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**Effectiveness of the Special Nutrition and Commodities  
Distribution Program Was Hindered by Lax Management  
and Inadequate Oversight by Other Agencies**

**September 22, 2004**

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## ***EXECUTIVE SUMMARY***

### **PURPOSE**

Pursuant to section 455 of Pub. L. No. 93-198,<sup>1</sup> and a request from Councilmember Phil Mendelson, Member, Committee on Education, Libraries and Recreation, Council of the District of Columbia, the District of Columbia Auditor (“Auditor”) examined certain activities and expenditures within the District of Columbia State Education Office (“SEO”).

### **CONCLUSION**

The Auditor’s examination of certain SEO expenditures and activities revealed significant management deficiencies and noncompliance with applicable policies, procedures, rules, and contract terms. Specifically, the Auditor focused on the Special Nutrition and Commodities Distribution program division (“SNAC”), funded by the United States Department of Agriculture (“USDA”).

The Auditor found that approximately \$160,000 of SNAC funds were used to pay the cost of two administrative support persons who performed duties unrelated to the SNAC program. Failure to utilize SNAC funds to pay legitimate costs to administer the SNAC program may have undermined the successful implementation and execution of the SNAC program, mission, duties and responsibilities.

Additionally, the SNAC program division experienced extensive turnover of personnel during the two and a half year audit period. Twenty-two individuals served in eight of 13 positions funded by the SNAC grant. Specifically, four individuals served as Director of the SNAC program division during the audit period. It appears that the high turnover in other SNAC positions was due to lack of consistent, experienced leadership and failure of upper management to follow the District’s personnel recruitment, screening and hiring procedures. According to the

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<sup>1</sup>See the District of Columbia Home Rule Act, as amended, Pub. L. No. 93-198, Section 455 (b), D.C. Code § 1-204.55 (b): “The District of Columbia Auditor shall each year conduct a thorough audit of the accounts and operations of the government of the District in accordance with such principles and procedures and under such rules and regulations as he [she] may prescribe.” *See also*, D.C. Code § 1-204-55 (c): “The Auditor shall have access to all books, accounts, records, reports, findings and all other things, or property belonging to or in use by any department, agency, or other instrumentality of the District government and necessary to facilitate the audit.

District Office of Personnel (DCOP) Personnel Manual (“DPM”), validation of potential employees’ qualifications, experience, and training in addition to the completion of other functions, such as performing reference checks and confirming budget authority for the position at the agency’s requested grade level, should occur *before* an individual is placed in a position. However, SEO placed potential individuals in vacant positions and paid them through a purchase order with the Choice temporary staffing agency *while waiting* for DCOP to validate their qualifications and perform other personnel functions. It appears that in some cases, individuals vacated positions due to the lengthy DCOP process, and in other cases because DCOP determined that some individuals did not qualify for the positions that they were filling at the grade level requested by SEO, in addition to other problems noted by DCOP. Newly vacated positions would be filled with other individuals, possibly again through the Choice contract, and the hiring process would start over.

Lack of a stable workforce and the lack of continuity in program leadership, development and execution had a negative impact upon the effective and efficient performance of the mission and responsibilities of the SNAC program.

Further, SEO cross-utilized individuals in the eight SNAC nutrition programs in order to achieve the most effective and economical operation; however, SEO management failed to establish a standard method to capture, allocate, and record individual’s time usage across the various nutrition programs. Consequently, SEO management could not consistently identify the individuals and the actual time they worked on a particular nutrition program and could not adequately justify the actual amount of personnel costs that were allocated to the various nutrition programs.

During the two and a half year audit period, SEO’s travel and travel-related expenses totaled approximately \$187,844. The Auditor found that reimbursements to SEO employees for at least \$20,212 of travel expenses were not made in compliance with travel policies and procedures. The most significant violation was employee reimbursements for \$17,327 in travel expenses that lacked original supporting receipts. The Office of the Chief Financial Officer’s (“OCFO”) Office of Finance and Resource Management (“OFRM”), the former State Education Officer, and other accountable SEO managers failed to ensure that SEO employees adhered to the travel policies and procedures. Without adequate supporting documentation, SEO upper management failed, and the Auditor was unable, to determine whether travel expenses were valid obligations of the District before they were disbursed. Reimbursements made in the absence of

adequate supporting documentation exposed SEO, and the District government, to a high risk of fraud, waste and abuse.

The Auditor also found that \$24,820 in prohibited travel and travel-related services were purchased with the District of Columbia purchase card. The District's Office of Contracting and Procurement ("OCP") issued a "Procurement and Policy Procedure Directive," effective June 1, 2002, that specifically prohibits the use of the purchase card to pay for travel and travel-related expenses. However, accountable managers within OFRM failed to adequately monitor and ensure that the agency's use of the purchase card adhered to applicable rules, policies and procedures.

Additionally, the Auditor found that \$27,399 in travel and travel-related costs were improperly charged to appropriated local funds and to the following programs: SNAC, Tuition Assistance Grant program ("TAG") and the Gaining Early Awareness and Readiness for Undergraduate Program ("GEAR-UP") program. The improper charges were due to the lack of effective executive supervision and management and a lack of effective internal controls to ensure proper justification, authorization, payment and recording of travel and travel-related expenses. Consequently, SEO funding sources were charged with inappropriate expenses and certain employees were able to manipulate the system to obtain reimbursements for questionable travel and travel-related expenses that appear to have been primarily of a personal or self-serving nature rather than the performance of official business of the District government.

The Auditor also found that during the two and a half year audit period, SEO and The Choice, Inc ("Choice"), a temporary staffing agency, failed to comply with the terms and conditions of the District's Blanket Purchase Agreement ("BPA") and contract with Choice. SEO paid over \$921,800 to Choice for the services of approximately 70 individuals during the audit period. These services were primarily from labor categories at hourly rates that were not authorized under the BPA or contract. SEO also misused the BPA and contract to acquire payroll processing services and circumvented the District's personnel rules for filling vacant positions. Instead of allowing DCOP to perform required procedures before hiring individuals, SEO placed potential employees in vacant positions and paid them through Choice while waiting for DCOP to complete required personnel screening and hiring procedures. Approximately \$150,000 of the \$921,800 was paid to Choice to cover the payroll processing costs and overhead costs, which were not authorized within the terms of the BPA or contract. Additionally, the Auditor estimates that SEO charged approximately \$161,200 of the \$921,800 to SEO programs and divisions in which the individuals did not work.

Finally, the Auditor found that Choice failed to include \$416,500 in services provided to SEO under the contract in quarterly sales reports filed with the District, and failed to remit \$4,165 in sales discounts to the District for the services provided under the contract. The District of Columbia Supply/Service Schedule Terms and Conditions require contractors to furnish a quarterly report, itemizing the dollar value of all sales made under the award and to remit, as a discount on sales, one percent of all sales transactions to the District on a quarterly basis.

### **MAJOR FINDINGS**

1. Ineffective leadership and poor management undermined the mission, purpose, and execution of SNAC responsibilities and program management.
2. SNAC personnel were not utilized consistent with their funding source.
3. SEO management failed to adequately justify the actual personnel costs charged to the SNAC Program.
4. SNAC Program was adversely affected by several factors.
5. SEO management and Choice executives violated the BPA and contract between the District of Columbia and Choice, Inc.
6. SEO failed to procure temporary personnel services in the labor categories stipulated by the BPA and DCSS contract.
7. SEO circumvented personnel hiring rules and paid over \$150,000 to Choice for payroll processing charges and overhead costs.
8. SEO improperly charged contract personnel services costs to programs in which individuals did not work.
9. Choice failed to include \$416,500 in services provided to SEO under the contract in quarterly sales reports filed with the District.
10. Choice failed to remit \$4,165 in sales discounts to the District for services provided to SEO under the contract.

11. A significant amount of SEO travel and travel-related costs was improperly charged to the District.
12. \$20,212 in reimbursements for employee travel expenses was not in compliance with District travel policies and procedures.
13. \$24,820 in prohibited travel and travel-related services was purchased with the District of Columbia purchase card in direct violation of District procedures and directives.
14. \$27,399 in travel and travel-related costs was improperly charged to local funds and to the SNAC, TAG and GEAR UP Programs.

### **MAJOR RECOMMENDATIONS**

1. SEO management immediately take appropriate action to reclassify the personnel costs of the Administrative Assistant and Staff Assistant from the SNAC program to other appropriate funding sources within the SEO.
2. The State Education Officer take action to ensure that, in the future, personnel costs for employees who actually perform work on behalf of the SNAC program are the only personnel costs actually charged to the SNAC program.
3. The State Education Officer take immediate action to use the TAMIS cost allocation system or another appropriate cost allocation system to ensure that personnel costs are properly allocated and charged to SNAC programs and other programs within the SEO's authority. Also, a cost allocation system would be a valuable tool to effectively manage staff time usage among the various programs.
4. The State Education Officer ensure that the SNAC program has continuous effective leadership, appropriate resources, such as sufficient staff and appropriate training, necessary for efficient, well-run SNAC program operation.
5. The State Education Officer take immediate action to ensure that SEO hiring practices are in compliance with applicable District personnel policies and procedures.

6. The State Education Officer immediately implement procedures to ensure that Choice invoices are adequately reviewed, approved, and charged to the budget of the proper program or division.
7. The State Education Officer immediately take steps necessary to ensure that, in the future, the contract with Choice is only used to request temporary staff as consistent with the terms of the contract.
8. The DCSS Contracting Officer must immediately institute effective procedures to ensure that District agencies are purchasing goods and services in accordance with contract provisions.
9. The DCSS Contracting Officer must investigate Choice's violation of the BPA and the contract terms and determine whether violations warrant further investigation.
10. The DCSS Contracting Officer must further investigate Choice's failure to accurately report all SEO sales transactions and take the appropriate steps to collect the applicable sales discounts.
11. The DCSS Contracting Officer must develop an effective system to monitor all DCSS contract quarterly sales reports to ensure that the District receives the accurate amount of sales discounts.
12. The State Education Officer must immediately develop and institute effective procedures to monitor the agency's compliance with travel and procurement policies and procedures.
13. The OFRM CFO must ensure that a properly authorized "Request and Authorization for Official Travel" form is provided for all SEO travel, and that SEO employees timely submit travel expense reports with proper supporting documentation before processing travel expense reimbursements. Additionally, the OFRM CFO must ensure that all other travel policies and procedures are adhered to before making travel expense reimbursements.
14. The State Education Officer must take steps to immediately cease the practice of paying travel and travel-related expenses with the District of Columbia purchase card and implement procedures to prevent future purchases of prohibited items with the purchase card.

15. The State Education Officer must develop and implement adequate and effective internal controls to ensure that all expenses are properly justified, authorized, and accurately recorded in SOAR. Additionally, the improperly charged expenses noted in this report should be corrected immediately
  
16. The improper travel and travel-related expenses identified by the Auditor in this report should be investigated by the District's Office of the Inspector General and where appropriate the State Education Officer must take appropriate steps to recover payments made for improper travel and travel-related expenses from the responsible party.

## **PURPOSE**

Pursuant to section 455 of Pub. L. No. 93-198,<sup>2</sup> and a request from Councilmember Phil Mendelson, Member, Committee on Education, Libraries and Recreation, Council of the District of Columbia, the District of Columbia Auditor (“Auditor”) examined certain activities and expenditures within the District of Columbia State Education Office (“SEO”).

## **OBJECTIVES, SCOPE AND METHODOLOGY**

The objective of this review focused on activities in one division and two programs within SEO--the Special Nutrition and Commodity Distribution Programs (“SNAC”) division, TAG, and GEAR UP programs. The objectives of the review were to determine:

1. whether SNAC personnel were being utilized consistent with their funding source;
2. whether the mission of SNAC is being carried out effectively with regard to personnel and position structure;
3. whether SNAC’s employee turnover is reasonable;
4. why there were vacancies on a regular and ongoing basis within SNAC;
5. whether SEO travel expenditures charged to the TAG program were appropriate;
6. whether local travel expenditures and GEAR UP travel expenditures were appropriate;
7. whether SEO management complied with the terms and conditions of the District’s temporary staffing contract awarded to The Choice, a temporary staffing contractor; and
8. whether SEO management’s conduct was consistent with the terms of the Choice contract as negotiated by the OCP.

