



Claire McCaskill

Missouri State Auditor

June 2006

SOCIAL SERVICES

Children's Division-

Early Childhood and
Prevention Services-

Early Head Start
Contract With KCMC
Child Development
Corporation



Office Of
Missouri State Auditor
Claire McCaskill

June 2006

The following findings were noted in our audit of the Department of Social Services, Children's Division – Early Childhood and Prevention Services-Early Head Start Contract with KCMC Child Development Corporation.

Governor Blunt requested the State Auditor's Office to audit the contracts awarded to the Kansas City Model Cities (KCMC) Child Development Corporation by the Department of Social Services (DSS), Children's Division (CD), Early Childhood and Prevention Services (ECPS) for the state Early Head Start (EHS) program. During the period July 1, 2001 through December 17, 2004, the DSS paid the KCMC over \$5.3 million for the state EHS contract. In total during the three years ended June 30, 2004, approximately 15 percent of KCMC's unrestricted revenues were received from state funding, which included other funds provided by the DSS and the Department of Health and Senior Services.

The contracts with the DSS for the period July 1, 2001 to December 17, 2004, required the KCMC to provide EHS services to children ages birth to three years whose families' incomes were under the federal poverty level and pregnant women in Jackson County, Missouri. As required by the contract, the KCMC contracted with three partner agencies to provide services to 121 children and 22 pregnant women. The KCMC also provided home-based services directly to 12 pregnant women and contracted with other family childcare providers to serve 12 children. Over \$4.5 million (approximately 86 percent of total EHS payments) paid by the state to the KCMC was then reimbursed to the partner agencies for their EHS services. Our review of the KCMC's services provided and related records and the ECPS's management of the EHS program identified numerous problems.

The ECPS did not adequately monitor the financial activities and records of the KCMC. The ECPS met with the KCMC and federal Head Start personnel on a frequent basis regarding program activities; however, the ECPS did not review the financial records of the KCMC or partner agencies to ensure the amounts reported on quarterly claims and year-end reports were accurate and represented allowable costs as defined by the contract. Instead of reimbursing the KCMC for actual expenses paid, the ECPS allowed the KCMC to submit a quarterly claim for an advance of one-fourth of the annual contract amount. As a result, the ECPS had little assurance that state funds were used for allowable costs and that all monies were accounted for properly.

Although the KCMC paid the partner agencies the proper amounts based on the partners' claims and documentation, these payments were not always accurately recorded in the KCMC's general ledger. This resulted in inaccurate quarterly claims and year-end reports, and some overpayments to the KCMC.

YELLOW SHEET

Supporting documentation was not available to identify the specific expenses allocated to personnel and indirect costs, totaling more than \$750,000, during the period July 1, 2001 to December 17, 2004.

The ECPS did not adequately review financial activity related to the state funded EHS program during a joint monitoring visit with the U. S. Department of Health and Human Services (DHHS). In addition, the ECPS, along with the DSS, did not obtain and review the KCMC's audit reports and related findings. As a result, the ECPS missed opportunities to identify and address significant findings in the KCMC's operations which affected the state's EHS program.

As a result of news articles, a congressional inquiry, an audit by the DHHS, Office of Inspector General, and other management issues, on December 17, 2004, the KCMC relinquished its federal Head Start/Early Head Start grants and in September 2005, filed for Chapter 11 bankruptcy. Another agency in the Kansas City area has since been awarded the Head Start grants. Because of the numerous actions and changes that occurred regarding the KCMC's operations and records, we encountered substantial delays in obtaining records applicable to our audit.

All reports are available on our website: www.auditor.mo.gov

DEPARTMENT OF SOCIAL SERVICES
CHILDREN'S DIVISION
EARLY CHILDHOOD AND PREVENTION SERVICES
EARLY HEAD START CONTRACT WITH
KCMC CHILD DEVELOPMENT CORPORATION

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| STATE AUDITOR'S REPORT | 1-3 |
| MANAGEMENT ADVISORY REPORT - STATE AUDITOR'S FINDING..... | 4-13 |
| HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION..... | 14-19 |

