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# Ineffective Management, Poor Internal Controls, and Inadequate Financial Oversight Found Within the District's Subsidized Child Care Program

**September 15, 2004**

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# EXECUTIVE SUMMARY

## PURPOSE

Pursuant to Pub.L.No. 93-198, Section 455, D.C. Code, §1-204.55, and a request from Councilmember Sandra Allen, the District of Columbia Auditor ("Auditor") examined the accounts and operations of the Department of Human Services' ("DHS") Office of Early Childhood Development ("OECD"), focusing on the Subsidized Child Care Program ("SCCP") for fiscal years 2001 and 2002.

## CONCLUSION

Management of the DHS and OECD failed to implement adequate and effective internal controls to ensure management accountability, prudent financial decision making, compliance with applicable laws and regulations, and effective control over SCCP's revenue, expenditures, and spending practices. Further, DHS and OECD financial and program managers failed to conduct fiscal impact analyses, periodic financial reviews, and program cost analyses of the SCCP.

The Auditor found that a lack of effective financial oversight, poor internal controls, financial mismanagement, and ineffective fiscal accountability fostered wasteful use of District and federal funds, and deprived eligible applicants access to the SCCP. Over the two year period reviewed, the Auditor found that the failure of DHS and OECD management and the Director of the District of Columbia School System's (DCPS) Temporary Assistance for Needy Families ("TANF") program to adequately perform their fiduciary responsibilities cost the District approximately $6.4 million in actual or potential revenue that could have been used to fund subsidized child care services for non-TANF children placed on the waiting list and to offset the cost of other SCCP expenses. The total $6.4 million in mismanaged revenue consisted of: (1) overpayments made to providers totaling $4.8 million for fiscal years 2001 and 2002; (2) unclaimed Federal Title IV-E reimbursements totaling at least $520,000 to $640,000 for foster care children receiving subsidized child care services between April 2001 through December 2002; and (3) a potential $1,000,000 in revenue that DCPS's TANF program could have generated if its manager had implemented an effective system for charging and collecting fees from parents of children served by the AFTERCARE program.

The Auditor's review of OECD's operations and financial records for the SCCP revealed that during January 2002, four months into fiscal year 2002, the DHS Chief Financial Officer ("DHS CFO") projected a SCCP budget shortfall of approximately $14 million for fiscal year 2002. This budget shortfall was the result of: (1) a significant miscalculation in the amount of FY 2001 federal carryover grant funds available for expenditure in FY 2002. Instead of $6,316,611 being available as projected, only $145,578 was available for expenditure in FY 2002; and (2) overspending for child care services provided to children enrolled in the SCCP program. As a result, DHS had to: (1) reprogram a total of $12,907,681 from TANF block grant funds; and (2) redirect $1,600,822 from federal Child Care Development Fund ("CCDF") matching and discretionary funding to cover the $14 million shortfall. The budget shortfall and the TANF and CCDF reprogrammings indicate that the DHS CFO failed to timely and effectively perform appropriate fiscal impact analyses and periodic financial reviews necessary to detect and alert management to financial conditions that could, and ultimately did, adversely effect the SCCP.

The Auditor found that DHS OECD was forced to start a waiting list because authorized funding was not sufficient to sustain the number of children enrolled in the SCCP and at the same time support new non-TANF enrollments. Effective June 1, 2002, OECD created a waiting list for children of non-TANF families. As of July 29, 2003, the waiting list had increased to 1,230 children. The Auditor further found that as a consequence of programmatic and financial mismanagement, including a lack of long range planning and ineffective management control over SCCP spending, OECD failed to provide assistance to some of the District's most vulnerable residents as well as eligible non-TANF working parents who were denied access to SCCP.

An examination of OECD's payments to subsidized child care providers revealed that OECD management engaged in a careless pattern of overpayments to providers. For FY 2001 and FY 2002, OECD overpaid its providers a total of $2,426,962 and $2,379,171, respectively, for a grand total of $4,806,133. The Auditor found that OECD's internal controls over payments made to subsidized child care providers were inadequate and not functioning effectively. Further, the magnitude of overpayments indicated serious and costly deficiencies in the management and oversight of the SCCP provider payment system.

DHS OECD executed a memorandum of understanding (MOU) with the District of Columbia Public Schools ("DCPS") to provide after school, before school, and summer programs for low-income youth during school years 2001 and 2002. AFTERCARE program activities and funding were specifically earmarked for eligible low-income youth. Despite income eligibility requirements, the Director of DCPS TANF Programs stated that he intentionally[1] opened enrollment in the FY 2002 AFTERCARE program to all children regardless of their parents' income. The Auditor found that opening enrollment to all children resulted in $4.7 million in overspending which was carried out willfully by the DCPS TANF Director with full knowledge that funding had not been approved and was not available to pay for these additional costs. This decision was made in reckless disregard of federal grant requirements, the school system's FY 2002 appropriation, and the federal Anti-Deficiency Act. Further, the Director's intentional overspending adversely affected DCPS's overall financial condition and undermined ongoing efforts to address its precarious financial position and provide after school, before school, and summer programs for low-income youth during school year 2002. The Auditor's review further indicated that SCCP funds made available to DCPS's TANF program were carelessly monitored and accounted for by the OECD Director and were misused by DCPS's TANF Program Director to support other DCPS programs.

Additionally, DHS/OECD executed a MOU with the DCPS Head Start Program ("DCPSHS") to provide child development services for infants, toddlers, and pre-school children from October 1, 2000 through September 30, 2002. This MOU, as modified, required DCPSHS to provide an annual report to DHS/OECD detailing the expenditure of funds. The Auditor found that DCPSHS had not provided the required annual report and the OECD Director could not produce documentation that she ever requested annual reports.

Finally, DHS/OECD management executed MOUs with the Department of Parks and Recreation ("DPR") for FY 2001 and FY 2002 requiring DPR to provide child care services, and the DHS CFO to conduct at least one visit per year to the administrative offices of DPR to review financial records and other program records as may be required. The Auditor requested the DHS CFO to provide written summaries documenting the results of her review of DPR's financial and other program records for FY 2001 and FY 2002. The Auditor found that the DHS CFO could not provide any written summaries for the Auditor's review. Furthermore, the above referenced MOUs did not require DPR to provide an annual report detailing the expenditure of funds to DHS/OECD. The Auditor's review indicated that SCCP funds made available to DCPSHS and DPR were carelessly monitored and not accounted for by OECD management.

[1] Audit team's interview of DCPS' TANF Director initially occurred on January 22, 2003.

## MAJOR FINDINGS

1. Inadequate and unreliable internal management and financial controls restricted access to the SCCP.

2. DHS reprogrammed $14.5 million from its TANF block grant and CCDF matching and discretionary funds to cover a $14 million FY 2002 funding shortfall in the SCCP.

3. DHS's CFO failed to timely communicate the actual amount of funding available for the SCCP in FY 2002.

4. Poor long range financial planning and mismanagement forced OECD to create a waiting list to limit the number of children served by the SCCP.

5. OECD management engaged in a careless pattern of overpayments to providers which totaled $4.8 million during the audit period.

6. OECD management paid $87,120 for a FY 2000 operational review which identified persistent deficiencies in the SCCP and then failed to address the findings and recommendations.

7. The Director of the DCPS TANF Program intentionally overspent the FY 2002 AFTERCARE program budget by $4.7 million.

## MAJOR RECOMMENDATIONS

1. The Executive Director of OECD and the DHS CFO immediately implement adequate procedures necessary to monitor, manage, and forecast funding and expenditures for subsidized child care services in a prudent and responsible manner in order to avoid future operating shortfalls and program disruption.