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<sup>2</sup>See the District of Columbia Home Rule Act, as amended, Pub. L. No. 93-198, Section 455 (b), D.C. Code § 1-204.55 (b): “The District of Columbia Auditor shall each year conduct a thorough audit of the accounts and operations of the government of the District in accordance with such principles and procedures and under such rules and regulations as he [she] may prescribe.” *See also*, D.C. Code § 1-204-55 (c): “The Auditor shall have access to all books, accounts, records, reports, findings and all other things, or property belonging to or in use by any department, agency, or other instrumentality of the District government and necessary to facilitate the audit.

The review included an examination of the SEO's operations for fiscal years 2002, 2003 and 2004, as of May 5, 2004.

In conducting the review, the Auditor examined the policies and procedures that govern the SEO's operation, and other applicable laws and regulations applicable to its activities. The Auditor also reviewed findings and recommendations contained in the following four Fiscal Year 2003 Management Evaluation Reports issued by the USDA regarding the SNAC program: Food Distribution Programs Review; Summer Food Service Program Review; Child and Adult Care Food Program Review, and Financial Management Review.<sup>3</sup>

Furthermore, the Auditor examined documents and records obtained from the SEO, and interviewed officials responsible for managing the SEO's programs. Where necessary, officials of other offices of the Government of the District of Columbia (the "District") were interviewed to facilitate a thorough examination of the SEO.

## **BACKGROUND**

The SEO was created by the State Education Office Establishment Act of 2000 (the "Act"),<sup>4</sup> to perform specific state-level education functions that affect the education of all students who are residents of the District of Columbia in grades Pre-Kindergarten through 12. The SEO was created to absorb state-level functions unrelated to the primary mission of the District of Columbia Public Schools ("DCPS"), thus allowing DCPS to better direct resources and focus on improving its schools.

One of the initial tasks of the SEO was to prepare and submit a short-term plan for the assumption of the following five mandatory responsibilities<sup>5</sup> by February 15, 2001:

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<sup>3</sup>See United States Department of Agriculture, Financial Management Reports, *District of Columbia Child Nutrition Programs*, August 1, 2003, transmitted to SEO on August 21, 2003; *Management Evaluation of the District of Columbia's Food Distribution Program, School Year 2003*, transmitted to SEO on March 25, 2004; *School Nutrition Programs, District of Columbia Summer Food Service Program, Special Nutrition & Commodities, State Education Office, Fiscal Year 2003*, transmitted to SEO on December 30, 2003; and *Child and Adult Care Food Program, District of Columbia, Fiscal Year 2003*, transmitted to SEO on September 24, 2004.

<sup>4</sup>See the State Education Office Establishment Act of 2000, effective October 21, 2000, D.C. Law 13-176, D.C. Official Code, § 38-2601 *et seq.*

<sup>5</sup>See section 3 (b) of the Act, D.C. Code § 38-2602 (b) (1)– (5).

1. Have authority for all state functions for federally sponsored child nutrition programs in the District, including those sponsored by the USDA;
2. Verify annual fall enrollment counts for all public and public charter school pursuant to section 2402 of the District of Columbia School Reform Act of 1995 and section 702 of the Public School Enrollment Census Act of 1998 (§ 38-1804.02 and § 38-159);
3. Formulate and promulgate rules for the documentation and verification of District residency for public and public charter schools students pursuant to sections 2 and 3 of the District of Columbia Nonresident Tuition Act of 2000 (§§ 38-302 and 38-303);
4. Make recommendations to the Mayor and Council for periodic revisions to the Uniform Per Student Funding Formula pursuant to section 112 of the Uniform Per Student Funding Formula for Public Schools and Public Charter Schools Act of 2000 (§ 38-2911), and provide information and data related to such revisions including the study of actual costs of education in the District of Columbia, consideration and performance incentives created by the formula in practice, research in education and education finance, and public comment; and
5. Conduct a study to be submitted to the Mayor and Council recommending additional functions to be assumed by SEO and a proposed transition plan meeting the specifications of section 6 of the Act (§ 38-2605).

In addition to the five mandatory functions, section 3 (b) of the Act was amended by section 302 (c) of the “Fiscal Year 2004 Budget Support Act of 2003, eff. November 13, 2003, D.C. Law 15-39, which transferred all positions, personnel, property, records and unexpended balances of appropriations, powers, duties and functions of the Educational Licensure Commission of the D.C. Department of Consumer and Affairs to the SEO.<sup>6</sup>

In addition to the initial mandated responsibilities, the SEO was required to identify and evaluate 10 additional key state-level responsibilities by July 1, 2001. These additional responsibilities, if approved, are intended to improve efficiencies in the performance of state

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<sup>6</sup>Section 3 (b) states that SEO has oversight over “the functions and activities of the Educational Licensure Commission, established by section 3 of the Education Licensure Commission Act of 1976, effective April 6, 1977, D.C. Law 1-104; D.C. Code § 38-1303.”

education functions in the District. Section 3 (b) (5) of the Act, D.C. Code § 38-2602 (b) (5), directed the submission of a study recommending additional functions to be assumed by the SEO through an approved transition plan. In compliance with section 6 of the Act, the SEO submitted a transition plan to the Mayor and the Council on June 29, 2001, entitled “*Establishing a State Education Office in the District of Columbia, A Study, Recommendations and Transition Plans for Assuming Additional Responsibilities.*” Upon approval or disapproval of the recommendations, responsive legislation may be enacted.<sup>7</sup>

During SEO’s first year of existence, its responsibilities were expanded to include management of several post-secondary operational programs and the TAG program.<sup>8</sup> In addition, the SEO also has responsibility for the following programs: Grants to Incarcerated Youth; Leveraging Educational Assistance Partnership (“LEAP”); Teacher Professional Development, and Tuition Assistance Program Initiative for TANF (“TAPIT”).<sup>9</sup>

### **Special Nutrition and Commodity Distribution Programs Division**

In compliance with the legislative mandate “to have authority for all state functions for federally sponsored child nutrition programs in the District, including those sponsored by the United States Department of Agriculture,” the SEO’s SNAC programs division manages and administers eight USDA funded nutrition programs, collectively referred to as the SNAC program. According to the SEO’s Fiscal Year 2003 Annual Report, the SNAC division is responsible for maximizing the use of USDA funds to meet the nutrition needs of District children and their families. It is the vehicle that enables public, non-profit, and private entities to apply for and receive USDA funds to implement nutrition programs in the District. The division maintains agreements with participating entities, and processes the entities’ claims for reimbursement of the costs of providing food services under the program. The division also monitors program compliance and provides program information and technical assistance to program participants.

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<sup>7</sup>Councilmember Kevin Chavous introduced Bill No. 15-521 on October 21, 2003, entitled the “State Education Office Amendment Act of 2003.” The bill would amend the Act by recommending additional state-level responsibilities to the SEO. The bill is currently pending markup.

<sup>8</sup>Section 402 (a) and (b) of the “Fiscal Year 2002 Budget Support Act of 2001, D.C. Law 14-128, effective October 3, 2001, transferred the functions, and all positions, personnel, property, records, and unexpended funds of the Office of Postsecondary Education, Research and Assistance from the Department of Human Services and District of Columbia Tuition Assistance Program to the State Education Office. The Mayor approved integration of TAG and the functions currently performed by the Office of Postsecondary Education, Research, and Assistance on June 29, 2001.

<sup>9</sup>SEO is organized into six divisions offering five different services: the SNAC distribution programs division; the Higher Education Financial Services Division; the PRA Division; the Constituent Services Division; and the Operational Services Division.

According to the “Federal State Agreement for Fiscal Year 2004,”<sup>10</sup> between the SEO and USDA, the eight nutrition programs managed by the SNAC are:

- **National School Lunch Program**-which provides reimbursement to entities for the cost of nutritious lunches served to any child attending a public or private non-profit school or residential child care institution; and for snacks served to children in certain after school programs;
- **School Breakfast Program**-which provides reimbursement to entities for the cost of nutritious breakfasts served to any child attending a public or private non-profit school or residential child care institution;
- **Special Milk Program for Children**-wherein entities are reimbursed for the cost of serving milk to children in schools and child care institutions that do not participate in other federal child nutrition meal service programs.
- **Child and Adult Care Food Program**-which reimburses entities for the cost of serving healthy meals and snacks to children receiving day care in centers and homes or in homeless shelters; to school children in after school programs; and to adults in various centers.
- **Summer Food Service Program**-provides reimbursement to entities for the cost of free, nutritious meals served at various sites to low-income children during the summer when the normal school year is not in session.
- **Nutrition Education and Training Program**-provides nutritional training of educational and foodservice personnel, foodservice management training of school foodservice personnel, and nutrition education activities in schools and child care institutions;

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<sup>10</sup>See “Federal State Agreement for the 2004 Fiscal Year,” effective October 1, 2003, signed by C. Vanessa Spinner, SEO and Christopher J. Martin, Regional Administrator, Mid-Atlantic Region, USDA.

- **Food Distribution Programs**-wherein commodities are provided to schools and institutions participating in the National School Lunch Program. Additionally, The Emergency Food Assistance Program (“TEFAP”) is a food distribution program in which surplus agricultural commodities are provided to charitable institutions, soup kitchens, school food authorities, and food banks serving needy persons; and
- **Commodity Processing Program**-provides an opportunity for private entities to process and distribute designated donated foods to eligible recipient agencies, enabling these agencies to purchase processed end products at substantially reduced prices.

## FINDINGS

### INEFFECTIVE LEADERSHIP AND POOR MANAGEMENT UNDERMINED THE MISSION, PURPOSE, AND EXECUTION OF SNAC RESPONSIBILITIES AND PROGRAM MANAGEMENT

The Auditor's review of SEO revealed that ineffective management and supervision hindered the overall success of the SNAC program. The deficiencies revealed by the Auditor's examination and their impact upon the operations, finances, and integrity of the SNAC program are discussed in detail below.

#### SNAC Personnel Were Not Utilized Consistent with Their Funding Source

USDA provides funding annually to SEO to pay the costs of administering the SNAC program in accordance with federal regulations. USDA provided \$390,875 in 2002; \$409,875 in 2003; and \$414,104 in 2004 to fund SEO's SNAC program administrative costs. According to the SEO's approved State Administrative Expense ("SAE") Plans<sup>11</sup> for the SNAC program, the administrative costs funded by USDA included personnel costs for 13 full-time equivalent ("FTE") staff years in fiscal years 2002, 2003 and 2004. This staffing component did not include temporary Summer Food Service Program positions. The Auditor found that two of the 13 FTE's were administrative support positions--an administrative assistant and staff assistant position-- filled by individuals who performed duties unrelated to the SNAC program.

The Auditor examined position descriptions for the 13 FTE's whose cost were charged to the SNAC program. The Auditor also held discussions with some of the individuals currently occupying the positions, the Director of the SNAC program, and other managers within the SEO. The Auditor found that the Administrative Assistant and the Staff Assistant were performing administrative support functions for all divisions and programs within the SEO, rather than exclusively for the SNAC program.

The Administrative Assistant served as a customer service representative for the SEO. This individual received visitors at the front desk, answered questions and concerns of visitors and telephone inquirers. The Administrative Assistant also handled other administrative functions to support the operation of all programs under the SEO's authority.

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<sup>11</sup>SAE's are narratives and schedules submitted by SEO to USDA.