Appendix

KCMC Child Development Corporation

| | | |
|---|--|----|
| A | Comparative Statement of Early Head Start Revenues (By State Fund) Period July 1, 2004 to December 17, 2004, and Three Years Ended June 30, 2004 | 17 |
| B | Comparative Statement of Early Head Start Expenditure Claims Period July 1, 2004 to December 17, 2004, and Three Years Ended June 30, 2004 | 18 |
| C | Comparative Statement of State Revenues Period July 1, 2004 to December 17, 2004, and Three Years Ended June 30, 2004 | 19 |

STATE AUDITOR'S REPORT



CLAIRE C. McCASKILL
Missouri State Auditor

Honorable Matt Blunt, Governor
and
Gary Sherman, Director
Department of Social Services
and
Paula Neese, Interim Director
Children's Division
Jefferson City, MO 65101

The State Auditor was requested by the Honorable Matt Blunt, Governor, under Section 29.200, RSMo, to audit the Department of Social Services, Children's Division, Early Childhood and Prevention Services, Early Head Start Contract with Kansas City Model Cities Child Development Corporation (KCMC). The scope of this audit included, but was not necessarily limited to, the period July 1, 2004 to December 17, 2004, and the three years ended June 30, 2004. The objectives of this audit were to:

1. Review the procedures for monitoring compliance with the contract terms.
2. Review KCMC's use of funding provided by the department.
3. Review internal controls over significant financial functions.
4. Review compliance with certain legal provisions.
5. Evaluate the effectiveness of certain management practices and operations.

Our methodology to accomplish these objectives included reviewing minutes of meetings, financial records, and other pertinent documents; interviewing various personnel of the division, as well as certain external parties; and testing selected transactions.

In addition, we obtained an understanding of internal controls significant to the audit objectives and considered whether specific controls have been properly designed and placed in operation. However, providing an opinion on internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We also obtained an understanding of legal provisions significant to the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting significant instances of noncompliance with the provisions. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the division's management and was not subjected to the procedures applied in the audit of the division's contract with KCMC Child Development Corporation.

The accompanying Management Advisory Report presents our finding arising from our audit of the Department of Social Services, Children's Division, Early Childhood and Prevention Services, Early Head Start Contract with KCMC Child Development Corporation.



Claire McCaskill
State Auditor

February 1, 2006 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits: Kenneth W. Kuster, CPA
Audit Manager: Toni M. Crabtree, CPA
In-Charge Auditor: Cheryl L. Colter, CPA, CGFM

MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDING

DEPARTMENT OF SOCIAL SERVICES
CHILDREN'S DIVISION
EARLY CHILDHOOD AND PREVENTION SERVICES
EARLY HEAD START CONTRACT WITH
KCMC CHILD DEVELOPMENT CORPORATION
MANAGEMENT ADVISORY REPORT –
STATE AUDITOR'S FINDING

Early Head Start Contract

In April 2005, the Governor requested the State Auditor's Office audit the contracts awarded to the Kansas City Model Cities (KCMC) Child Development Corporation by the Department of Social Services (DSS), Children's Division (CD), Early Childhood and Prevention Services (ECPS) for the state Early Head Start (EHS) program. The purposes of this audit were to determine "whether state funds may have been used for frivolous purposes completely unrelated to the organization's mission of providing assistance to children in the Head Start Program" and to provide "an accounting of how state resources were distributed."

Although the majority of EHS funds paid to the KCMC by the DSS appeared to be for proper services, the ECPS did not establish an effective monitoring system to ensure all EHS payments to the KCMC were for allowable expenses, supported by adequate documentation, or accounted for properly.

Background Information

The KCMC is a nonprofit organization founded in 1970 under the federal Model Cities program. It became the Head Start grantee in Kansas City, Missouri in 1977. Head Start/Early Head Start grants received directly from the U.S. Department of Health and Human Services (DHHS) provided most of the KCMC's funding.

In response to news articles and a congressional inquiry regarding excessive executive compensation at some Head Start agencies, the DHHS, Office of Inspector General, conducted an audit of the KCMC's federally funded administrative costs for the three years ended September 30, 2002. Their report was issued in April 2005 and questioned costs, totaling over \$953,000. The questioned costs consisted of approximately \$456,000 of excessive pay and bonuses paid to the Executive Director, \$406,000 of costs that were not supported by adequate documentation, and \$91,000 of unallowable costs, including interfund transfers, donations, bad debt expense, leased vehicle expense, fines, and penalties.

