifying information, such as witness identity or Head Start location, could compromise OIG's ongoing investigation. Thank you for your consideration of these concerns.

Sincerely,

TIMOTHY J. MENKE,  
 Deputy Inspector General for Investigations.

Mr. KILDEE. Without objection, the hearing is adjourned.  
 [Whereupon, at 2:47 p.m., the committee was adjourned.]