The Staff Assistant primarily performed duties relative to human resource issues for the entire agency, such as processing employees' personnel actions and time sheets, maintaining an employee database, and handling administrative support staff work requests. Additionally, this employee drafted correspondence, copied correspondence, claim forms and reports, and performed other administrative duties required by all SEO programs.

The cumulative cost of these two positions to the SNAC program was approximately \$160,000 for fiscal years 2002 through 2004, as of May 5, 2004. Proper use of these funds to pay for staff to administer activities exclusively for the SNAC program could have improved the overall administration and management of the SNAC program and prevented some of the problems noted in USDA Management Evaluation reports. For instance, one report from the USDA's 2003 Management Evaluation of the Child and Adult Care Food Program ("CACFP") concluded that the underlying cause for the failure of the SEO to meet its regulatory responsibilities pertaining to the administration of CACFP was insufficient staffing. The report included 10 findings that could be corrected through increased staffing levels, and recommended that SEO add at least two full-time CACFP dedicated positions. One of the two positions recommended was an Administrative Assistant, that would handle much of the semi-clerical functions now performed by the Senior Program Specialist and the Program Specialist, freeing these staff to concentrate on administrative functions and technical assistance efforts that are not now being performed. The other position, a Field Reviewer, would conduct administrative reviews of CACFP institutions and facilities in the District, and provide on-site training and technical assistance to both participating and potential participants. As noted earlier in this section, SEO management misused this position and the Staff Assistant position, which were SNAC funded positions, to perform administrative duties for all SEO programs and divisions.

Failure to utilize SNAC funds to pay costs exclusively related to the administration of the SNAC program may have undermined the successful implementation and execution of SNAC program mission, duties, and responsibilities and may have jeopardized the amount of federal funding received by the District for administering the SNAC program in the future.

## **RECOMMENDATIONS**

1. SEO management immediately take appropriate action to reclassify the personnel costs of the Administrative Assistant and Staff Assistant from the SNAC program to other appropriate funding sources within the SEO.

2. The State Education Officer take action to ensure that, in the future, personnel costs for employees who actually perform work on behalf of the SNAC program are the only personnel costs actually charged to SNAC program funding.

### **SEO Management Failed to Adequately Justify the Actual Personnel Costs Charged to the SNAC Program**

As discussed in the Background Section of this report, eight USDA nutrition programs are collectively referred to as the SNAC program. In accordance with Title 7 of the Code of Federal Regulations, Chapter II, Food and Nutrition Service, Part 235.6 (a-1), individuals were cross-utilized in the eight programs in order to achieve the most effective and economical operation. However, SEO management failed to establish an acceptable standard method to capture, allocate, and record individuals' time usage across the various nutrition programs. Consequently, SEO management could not consistently identify the individuals and the amount of time they worked on a particular nutrition program and could not adequately justify the actual amount of personnel costs that were charged to the various nutrition programs.

The SAE Plans for fiscal years 2002, 2003 and 2004, included staffing charts for 13 SNAC positions. In the staffing charts, SEO management provided estimated percentages of time that each position would devote to a specific SNAC program activity. The estimated percentages were used in developing the SNAC program's personnel budgets.

During the audit period, actual personnel costs for the 13 SNAC positions were processed in the District's payroll system for employees and in the District's financial management system for temporary contract personnel paid through purchase orders with the Choice temporary staffing contractor. Although employees or temporary contract personnel may have worked on more than one nutrition program in any given pay period, the personnel costs were charged to only one program due to limitations in the District's personnel and financial management systems.

According to officials in the OCFO OFRM , adjusting entries were made to allocate personnel costs for SNAC employees and temporary contract personnel to various nutrition programs. The allocation of actual personnel costs was primarily based on the estimated, not actual, allocation percentages in the SAE plans and other historical information, which is not an allowable allocation method according to USDA's 2003 Financial Management Review. The methodology used by SEO management did not provide an adequate basis for determining the actual amount of time that individuals worked on a particular nutrition program.

The Auditor was informed that SEO management installed a cost allocation system Time Allocation Management Information System (“TAMIS”)--in fiscal year 2004. However, according to SEO and OFRM officials, TAMIS has not been used to allocate personnel costs to the various nutrition programs within the District’s financial management system as of the date of this audit report. Thus, at the time of our field work SEO management had failed to adequately resolve the issue of accurate cost allocation to the various nutrition programs.

**RECOMMENDATION**

The State Education Officer take immediate action to use the TAMIS cost allocation system or another appropriate cost allocation system to ensure that actual personnel costs are properly allocated and charged to appropriate SNAC programs and other programs within the SEO’s authority. Also, a cost allocation system would be a valuable tool to effectively manage staff time usage among the various programs.

**SNAC Program Was Adversely Affected by Several Factors Including Frequent Turnover, Lack of Management Continuity, and Lack of Effective, Consistent Leadership**

The rate of turnover in certain positions fostered a lack of continuity in the development, implementation, and execution of SNAC program’s mission, duties and responsibilities. The SNAC program division experienced extensive turnover of personnel during fiscal years 2002, 2003 and 2004, as of May 5, 2004.<sup>12</sup> This turnover destabilized the management of the division and disrupted the ability of the division to perform functions vital to a successful SNAC program. It appears that the high turnover was due to lack of consistent, experienced leadership and failure of upper management to comply with the District’s personnel policies, procedures, and rules.

As previously stated, during the audit period, the SNAC program was administered by individuals in 13 positions. The Auditor found that there was significant turnover in eight of the 13 positions.<sup>13</sup> In fact, 22 individuals served in the eight positions at various times during the approximately two and a half year audit period. For example, the Director’s position was one of the positions with significant turnover. Four individuals served as Director of the division during the audit period. The first Director was hired on July 2, 2000 and was terminated in April 2002. The position was occupied for five months by an Acting Director until September 2002. The

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<sup>12</sup>The positions were: Director of SNAC, Grant Budget Analyst, Financial Clerk, two Program Specialist positions, Program Monitor, Claims Processor, and Administrative Support

<sup>13</sup>*Id.*

next Director, hired on September 23, 2002, occupied the position for approximately two months and resigned in December 2002. An individual paid through the Choice temporary staffing contract served as Acting Director from December 2002 to April 2003, and on April 6, 2003, the individual was hired as Director of the SNAC program. This individual, the longest serving director of the division, continued to serve as Director as of the date of this report.

Lack of management continuity and consistent, effective leadership affected the efficiency and effectiveness of the SNAC program in fiscal year 2002 and the first quarter of fiscal year 2003. As a consequence, there was difficulty in staffing, maintaining and expanding the program's operations. In fact, it appears that there was a decline in services provided by the Summer Food Service Program ("SFSP") in Fiscal Year 2002. For example, a report issued by the D.C. Hunger Solution entitled, "*Picking Up the Pieces: What Went Wrong in the District of Columbia's Summer Food Service Program in 2002, and How to Rebuild in 2003*,"<sup>14</sup> states that in Fiscal Year 2002, "only 14,848 low-income children of the 42,210 children receiving free or reduced price lunch during the school year received the nutritional, educational and social benefits of the SFSP compared to 24,890 children" in Fiscal Year 2001. According to the Report of SFSP for Children submitted by SEO to USDA, 974,782 meals and 31,912 children were served in Fiscal Year 2003.

Lack of consistent leadership also affected personnel, supervision, development, guidance and direction, which was a significant factor causing an increase in personnel turnover. It appears that the turnover of personnel was also attributed to an attempt to fill vacant positions, sometimes with unqualified or inexperienced individuals, by circumventing the District's personnel hiring procedures. According to DCOP rules and procedures, validation of potential employees' qualifications and performance of other functions, such as performing reference checks, and confirming budget authority for the position at the agency's desired grade level, should occur *before* an individual is placed in a position.<sup>15</sup> However, SEO placed potential employees in vacant positions and paid them through a purchase order with the Choice temporary staffing *while waiting* for DCOP to validate their qualifications and perform other personnel functions. It appears that in some cases, individuals vacated positions due to the lengthy DCOP process, and in other cases because DCOP determined that some individuals did not qualify for the positions that they were filling at the grade level desired by SEO, in addition to other problems noted by DCOP. Newly vacated positions would be filled with other individuals,

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<sup>14</sup>See D.C. Hunger Solution, "*Picking Up the Pieces: What Went Wrong in the District of Columbia's Summer Food Service Program in 2002, and How to Rebuild in 2003*." See n.2.

<sup>15</sup>See generally DPM Chapter 8, Part I and Part II, Subparts 2 and 6.

possibly again through the Choice contract, and the hiring process would start over. Lack of a stable workforce and the lack of continuity in program leadership, development and execution adversely affected the effective and efficient performance of the mission and responsibilities of the SNAC program.

In fiscal year 2003, two individuals served in a Program Monitor position. SNAC had one Program Monitor position. According to the position description, this individual primarily: 1) reviews and oversees the performance of food service operations in those public and private schools and institutions that participate in the National School Lunch Program, National School Breakfast Program, Special Milk Program, CACFP, and SFSP; and 2) determines appropriate program regulations from established guides when conducting institutional reviews. This requires the incumbent, at a minimum, to be thoroughly familiar with applicable USDA regulations and policies, in addition to other guidelines governing the foodservice program. According to SNAC's organization chart, the Program Monitor supervises part-time contract summer monitors for the SFSP. There were five part-time monitors paid through Choice in the summer of Fiscal Year 2003.

It appears that lack of relevant experience and frequent turnover in the Program Monitor position during fiscal year 2003, did not allow sufficient time for the individuals occupying this position to gain an adequate understanding or receive adequate training about programs they were responsible for monitoring. In fact, USDA's 2003 Management Evaluation Report of the SFSP stated: ". . .the monitors appeared to lack adequate understanding of the operation of the SFSP. Frequently, site visit reports contained inadequate statements about program findings. For instance, some reports cited sites for "low participation" rather than for having excessive numbers of meals on hand, and other reports indicated that meals were missing components yet did not cite these meals as incomplete and, therefore, ineligible for reimbursement (disallowed); also the reports did not indicate the number of meals involved.

## **RECOMMENDATIONS**

1. The State Education Officer ensure that the SNAC program has continuous effective leadership, appropriate resources, such as sufficient staff and appropriate training necessary for an efficient well-run SNAC program operation.

2. The State Education Officer take immediate action to ensure that SEO hiring practices are in compliance with applicable District personnel policies and procedures.

**SEO MANAGEMENT AND CHOICE EXECUTIVES VIOLATED THE BPA AND CONTRACT BETWEEN THE DISTRICT OF COLUMBIA AND CHOICE**

The District's OCP awarded a Blanket Purchase Agreement ("BPA") to Choice on November 21, 2001 to provide temporary professional and clerical personnel to various District agencies upon request.<sup>16</sup> The BPA specified 23 labor categories and hourly rates for temporary personnel provided through Choice. To obtain temporary personnel, District agencies were required to issue purchase orders under the BPA to Choice to fill temporary personnel needs. SEO was one of the District agencies that issued purchase orders to Choice for temporary personnel.

The BPA with Choice expired on February 20, 2003. However, prior to the expiration date on January 9, 2003, the District executed a contract with Choice to provide temporary personnel that had been provided under the BPA.<sup>17</sup> The contract, which expired on January 8, 2004, was renewed on April 21, 2004, with an option to annually extend the contract for up to four years. Seventeen (17) labor categories and hourly rates were also stipulated in the contract.<sup>18</sup>

An example of the specific labor categories and hourly rates offered in the BPA and DCSS Contract are presented in Table I.

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<sup>16</sup>BPA, #DCPO-2002-A-D007, between OCP and The Choice, Inc. dated November 21, 2001, and *see also* MOOO1, contract modification which extended the BPA from November 21, 2002 through February 20, 2003.

<sup>17</sup>Contract No. PODS-2003-C-96269-03 ("contract"), dated January 9, 2003, between OCP and The Choice, Inc. for temporary support services from January 9, 2003 - January 8, 2004.