In April 2004, the KCMC's executive director resigned, citing health problems. On December 17, 2004, the KCMC relinquished its federal Head Start/Early Head Start grants and in September 2005, filed for Chapter 11 bankruptcy. The DHHS appointed the Community Development Institute (CDI) as the interim grantee to continue Head

Start/Early Head Start services until a new grantee was selected. In October 2005, the Mid-America Regional Council (MARC) was awarded the Head Start grant. Effective January 1, 2006, the MARC took over the operations of the Head Start/Early Head Start programs from the CDI.

During the period July 1, 2001 through December 17, 2004, the DSS paid the KCMC over \$5.3 million for the state EHS contracts. Also, during this period, the KCMC received other state funding, totaling approximately \$3.4 million and \$5.8 million, from the DSS for the Child Care Assistance program and from the Department of Health and Senior Services for the Child and Adult Care Food Program, respectively. However, the state funding for the Child Care Assistance program and Child and Adult Care Food Program was not included in the scope of this audit because these programs were not part of the contracts for state EHS services. In total, during the three years ended June 30, 2004, approximately 15 percent of KCMC's unrestricted revenues were received from state funding.

Early Head Start Contract

The contracts with the DSS for the period July 1, 2001 to December 17, 2004, required the KCMC to provide EHS services to children ages birth to three years whose families' incomes were under 100 percent of the federal poverty level and pregnant women in Jackson County, Missouri. As required by the contract, the KCMC contracted with three partner agencies (Independence Missouri School District, representing a collaboration of childcare agencies in eastern Jackson County; Heart of America Family Services, representing a network of family childcare providers in Kansas City; and Operation Breakthrough, St. Vincent's Family Service Center, a single site childcare center in Kansas City's urban core) to provide services to 121 children and 22 pregnant women. The KCMC also provided home-based services directly to 12 pregnant women and contracted with other family child care providers to serve 12 children.

Over \$4.5 million (approximately 86 percent of total EHS payments) paid by the state to the KCMC was then reimbursed to the partner agencies for their EHS services. Agreements between each partner agency and the KCMC defined the type of services to be provided to a specific number of children and/or pregnant women and the compensation to be paid for these services. We reviewed the agreements and some of the partners' claims and supporting documentation to ensure the agencies had adequate supporting documentation for the services provided and compensation received. The records reviewed at each partner agency were sufficient to support their payments. Thus, the majority of funds paid by the state to the KCMC appeared to be used for the proper purpose of providing assistance to children in the EHS program.

However, our review of the KCMC's services provided and related records and the ECPS's management of the EHS program identified numerous problems. Additionally, the scope of the audit was hindered due to missing and incomplete information from the KCMC. Although the KCMC's bankruptcy attorney provided many records requested, he was unable to locate all relevant information. When the CDI took over the KCMC's

operations, many of the KCMC's records were moved to a storage facility, but the records were not stored in an organized manner. In addition, the attorney had difficulty obtaining some KCMC records from the CDI. As a result, we encountered substantial delays in obtaining the information necessary to thoroughly address the Governor's concerns. We also encountered substantial delays in obtaining access to the KCMC's independent auditor's working papers regarding personnel and indirect cost allocations.

A. The ECPS did not adequately monitor the financial activities and records of the KCMC.

1. The ECPS met with the KCMC and federal Head Start personnel on a frequent basis regarding program activities; however, the ECPS did not review the financial records of the KCMC or partner agencies to ensure the amounts reported on quarterly claims and year-end reports were accurate and represented allowable costs as defined by the contract.

Instead of reimbursing the KCMC for actual expenses paid, the ECPS allowed the KCMC to submit a quarterly claim for an advance of one-fourth of the annual contract amount. The claim also listed cumulative/total expenditures as of the end of the prior quarter and a year-end report was submitted to document the final cumulative expenditure total for each budget category. As a result, the ECPS had little assurance that state funds were used for allowable costs and that all monies were accounted for properly.