2. The DHS CFO monitor OECD's spending and provide timely, sound financial reporting services, information, and guidance to DHS and OECD officials and program managers so that contingency plans, if warranted, can be implemented immediately.

3. The Director of DHS and the Executive Director of OECD implement planned strategies; devise additional strategies to address funding challenges for subsidized child care services in the District of Columbia; and pursue other funding options that may provide needy families with a stable source of financial assistance for child care services.

4. The Director of DHS, Executive Director of OECD, DHS CFO, and the Director of the Child and Family Services Agency ("CFSA"), within 45 days of the date of this report, determine and report to the Auditor and the Chairperson, Committee on Human Services, Council of the District of Columbia, the exact amount of reimbursements to be received from CFSA for child care services provided to foster children at least for the period April 2001 through December 2002.

5. The Director of DHS and the Executive Director of OECD immediately prepare a detailed cost analysis report, with justifications, which presents the average cost of providing child care services through DCPS, DCPSHS, and DPR beginning with fiscal year 2001 and provide a copy of this report to the Auditor and the Chairperson, Committee on Human Services, Council of the District of Columbia, within 90 days of the date of this report.

6. The Executive Director of OECD:

   (a) update the waiting list procedures to include an objective decision-making process for moving families from the waiting list into the SCCP;

   (b) document all applicable procedures and guidelines for the waiting list in one official record;

   (c) begin to maintain a master waiting list showing all children that have been posted to the waiting list and track and update their status; and

   (d) institute a follow-up system for communicating with parents and guardians on the waiting list.

7. The Executive Director of OECD, the Supervisor of the SCCP, and the DHS CFO review the current system of internal controls over provider payments to determine

the accuracy of Monthly Attendance Reports ("MARs") filed by providers and ensure that the controls are effective and functioning as intended. MARs must be adequately and timely reviewed and verified by designated OECD staff in order to determine whether any terminations or other changes occurred that affect payments. Overpayments must be immediately detected and identified and adjusted on a monthly basis not more than 30 days after a child's termination or other changes that affect payments.

8. The Executive Director of OECD require providers to submit bi-weekly attendance reports and bi-weekly termination reports which should be reviewed and verified immediately for accuracy and completeness. All attendance and termination reports should be approved by specifically designated OECD managers and filed in an organized, secure record keeping system at a minimum for accounting and audit purposes.

9. The Executive Director of OECD establish an effective system of accountability and documentation of providers who regularly submit inaccurate and incomplete attendance and termination reports. Providers who are found to be filing fraudulent attendance reports must be referred by the Executive Director of OECD to the Office of the Inspector General or other appropriate law enforcement authorities for immediate investigation.

10. The Executive Director of OECD immediately prepare a corrective action plan and timetable for promptly addressing all of the findings and implementing the recommendations presented in Bert Smith & Co.'s February 28, 2002 report.[2] The Executive Director of OECD must provide a copy of the corrective action plan and timetable to the Chairperson of the Council of the District of Columbia's Committee on Human Services and the District of Columbia Auditor within 30 days of the date of this report.

11. The DCPS Superintendent thoroughly review the actions taken by the Director of the DCPS TANF Program in managing the AFTERCARE program during FY 2001 and FY 2002. Furthermore, the DCPS Superintendent should consider whether the

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[2]*See* Bert Smith & Co., "District of Columbia Department of Human Services, Office of Early Childhood Development Report on the Payment Management System," dated February 28, 2002.

actions of the Director constituted negligence or willful disregard for applicable laws, rules, regulations, and policies. To the extent that the TANF Director's actions are found to be negligent, intentional, or in willful disregard of applicable laws, regulation, and rules, the TANF Director should be held accountable to the fullest extent permitted under District laws and DCPS personnel rules including termination.

12. The Director of DCPS TANF Programs immediately establish an electronic list of students enrolled in DCPS TANF programs and provide an electronic copy of this list to the Auditor within 45 days of the date of this report.

13. The Executive Director of OECD:

    (a) require that DCPS officials immediately file all overdue financial reports, perform an analysis of the reports for compliance with the MOU and other legal and regulatory requirements, and investigate immediately any unusual charges or costs. A copy of the overdue reports must be provided to the Auditor within 45 days of the date of this report;

    (b) establish an effective system to monitor and review compliance with MOUs executed with DCPS to ensure that the required financial and program reports are submitted timely, as well as to ensure compliance with all other terms and conditions of the MOU.

14. The Executive Director of OECD immediately require DCPSHS to provide an annual report detailing the expenditure of funds provided under the fiscal year 2001 and 2002 MOUs and review these annual reports to determine compliance.

15. The Executive Director of OECD require DPR to submit detailed expenditure reports for FY 2001 and FY 2002 within 45 days of the date of this report. Copies of these reports must also be provided to the Chairperson, Committee on Human Services, Council of the District of Columbia. Further DPR must be required to submit detailed enrollment and expenditure reports for FY 2003 and FY 2004, and in future fiscal years.

16. The DHS CFO provide to the Auditor FY 2001 and FY 2002 written summaries covering reviews of DPR's financial and program records within 30 days of the date

of this report. However, if such required visits have not been performed, the DHS CFO must immediately conduct a visit to review financial and other relevant records for FY 2001, FY 2002, and FY 2003. The corresponding written summaries must be submitted to the Executive Director of OECD and the District of Columbia Auditor within 45 days of the date of this report.

17. The Director of DHS and the Executive Director of OECD immediately prepare a detailed cost analysis report, with justifications, which presents the average cost of providing child care services through DCPS, DCPSHS, and DPR beginning with fiscal year 2001 and provide a copy of this report to the Auditor and Chairperson, Committee on Human Services, Council of the District of Columbia, within 90 days of the date of this report.

## PURPOSE

Pursuant to Pub.L.No. 93-198, Section 455, D.C. Code, §1-204.55, and a request from Councilmember Sandra Allen, the District of Columbia Auditor ("Auditor") examined the accounts and operations of the Department of Human Services' (DHS) Office of Early Childhood Development (OECD), focusing on the Subsidized Child Care Program (SCCP), for fiscal years 2001 and 2002.

## OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of the audit were to determine whether:

1. a deficit existed within OECD's SCCP at September 30, 2002;

2. policies and procedures were developed and implemented to govern the management of a waiting list for the SCCP; and

3. internal controls over vendor payments for subsidized child care services were sufficient to safeguard the program's financial resources.

The scope of the audit included the activities noted above for the period October 1, 2000 through September 30, 2002.

In conducting the audit, the Auditor reviewed relevant data and records obtained from OECD, DHS, DCPS, and DPR. Additionally, the Auditor interviewed appropriate OECD and DHS officials and employees.

## BACKGROUND

The District of Columbia Employees Child Care Facility Act of 1986 (the "Act"), D.C. Law 6-169,[3] established a "child care bureau" within the District of Columbia ("District") government to implement the provisions of the Act and other programs to promote child care. On November 19,

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[3] *See* the District of Columbia Employees Child Care Facility Act of 1986, D.C. Law 6-169, effective February 24, 1987, D.C. Code, §4-901 *et seq.*

1987, DHS Organization Order No. 146[4] established OECD, which serves as the District's child care bureau within the Commission on Social Services.