<sup>18</sup>Note that the labor categories under the BPA and the contract with the Choice, Inc. were not the same.

**Table I**  
**State Education Office**  
**Examples of BPA And DCSS Contract**  
**Labor Categories And Hourly Rates**

<b>Labor Categories</b>	<b>Hourly Rates</b>
Accountant	\$26.75
Administrative Clerk	\$13.75
Auditor	\$33.25
Clerical Secretary	\$16.80
Computer Operator	\$15.40
Data Clerk	\$15.10
Executive Secretary	\$18.20
Legal Secretary	\$18.95
Paralegal	\$21.45
Receptionist	\$14.40
Staff Assistant	\$12.10

Source: BPA and DCSS Contract

The Auditor found that SEO management and Choice violated the terms and conditions of the BPA and the contract as discussed in greater detail in the sections below.

**SEO Failed To Procure Temporary Personnel Services In The Labor Categories Stipulated by the BPA and DCSS Contract**

The SEO paid Choice over \$921,800 for the services of approximately 70 temporary personnel who worked in the SEO at various times during the audit period. The Auditor examined a sample of 142 Choice invoices that were paid by the SEO and supporting documentation. In all instances, the Auditor found that the labor categories and hourly rates billed on the invoices did not comply with the labor categories and hourly rates stipulated in the BPA or the contract. A further examination of the supporting purchase orders revealed that SEO management had requested personnel from Choice for labor categories with hourly rates that were not authorized under the BPA and contract.

Examples of unauthorized labor categories and hourly rates requested by SEO management are presented in Table II.

**Table II**  
**State Education Office**  
**Unauthorized Labor Categories and Hourly Rates**  
**In SEO Purchase Orders**

<b>Labor Categories</b>	<b>Hourly Rates</b>
Application Processor	\$18.00
Audit Clerk	\$14.95 to \$17.25
Nutrition Participant Monitor	\$24.00
Temporary Services	\$15.60 to \$35.14
Contract Services	\$14.95 to \$48.00
Customer Service Representative	\$14.95
Professional Services	\$18.00 to \$44.78
Summer Monitor	\$13.84
Management Analyst	\$41.40
Data Analyst	\$43.13
Database Manager	\$46.21
Intern	\$14.64

Source: SEO Purchase Orders and Supporting Documentation

The hourly rates stipulated in the BPA and the contract are firm fixed prices that can only be changed upon the written authorization of the Contracting Officer. Other changes, such as labor categories, must have the written authorization of the Contracting Officer as well. The Auditor found no evidence of written authorizations from the Contracting Officer that supported SEO management's deviations from the contractually established labor categories and hourly rates. Additionally, the Contracting Officer informed the Auditor that the Choice BPA and the contract had not been modified to add labor categories or hourly rates procured by the SEO from Choice.

**SEO Circumvented Personnel Hiring Rules and Paid Over \$150,000 to Choice for Payroll Processing Charges and Overhead Costs**

Further inquiries made by the Auditor and discussions held with SEO management revealed that the SEO used the BPA and the contract to procure payroll processing services from Choice. The BPA and the contract were misused as a method to pay individuals until they could be placed on the District's payroll as employees. In other words, SEO used the Choice contract to hire and pay potential employees while waiting for DCOP to complete personnel screening, evaluation, and hiring procedures for these individuals.

Based on a review of SEO employees' personnel files, the Auditor determined that approximately 25 of the 70 individuals initially paid through Choice were subsequently hired and placed on the District's payroll. For 16 of the 25 individuals hired, the Auditor found that SEO personnel files contained "Request for Personnel Action" Form 52, to appoint the individuals to fill positions within the SEO before the individuals were paid through the Choice contract.<sup>19</sup> SEO managers recruited or identified individuals to fill various positions within the agency. Further, hourly rates for contract personnel established by SEO management were derived from the District's Non-Union District Service Salary Schedule ("DS"). SEO management issued purchase orders directing Choice to place individuals on its payroll system at hourly rates determined by SEO management.

The Auditor found no provision in the terms and conditions of the District's BPA and the contract with Choice, which authorized this type of activity or cost. The practice employed by SEO management clearly violated the terms and conditions of these contractual agreements.

Similarly, the terms and conditions of the BPA and the contract do not provide for the purchase of payroll processing services from Choice or the payment of related processing and overhead costs. However, the Auditor's examination of purchase orders issued by SEO management to Choice included a 15% to 22% mark-up in hourly rates. A 15% mark up was added to the hourly rates in Fiscal Year 2002, a 20% mark-up was added in Fiscal Year 2003, and a 22% mark-up was added in Fiscal Year 2004 to cover Choice's payroll related costs and some of its overhead costs. According to its General Manager, Choice provided payroll processing services to the SEO and the mark ups were used to pay the following costs:

- The District's share of Federal Income Taxes;
- Worker's Compensation Insurance;
- Unemployment Insurance; and
- Choice's Liability Insurance.

Based on a review of Choice invoices paid by the SEO, the Auditor found that Choice was paid over \$150,000 in mark-up costs during the audit period. Table III shows a breakdown of the approximate total amounts paid to Choice by fiscal year and the approximate amounts paid for mark-up costs:

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<sup>19</sup>The Auditor was unable to locate the "Request for Personnel Action" Form 52 in the personnel files of the remaining nine employees.

**Table III**  
**State Education Office**  
**Approximate Amounts Paid to Choice**  
**By Fiscal Year**

<b>Fiscal Year</b>	<b>Amount Paid for Individuals</b>	<b>Amount Paid for Markup Costs</b>	<b>Total Amount Paid</b>
2002	\$126,361.14	\$18,954.17	\$145,315.31
2003	\$455,637.76	\$91,127.55	\$546,765.31
2004, as of 5/5/04	\$188,303.48	\$41,426.77	\$229,730.25
<b>Total</b>	<b>\$770,302.38</b>	<b>\$151,508.49</b>	<b>\$921,810.87</b>

Source: OFRM and Office of the D.C. Auditor

**SEO Improperly Charged Contract Personnel Services Costs to Programs in Which Individuals Did Not Work**

The Auditor found that personnel service costs from Choice invoices were charged to the incorrect SEO program or division in the District's SOAR. Each Choice invoice is supported by an approved time sheet which shows the SEO program or division in which the individual worked. The Auditor examined approved time sheets for a sample of 142 out of 1,344 Choice invoices that were paid by the SEO during the audit period.

The Auditor found that costs for approximately 28% of the invoices in our sample were charged to SEO programs and divisions in which it appears the staff did not work. For example, the time sheets supporting seven invoices indicated that the individual worked on the SNAC Program; however, the costs from two invoices were charged to TAG, and five invoices were charged to the Administration/Operational Services Division. The costs from the seven invoices should have been charged to the SNAC program.

Additionally, time sheets supporting six invoices indicated that the individuals worked on the TAG Program; however, the costs from four invoices were charged to the Administration/Operational Services Division and two invoices were charged to the Literacy Coordination Unit. Furthermore, time sheets supporting eight invoices indicated that individuals worked on the GEAR UP program, however, five invoices were charged to the Administration/Operational Services Division, two invoices were charged to the Literacy Coordination Unit, and one invoice was charged to the SNAC Program.

Projecting the 28% error percentage within our sample of 142 invoices to the 1,344 invoices that were paid by SEO during the audit period, it appears that costs for approximately 376 invoices were not charged to the proper program or division. The Auditor estimates that approximately \$161,200 of personnel costs<sup>20</sup> was not charged to the appropriate program or division in which the individual worked.

## **RECOMMENDATION**

The State Education Officer immediately implement procedures to ensure that Choice invoices are adequately reviewed, approved, and charged to the budget of the proper program or division.

### **Choice Failed To Include \$416,500 In Services Provided To SEO Under the Contract In Quarterly Sales Reports Filed With the District**

Section 3 of the District of Columbia Supply/Service Schedule Terms and Conditions (“DCSS Schedule”) requires contractors to furnish a quarterly report, itemizing the dollar value of all sales made under the award during the preceding three-month period. The dollar value of a sale is the price invoiced by the contractor for products and services received on a DCSS contract. The quarterly report is due within 30 days following the completion of the reporting period.<sup>21</sup>

The Auditor examined the DCSS Quarterly Sales Reports submitted by Choice to OCP from January 9, 2003, through the quarter ended March 31, 2004. The Auditor compared the quarterly reports with Choice invoices paid by the SEO during the audit period and determined that Choice failed to report approximately \$416,500 in payments received from SEO. Choice invoiced the SEO for at least \$428,800 in services provided under the contract during this period; however, Choice reported only \$12,300 of the payments received in its quarterly reports.

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<sup>20</sup>This amount represents 28 % error percentage of \$921,800, the total amount paid to Choice during the audit period.

<sup>21</sup>See District of Columbia Office of Contracting and Procurement, District of Columbia Supply/Service Schedule Terms and Conditions, Quarterly Sales Reports at 1, March 2002.

**Choice Failed to Remit \$4,165 in Sales Discounts To The District For Services Provided to SEO Under the Contract**

Section 1 of the DCSS contract requires contractors to remit, as a discount on sales, one percent of all sales transactions to the District on a quarterly basis. The amount due must be one percent of the sales reported within the quarterly sales report, and must be delivered with each quarterly sales report to the DCSS Contracting Officer.<sup>22</sup>

Based on a review of quarterly reports submitted by Choice to the DCSS Contracting Officer for the period January 9, 2003 through March 31, 2004, the Auditor determined that Choice did not report approximately \$416,500 in services provided to the SEO during this period. Consequently, Choice did not report and did not remit \$4,165 to the District, which represented the one percent sales discount.

Additionally, according to the sales discount provision on the DCSS Schedule, failure to comply with this provision is grounds for suspension or termination of the DCSS contract.<sup>23</sup> The Auditor found no evidence that OCP management had initiated any corrective or punitive action against Choice for violating this provision.

**RECOMMENDATIONS:**

1. The State Education Officer immediately take steps necessary to ensure that, in the future, the contract with Choice is only used to request temporary staff in accordance with the terms of the contract.
2. The District's Contracting Officer for the Choice, Inc.'s contract must immediately institute effective procedures to ensure that District agencies are purchasing goods and services in accordance with the contract's provisions.
3. The Contracting Officer must investigate Choice's violation of the BPA and the contract terms and determine whether violations warrant further action.

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<sup>22</sup>See District of Columbia Office of Contracting and Procurement, District of Columbia Supply/Service Schedule Terms and Conditions, Sales Discounts at 1, March 2002.

<sup>23</sup>*Id.*

4. The Contracting Officer must further investigate Choice's failure to accurately report all SEO sales transactions and take the appropriate steps to collect the applicable sales discounts.
  
5. The Chief Procurement Officer for the District must develop an effective system to monitor all DCSS contract quarterly sales reports to ensure that the District receives the accurate amount of sales discounts.

**A SIGNIFICANT AMOUNT OF SEO TRAVEL AND TRAVEL-RELATED COSTS WERE IMPROPERLY CHARGED TO THE DISTRICT**

The SEO's travel and travel-related expenses totaled approximately \$187,844 for Fiscal Years 2002, 2003 and 2004, as of May 5, 2004. For the purpose of this report, the following types of expenses are considered travel and travel-related expenses:

- Per diem meal rate and incidental expenses;
- Lodging expenses;
- Ground transportation expenses;
- Airline transportation costs;
- Telephone call expenses;
- Vehicle mileage expenses; and
- Conference fees and other educational expenses, *i.e.* tuition.

Table IV shows the approximate amount of travel and travel-related expenses SEO staff incurred by fiscal year.