2. Although the KCMC paid the partner agencies the proper amounts based on the partners' claims and documentation, these payments were not always accurately recorded in the KCMC's general ledger. This resulted in inaccurate quarterly claims and year-end reports, and some overpayments to the KCMC.

We reviewed some general ledger entries and their related supporting documentation. Our review disclosed the following:

- In November 2001, a \$27,854 adjustment to accounts payable was improperly recorded as a payment to a partner agency.
- In June 2002, adjustments totaling approximately \$39,000, were made to increase partner and family child care expenditures on the general ledger to make the expenditure totals equal the amounts budgeted in the EHS contract. However, these expenditures were not incurred.
- In both June 2002 and January 2004, a disbursement, totaling \$41,700, to a partner was recorded on the general ledger. A check was not issued in June 2002 because the partner did not incur the

expense. However, it appears the partner may have incurred the January 2004 expense but was not paid.

- In April 2003 and from February to June 2003, federal EHS training reimbursements and service payments to a partner agency, totaling \$4,100 and \$6,250, respectively, were improperly recorded as state EHS expenditures.
- In July 2003, a month-end adjustment, totaling \$17,666, was not reversed.

While some of the improper entries were detected by the KCMC's auditors and corrected by the KCMC, the KCMC did not refund any overpayments to the state's ECPS agency.

For the year ended June 30, 2002, we identified approximately \$94,000 in overpayments due to recording errors. We also identified recording errors for the period July 1, 2002 to December 17, 2004; however, these errors did not result in any overpayments because the total EHS expenditures less the errors exceeded the amounts claimed.

3. Supporting documentation was not available to identify the specific expenses allocated to personnel and indirect costs, totaling more than \$750,000, during the period July 1, 2001 to December 17, 2004. Thus, there was no assurance that these allocated costs represented appropriate expenditures for the EHS program or if any unallowable expenses were used in the allocations. Various KCMC administrative expenses were allocated to personnel and indirect costs among its various programs, including the state EHS program.

The KCMC claimed reimbursements totaling approximately \$495,000 and \$257,000 for personnel and indirect costs, respectively.

- Although the administrative personnel costs allocated to the EHS program were not identifiable, it appears these allocated costs represented a small portion of the total personnel costs claimed. The costs claimed for reimbursement by the KCMC included both the allocated costs and the personnel costs charged directly to the EHS program.

The personnel costs charged directly to the program appeared to be supported by payroll records; however, allocated personnel costs were not supported. For example, we agreed payroll records for the personnel costs charged directly to the EHS program to the amounts recorded in the general ledger for October through December of 2004, 2003, and 2002. We then compared the

general ledger personnel costs to the personnel costs claimed. For the quarters ending December 31, 2004, 2003, and 2002, the personnel costs claimed exceeded the general ledger amounts by approximately \$9,300, \$5,100, and \$4,200, respectively. These differences appear to be the allocated personnel costs.

- In addition to the indirect costs recorded in the general ledger not being identified, the indirect costs claimed did not always agree to the general ledger amounts. For example, the indirect costs claimed for reimbursement exceeded the general ledger amounts by over \$15,000 for the period July 1, 2003 to December 17, 2004.
4. The ECPS did not adequately review financial activity related to the state funded EHS program during a joint monitoring visit with the DHHS. ECPS personnel indicated they relied upon the joint visit as a means of monitoring the state EHS program.

Once every three years the ECPS collaborated with the DHHS in joint monitoring of the Head Start/Early Head Start programs at KCMC. The last joint monitoring visit occurred in April 2002. The ECPS provided one member of the eight-member monitoring team, and this member participated in the monitoring of programmatic areas, not fiscal areas. As a result, ECPS personnel could not provide information about any fiscal monitoring.

Additionally, DHSS personnel indicated the fiscal portion of the monitoring visit was designed to examine management practices and federal, not state, grant requirements. Also, the fiscal monitoring was not designed to ensure individual expenditures claimed for reimbursement were supported by adequate documentation or if the expenditures were for allowable activities.

5. In December 2004, some children enrolled in the state EHS home-based services provided by the KCMC were not eligible for EHS services.

Since the KCMC records did not identify whether a child was enrolled in the state or federal EHS program for home-based services, the CDI, upon our request, identified the children served by the state EHS in December 2004. Our review of the home-based records for that month indicated that 3 of 11 children provided services were not eligible for the state EHS program because the children were age three prior to December 2004. At age three, EHS services are replaced with Head Start services.