The overall mission of OECD is to ensure that the District government and the private sector are aware of and responsive to the child development and early education needs of children in the District of Columbia. OECD primarily accomplishes this mission through its SCCP. The program provides child care subsidies to help finance the care of eligible[5] District children ages 6 weeks through 12 years, and disabled children through age 18. The stated goals are to: (1) serve as the single administrative unit within the District government responsible for coordinating citywide efforts to expand and improve child care and develop services in the public and private sectors; (2) provide comprehensive services to infants and toddlers with disabilities and their families; (3) assist eligible District families in selecting and paying for child care services; and (4) leverage public and private sector resources to create comprehensive child care services.

## OECD and SCCP Budgets and Funding

The gross operating budget for OECD for fiscal years 2001 and 2002 was $80,366,403 and $84,491,795, respectively. The components of this funding ( federal and local) are shown in Table I.

**TABLE I**
**Office of Early Childhood Development's**
**FY 2001 and 2002 Funding by Source**

| FUNDING SOURCE | FY 2001 | FY 2002 | VARIANCE $ | VARIANCE % |
|---|---|---|---|---|
| FEDERAL | $ 57,229,365 | $ 61,629,428 | $ 4,400,063 | 7.7% |
| LOCAL | $ 23,137,038 | $ 22,862,367 | $ (274,671) | -1.2% |
| **TOTAL** | **$ 80,366,403** | **$ 84,491,795** | **$ 4,125,392** | **5.1%** |

Source: Department of Human Services

[4] Department of Human Services Organization Order No. 146, Office of Early Childhood Development, November 19, 1987.

[5] See Appendix I for a detailed description of the eligibility criteria--relationship, residence, need, and income.

A substantial portion of OECD's budget is used to fund the activities of the SCCP. In FY 2001 and FY 2002, SCCP funding accounted for 99% and 96%, respectively, of OECD's budget, as shown in Table II.

**TABLE II**
**SCCP's Share of OECD's Budget:**
**Fiscal Years 2001 and 2002**

| Funding Target | FY 2001 | FY 2002 | TOTAL |
|---|---|---|---|
| OECD | $ 80,366,403 | $ 84,491,795 | $ 164,858,198 |
| SCCP | $ 79,719,687 | $ 81,272,079[6] | $ 160,991,766 |
| SCCP's % share of OECD's budget | 99.2% | 96.2% | 97.7% |

Source: Department of Human Services

In FY 2001 and FY 2002, approximately 30% of SCCP's funding was provided through District appropriations (local funding). In addition to District appropriated funds, the SCCP received funding from the federal CCDF block grant and TANF which were created by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, Pub.L.No. 104-193.[7] CCDF grants must be spent on child care services. Also, a maximum of 30 % of a state's TANF funds may be spent on child care services provided to TANF recipients. The sources of SCCP funding for FY 2001 and FY 2002 are shown in Table III.

[6]The initial budget for the FY 2002 SCCP was $72,934,609. This budget was later revised to $81,272,079 as of September 30, 2002. See Table VI for analysis of the budget and expenditures for the FY 2002 SCCP.

[7]*See* the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, Pub.L.No. 104-193, 110 Stat. 2105.

**TABLE III**
**Source of SCCP Funding:**
**Fiscal Years 2001 and 2002**

| Funding Source | FY 2001 | FY 2002 | Percentage |
|---|---|---|---|
| LOCAL | $ 22,837,038 | $ 22,686,697 | 29.82% |
| FEDERAL: CCDF & TANF | $ 56,882,649 | $ 50,247,912 | 70.18% |
| **TOTAL** | **$ 79,719,687** | **$ 72,934,609** | **100.00%** |

Source: Department of Human Services

The FY 2002 budget of $72,934,609 included a projected carryover of $6,316,611 in federal grant funds from FY 2001. However, the initial FY 2002 budget for the SCCP had to be revised to $81,272,079 through a reprogramming of funds as a result of two factors: (1) only $145,578 of the projected $6,316,611 federal carryover was actually available in FY 2002; and (2) OECD incurred substantial overspending in providing child care services to an increased number of children enrolled in the SCCP.

## SCCP Eligibility Criteria

Each family and child must meet four eligibility criteria in order to participate in the SCCP. These criteria are family relationship, residency status, need, and income. (See Appendix I for a more detailed description of each criterion.)

## SCCP Program Components

The SCCP is divided into four components: (1) day care provided through licensed community-based organizations, charter schools, faith-based organizations, and family child care homes, commonly referred to as providers; (2) AFTERCARE provided through the District of Columbia Public Schools (DCPS); (3) child care provided in partnership with Head Start through DCPS; and (4) day care provided through the DPR. A discussion of each component follows.

## Providers[8]

Licensed community-based organizations, charter schools, faith-based organizations, and family child care homes participating in the SCCP provided various forms of subsidized child care services to approximately 8,179 children per month in fiscal year 2001 and approximately 9,431 children per month in fiscal year 2002.

For fiscal years 2001 and 2002, OECD paid participating child care providers direct subsidy payments totaling $44,340,284 and $51,109,300, respectively. The increase of $6,769,016 in direct subsidy payments for FY 2002 was due mainly to the fact that OECD served more children during FY 2002.

## DCPS's AFTERCARE Program

DHS, on behalf of the OECD, executed a MOU with DCPS for DCPS to provide education, sports, and art programs to eligible school age youth during school years 2001[9] and 2002.[10] Pursuant to the MOU, DHS OECD provided $10,000,000 in funding to DCPS in FY 2001 and $11,500,000 in FY 2002 to provide these services.

During FY 2001, DCPS operated the following two programs:

1. **AFTERCARE** - provided services to 6,000 eligible children from 3:30 p.m. until 6:30 p.m. during the school year; and

2. **Summer Education/Arts/Sports (SEAS)** - provided services to 9,000 eligible children from 12:30 p.m. until 6:30 p.m. between June 25, 2001 and August 3, 2001.

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[8] A subsidy provider can enroll children receiving subsidized child care services in up to 95% of its total licensed capacity. For example, if a subsidy provider has a licensed capacity of 100 children, a maximum of 95 children can be participants in the SCCP. The other 5 children would have to be private pay. Providers decide the ratio of subsidy and non-subsidy children they will enroll.

[9] *See* Memorandum of Understanding between Department of Human Services and the District of Columba Public to Provide After School Child Care Services, executed on February 20, 2001; and Bilateral Modification to the MOU between the Department of Human Services and the District of Columbia Public Schools, dated September 25, 2001.

[10] *See* Memorandum of Understanding between Department of Human Services and the District of Columba Public Schools to Provide Programs for Low-Income Youth During Out-of-School Hours–Fiscal Year 2002.

The FY 2001 MOU was modified to add the following two new programs:

(a) a PRECARE program which operated during the regular school year from 7:00 a.m. to 8:30 a.m.; and
(b) an AM Session program which operated only during the summer from 8:00 a.m. to 12:30 p.m.

DCPS agreed to serve 500 children in the PRECARE program and 22,000 children in the AM Session program. The FY 2001 MOU modification also increased the total number of eligible children to be served by the AFTERCARE program from 6,000 to 9,000, and increased the total number of eligible children to be served by the SEAS program from 9,000 to 13,000. To reimburse DCPS for these additional participants, OECD management provided an additional $2.5 million which increased funding from $10 million to $12.5 million. In its FY 2001 annual report to OECD, DCPS indicated that the AFTERCARE program served 9,500 low-income children at 68 sites (500 more than stated by the amended MOU ), and the SEAS program served 12,350 children at 101 sites (650 less than stated in the MOU). DCPS failed to report the number of children served by the PRECARE and AM Session programs.