**Table IV**

**Approximate Travel And Travel-Related Expenses:  
By Fiscal Years 2002 Through 2004, As of May 5, 2004**

<b>Fiscal Year</b>	<b>Amount</b>
2002	\$35,078
2003	\$94,447
2004*	\$58,319
<b>Total</b>	<b>\$187,844</b>

Source: OFRM and Office of the D.C. Auditor.  
\* as of 5/-05/04

The SEO's financial transactions, including payment of travel and travel-related expenses, are processed in the District's System of Accounting and Reporting (SOAR) by the OCFO OFRM. It is OFRM's responsibility to ensure that the SEO's financial transactions are processed in accordance with applicable District policies and procedures. The Auditor examined available SEO travel and travel-related expense records that were maintained by OFRM and found the improprieties discussed in detail below.

**\$20,212 In Reimbursements for Employee Travel Expenses Was Not in Compliance With District Travel Policies and Procedures**

Travel policies and procedures have been established by the OCFO's Office of Financial Operations and Systems ("OFOS") to regulate the processing of requests for travel, travel advances, and reimbursement of expenses for all official employee travel. These policies and procedures are intended to ensure accountability for public funds disbursed for employees' approved official travel to conduct legitimate government business. The sections relating to travel policies and procedures are contained in the Financial Procedures Manual, issued by OCFO OFOS, effective March 31, 1998 and revised July 10, 2003.<sup>24</sup> Some of the requirements of the policies and procedures include the following:

- Employees must submit a travel expense report with receipts for lodging, ground transportation and other incidentals to support the expenses claimed for reimbursement.
- Per Diem claims must be for each full day of travel, with adjustments for partial travel days or meals provided as part of a conference.
- The use of a personal vehicle for business-related travel shall be reimbursed at the prevailing federal mileage rate.
- Employees will be held liable for the amount of an advance that is outstanding more than 90 days after the estimated travel completion date.

It is OFRM's overall responsibility to ensure that SEO employees' travel expense advances and reimbursements are in compliance with travel policies and procedures. The Auditor's review of travel documents for SEO employees' travel expenses during the audit period revealed that reimbursements totaling at least \$20,212 did not comply with the CFO's

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<sup>24</sup>See Office of the Chief Financial Officer, *Financial Procedures Manual*, eff. March 31, 1998, revised July 10, 2003. Note that sections 10006.10 through 10006.70 refer to travel.

travel policies and procedures. The most significant violation was employee reimbursements for travel expenses that lacked original supporting receipts. The former SEO director and other accountable SEO managers failed to ensure that its employees adhered to the CFO's travel policies and procedures. Without adequate supporting documentation, SEO upper management failed, and the Auditor was unable, to determine whether travel expenses were valid obligations of the government before they were disbursed. Reimbursements made in the absence of adequate supporting documentation exposed SEO to a high risk of fraud, waste and abuse.

Table V presents the dollar values of each type of violation of applicable travel policies and procedures noted during the Auditor's review of travel expense documents.

**Table V**  
**State Education Office**  
**Dollar Value of**  
**Travel Policies and Procedures Violations**

<b>Description of Violation</b>	<b>Amount</b>
• Employees Reimbursed for travel expenses lacking supporting original receipts	\$17,327.39
• Employees reimbursed for hotel and car rental expenses incurred after conference dates	\$208.28
• Employees' per diems were not reduced for partial travel days or for meals provided as part of conferences	\$1,166.63
• Employees reimbursed for gas purchases and mileage when personal vehicles were used for government travel	\$200.38
• Employees reimbursed twice for the same expenses	\$414.32
• Employee failed to return travel advance for trip cancelled in fiscal year 2003	\$895.50
<b>Total</b>	<b>\$20,212.50</b>

Source: OFRM and Office of the D.C. Auditor

Additionally, during the Auditors review of employee travel expense documents maintained by OFRM, the Auditor found that SEO management failed to ensure that signed and fully supported travel expense reports were filed by SEO employees. The Auditor's examination revealed that travel expense reports were not present for 89% of the trips taken by SEO

employees. According to Section 10006.50 of the Financial Procedures Manual,<sup>25</sup> employees authorized to travel must submit a personally signed travel expense report to certify that the expenses listed were for official government purposes.

Further, for 12% of the trips taken by SEO employees, the Auditor found that travel records maintained by OFRM did not contain an approved "Request and Authorization for Official Travel" form as required by the Financial Procedures Manual. The manual states: "Employees authorized to travel shall submit an approved travel authorization at least 10 days prior to anticipated travel. . ."<sup>26</sup> SEO management failed to ensure that this requirement was adhered to by accountable SEO personnel.

**\$24,820 In Prohibited Travel and Travel-Related Services Were Purchased With The District Of Columbia Purchase Card in Direct Violation of District Procedures and Directives**

During Fiscal Year 1999, OCP, through the Purchasing Technologies Group, designed and instituted a District government purchase card program to enable agencies to make small purchases using a revolving purchase card issued by US Bank. The purchase card agreement prohibits purchases of conference fees, dues, memberships or subscriptions, and travel. Additionally, OCP issued a "Procurement and Policy Procedure Directive,"<sup>27</sup> effective June 1, 2002, that specifically prohibits the use of the purchase card for "travel and travel-related expenses".

The Auditor's review of SEO travel expenses incurred during the audit period revealed that accountable OFRM managers failed to adequately monitor and ensure that the agency's use of the purchase card adhered to applicable rules, policies, and procedures. As a consequence, the Auditor found repeated instances where the purchase card was inappropriately used to pay travel and travel-related expenses totaling over \$24,820. Table VI summarizes and illustrates the types of unallowable travel and travel-related purchases made with the purchase card by fiscal year.

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<sup>25</sup>See Financial Procedures Manual, section 10006.50.

<sup>26</sup> See Financial Procedures Manual, section 10006.30.

<sup>27</sup>See Procurement and Policy Procedure Directive, section 4.3.5, OCPD 9000.0, eff. June 1, 2002.

**Table VI**  
**State Education Office:**  
**Summary of Prohibited Purchase Card Transactions:**  
**Fiscal Years 2002 and 2003**

<b>Prohibited Purchases</b>	<b>Fiscal Year 2002</b>	<b>Fiscal Year 2003</b>	<b>Total</b>
Conference Registration	\$1,649	\$4,546	\$6,195
Airfare	\$1,590	\$5,579	\$7,169
Lodging	\$1,354	\$9,826	\$11,180
Train Fare	\$0	\$276	\$276
<b>Total</b>	<b>\$4,593</b>	<b>\$20,227</b>	<b>\$24,820</b>

Source: OFRM and Office of the D.C. Auditor

**\$27,399 In Travel and Travel-Related Costs Were Improperly Charged To Local Funds And To The SNAC, GEAR UP, and TAG Programs**

The Auditor's review of travel and travel-related expense documents revealed that SEO management improperly charged travel and travel-related expenses totaling at least \$27,399 to various programs and funding sources. The various programs included GEAR-UP (Gaining Early Awareness and Readiness for Undergraduate Program), a program funded by the United States Department of Education to increase the number of students from low income communities who are prepared to enter and succeed in post-secondary education. The program provides college scholarships to its participants.<sup>28</sup> TAG, or the Tuition Assistance Grants Program, provides grants for undergraduate District students to attend public universities and colleges nationwide and private historically Black colleges and universities ("HBCUs") nationwide.<sup>29</sup> The District of Columbia College Access Act of 1999, as amended,<sup>30</sup> authorized

<sup>28</sup>On October 2, 2002, USED awarded SEO a five-year \$4.6 million grant to start the District's GEAR UP program. The award of \$924,564 each year for the next five years will be matched by grants and in-kind contributions from the District government and several colleges and universities in the District .program funded by the United States Department of Education. The program includes several components: academic preparation; early college awareness information and education for students, parents, teachers, and counselors; college financial assistance information; and student and family support services, such as counseling, mentoring, and tutoring.

<sup>29</sup> See the District of Columbia College Access Improvement Act of 2002, Pub. L. No. 107-157, 116 Stat. 119, effective April 4, 2002, D.C. Code § 38-2702 (c) (2), which amended the D.C. College Access Act of 1999 by expanding the original law to allow DC residents to receive \$2,500, or a lifetime cap of \$12,500 to attend any HBCU in the country, rather than only in the region. Eligible District of Columbia residents attending public colleges and universities anywhere in the United States may receive a grant of up to \$10,000 per year to pay the difference between in-state and out-of-state tuition.

<sup>30</sup>See the District of Columbia College Access Act of 1999, Pub. L. No. 106-98, 113 Stat. 1323, D.C. Code § 38-2701 *et seq.*, of which established a program to afford D.C. high school graduates the benefits of in-state tuition at State colleges and universities outside of D.C.

the Federal government through a program run by the Mayor, to provide tuition subsidies to District of Columbia residents to attend colleges and universities anywhere in the United States.

Due to a lack of effective internal controls to ensure proper authorization, payment and recording of financial transactions, expenses were: 1) charged to programs without proper authorization, 2) charged to programs having no connection to the purpose of the travel, and 3) expenses did not appear related to conducting official business of the District government. The improperly charged expenses noted by the Auditor were:

- **\$18,300** - was improperly charged to the GEAR-UP program to pay tuition and transportation expenses for students from Alice Deal Junior High School to obtain training at George Mason University, Hemlock Overlook Center for Outdoor Education. The training was held on August 29, 2002 and November 19, 2002 at a cost of \$7,450 for tuition. Also, training was held on September 4, 2003 and September 5, 2003 at a cost of \$10,850 for tuition and transportation expenses. The Auditor found that Alice Deal Junior High School is not one of the five schools participating in the GEAR UP program and the expense was not properly authorized to be paid with GEAR UP funds.
- **\$4,578** - was improperly paid from the SEO's budget to cover the cost of tuition for an employee of the Office of the Chief Technology Officer ("OCTO") to attend a technology seminar in Fiscal Year 2003 at the University of Maryland, Graduate School of Management and Technology. It is unclear why SEO management authorized the payment of tuition to train an employee from another District agency, OCTO. Although the individual worked part-time at the SEO as Chief Information Officer, the Auditor found no evidence to justify the SEO's payment of 100% of the individual's tuition to participate in this seminar. Additionally, the Auditor found that in December 2003, another purchase order in the amount of \$9,156 was issued by SEO management to the University of Maryland for the cost of two additional technology seminars for the same individual.

- **\$618** - was improperly used to pay the per diem and airfare expense for the SEO Administrative Officer's travel to Tuskegee, Alabama during the Christmas holidays, December 23, 2003 through January 3, 2004. The purpose of this travel did not appear to be primarily to conduct official District business. According to SEO travel documents, the Administrative Officer made a site visit to Tuskegee University on behalf of the TAG program. The Auditor found that the Administrative Officer met briefly with an official of Tuskegee University on December 23, 2003, to deliver applications for the TAG program. However, the Auditor found no evidence that additional meetings were held or that other officially sanctioned District business was conducted during the Administrative Officer's stay in Tuskegee, Alabama. In fact, the Auditor found that the University was closed for the Christmas holiday from December 23, 2003 through January 4, 2004. Additionally, the Auditor found no evidence to indicate that the Director of the TAG program authorized the Administrative Officer's travel to Tuskegee University. The Auditor also found that the per diem of \$48 was charged to the TAG program, however, the \$534 airfare expense was charged to the GEAR UP program in SOAR without authorization from the Directors of the TAG and GEAR-UP programs. The Auditor's examination indicates that the purpose used to justify this individual's "official" travel appears to have been nothing more than a scheme to obscure the improper disbursement of government funds to pay the employee's travel for primarily personal reasons.
- **\$746** - improperly used to pay travel expenses for the SEO Administrative Officer's travel to Charlotte, North Carolina from Friday, October 10, 2003 through Sunday, October 12, 2003 did not appear to be primarily to conduct official business on behalf of the District government. According to SEO travel documents, the purpose of this trip was for the Administrative Officer to perform TAG program outreach work at Johnson C. Smith University, which appeared to be incompatible with and well outside the administrative officer's official duties and responsibilities. The Auditor found that the Administrative Officer briefly met with the Director of Financial Aid at Johnson C. Smith University on Friday, October 10, 2003. However, the Auditor found no evidence that additional meetings or legitimate outreach activities were held or that other official District business was conducted during the Administrative Officer's stay on Saturday or Sunday. The Auditor found that the University's homecoming activities were held during this weekend. The Auditor also found no evidence that the Director of the TAG program authorized the Administrative

Officer's travel to Johnson C. Smith University. The cost of this trip was inappropriately charged to the TAG program in SOAR.