If the ECPS had established any effective monitoring system of the KCMC's financial activity, many of the problems noted above may have been noted, investigated, and corrected.

The ECPS needs to periodically review supporting documentation for EHS expenditure claims to ensure expenditures are for allowable costs and program monies are accounted for properly, in compliance with contract terms. Records should identify which children are served by the state EHS program and the eligibility files should be periodically reviewed to ensure state EHS services are only provided to eligible children. Any discrepancies should be investigated and resolved. Also, paying EHS claims on a reimbursement basis instead of an advance basis may help ensure costs are allowable and supported by documentation. Additionally, the ECPS, along with the DSS, should evaluate the costs and benefits of pursuing reimbursement of the \$94,000 in overpayments and any other questioned costs in bankruptcy court.

- B. The ECPS, along with the DSS, did not obtain and review the KCMC's audit reports and related findings. As a result, the ECPS missed opportunities to identify and address significant findings in the KCMC's operations which affected the state's EHS program.

We reviewed the audit reports for the three years ended June 30, 2004. These reports presented information that would have alerted the DSS and the ECPS to problems/risks with the KCMC's financial activities. For example:

- For the year ended June 30, 2002, a note to the financial statements reported a former controller was the subject of a federal investigation involving a kickback scheme, with the KCMC suffering a loss exceeding \$1 million. Also, the findings indicated that certain general ledger accounts did not reconcile to the underlying detail.
- For the year ended June 30, 2003, a note to the financial statements indicated there was a dispute with the DHHS regarding the allowability of certain salary costs of the KCMC's Chief Executive Director. The findings again indicated that certain general ledger accounts did not reconcile to the underlying detail. In addition, the auditors noted that documentation was not retained to support preliminary cost allocation journal entries for administrative costs, and that there were occasions when the KCMC's credit cards were used for personal purchases which were subsequently reimbursed by the employees.
- For the year ended June 30, 2004, a note to the financial statements indicated doubt about the KCMC's ability to continue as a going concern. Another note documented various liabilities and questioned costs which contributed to the decline in the entity's financial condition.

In addition, the findings again reported on the allowability of certain salary costs of the KCMC former Executive Director and the personal charges made on the KCMC's credit card. The auditors also indicated there was a lack of documentation for a significant amount of credit card

charges, and that there was a lack of segregation of duties in some financial related activities.

A minimal monitoring effort would have allowed the abovementioned items to be noted by the ECPS. The ECPS needs to obtain and review copies of all audit reports and related findings for EHS providers and follow-up on any deficiencies/weaknesses that could potentially impact the state's EHS program and the use of state funds.

- C. The performance status reports submitted to the ECPS by the KCMC appeared to be of limited value to the ECPS. The status reports were not always complete. The KCMC submitted performance outcome status reports in April 2003, January 2004, and August 2004. Because information about the federal Head Start/Early Head Start programs was combined with the state EHS program information, the ECPS could not assess outcomes of the state EHS program.

Some problems include:

- Total populations were not always documented for various indicators, including total enrollment and total number of parents. Thus, it was not clear whether outcome indicator percentages were achieved.
- Some reports did not document results for several outcome indicators, including environments to promote literacy, thriving infant and children scores, birth weights over five pounds, training and quality assurance for child care partners, community collaborations, parental involvement, and programs to improve male involvement.
- Results for mental health observations did not indicate whether all classrooms were observed as required. The report only indicated the number of hours spent on site by the mental health staff.

The reliability of performance status reports is diminished when the reports are incomplete and include data from other programs. The ECPS should ensure its EHS providers submit performance status reports for the state EHS grant as required and the reports include all required information.

Conclusions

Since the ECPS did not adequately monitor the KCMC's activities related to the state EHS program, they had little assurance that all funds paid to the KCMC were used for allowable purposes. According to ECPS personnel, the oversight and management of all EHS providers is similar. Thus, the problems noted could be present in other EHS programs. The ECPS needs to develop policies and procedure to monitor all EHS programs and perform these monitoring procedures in a consistent, timely, and thorough

manner to ensure state funds are used appropriately and in compliance with contract terms.