During FY 2002, DCPS agreed to enroll up to 10,000 children in the AFTERCARE program and OECD agreed to provide $11.5 million in funding to DCPS. According to OECD officials, funding for the PRECARE program was included in the $11.5 million. There was no AM Session or SEAS programs offered during FY 2002. The Auditor found no written justification prepared by OECD management to support the $1.5 million increase in funding for less services provided in FY 2002. In its FY 2002 annual report to OECD, DCPS indicated that the AFTERCARE program served 10,000 children at 119 sites. Again, DCPS failed to report the number of children served by the PRECARE program.

**DCPS's Head Start Program**

Additionally, in fiscal year 2001 DHS OECD executed a MOU with the DCPSHS program to provide child development services to infants, toddlers, and pre-school children from October 1, 2000 through September 30, 2001.[11] DCPSHS agreed to provide full-day child care services to 23

[11] *See* Memorandum of Understanding ("MOU")between the Department of Human Services, Office of Early Childhood Development and the District of Columbia Public Schools Head Start Program to Provide Child Care Services for Infants, Toddlers and Pre-School Age Children, October 1, 2000-September 30, 2001, effective October 1, 2000, and dated March 2, 2001.See also Bilateral Modification to the MOU between DHS and DCPS,

infants and toddlers ages 6 weeks through 30 months, and 58 pre-school children from 30 months through four years of age. The MOU provided $668,674 in funding for the period October 1, 2000 through September 30, 2001.

The MOU was modified twice. The first bilateral modification, dated February 14, 2002, extended the MOU for one year to September 30, 2002; increased the total number of children that could be enrolled in the program from 81 to 89,[12] and increased funding to $714,746. The second bilateral modification, dated March 21, 2002, reduced funding from $714,746 back to $668,674 due to budget constraints.

**DPR's Preschool and School Age Child Care Program**

DHS/OECD also executed a MOU with DPR to provide child care services to at least a total of 1,209 children which consisted of 1,149 children ages two through 12 years, and 60 children with disabilities between ages five and 18, from October 1, 2000 through September 30, 2001.[13] For FY 2001, DHS/OECD provided funding of $7,796,516.

For FY 2002, DHS OECD provided funding of $8,000,000 and DPR agreed to provide child care services to a minimum of 1,236 children.

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dated February 14, 2002, which amends MOU dated March 2, 2001 by extending the duration, increasing the number of children, and increasing funding for the second year (FY 2002) to cover additional costs incurred. *See also* Second Bilateral Modification to MOU dated May 20, 2002, which reduces the amount of funds DHS transfers to DCPS to provide child care services for infants, toddlers, and pre-school children through Head Start for FY 2002.

[12]The number of infants to receive full-day child care services increased from 23 to 31.

[13]*See* Memorandum of Understanding ("MOU") between the Department of Human Services, Office of Early Childhood Development and the Department of Parks and Recreation, executed on March 8, 2002.

# FINDINGS

## INADEQUATE AND UNRELIABLE INTERNAL MANAGEMENT AND FINANCIAL CONTROLS RESTRICTED ACCESS TO THE SCCP

The purpose of many of OECD's programs are to benefit the early and special educational and developmental needs of District children. Due to a pattern of financial mismanagement, poor internal controls, and lack of attention to program objectives, many of the intended beneficiaries of OECD programs were poorly served by its management. Too often, the Auditor found that internal financial controls necessary to promote the SCCP's program objectives were not properly in place or were non-existent.

There was no evidence available to the Auditor suggesting that a fiscal impact analysis was conducted by OECD management with the assistance of the DHS CFO to determine whether sufficient funding would be available to accommodate expanded enrollment during FY 2002. Further, financial mismanagement and ineffective fiscal accountability fostered wasteful and inappropriate use of a significant portion of the SCCP's financial resources.

### DHS Reprogrammed $14.5 Million from its TANF Block Grant and CCDF Matching and Discretionary Funds to Cover A $14 Million FY 2002 Funding Shortfall in the SCCP

During January 2002, four months into fiscal year 2002, the DHS CFO projected a SCCP budget shortfall of approximately $14.5 million. According to the DHS CFO, OECD was informed of this deficit projection on January 10, 2002. To address the projected budget shortfall and overspending in the SCCP, DHS had to: (1) reprogram a total of $12,907,681 from TANF block grant funds; and (2) redirect $1,600,822 from CCDF matching and discretionary funding. These additional funds, totaling $14,508,503, were used to pay providers for children already receiving subsidized child care services. Additionally, because of TANF funds eligibility requirements, OECD had to limit new enrollments in the program to TANF eligible persons only and establish a waiting list for all non-TANF applicants. The amounts reprogrammed are presented in Table IV.

**TABLE IV**
**Office of Early Childhood Development:**
**Reprogramming During Fiscal Year 2002**

| Date | Amount |
|---|---|
| **TANF Funds**: | |
| July 2, 2002 | $ 7,812,681 |
| August 20, 2002 | 1,095,000 |
| September 13, 2002 | 4,000,000 |
| **Total Reprogrammings for TANF Funds** | **$12,907,681** |
| **CCDF Matching and Discretionary Funds**: | |
| As of September 30, 2002 | **1,600,822** |
| **Total Funds Reprogrammed** | **$14,508,503** |

Source: Department of Human Services

The DHS CFO determined that estimated FY 2001 federal carryover grant funds of $6.3 million were overstated by $6.2 million resulting in an actual carryover of only $145,578. Thus, the assumption that $6.3 million of FY 2001 funds would be available for expenditure in FY 2002 was materially flawed and represented a significant miscalculation that substantially contributed to the FY 2002 shortfall. Table V presents the initial FY 2002 budget, adjustments, revised budget, and total expenditures for the SCCP.

## TABLE V

## SCCP Initial Budget, Adjustments, Revised Budget, and Total Expenditures For FY 2002

| | A | B | C | D | E | F | G |
|---|---|---|---|---|---|---|---|
| **Cost Category (Object)** | **Initial Budget** | **Adjustment for Federal Grant Carryover** | **Initial Budget with Realized Federal Grant Carryover** | **Revised Budget** | **Variances (D - C = E)** | **Total Expenditures** | **(Revised Budget vs. Total Expenditures) (D - F = G)** |
| Personnel | $ 2,121,873 | $ 0 | $ 2,121,873 | $ 2,132,568 | $10,695 | $ 2,543,524 | $ (410,956) |
| Supplies and Materials | 805,000 | 0 | 805,000 | 57,000 | (748,000) | 56,471 | 529 |
| Telephone and Teletype | 162,040 | 0 | 162,040 | 162,040 | 0 | 162,040 | 0 |
| Rentals, Land & Structures | 464,026 | 0 | 464,026 | 464,026 | 0 | 464,026 | 0 |
| Security Services | 146,241 | 0 | 146,241 | 146,241 | 0 | 146,241 | 0 |
| Other Services & Charges | 149,097 | 0 | 149,097 | 149,097 | 0 | 78,364 | 70,733 |
| Contractual Services | 5,685,951 | 0 | 5,685,951 | 7,191,050 | 1,505,099 | 5,968,739 | 1,222,311 |
| Subsidies and Transfers[14] | 61,365,481 | (6,171,033) | 55,194,448 | 70,777,728 | 15,583,280 | 70,358,608 | 419,120 |
| Equipment and Rental | 2,034,900 | 0 | 2,034,900 | 192,329 | (1,842,571) | 161,519 | 30,810 |
| **TOTALS** | **$72,934,609[15]** | **($6,171,033)** | **$66,763,576** | **$81,272,079** | **$14,508,503** | **$79,939,532** | **$ 1,332,547** |

Source: Department of Human Services

[14]The line item for Subsidies and Transfers includes payments to providers of subsidized child care services in addition to intra-district transfers under the MOUs between OECD, DCPS, and DPR.

