



MAR 07 2017

CERTIFIED MAIL-RETURN RECEIPT REQUESTED

Teaching and Mentoring Communities
c/o Mr. Cesar Sotelo, Chief Executive Officer
5215 McPherson Road
Laredo, TX 78041

Re: Notice of Proposed Debarment of Teaching and Mentoring Communities

Dear Mr. Sotelo:

This is to notify you that, on behalf of the U.S. Department of Health and Human Services (HHS), I have proposed Teaching and Mentoring Communities for debarment from participating in federal procurement and nonprocurement programs. This action is initiated pursuant to 2 C.F.R. Part 180. HHS adopted and gave regulatory effect to 2 C.F.R. Part 180 at 2 C.F.R. Subpart 376.10. Copies of the referenced regulations are enclosed for your information. Also enclosed is a copy of an Action Referral Memorandum (ARM) dated March 7, 2017, which sets forth the basis for the proposed debarment. The information in the ARM indicates that you lack the present responsibility to participate in federal procurement and nonprocurement programs.

I base this proposed debarment on information from: 1) a May 12, 2015, HHS, Departmental Appeals Board Decision; and, 2) a December 2015, HHS OIG Audit Report, A-06-14-00036.

If you wish to contest this action, you or a representative acting on your behalf must either send or make arrangements to appear and present information and argument to the debarring official within 30 days after you receive this Notice of Proposed Debarment. See 2 C.F.R. § 180.820 (addressing when a Notice is considered to be received). Any response contesting this proposed debarment action may include any information and argument in opposition to the debarment that you would like to be considered by the Suspension and Debarment Official (SDO) and should provide information responsive to 2 C.F.R. §§ 180.825(a)(1) - (4). Additional information about contesting the proposed debarment is available at 2 C.F.R. Part 180, Subparts H, generally, and specifically, 2 C.F.R. § 180.815, *et seq.*

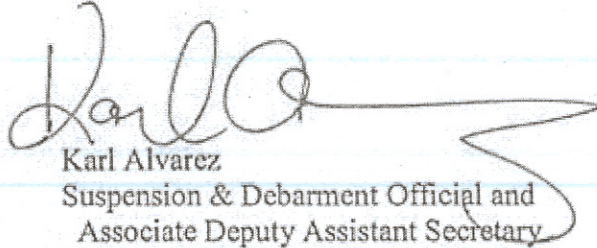
Any response to this Notice should also include specific information that may raise a genuine dispute over facts material to the proposed debarment. A general denial is insufficient to raise a genuine dispute over facts material to the proposed debarment. If it is found that the information or argument submitted raises a genuine dispute over such material facts, fact-finding may be conducted to resolve the disputed facts. However, please note, actions based on conviction or civil judgment are not subject to dispute in this proceeding.

violation of federal cost principles. These costs included \$146,472 in charges in excess of actual costs, \$159,151 in contract services, and \$505,949 in salaries that were unrelated to the risk management fund. The DAB noted this decision does not preclude TMC from proposing to ACF a reallocation of those costs.

4. In an HHS, OIG Audit Report, A-606-14-00036 published December 22, 2015, the OIG upheld that TMC eventually overcharged Head Start grants by \$634,958 for health insurance cost for FYs 2013 and 2014. TMC increased the cost of health insurance premiums by multiplying the actual cost of those premiums by a percentage based on the type of health plan the employees chose. TMC charged the Head Start grants and TMC's employees the inflated rates. The Chief Financial Officer then transferred the surplus health insurance funds generated by this scheme to the general fund and to other programs and used the funds to pay costs that would have been unallowable had they been charged directly to the Federal grants. The board of directors approved some of the transfers to the general fund.
5. TMC violated federal regulation when they overcharged Head Start awards by inflating the actual cost of various types of insurance, which resulted in a loss of \$634,958 in federal funds. TMC used the funds generated by this violation to compensate its Chief Executive Officer in violation of 42 U.S.C. § 9848(b)(1), a federal rule that prohibit grantees from using federal funds to pay any part of the compensation of an individual employed by Head Start, if the compensation exceeds the pay rate of a level II executive.
6. The HHS, OIG Audit Report, A-606-14-00036 stated that of the \$143 million claimed they limited their review to \$92 million of those costs. The OIG upheld found that of the \$92,004,855 in Head Start costs they reviewed, TMC claimed \$91,369,897 that was allowable under applicable federal rules and the terms of grants that it was awarded. The remaining \$634,958 was unallowable and consisted of \$616,898 in health insurance costs that TMC overcharged, \$15,750 in unsupported consulting costs; and, \$2,310 in membership costs that did not have approval. TMC did not have adequate controls over its financial management system, nor did they ensure that all costs were supported by adequate documentation.
7. The HHS, OIG Audit Report, A-606-14-00036 also stated that TMC concurred with the findings that pertained to the \$616,898 insurance overpayments, the \$15,750 unsupported contract payments and the \$2,310 unallowable membership costs, and detailed the steps it had taken to address the recommendations from the HHS, OIG Audit Report, A-606-14-00036. TMC acknowledged that it was not in compliance with federal regulations when it did not have an individual on the board of directors, and stated that there were mitigating factors related to the findings that the board of directors lacked oversight when it transferred \$275,000 from the health insurance fund to the general fund. The HHS, OIG Audit Report, A-6-6-14-00036 maintained its findings and recommendation are valid as written.

BASIS FOR THE PROPOSED DEBARMENT

Based on the information summarized above, the May 12, 2015, HHS, Departmental Appeals Board Decision that affirms the disallowance in its entirety of \$634,958 in Migrant Seasonal Head Start grants; and, a December 2015, HHS, Office of Inspector General (OIG), Teaching and Mentoring Communities Claimed Unallowable Head Start Costs Audit Report, A-06-14-00036, provides cause for the debarment of Teaching and Mentoring Communities pursuant to 2 C.F.R. § 180.800(a)(1).



Karl Alvarez
Suspension & Debarment Official and
Associate Deputy Assistant Secretary