WE RECOMMEND the DSS, through the ECPS:

- A. Develop policies and procedures to adequately monitor EHS providers. At a minimum, these procedures should require the ECPS to periodically review supporting documentation for EHS expenditure claims and cost allocations for compliance with contract terms. The contractor records should identify which children are served by the state EHS program and the eligibility files should be reviewed to ensure state EHS services are only provided to eligible children. The ECPS should also pay EHS claims only on a reimbursement basis. In addition, the DSS and the ECPS should consider pursuing the \$94,000 in overpayment to the KCMC and any other questioned costs in bankruptcy court.
- B. Obtain and review copies of all audit reports and findings for EHS providers and follow-up on any findings or conditions that could potentially impact the state's EHS program.
- C. Ensure EHS providers submit performance status reports for the state EHS grant that include all relevant information.

AUDITEE'S RESPONSE

- A. *We agree with this recommendation.*

Under this administration, beginning in July 2005, the Early Childhood and Prevention Services (ECPS) section of the Children's Division has implemented a new database to record monthly status reports and six month outcome reports from the Early Head Start (EHS) providers. This database will allow more effective trend analysis and reporting beginning with the FY2006 data. The ECPS has a newly developed on-site monitoring tool that will be used on each EHS grantee that outlines the requirements from the contract line by line beginning in FY2007 monitoring FY2006 compliance. The tool includes a section defining what documentation is acceptable proof that the requirement is being met by the contractor. Additionally, the ECPS will seek the assistance of the Division of Budget and Finance (DBF) to develop an additional monitoring tool that can be used to review expenditure claims and cost allocations.

ECPS will plan to modify future agreements to be reimbursement based where practicable. In some cases upfront funding is desirable because smaller agencies do not have the capital in reserve to enable them to meet payrolls or other operating expenses. ECPS will continue to rely on upfront grants if that promotes the most effective means of financing program operations. ECPS will institute stronger monitoring and controls to ensure the use of grant funds (reimbursement or upfront) are properly reconciled and accounted for.

In regards to seeking repayment of the \$94,000 and other questioned costs through bankruptcy court, DSS will submit information to the Attorney General's office (AGO) that handles DSS bankruptcy cases, to the extent that the auditor's work papers can and do establish overpayments and the amounts and reasons for the overpayments, and ask that the AGO evaluate information for the potential filing as a claim in bankruptcy court.

B. We agree with this recommendation.

Since August 2005, the ECPS has been tracking the receipt of all contractually required audit reports within a newly developed database. The ECPS will work with DBF to develop stronger protocols to identify, investigate, and address findings that potentially impact EHS programs.

C. We agree with this recommendation.

Currently, ECPS receives two different reports from EHS providers: monthly status reports and biannual outcomes reports.

The monthly status report shows data for state funded EHS separately from federally funded EHS while giving the overall picture of program operation.

The outcomes report was developed by a workgroup in conjunction with the DHHS, Administration for Children and Families to be able to report outcomes on all the children in the program regardless of whether they are state or federally funded as outcomes are the same for both. The Missouri funded EHS program is required to meet all the federally required performance standards. Beginning July 2006 (FY07), the outcomes report will be split into two separate reports one state and one federal.

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

DEPARTMENT OF SOCIAL SERVICES
CHILDREN'S DIVISION
EARLY CHILDHOOD AND PREVENTION SERVICES
EARLY HEAD START CONTRACT WITH
KCMC CHILD DEVELOPMENT CORPORATION
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

The Department of Social Service's (DSS) Division of Family Services (DFS) was established in 1974. Pursuant to Governor's Executive Order 03-03, issued in February 2003, the duties of the DFS relating to child welfare, child protection, child care assistance, and early childhood were transferred to the newly created Children's Division (CD). The Early Childhood and Prevention Services Unit, within the CD, administers several child welfare programs including Early Head Start and Child Care Assistance. Denise Cross was the Director of the DFS, and Frederic Simmens was appointed the first Children's Division Director in August 2003. He served in that capacity until October 2005, and was replaced by Paula Neese, as Interim Director, who continues in that position.