[15]The initial budget is prepared two years in advance. According to DHS and OECD officials, the FY 2002 initial budget was prepared during October 2000 through November 2000.

**DHS' CFO Failed to Timely Communicate the Actual Amount of Funding Available for the SCCP in FY 2002**

The Auditor found that there was a complete breakdown in communications between the DHS CFO and OECD program managers regarding how much of the \$6.3 million FY 2001 carryover in federal grant funds would be available for expenditure in FY 2002. As previously noted, only \$145,578 of the \$6.3 million FY 2001 carryover was actually available for expenditure in FY 2002.

The Auditor also found that there was an apparent lack of communications regarding the fiscal impact of OECD management's decision to increase SCCP enrollment. Further, there was no apparent prior determination made as to whether there would be sufficient funding to support the costs of increased enrollment. Nevertheless, OECD management increased subsidized child care service enrollment through the first quarter of FY 2002 in the absence of credible financial information showing that sufficient funding was available in FY 2002.

The DHS CFO did not timely and effectively perform fiscal impact analyses or appropriate periodic financial reviews of the SCCP which were necessary to detect and alert management to financial conditions that would later adversely affect the SCCP. Finally, it was evident that OECD program managers either ignored, disregarded, or were not fully informed of the potential adverse consequences of program expansion and making substantial long-term child care subsidy commitments without having assurances that adequate funding would be available. It is abundantly clear that financial managers charged with the responsibility of providing timely, sound financial services, information, and guidance to DHS and OECD failed to adequately perform their fiduciary responsibilities with regard to the SCCP. A lack of effective financial oversight and flawed management decision making resulted in adverse consequences to intended beneficiaries of the SCCP.

**DHS Planned to Implement Additional Strategies to Address Funding Challenges in OECD's SCCP**

In testimony presented in a June 10, 2002 public hearing before the Committee on Human Services, the Director of DHS discussed strategies to address OECD's funding challenges. The Auditor requested the Director to provide a written status of DHS OECD's efforts to implement each strategy. (See Appendix II for the strategies and DHS's implementation efforts, as represented by the Director of DHS to the Auditor).

In particular, the Director indicated that DHS and OECD were seeking Federal Title IV-E reimbursements from the CFSA for foster care children in its custody receiving subsidized child care services provided by OECD, including back claims allowable over the prior two years. At the time, OECD officials estimated that back claims totaled \$520,000 to \$640,000 for the period April 2001 through December 2002. The estimate was based on the number of children in foster care who received subsidized child care services. More importantly, OECD management did not prepare a plan, strategy, or timetable for determining the amount of back claims that needed to be filed to obtain reimbursement from CFSA. This appears to be a significant source of funding for the SCCP that has been mismanaged and inadequately pursued by OECD management.

## RECOMMENDATIONS

1. The Executive Director of OECD and the DHS CFO immediately implement adequate procedures necessary to monitor, manage, and forecast funding and expenditures for subsidized child care services in a prudent and responsible manner in order to avoid future operating shortfalls and program disruption.

2. The DHS CFO monitor OECD's spending and provide timely, sound financial reporting services, information, and guidance to DHS and OECD officials and program managers so that contingency plans, if warranted, can be implemented immediately.

3. The Director of DHS and the Executive Director of OECD implement planned strategies; devise additional strategies to address funding challenges for subsidized child care services in the District of Columbia; and pursue other funding options that may provide needy families with a stable source of financial assistance for child care services.

4. The Director of DHS, Executive Director of OECD, DHS CFO, and the Director of the CFSA, within 45 days of the date of this report, determine and report to the Auditor and the Chairperson, Committee on Human Services, Council of the District of Columbia, the exact amount of reimbursements to be received from CFSA for child care services provided to foster children at least for the period April 2001 through December 2002.

5. The Director of DHS and the Executive Director of OECD immediately prepare a detailed cost analysis report, with justifications, which presents the average cost of

providing child care services through DCPS, DCPSHS, and DPR beginning with fiscal year 2001 and provide a copy of this report to the Auditor and the Chairperson, Committee on Human Services, Council of the District of Columbia within 90 days of the date of this report.

## POOR LONG RANGE FINANCIAL PLANNING AND MISMANAGEMENT FORCED OECD TO CREATE A WAITING LIST TO LIMIT THE NUMBER OF CHILDREN SERVED BY THE SCCP

DHS OECD was forced to start a waiting list because, at the time, authorized funding was not sufficient to support the number of children enrolled in the SCCP or to support new non-TANF enrollments. OECD created a waiting list, effective June 1, 2002, for children of non-TANF families in the following six eligibility categories: (1) working parents, (2) parents in training or G.E.D. programs, (3) parents pursuing higher education, (4) disabled parents, (5) parents seeking employment, and (6) parents in vocational rehabilitation.

Children enrolled in the SCCP before June 1, 2002, continued to receive subsidized child care services after June 1, 2002, as long as they remained eligible. As of October 21, 2002, OECD had posted a total of 604 children on the waiting list. The Auditor determined that these waiting children represented a total of 514 families (parents and guardians). Of the 604 children on the waiting list, 581, or 96%, represented children of non-TANF working parents.

As a consequence of programmatic and financial mismanagement, including lack of long range planning, eligible non-TANF working parents were denied access to the SCCP. OECD's denial of subsidized child care services to non-TANF families may have exposed these children to unreasonable risks of harm. Further, as TANF eligible families receiving subsidized child care services become ineligible to participate in the TANF program, the Auditor questions the impact this will have on their continued eligibility to receive TANF funded subsidized child care services and the effect it may have on their ability to work if denied these services.

As of July 29, 2003, the waiting list had increased to 1,230 children. At the time of our field work, OECD was not placing any children from the waiting list in the SCCP unless the parents were, or became, eligible to receive TANF benefits.

DHS/OECD officials should manage and expend funding for subsidized child care services in a prudent and responsible manner so that as many eligible District families applying to receive SCCP services, not just TANF eligible families, may timely receive these services. The SCCP is a safety net that the Auditor's examination revealed had been mismanaged to the point that it failed to provide assistance to some of the District's most vulnerable and neediest residents.

## RECOMMENDATIONS

1. The Executive Director of OECD:

   (a) update the waiting list procedures to include an objective decision-making process for moving families from the waiting list into the SCCP;

   (b) document all applicable procedures and guidelines for the waiting list in one official record;

   (c) begin to maintain a master waiting list showing all children that have been posted to the waiting list and track and update their status; and

   (d) institute a follow-up system for communicating with parents and guardians on the waiting list.

## OECD MANAGEMENT ENGAGED IN A CARELESS PATTERN OF OVERPAYMENTS TO PROVIDERS WHICH TOTALED $4.8 MILLION DURING THE AUDIT PERIOD

In order to receive a monthly subsidy payment, each provider is required to submit a Monthly Attendance Report (MAR) showing the names of children served, days present and absent, date terminated, and any relevant comments. The Auditor found that OECD's internal controls over payments made to subsidized child care providers were inadequate and those present were not functioning effectively. For FY 2001 and FY 2002, OECD overpaid its providers a total of $2,426,962 and $2,379,171, respectively, for a grand total of $4,806,133. Although most overpayments were eventually recovered, the magnitude of overpayments reflected a serious deficiency in the management and oversight of the SCCP provider payment system as many providers enjoyed the use of public funds they were not entitled to receive.