- **\$1,108** - to pay the expenses of five SEO administrative support employees to travel to Richmond, Virginia on Friday, October 17, 2003, and return on Saturday, October 18, 2003, did not appear to be solely for the purpose of conducting official business on behalf of the District government. According to SEO travel documents, five members of the SEO's administrative staff met with representatives of the Virginia State Education Office on Friday, October 17, 2003 from 10:00 a.m. to 1:00 p.m. The SEO staff members were: the Director of Operations, the Administrative Officer, two Staff Assistants and one Clerk. Considering that Richmond, Virginia is less than 100 miles from Washington, D.C. and that the meeting ended at 1:00 p.m., the administrative staff could have easily returned to Washington, D.C. after the meeting on Friday, October 17, 2003. However, these SEO employees unjustifiably stayed overnight in Richmond at the expense of the District. Instead, each individual was unnecessarily reimbursed for one night of hotel accommodations and per diem for two days. Additionally, the Director of Operations and the Administrative Officer were reimbursed for mileage *and* gasoline for driving their personal vehicles to Richmond, Virginia for the meeting. Furthermore, a gasoline receipt submitted by the Director of Operations was for gas purchased at a station in North Carolina on October 17, 2003, and a second receipt submitted by the same individual was for gasoline purchased in Richmond, Virginia on October 18, 2003. Expenses paid for this trip were charged to local funds in SOAR.
- **\$77** - inappropriately charged to the TAG program to pay the cost of a Program Analyst's travel to Boston, Massachusetts on January 13, 2004 to obtain scholarship information from the Massachusetts state scholarship office relative to the LEAP program.
- **\$297** - improperly charged to the SNAC program to pay the cost for the Director of Operations' travel to New York, New York from March 24, 2002 through March 28, 2002. The Auditor did not find any documents in OFRM's travel records which described, justified, and supported payment of these travel expenses.

- **\$1,675** - improperly charged to the GEAR-UP program to pay the cost of the Director of Operations' travel and travel-related expenses to attend GEAR-UP "Capacity-Building Workshops" held in Phoenix, Arizona from February 1, 2004 through February 4, 2004. The Auditor did not find any evidence to justify this particular employee attending these workshops. According to the workshops' agenda, the training focused on GEAR-UP program development, alignment and sustainability. GEAR-UP capacity building does not appear to be within the official duties and responsibilities of the Director of Operations.

The improperly charged travel and travel-related expenses were caused, in part, by the lack of effective executive supervision and management and a lack of compliance with internal controls established to ensure proper justification, authorization, payment, and recording of travel and travel-related expenses. As a consequence of SEO upper management's inattentiveness, acquiescence, or use of poor management practices, SEO funding sources were improperly charged with inappropriate expenses and certain employees were able to manipulate the system to obtain reimbursements for questionable travel and related expenses that appear to have been primarily of a personal or self-serving nature rather than the performance of official business on behalf of the District government.

### **RECOMMENDATIONS**

1. The State Education Officer must immediately develop and institute effective procedures to monitor the agency's compliance with travel and procurement policies and procedures.
2. The OFRM CFO must ensure that a properly authorized "Request and Authorization for Official Travel" form is provided for all SEO travel, and that SEO employees timely submit travel expense reports with proper supporting documentation before processing travel advances and travel expense reimbursements. Additionally, the OFRM CFO must ensure that all other travel policies and procedures are adhered to before making travel expense reimbursements.
3. The State Education Officer must take steps to immediately cease the practice of paying travel and travel-related expenses with the District of Columbia

purchase card and implement procedures to prevent future purchases of prohibited items with the purchase card.

4. The State Education Officer must develop and implement adequate and effective internal controls to ensure that all expenses are properly justified, authorized, and accurately recorded in SOAR. Additionally, the improperly charged expenses noted in this report should be corrected immediately
5. The improper travel and travel-related expenses identified by the Auditor in this report should be investigated by the District's Office of the Inspector General and where appropriate the State Education Officer must take appropriate steps to recover payments made for improper travel and travel-related expenses from the responsible party.

## **CONCLUSION**

The Auditor's examination of certain SEO expenditures and activities revealed significant management deficiencies and noncompliance with applicable policies, procedures, rules, and contract terms. Specifically, the Auditor focused on the Special Nutrition and Commodities Distribution program division ("SNAC"), funded by the United States Department of Agriculture ("USDA").

The Auditor found that approximately \$160,000 of SNAC funds were used to pay the cost of two administrative support persons who performed duties unrelated to the SNAC program. Failure to utilize SNAC funds to pay legitimate costs to administer the SNAC program may have undermined the successful implementation and execution of the SNAC program, mission, duties and responsibilities.

Additionally, the SNAC program division experienced extensive turnover of personnel during the two and a half year audit period. Twenty-two individuals served in eight of 13 positions funded by the SNAC grant. Specifically, four individuals served as Director of the SNAC program division during the audit period. It appears that the high turnover in other SNAC positions was due to lack of consistent, experienced leadership and failure of upper management to follow the District's personnel recruitment, screening and hiring procedures. According to the District Office of Personnel (DCOP) Personnel Manual ("DPM"), validation of potential employees' qualifications, experience, and training in addition to the completion of other

functions, such as performing reference checks and confirming budget authority for the position at the agency's requested grade level, should occur *before* an individual is placed in a position. However, SEO placed potential individuals in vacant positions and paid them through a purchase order with the Choice temporary staffing agency *while waiting* for DCOP to validate their qualifications and perform other personnel functions. It appears that in some cases, individuals vacated positions due to the lengthy DCOP process, and in other cases because DCOP determined that some individuals did not qualify for the positions that they were filling at the grade level requested by SEO, in addition to other problems noted by DCOP. Newly vacated positions would be filled with other individuals, possibly again through the Choice contract, and the hiring process would start over.

Lack of a stable workforce and the lack of continuity in program leadership, development and execution had a negative impact upon the effective and efficient performance of the mission and responsibilities of the SNAC program.

Further, SEO cross-utilized individuals in the eight SNAC nutrition programs in order to achieve the most effective and economical operation; however, SEO management failed to establish a standard method to capture, allocate, and record individual's time usage across the various nutrition programs. Consequently, SEO management could not consistently identify the individuals and the actual time they worked on a particular nutrition program and could not adequately justify the actual amount of personnel costs that were allocated to the various nutrition programs.

During the two and a half year audit period, SEO's travel and travel-related expenses totaled approximately \$187,844. The Auditor found that reimbursements to SEO employees for at least \$20,212 of travel expenses were not made in compliance with travel policies and procedures. The most significant violation was employee reimbursements for \$17,327 in travel expenses that lacked original supporting receipts. The Office of the Chief Financial Officer's ("OCFO") Office of Finance and Resource Management ("OFRM"), the former State Education Officer, and other accountable SEO managers failed to ensure that SEO employees adhered to the travel policies and procedures. Without adequate supporting documentation, SEO upper management failed, and the Auditor was unable, to determine whether travel expenses were valid obligations of the District before they were disbursed. Reimbursements made in the absence of adequate supporting documentation exposed SEO, and the District government, to a high risk of fraud, waste and abuse.

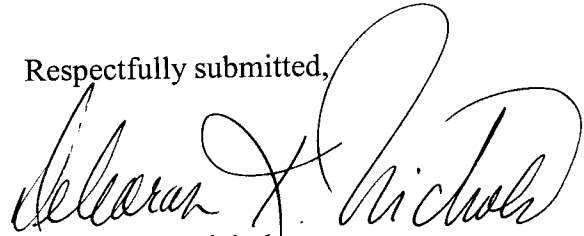
The Auditor also found that \$24,820 in prohibited travel and travel-related services were purchased with the District of Columbia purchase card. The District's Office of Contracting and Procurement ("OCP") issued a "Procurement and Policy Procedure Directive," effective June 1, 2002, that specifically prohibits the use of the purchase card to pay for travel and travel-related expenses. However, accountable managers within OFRM failed to adequately monitor and ensure that the agency's use of the purchase card adhered to applicable rules, policies and procedures.

Additionally, the Auditor found that \$27,399 in travel and travel-related costs were improperly charged to appropriated local funds and to the following programs: SNAC, Tuition Assistance Grant program ("TAG") and the Gaining Early Awareness and Readiness for Undergraduate Program ("GEAR-UP") program. The improper charges were due to the lack of effective executive supervision and management and a lack of effective internal controls to ensure proper justification, authorization, payment and recording of travel and travel-related expenses. Consequently, SEO funding sources were charged with inappropriate expenses and certain employees were able to manipulate the system to obtain reimbursements for questionable travel and travel-related expenses that appear to have been primarily of a personal or self-serving nature rather than the performance of official business of the District government.

The Auditor also found that during the two and a half year audit period, SEO and The Choice, Inc ("Choice"), a temporary staffing agency, failed to comply with the terms and conditions of the District's Blanket Purchase Agreement ("BPA") and contract with Choice. SEO paid over \$921,800 to Choice for the services of approximately 70 individuals during the audit period. These services were primarily from labor categories at hourly rates that were not authorized under the BPA or contract. SEO also misused the BPA and contract to acquire payroll processing services and circumvented the District's personnel rules for filling vacant positions. Instead of allowing DCOP to perform required procedures before hiring individuals, SEO placed potential employees in vacant positions and paid them through Choice while waiting for DCOP to complete required personnel screening and hiring procedures. Approximately \$150,000 of the \$921,800 was paid to Choice to cover the payroll processing costs and overhead costs, which were not authorized within the terms of the BPA or contract. Additionally, the Auditor estimates that SEO charged approximately \$161,200 of the \$921,800 to SEO programs and divisions in which the individuals did not work.

Finally, the Auditor found that Choice failed to include \$416,500 in services provided to SEO under the contract in quarterly sales reports filed with the District, and failed to remit \$4,165 in sales discounts to the District for the services provided under the contract. The District of Columbia Supply/Service Schedule Terms and Conditions require contractors to furnish a quarterly report, itemizing the dollar value of all sales made under the award and to remit, as a discount on sales, one percent of all sales transactions to the District on a quarterly basis.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Deborah K. Nichols". The signature is written in a cursive style with a large, looping flourish at the end.

Deborah K. Nichols

District of Columbia Auditor

## **AGENCY COMMENTS**

## **AGENCY COMMENTS**

On September 2, 2004, the Office of the District of Columbia Auditor submitted this report in draft for review and comment to the District of Columbia State Education Office (“SEO”), the Associate Chief Financial Officer, Office of Finance and Resource Management (“OFRM”), and the former State Education Officer, C. Vanessa Spinner.

An exit conference was held on September 13, 2004 at the Office of the District of Columbia Auditor with Interim State Education Officer Deborah Gist, OFRM Associate Chief Financial Officer Barbara Jumper, former SEO State Education Officer C. Vanessa Spinner, Bob Jose, Mohamed Mohamed, and Rebecca Sibia. Written comments to the draft report were received from Deborah Gist on September 15, 2004; from Barbara Jumper on September 14, 2004, and from C. Vanessa Spinner on September 14, 2004. Where appropriate, changes were made to the final report to reflect the comments received. All comments are appended in their entirety to this final report.