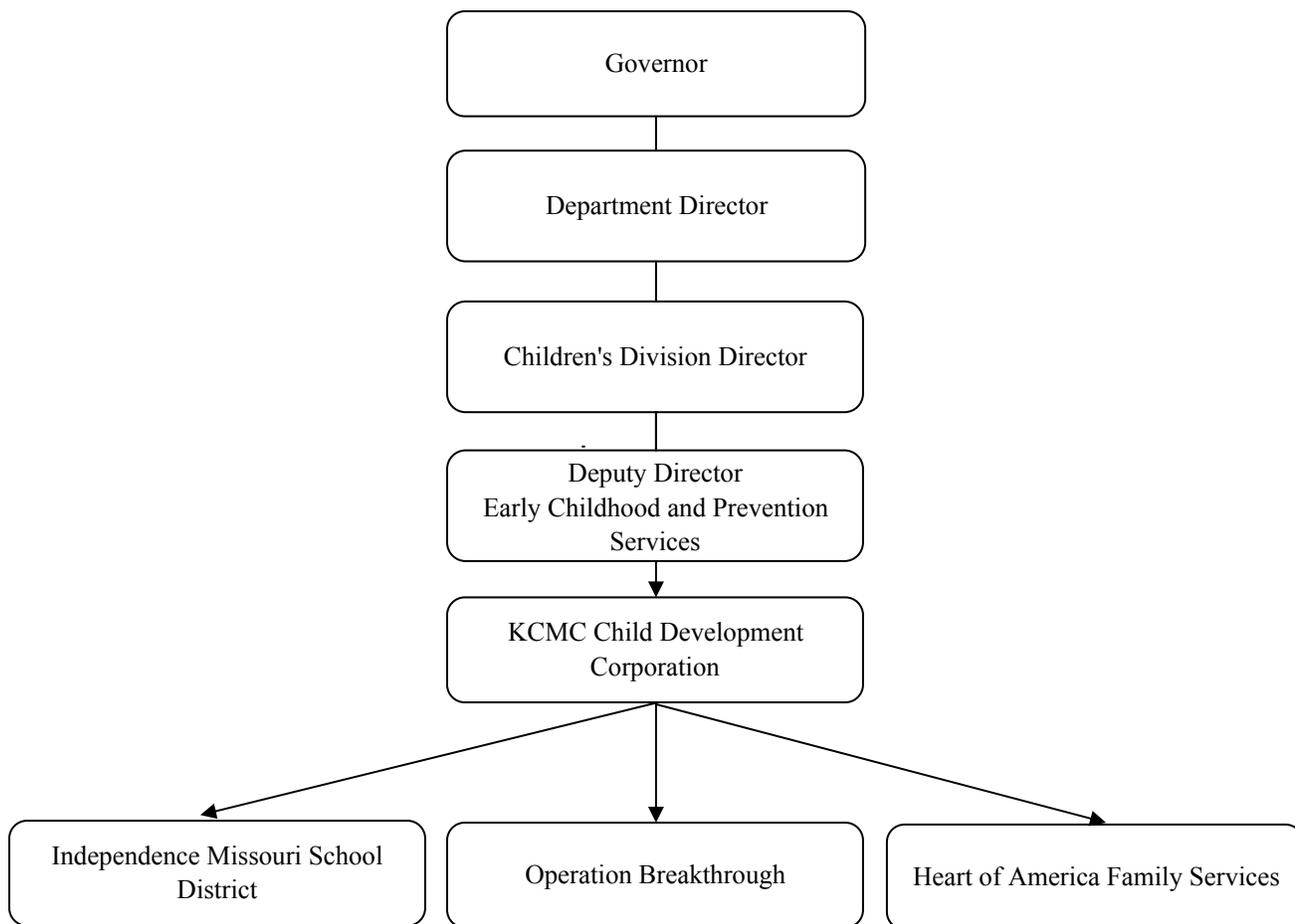
The Early Head Start program funds early education and care for children ages birth to three years whose families' incomes are under 100 percent of the federal poverty level. Services include child care, parent education, in-home visitation, and other support services. The program is 100 percent state-funded, with most of the funding coming from gaming proceeds deposited in the Early Childhood Development Education and Care Fund, as required by Section 313.835.1(3)(f), RSMo.