When a child stops attending a provider's facility, the provider is required to report the last date of attendance on the MAR. When a termination date is entered in the OECD database, the corresponding payment for the child should end. If a provider does not report or does not timely report a child's termination from the SCCP, payments for that child continue to be made even though child care services are no longer being provided. In these instances, the provider continues to receive payment for a child no longer receiving services until OECD is notified and initiates the proper action to terminate payment. The payment system assumes that if a child is in the database and has been authorized for payment, the child is attending the provider's facility, and the provider will continue to receive payment for that child whether or not the child is actually in the provider's care.

The Auditor found that OECD management failed to establish an effective system of internal controls over the review and verification of information contained in MARs. It was evident that MARs received from providers were inaccurate and were not adequately reviewed and verified by OECD staff to determine whether any terminations and other changes had occurred that would affect payments. As a result, OECD did not timely adjust monthly payments made to providers based on verified MARs. Table VI presents a summary of overpayments by month for FY 2001 and FY 2002.

**TABLE VI**
**Subsidized Child Care Program:**
**FY 2001 and FY 2002 Overpayments to Providers**

| Month | FY 2001 | FY 2002 |
|---|---|---|
| October | $ 108,163 | $ 104,807 |
| November | 123,112 | 169,769 |
| December | 131,239 | 132,627 |
| January | 131,854 | 273,369 |
| February | 167,088 | 159,876 |
| March | 220,922 | 299,047 |
| April | 688,601 | 223,015 |
| May | 201,392 | 335,496 |
| June | 146,083 | 215,486 |
| July | 252,205 | 189,761 |
| August | 138,877 | 138,309 |
| September | 117,426 | 137,609 |
| **Totals** | **$2,426,962** | **$2,379,171** |

Source: Office of Early Childhood Development

When overpayments were detected, OECD reduced future payments to providers to offset overpayments.

The Auditor's examination of MARs revealed that:

- MARs were not provided for all children; and
- recipients of subsidized child care services could not be located on all applicable MARs reviewed by the audit team.

Also, the Auditor found that accountable OECD employees did not file MARs in their designated file folders in a timely manner. During the field work phase of the audit, the Auditor noted that two to three months of MARs had not been properly filed.

All MARs should be maintained in an orderly complete manner in that they are the basic accounting document that supports payments made to providers of subsidized child care services. All children authorized for enrollment in the SCCP on a monthly basis are tracked through MARs which must be properly maintained in a reliable and secure recordkeeping system. Further, it is important for OECD staff to perform thorough reviews of MARs to verify that: (1) they are accurate as to the names of all children that should be listed in each provider's monthly report; (2) that each child enrolled with the provider is actually receiving child care services; (3) the date each child was enrolled (especially if the child is a new enrollee during that month); and (4) the date that a child stopped receiving care from the provider.

At the time of our review, OECD received a MAR from each provider, on average, every 45 days. In many instances, these reports were incomplete and inaccurate. The 45-day monthly reporting period coupled with an inadequate review and verification process facilitated provider overpayments that remained undetected for indefinite periods of time. These wasteful and ineffective financial and management practices, at a minimum, deprived eligible applicants access to the subsidized child care program.

As previously noted, providers received substantial amounts of public funds that they were not entitled to receive as a result of filing incomplete or inaccurate MARs. Overpayments made to providers for a combined total of $4.8 million for FY2001 and FY2002 could have been used to fund subsidized child care services for non-TANF children placed on the waiting list.

## RECOMMENDATIONS

1. The Executive Director of OECD, the Supervisor of the SCCP, and the DHS CFO review the current system of internal controls over provider payments to determine the accuracy of MARs filed by providers and ensure that the controls are effective and functioning as intended. MARs must be adequately and timely reviewed and verified by designated OECD staff in order to determine whether any terminations or other changes occurred that affect payments. Overpayments must be immediately detected and adjustments made on a monthly basis not more than 30 days after a child's termination or other changes that affect payments.

2. The Executive Director of OECD require providers to submit bi-weekly attendance reports and bi-weekly termination reports which shall be reviewed and verified immediately for accuracy and completeness. All attendance and termination reports should be approved by specifically designated OECD managers and filed in an organized, secure recordkeeping system at a minimum for accounting and audit purposes.

3. The Executive Director of OECD establish an effective system of accountability and documentation of providers who regularly submit inaccurate and incomplete attendance and termination reports. Providers who are found to be filing fraudulent attendance reports must be referred by the Executive Director of OECD to the Office of the Inspector General or other appropriate law enforcement authorities for immediate investigation.

**OECD MANAGEMENT PAID $87,120 FOR A FY 2000 OPERATIONAL REVIEW WHICH IDENTIFIED PERSISTENT DEFICIENCIES IN THE SCCP THEN FAILED TO ADDRESS THE FINDINGS AND RECOMMENDATIONS**

Bert Smith & Co., Certified Public Accountants and Management Consultants, an independent public accounting firm, performed a review of the procedures related to OECD's vendor payment process for day care providers, including a review and assessment of internal controls[16]. This review focused on OECD's FY 2000 operation. The Auditor found that OECD spent $87,120 for this review that had not resulted in any discernible corrective actions at the time of our review. Bert Smith & Co.'s report, dated February 28, 2002, noted the following deficiencies:

1. provider attendance reports (MARs) were not adequately reviewed for terminations and other changes, resulting in overpayment errors;

2. MAR's were not used as the basis for provider payments reflected in the day care payment system; and

3. a significant number of MAR's were missing, indicating a lack of control over documents.

OECD officials never formally responded to the findings and recommendations identified by Bert Smith & Co. in their report. Further, the Auditor's examination confirmed that most, if not all, of the deficiencies identified by Bert Smith & Co. were still present in fiscal years 2001 and 2002.

**RECOMMENDATION**

The Executive Director of OECD immediately prepare a corrective action plan and timetable for promptly addressing all of the findings and implementing the recommendations presented in Bert Smith & Co.'s report dated February 28, 2002 . The Executive Director of OECD must provide a copy of the corrective action plan and timetable to the Chairperson ,Committee on Human Services, Council of the District of Columbia and the Auditor within 30 days of the date of this report.

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[16] *See* note 1.

## **THE DIRECTOR OF DCPS's TANF PROGRAM INTENTIONALLY OVERSPENT THE FY 2002 AFTERCARE PROGRAM BUDGET BY $4.7 MILLION**

As previously noted, DHS OECD executed a MOU with DCPS to provide after school, before school, and summer programs for low-income youth during school years 2001 and 2002. These MOUs provided funding to DCPS of $12.5 million for FY 2001 and $11.5 million for FY 2002. The Director of DCPS TANF Programs was responsible for the management of the FY 2001 and FY 2002 AFTERCARE program and the FY 2001 SEAS program. His responsibilities included the authority to spend funds, manage staff, and design, implement, and supervise the program enrollment process.