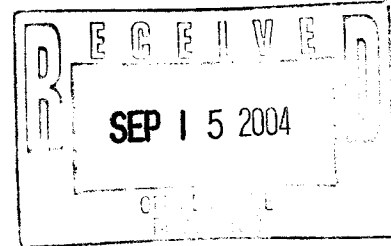


GOVERNMENT OF THE DISTRICT OF COLUMBIA  
Executive Office of the Mayor

State Education Office

September 15, 2004

Deborah K. Nichols  
DC Auditor  
717 13<sup>th</sup> Street, NW  
Suite 900  
Washington, DC 20005



Dear Ms. Nichols:

Enclosed are the State Education Office's responses to your recommendations. Also enclosed is a Budget 101 Manual and an Invoice Approval Form referred to in our responses.

I would like to take this opportunity to thank you and your staff for your hard work and efforts.

If you should require additional information or have any questions, please do not hesitate to contact me. I can be reached at (202)727-3471 or you can reach my assistant, Veronica Gonzales, at (202)724-7873.

Sincerely,

Deborah Gist  
Interim State Education Officer

FINDING: Some SNAC personnel were not utilized consistent with their funding source.

RECOMMENDATIONS:

- 1. The SEO management immediately take appropriate action to reclassify the personnel costs of the Administrative Assistant and Staff Assistant from the SNAC program to other appropriate funding sources within the SEO.**

SEO Response:

The Interim State Education Officer concurs with the recommendation and in August 2004 requested that the CFO reclassify all fiscal year charges associated with these two personnel. The two FTE positions previously associated with these staff have been reestablished as National School Lunch positions, and are currently in the approval process to begin recruitment.

- 2. The Interim State Education Officer take action to ensure that, in the future, personnel costs for employees who actually perform work on behalf of the SNAC program are the only personnel costs actually charged to the SNAC program.**

SEO Response:

The Interim State Education Officer concurs with the recommendation and has begun financial planning for a restructuring of the SNAC unit that will expand the programmatic staff associated with the division by three positions in fiscal year 2005. Furthermore, all administrative staff resources available to the program and some non-personal services funding will be covered by the agency (outside of the federal and local match funding associated directly with this program) and available for SNAC use in FY 2005.

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FINDING: Effectiveness of SNAC program adversely affected by personnel turnover.

RECOMMENDATIONS:

- 1. The State Education Officer ensure that the SNAC program has continuous effective leadership and that the appropriate resources, such as sufficient staff and appropriate training, are available to support and sustain as necessary for efficient well-run SNAC program operation.**

SEO Response:

The Interim State Education Officer has made a commitment to all staff to reinvigorate team building at every level of the organization. Currently, all support positions are filled within the agency, and the agency is undergoing a business process review and potential realignment to ensure that all staff resources are best leveraged across all programs.

- 2. The State Education Officer take immediate action to ensure that the SEO hiring practices are in compliance with applicable District personnel policies and procedures.**

SEO Response:

The Interim State Education Officer has been working closely with the Office of Personnel (OP) to ensure that all actions, taken or planned, are consistent with the policies and regulations issued by OP. Further, the office is currently completing a policies and procedures manual that clearly delineates these policies. This manual will be issued to all staff.

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FINDING: SEO Management failed to adequately justify the actual personnel costs charged to the SNAC program.

RECOMMENDATIONS:

- 1. The State Education Officer take immediate action to use the TAMIS cost allocation system or another appropriate cost allocation system to ensure that personnel costs are properly allocated and charged to SNAC programs and other programs within the SEO's authority. Also, a cost allocation system would be a valuable tool to effectively manage staff time usage among various programs.**

SEO Response:

The SNAC program realignment referenced above is expected to right size the workforce associated with the discrete programs and funding sources within the SNAC program in such a way that there are no expected positions to be split funded in FY 2005. However, in order to ensure that this is the case, personnel will continue to track their time in TAMIS, and the SEO will reconcile these time reports quarterly with the Office of Finance and Resource Management to ensure that actual expenditures match time spent in each program.

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FINDING: Inappropriate travel and travel related costs.

RECOMMENDATIONS:

- 1. The State Education Officer must immediately develop and institute effective procedures to monitor the agency's compliance with travel and procurement policies and procedures.**

SEO Response:

The Interim State Education Officer immediately halted all agency travel within two weeks of assuming the position and prior to this draft report while the agency works to review and revise internal travel procedures that ensure appropriate internal security as well as compliance with travel policies.

- 3. The State Education Officer must take steps to immediately cease the practice of paying travel and travel related expenses with the District of Columbia purchase card and implement procedures to prevent future purchases of prohibited items with the purchase card.**

SEO Response:

The Interim State Education Officer concurs with the recommendation and has instituted the proper internal security provisions in order to ensure that this does not happen in the future.

- 4. The State Education Officer must take steps to ensure that all agency procurements are made in compliance with applicable District procurement regulations in order to ensure that purchases are in the best interest of the District.**

SEO Response:

The Interim State Education Officer concurs with the recommendation and has developed a new business process to be instituted at the beginning of FY 2005 for all procurement. This process employs stricter internal security, including a number of approvals for each purchase within the agency. Furthermore, the SEO is in the PASS procurement system. This system ensures that the CFO and OCP approve all purchases prior to obligation. Additionally, in August 2004 SEO staff members were trained on proper spending procedures in a "Budget 101" class that was mandatory for all program managers and optional for the rest of the staff. A copy of the manual is attached for your reference. Follow up training that continues with the proper CFO and OCP policies and procedures as well as the SEO's new policies and procedures is in the final stages of development.

- 5. The State Education Officer must develop and implement adequate and effective internal controls to ensure that all expenses are properly justified, authorized, and accurately recorded in SOAR. Additionally, the improperly charged expenses noted in this report should be corrected immediately.**

SEO Response:

The Interim State Education Officer concurs with the recommendation and, where possible, has already corrected cited expenditures. From July 26<sup>th</sup> through August 27<sup>th</sup>, the SEO underwent an internal financial review of FY 2003 and 2004 on all grant spending throughout the agency. This review included meeting with program managers and identifying expenditures that may have been improperly posted to accounts. This list was compiled in coordination with the Office of Finance and Resource Management, and FY 2004 local funds will be used to “credit” the appropriate grant accounts for those expenditures from prior fiscal years. Furthermore, staff members have attended training and received manuals on proper expenditure processes (see above response).

- 6. The improper travel and travel related expenses identified by the Auditor in this report should be investigated by the District’s Office of the Inspector General and where appropriate the State Education Officer must take appropriate steps to recover payments made for improper travel and travel related expenses from the responsible party.**

SEO Response:

The Interim State Education Officer is prepared to respond to the Office of the Inspector General for any follow-up that may be required as a result of this audit.

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FINDING: The SEO and the Choice, Inc. failed to comply with the terms and conditions of the District’s temporary staffing contract.

RECOMMENDATIONS:

- 1. The State Education Officer immediately take steps necessary to ensure that in the future, the contract with Choice is only used to request temporary staff as consistent with the terms of the contract.**

SEO Response:

The Interim State Education Officer concurs with the recommendation. All Choice expenditures within SEO ceased in July of 2004 and the SEO does not currently have any staff or personnel resources associated with the Choice. In the future, if the SEO finds the need for temporary staffing, the SEO will ensure that any firm or contract used is consistent with the DC Supply Schedule contract and OCP policies and procedures.

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FINDING: Contract personnel services costs were charged to programs in which individuals did not work.

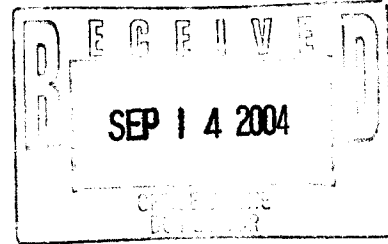
RECOMMENDATIONS:

- 1. The State Education Officer immediately implement procedures to ensure that Choice invoices are adequately reviewed, approved, and charged to the budget of the proper program, division, or unit.**

SEO Response:

The Interim State Education Officer concurs with the recommendation. Program managers must approve payment of any invoice through the attached approval form. These invoices include, but are not limited to the Choice. This process was instituted on August 4, 2004, prior to the issuance of this draft report.

GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OFFICE OF FINANCE AND RESOURCE MANAGEMENT



**MEMORANDUM**

TO: Deborah K. Nichols, District of Columbia Auditor  
Office of the District of Columbia Auditor

FROM: Barbara Jumper, Associate Chief Financial Officer  
Government Operations Cluster

A handwritten signature in cursive script that reads "Barbara Jumper".

DATE: September 14, 2004

**SUBJECT: Response to the Draft Report of "Review of the District of Columbia State Education Office (SEO) for Fiscal Years 2002, 2003, and 2004 as of May 5, 2004"**

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This memorandum contains the Office of Finance and Resource Management's (OFRM's) response to the findings and recommendations included in the draft report, "Review of the District of Columbia State Education Office for Fiscal Years 2002, 2003, and 2004 as of May 5, 2004". The major findings are listed below, followed by our response. Where appropriate, we defer to State Education Office management for comment.

FINDING: SOME SNAC PERSONNEL WERE NOT UTILIZED CONSISTENT WITH THEIR FUNDING SOURCE

**We defer to agency program management to comment on the use of personnel.**

FINDING: EFFECTIVENESS OF SNAC PROGRAM ADVERSELY AFFECTED BY PERSONNEL TURNOVER

**Of the eight SNAC positions mentioned in the report, two positions -- the Grant Budget Analyst and Financial Clerk -- are OCFO positions on OFRM's Schedule A. These positions are currently filled; however, at times during the two-year period covered by the report they were vacant. During these occasions, OFRM continuously provided financial services to SEO by reallocating resources under our control without compromising the service quality.**

FINDING: SEO MANAGEMENT FAILED TO ADEQUATELY JUSTIFY THE ACTUAL PERSONNEL COSTS CHARGED TO THE SNAC PROGRAM

**We defer to agency program management to comment on the use of personnel. OFRM charges personnel costs to specific programs based on the representation by the agency as where employees work. OFRM fully supports SEO's efforts to begin the use of the TAMIS system to document the allocation of time worked by employees among SEO's programs.**

FINDING: INAPPROPRIATE SEO TRAVEL AND TRAVEL RELATED COSTS

1. Reimbursement of Employee Travel Expenses Totaling At Least \$20,212 Was Not In Compliance With Travel Policies and Procedures

**Under this section of the finding, it is noted that, "The most significant violation was employee reimbursements for travel expenses that lacked original supporting receipts" (the second paragraph of page 15). OFRM processes the reimbursements according to the OCFO guidelines; no payments are processed unless the relevant supporting documents are attached. It should be also noted that there have been numerous inquiries into and examination of SEO's travel vouchers by various entities (Council, Executive Office of the Mayor, General Accounting Office, Washington Post, etc.) As a result, the original receipts in a few instances may have been misplaced, lost, or copied before returned to OFRM. Going forward, OFRM has put in place a new file-tracking system to handle the numerous inquiries and to help ensure a complete record-keeping system and audit trail.**

2. \$24,820 In Prohibited Travel and Travel-Related Services Were Purchased With The District Of Columbia Purchase Card

**We concur with this finding and corresponding recommendations. It is noted that the Office of Integrity and Oversight in FY 2003 conducted an audit of the purchase card, and starting in FY 2004 agencies are no longer using purchase cards for travel-related purposes.**

3. At Least \$27,399 In Travel and Travel Related Costs Were Improperly Charged To Local Funds And To The SNAC, TAG And GEAR-UP Programs

Under this section of the main finding:

- \$18,300 was improperly charged to the GEAR-UP program ..... (the second paragraph on page 17).

**We concur with the finding that \$10,850 was originally charged to GEAR-UP; however in August these expenditures were transferred to the local budget (SOAR documentation can be provided). Our records**

**indicate that the remaining \$7,450 in FY 2002 was not charged to GEAR-UP. GEAR-UP funding was not available for use until February 2003.**

- \$4,578 was improperly paid from the SEO's budget to pay the tuition for an employee of the Office of the Chief Technology Officer (OCTO) to attend a technology seminar ..... (the third paragraph on page 17).