The Child Care Assistance subsidy is available to children with family incomes under 112 percent of the federal poverty level, as well as foster children and adopted children. Parents must be in school or working to qualify. The goal of the program is to support child care services that promote healthy child development and family self-sufficiency. The program is funded by both federal and state funds.

The Child and Adult Care Food Program, administered by the Department of Health and Senior Services, reimburses child and adult facilities for nutritious meals served to children age 12 and under enrolled in child care, migrant children 15 years and under, children age 18 and under with physical and mental disabilities, adults age 18 and above who are functionally impaired, and adults age 60 and above enrolled in adult day care. The program also reimburses for meals served to school-age children in after-school enrichment programs in high risk, low-income areas and for meals served to children age 18 and under who are residing in emergency shelters. The program is 100 percent federally funded .

The flow of Early Head Start funds to KCMC follows:

DEPARTMENT OF SOCIAL SERVICES
CHILDREN'S DIVISION
EARLY CHILDHOOD AND PREVENTION SERVICES
FLOW OF EARLY HEAD START FUNDS TO KCMC



Appendix A

KCMC CHILD DEVELOPMENT CORPORATION
 COMPARATIVE STATEMENT OF EARLY HEAD START REVENUES (BY STATE FUND)

| | Period July 1, 2004 to December 17, 2004 | Year Ended June 30, | | |
|--|---|---------------------|-----------|-----------|
| | | 2004 | 2003 | 2002 |
| General Revenue Fund | \$ 0 | 88,654 | 0 | 0 |
| Department of Social Services - Federal and Other Fund | 0 | 259,282 | 0 | 0 |
| Healthy Families Trust - Early Child Care Account Fund | 0 | 0 | 328,116 | 345,000 |
| Early Childhood Development, Education and Care Fund | 695,871 | 1,043,806 | 1,136,876 | 1,425,066 |
| Total State Early Head Start Revenues | \$ 695,871 | 1,391,742 | 1,464,992 | 1,770,066 |

Appendix B

KCMC CHILD DEVELOPMENT CORPORATION
 COMPARATIVE STATEMENT OF EARLY HEAD START EXPENDITURE CLAIMS

| | Period July 1, 2004 to December 17, 2004 | Year Ended June, 30, | | |
|---|---|----------------------|------------------|------------------|
| | | 2004 | 2003 | 2002 |
| Personnel costs | \$ 45,007 | 118,420 | 144,772 | 186,843 |
| Travel | 0 | 0 | 0 | 85 |
| Supplies | 0 | 0 | 0 | 2,097 |
| Equipment | 0 | 0 | 0 | 2,635 |
| Payments to partner agencies and family child care providers | 626,707 | 1,192,858 | 1,226,471 | 1,524,964 |
| Indirect costs | 24,157 | 80,464 | 93,749 | 53,442 |
| Total Early Head Start expenditures claims \$ | <u>695,871</u> | <u>1,391,742</u> | <u>1,464,992</u> | <u>1,770,066</u> |

Appendix C

KCMC CHILD DEVELOPMENT CORPORATION
COMPARATIVE STATEMENT OF STATE REVENUES

| | Period July 1, 2004 to December 17, 2004 | Year Ended June 30, | | |
|--|---|-------------------------|-------------------------|-------------------------|
| | | 2004 | 2003 | 2002 |
| Department of Health and Senior Services: | | | | |
| Child and Adult Care Food Program | \$ 969,765 | 1,656,388 | 1,643,164 | 1,577,007 |
| Total Department of Health and Senior Services | <u>969,765</u> | <u>1,656,388</u> | <u>1,643,164</u> | <u>1,577,007</u> |
| Department of Social Services: | | | | |
| Early Head Start | 695,871 | 1,391,742 | 1,464,992 | 1,770,066 |
| Child Care Assistance | 565,048 | 1,103,277 | 929,465 | 806,469 |
| Total Department of Social Services | <u>1,260,919</u> | <u>2,495,019</u> | <u>2,394,457</u> | <u>2,576,535</u> |
| Total State Revenues | \$ <u><u>2,230,684</u></u> | <u><u>4,151,407</u></u> | <u><u>4,037,621</u></u> | <u><u>4,153,542</u></u> |