AFTERCARE program activities and funding were specifically earmarked for eligible low-income youth. Despite income eligibility requirements, the Director of DCPS TANF Programs stated that he intentionally opened enrollment in the FY 2002 AFTERCARE program to all children regardless of their parents' income. Based on discussions with the Director of DCPS TANF Programs,[17] the Auditor found that the opened enrollment resulted in $4.7 million in overspending which was carried out willfully by the DCPS TANF Director with full knowledge that funding was not available to pay for these additional costs. The Director of DCPS TANF Programs and the Director of Financial Reporting for DCPS confirmed that DCPS' total FY 2002 budget for the AFTERCARE program was overspent by $4.7 million as a direct consequence of the Director's decision to open the program to all children regardless of their eligibility. This decision was made in reckless disregard of federal grant requirements, the school system's FY 2002 appropriation, and the federal Anti-Deficiency Act.[18] Personnel costs, alone, were overspent by $4.5 million. This intentional overspending adversely affected DCPS' overall financial condition, threatened the vitality of fee-based after school programs, and undermined ongoing efforts to address DCPS's precarious financial condition. Furthermore, DCPS may be required to reimburse the federal government for

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[17]Audit team's interview of DCPS' TANF Director initially occurred on January 22, 2003.

[18]Note that under the federal Anti-Deficiency Act ,31 U.S.C. 1341 *et seq.*, §§1341,1342,1349, and 1351are "extended and made applicable in all respects to appropriations made for and expenditures of and to all of the officers and employees of the government *of the District of Columbia" See* D.C. Code, §47-105. *See* 31 U.S.C. § 1341 (a) (1): "An officer or employee of the United States Government or of the District of Columbia government may not - (A) make or authorize an expenditure or obligation exceeding an amount available in an appropriation or fund for the expenditure or obligation; (B) involve either government in a contract or obligation for the payment of money before an appropriation is made unless authorized by law." *See also*, 31 U.S.C. § 1349 (a): "An officer or employee of the United States Government or of the District of Columbia government violating section 1341(a) or 1342 of this title <u>shall be subject to appropriate administrative discipline including, when circumstances warrant, suspension from duty without pay or removal from office</u>." [Auditor's Emphasis]

potential disallowed grant expenditures for ineligible participants. The Auditor could not find any evidence that the Director of DCPS TANF Programs has ever been held accountable for his willful overspending even though it appeared that the Superintendent of DCPS was informed of this matter and aware of the TANF Director's improper actions.

Table VII shows overspending in various budgeted areas in both FY 2001 and FY 2002, including personnel, contracts, equipment, subsidies, and other services and charges.

**TABLE VII**

**District of Columbia Public Schools, Schedule of Budgeted Costs and Reported Expenditures of SCCP Funds For FY 2001 and FY 2002**

| FY 2001 | | | |
|---|---|---|---|
| **Cost Category ( Object )** | **Budgeted Costs** | **Reported Expenditures** | **Variance** |
| Personnel | $6, 500,000 | $5,912,965 | $587,035 |
| Benefits | 525,000 | 31,664 | 493,336 |
| Supplies | 200,000 | 41,795 | 158,205 |
| Telecommunications | 30,000 | 25,000 | 5,000 |
| Contracts | 5,000,000 | 3,647,101 | 1,352,899 |
| Stipends | 100,000 | 0 | 100,000 |
| Furniture | 20,000 | 0 | 20,000 |
| Equipment | 125,000 | 1,565,802 | (1,440,802) |
| Subsidies - Transfers | 0 | 11,806 | (11,806) |
| Other Services Charges | 0 | 899,613 | (899,613) |
| **TOTALS** | **$12,500,000** | **$12,135,746** | **$364,254** |

| FY 2002 | | | |
|---|---|---|---|
| Cost Category ( Object ) | Budgeted Costs | Reported Expenditures | Variance |
| Personnel | $8, 500,000 | $13,077,389 | ($4,577,389) |
| Benefits | 500,000 | 99,660 | 400,340 |
| Supplies | 200,000 | 8,908 | 191,092 |
| Telecommunications | 60,000 | 13,421 | 46,579 |
| Contracts | 2,000,000 | 2,662,716 | (662,716) |
| Stipends | 140,000 | 0 | 140,000 |
| Furniture | 100,000 | 0 | 100,000 |
| Equipment | 0 | 202,409 | (202,409) |
| Subsidies - Transfers | 0 | 64,984 | (64,984) |
| Other Services Charges | 0 | 27,723 | (27,723) |
| **TOTALS** | **$11,500,000** | **$16,157,210** | **($4,657,210)** |

Source: Office of Early Childhood Development and District of Columbia Public Schools

The Auditor also noted that the Director of DCPS TANF Programs:

- failed to provide detailed expenditure reports as required by the FY 2001 and FY 2002 MOU between DHS/OECD and DCPS;

- failed to implement a system for charging a fee to parents of children served by the AFTERCARE program in order to partially offset the costs of program operations. The fee was projected to raise approximately $1,000,000 in revenue. Had this requirement been implemented, OECD could have redirected an equivalent amount of money to the SCCP to offset funding pressures within that program;

- did not provide enrollment applications for a substantial number of children served either because children were enrolled in the program without their parent or guardian completing an application or the Director failed to establish a credible, secure recordkeeping system for program records needed to substantiate compliance with federal eligibility requirements and other important financial and management accountability purposes; and

- failed to create an electronic list of all children enrolled in programs under his management despite his purchase of hundreds of thousands of dollars worth of computer equipment with program funds.

Additionally, DHS-OECD agreed to review program progress reports and other related records to ensure compliance with the MOUs. The Auditor found that OECD management did not receive and failed to request detailed expenditure reports to ensure full compliance.

**RECOMMENDATIONS**

1. The DCPS Superintendent thoroughly review the actions taken by the Director of the DCPS TANF Program in managing the AFTERCARE program during FY 2001 and FY 2002. Furthermore, the DCPS Superintendent should consider whether the actions of the Director constituted negligence or willful disregard for applicable laws, rules, regulations, and policies. To the extent that the TANF Director's actions are found to be negligent, intentional or in willful disregard of applicable laws, regulation, and rules, the TANF Director should be held accountable to the fullest extent permitted under District laws and DCPS personnel rules including termination.

2. The Director of DCPS TANF Programs immediately establish an electronic list of students enrolled in DCPS TANF programs and provide an electronic copy of this list to the Auditor within 45 days of the date of this report.

3. The Executive Director of OECD :

    a. require that DCPS officials file all overdue financial reports, perform an analysis of the reports for compliance with the MOU and other legal and regulatory requirements, and investigate immediately any unusual charges or costs. A copy of the overdue reports must be provided to the Auditor within 45 days of the date of this report;

b. establish an effective system to monitor and review compliance with MOUs executed with DCPS to ensure that the required financial and program reports are submitted timely, as well as to ensure compliance with all other terms and conditions of the MOU.

**DCPSHS FAILED TO PROVIDE AN ANNUAL REPORT REQUIRED BY MOU**

DHS/OECD management executed a FY 2001 MOU, as modified, to provide funding of $668,674 in FY 2001 and FY 2002. DCPSHS agreed to provide full day care services and facilities to 81 infants and toddlers during FY 2001 and to 89 infants and toddlers during FY 2002. Article III, Section A.6 of the modified MOU required DCPSHS to provide an annual report to DHS/OECD detailing the expenditure of funds. This report was required to be submitted within 30 days of the end of the fiscal year, or no later than October 30, 2002. DCPSHS has not provided the required annual report and OECD management could not produce documentation showing that it had received any relevant information regarding the expenditure of these funds.

**RECOMMENDATION**

The Executive Director of OECD immediately require DCPSHS to provide an annual report detailing the expenditure of funds provided under the fiscal year 2001 and 2002 MOUs and review these annual reports to determine compliance.