**We defer to agency program management for comment.**

- \$618 was improperly used to pay the per diem and airfare expenses for the SEO Administrative Officer's travel ..... (the second paragraph on page 18).

**We defer to agency program management for comment.**

**Of the \$618, the report states that \$534 was charged to the GEAR-UP program in SOAR without authorization from the director of the TAG and GEAR-UP program ..... (the second paragraph on page 18). Although this expenditure was originally charged to GEAR-UP, it was transferred in March 2004 to the local budget (SOAR documentation can be provided).**

- \$746 was improperly used to pay travel expenses for the SEO Administrative Officer's travel ..... (on page 18).

**We defer to agency program management for comment.**

- \$1,108- to pay the expenses of five SEO administrative support individuals employees to travel ..... (on page 19).

**We defer to agency program management for comment.**

- \$77- inappropriately charged to the TAG program to pay the cost of a Program Analyst's travel .....(the third paragraph on page 19).

**We defer to agency program management for comment.**

- \$297-improperly charged to the SNAC program to pay the cost of the Director of Operations' travel to New York. The Auditor did not find any documents in OFRM's travel records which described, justified, and supported payment of this travel expenses. (the forth paragraph on page 19).

**We concur with the latter part of the statement in this finding. It should be noted that OFRM processes the reimbursements according to the OCFO guidelines; no payments are processed unless the relevant supporting documents are attached. It should be also noted that there**

**have been numerous inquiries into and examination of SEO's travel vouchers by various entities (Council, Executive Office of the Mayor, General Accounting Office, Washington Post, etc.) As a result, the original receipts in a few instances may have been misplaced, lost, or copied before returned to OFRM. Going forward, OFRM has put in place a new file-tracking system to handle the numerous inquiries and to help ensure a complete record-keeping system and audit trail.**

- \$1,675- improperly charged to the GEAR-UP program to pay the cost for the director ..... (the first paragraph on page 20).

**We defer to agency program management for comments.**

**FINDING: SEO PROCURED APPROXIMATELY \$88,656 OF SERVICE FOR FOUR RETREATS WITHOUT ADEQUATE JUSTIFICATION**

**We defer to agency program management for comments.**

**FINDING: SEO AND THE CHOICE, INC. FAILED TO COMPLY WITH THE TERMS AND CONDITIONS OF THE DISTRICT'S TEMPORARY STAFFING CONTRACT**

**We defer to agency program management for comments.**

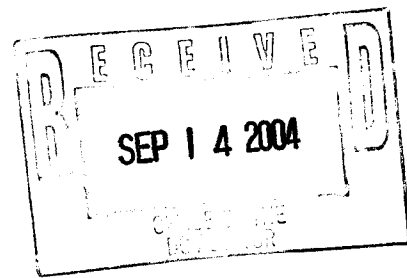
**FINDING: CONTRACT PERSONNEL SERVICES COSTS WERE CHARGED TO PROGRAMS IN WHICH INDIVIDUALS DID NOT WORK**

**We defer to agency program management for comments.**

In closing, I wish to thank you for affording Government Operations Cluster the opportunity to comment on this draft report. Should you have any questions, please contact me at (202) 727-0333. Thank you.

Cc: Sebastian Lorigo, Director, Office of Integrity and Oversight  
Deborah Gist, Director, State Education Office

Ms. Nichols  
September 13, 2004  
Page 1 of 5



September 13, 2004

Deborah K. Nichols  
District of Columbia Auditor  
717 14<sup>th</sup> Street NW, Suite 900  
Washington, DC 20005

RE: Review of the District of Columbia State Education Office for Fiscal  
Years 2002, 2003, and 2004 as of May 5, 2004.

Dear Ms. Nichols:

I am in receipt of the above-referenced draft audit report of the State Education Office transmitted to me with your letter of September 2, 2004, in which you request my review and comment of the same as the former State Education Officer for the District of Columbia. Thank you for the opportunity to do so.

I urge the Auditor General to carefully examine the contentions presented in the report and to consider the following observations before rendering a final report:

1) Errors in objectives, scope and methodology:

1. Several objectives of review fail to state the standard by which the review will be measured:
  - a. The objective "Whether the mission of SNAC is being carried out effectively with regard to personnel and position structure" fails to state a clearly articulated standard by which the SNAC mission effectiveness is to be measured. Even if the standard of mission effectiveness is "the personnel and position structure," there is nothing in the report to indicate how personnel and position structure are the sole criteria for the determination of a program's effectiveness. As a matter of course, one factor, or even a couple of factors cannot be sole criteria for determining whether a program is effective. Thus, the objective itself is critically flawed, misleading and conclusory, in that it assumes that any mistakes in personnel and position structure result automatically in a conclusion that a program's mission is ineffective.
  - b. The objective "Whether SNAC's employee turnover is reasonable" fails to state a clearly articulated standard by which

the objective is measured. First, the stated objective assumes that employee turnover is an auditable matter. Then, the objective fails to state the standard by which turnover is deemed reasonable. Interestingly, the report seems to assume that a high turnover is proof of unreasonableness. But, no such evidence is provided to support this assumption in the report. To the contrary, the report fails to include specific details of each employee involved in the turnover, and fails to reference any adverse personnel actions that may have resulted in terminations, suspensions or discipline. In the absence of reference to readily available personnel records, it is highly conclusory to assume that personnel actions are unreasonable.

2. The report inaccurately redefines travel costs, draws contradictory conclusions about the SEO's managerial responsibility for employee fraud.
  - a. The audit report inappropriately defines the scope of the audit into travel and travel-related expenses to include conference fees and other educational expenses, i.e. tuition. By its own terms, personnel training retreats and office-wide training seminars are excluded from travel or travel-related expenses. Nonetheless, without any justification other than "during the review of travel expense documents" the report sweeps regular staff training into the category of "travel." That illogical blending of fiscal categories presents an inaccurate budget picture, and serves only to heighten a perceived deficiency, rather than render an accurate representation of the facts. The deliberate, yet inappropriate, blending of fiscal categories is even more troubling when one considers the report itself acknowledges that the auditors were acutely aware they should not have blended categories as the SEO's professional development retreats are measured by the inherently different standards found in the District's procurement rules.

More troubling, however, is the assertion that any errors in the procurement process for professional development retreats indicates the SEO was not prudent in preserving the financial best interests of the District. Nothing in the report shows that alternative vendors for the procured services could have resulted in any savings to the District. Even if there had been an error in the SEO's single source procurement of retreat services, the most the auditor could factually report based on the matters contained in the report is that a non-compliance with District policy

existed. In fact, had the auditors consulted with SEO management throughout the course of their audit as they had initially agreed, they could have confirmed that all of the SEO's plans and decisions regarding the appropriateness of sites and expenditures related to development retreats were shared and tacitly approved prior to implementation through weekly reports and/ or weekly meetings with the Mayor's Deputy Chief of Staff. Such consultation would have revealed also that the SEO had sought and received technical support in planning and implementation through the Office of Contracts and Procurement. And, while an error in the process may now be found to exist, it is important to note that the Office of Contract and Procurement never raised any issues of appropriateness with regard to the SEO's single source procurement of professional development retreats.

Additional Matters/Concerns:

Page 2, paragraph 2 –

While the report references documents reviewed, it fails to mention the SEO responded to all USDA management evaluations and all concerns raised therein were resolved. The report omits any mention of the fact that as a result of these efforts and the improved service delivery, the SEO reversed a three-year trend of underutilization of funding and received increases in available allotments from USDA for three successive years.

Page 8 and 9 –

The report alleges staff was inappropriately utilized, but fails to mention the FY'02 cost allocation plan between the SEO and the USDA allowing for sharing of two positions as pooled resources. Further the report fails to mention that USDA's review of the SEO's temporary and detailed staffing plan clearly exceeded the required staffing limit. In fact, it was with the agreement of the USDA and their sharing of the currently used software system that training and automation was undertaken in 2002 and 2003, leading to significantly reduced error rates. It was also during this period that the SEO responded to four USDA reviews and met all requirements. Had the auditors conferred with the SNAC director and USDA, these concerns could have been readily clarified.

Page 10 –

The report alleges personnel issues absent context. Specifically, the report fails to acknowledge that the management evaluations for three years prior had been

negative, and that the downward trend in number of children served began in 2001, prior to the dismissal of the first Director for cause. In 2001, the SEO completed a system audit led by Booze, Allen & Hamilton with the resulting recommendation including major training and position reviews in SNAC, a then underperforming unit. The report omits any mention that those position reviews and the ensuing organizational restructuring would result in a significant staff turnover, especially since automation demanded greater and different degrees of technological proficiency. Interestingly, while the report makes much of the leadership turnover without any reference to their connection to planned organizational shifts, the report fails to make note the effective use of human resources to support SNAC. For instance, one senior level manager, Sharon Bland, was assigned to the SNAC leadership team during the transition phase at an annual local dollar cost of approximately \$50,000, to ensure continuity of leadership and staff support on a daily basis. In a USDA Management Evaluation response for 2003, it was noted by USDA that significantly more that the required fiscal match was allotted to ensure adequate funding for the SNAC program.

Page14-

The report asserts that at least \$20,212 in travel funds were not in compliance with procedures and that more than \$17,000 of these challenges were the result of lack of original documentation. The SEO was required to submit all original documentation to the OFRM and was not responsible for maintaining original documentation. The SEO did, however, maintain extensive and complete copies of all travel records. It is important to note that both the SEO and its leadership were new to the District government and, therefore, sought extensive technical assistance and direction in establishing all systems.

Page16-

The report alleges that the SEO failed to provide “signed and fully supported documentation. However, the SEO provided all documentation requested and staff was reimbursed based on the documentation required and requested by the fiscal partner.

Page 17-

In 2001 the Director of Operations sought guidance from OFRM with regard to the use of the purchase card and both Support Service and the CFO to OFRM indicated that said purchases were appropriate. Contrary to the matters asserted in the report, a file memorandum from the CFO, will reveal that an allowance was made for SEO’s use of the purchase card for fixed costs such as travel, room and board.

Page 17-

The report's assertion that GEARUP dollars were used in 2002 for a program at a non-GEARUP school is mistaken. GEARUP funds were not available during this period in 2002. Moreover, at no time did the SEO request these activities be undertaken with GEARUP dollars. It is worthy of note that the State Education Officer did relay to senior staff at OFRM her concern over OFRM staff member Robert Jose's tendency to make fiscal decisions without consultation with the SEO. Further investigation may reveal these funds were assigned through the actions of OFRM personnel.

Page 20-

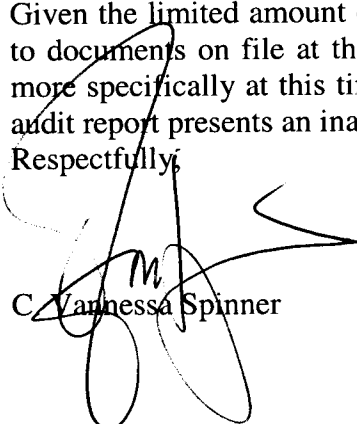
The report fails to explain the use of the term "inadequate justification." In no instance where a DNF was required did the Director of Operations not file one.

Page 23-

In this instance, neither the State Education Officer nor the Director of Operations had the authority to create or modify a contract. Both the Blanket Purchase Order and subsequent requisitions were subject to OCP review and approval. Moreover, when seeking the advice and assistance of Procurement, the Director of Operations was very clear about the intent of use of temporary employees.

Given the limited amount of time to review the audit draft, and given my limited access to documents on file at the SEO, I am unable to provide further details or to elaborate more specifically at this time. Suffice it to say, however, it is my opinion that the draft audit report presents an inaccurate picture of the SEO during the years cited.

Respectfully,



C. Vanessa Spinner