**DHS CFO FAILED TO CONDUCT REVIEW OF DPR FINANCIAL RECORDS AS REQUIRED BY MOU**

DHS/OECD management executed MOUs with DPR for FY 2001 and FY 2002 requiring DPR to provide child care services and facilities to 1,209 and 1,236 children, respectively. Under these MOUs, DHS/OECD provided funding of $7,796,516 for FY 2001 and $8,000,000 for FY 2002.

The FY 2001 and FY 2002 MOU required the DHS CFO to conduct at least one visit per year to the administrative offices of DPR to review financial records and other program records as may be required. The Auditor requested the DHS CFO to provide written summaries of reviews of

DPR's financial records and other program records. The DHS CFO could not provide these written summaries for the Auditor's review. Furthermore, there was no requirement for DPR to provide annual detailed expenditure reports to DHS/OECD.

## RECOMMENDATIONS

1. The Executive Director of OECD require DPR to submit detailed expenditure reports for FY 2001 and FY 2002 within 45 days of the date of this report. Copies of these reports shall be provided to the Chairperson, Committee on Human Services, Council of the District of Columbia. Further DPR shall to submit detailed enrollment and expenditure reports for FY 2003 and FY 2004, and in future fiscal years.

2. The DHS CFO provide to the Auditor, FY 2001 and FY 2002 written summaries covering reviews of DPR's financial and program records within 30 days of the date of this report. However, if such required visits have not been performed, the DHS CFO must immediately conduct a visit to review financial and other relevant records for FY 2001, FY 2002, and FY 2003. The corresponding written summaries must be submitted to the Executive Director of OECD and the Auditor within 45 days of the date of this report.

## CONCLUSION

Management of the DHS and OECD failed to implement adequate and effective internal controls to ensure management accountability, prudent financial decision making, compliance with applicable laws and regulations, and effective control over SCCP's revenue, expenditures, and spending practices. Further, DHS and OECD financial and program managers failed to conduct fiscal impact analyses, periodic financial reviews, and program cost analyses of the SCCP.

The Auditor found that a lack of effective financial oversight, poor internal controls, financial mismanagement, and ineffective fiscal accountability fostered wasteful use of District and federal funds, and deprived eligible applicants access to the SCCP. Over the two year period reviewed, the Auditor found that the failure of DHS and OECD management and the Director of the District of Columbia School System's (DCPS) Temporary Assistance for Needy Families (TANF) program to adequately perform their fiduciary responsibilities cost the District approximately $6.4 million in actual or potential revenue that could have been used to fund subsidized child care services for non-TANF children placed on the waiting list and to offset the cost of other SCCP expenses. The total $6.4 million in mismanaged revenue consisted of: (1) overpayments made to providers totaling $4.8 million for fiscal years 2001 and 2002; (2) unclaimed Federal Title IV-E reimbursements totaling at least $520,000 to $640,000 for foster care children receiving subsidized child care services between April 2001 through December 2002; and (3) a potential $1,000,000 in revenue that DCPS's TANF program could have generated if its manager had implemented an effective system for charging and collecting fees from parents of children served by the AFTERCARE program.

The Auditor's review of OECD's operations and financial records for the SCCP revealed that during January 2002, four months into fiscal year 2002, the DHS Chief Financial Officer ("DHS CFO") projected a SCCP budget shortfall of approximately $14 million for fiscal year 2002. This budget shortfall was the result of: (1) a significant miscalculation in the amount of FY 2001 federal carryover grant funds available for expenditure in FY 2002. Instead of $6,316,611 being available as projected, only $145,578 was available for expenditure in FY 2002; and (2) overspending for child care services provided to children enrolled in the SCCP program. As a result, DHS had to: (1) reprogram a total of $12,907,681 from TANF block grant funds; and (2) redirect $1,600,822 from federal Child Care Development Fund ("CCDF") matching and discretionary funding to cover the $14 million shortfall. The budget shortfall and the TANF and CCDF reprogrammings indicate that the DHS CFO failed to timely and effectively perform appropriate fiscal impact analyses and periodic financial reviews necessary to detect and alert management to financial conditions that could, and ultimately did, adversely effect the SCCP.

The Auditor found that DHS/OECD was forced to start a waiting list because authorized funding was not sufficient to sustain the number of children enrolled in the SCCP and at the same time support new non-TANF enrollments. Effective June 1, 2002, OECD created a waiting list for children of non-TANF families. As of July 29, 2003, the waiting list had increased to 1,230 children. The Auditor further found that as a consequence of programmatic and financial mismanagement, including a lack of long range planning and ineffective management control over SCCP spending, OECD failed to provide assistance to some of the District's most vulnerable residents as well as eligible non-TANF working parents who were denied access to SCCP.

An examination of OECD's payments to subsidized child care providers revealed that OECD management engaged in a careless pattern of overpayments to providers. For FY 2001 and FY 2002, OECD overpaid its providers a total of $2,426,962 and $2,379,171, respectively, for a grand total of $4,806,133. The Auditor found that OECD's internal controls over payments made to subsidized child care providers were inadequate and not functioning effectively. Further, the magnitude of overpayments indicated serious and costly deficiencies in the management and oversight of the SCCP provider payment system.

DHS/OECD executed a memorandum of understanding (MOU) with the District of Columbia Public Schools ("DCPS") to provide after school, before school, and summer programs for low-income youth during school years 2001 and 2002. AFTERCARE program activities and funding were specifically earmarked for eligible low-income youth. Despite income eligibility requirements, the Director of DCPS TANF Programs stated that he intentionally[19] opened enrollment in the FY 2002 AFTERCARE program to all children regardless of their parents' income. The Auditor found that opening enrollment to all children resulted in $4.7 million in overspending which was carried out willfully by the DCPS TANF Director with full knowledge that funding had not been approved and was not available to pay for these additional costs. This decision was made in reckless disregard of federal grant requirements, the school system's FY 2002 appropriation, and the federal Anti-Deficiency Act. Further, the Director's intentional overspending adversely affected DCPS's overall financial condition and undermined ongoing efforts to address its precarious financial position and provide after school, before school, and summer programs for low-income youth during school year 2002. The Auditor's review further indicated that SCCP funds made available to DCPS's TANF program were carelessly monitored and accounted for by the OECD Director and were misused by DCPS's TANF Program Director to support other DCPS programs.

Additionally, DHS/OECD executed a MOU with the DCPS Head Start Program ("DCPSHS") to provide child development services for infants, toddlers, and pre-school children from October 1, 2000 through September 30, 2002. This MOU, as modified, required DCPSHS to provide an annual report to DHS/OECD detailing the expenditure of funds. The Auditor found that DCPSHS had not provided the required annual report and the OECD Director could not produce documentation that she ever requested annual reports.

[19] Audit team's interview of DCPS' TANF Director initially occurred on January 22, 2003.

Finally, DHS/OECD management executed MOUs with the Department of Parks and Recreation ("DPR") for FY 2001 and FY 2002 requiring DPR to provide child care services, and the DHS CFO to conduct at least one visit per year to the administrative offices of DPR to review financial records and other program records as may be required. The Auditor requested the DHS CFO to provide written summaries documenting the results of her review of DPR's financial and other program records for FY 2001 and FY 2002. The Auditor found that the DHS CFO could not provide any written summaries for the Auditor's review. Furthermore, the above referenced MOUs did not require DPR to provide an annual report detailing the expenditure of funds to DHS/OECD. The Auditor's review indicated that SCCP funds made available to DCPSHS and DPR were carelessly monitored and not accounted for by OECD management.

The District of Columbia Auditor will initiate a follow-up audit of this program within the next 90 days to assess compliance with the recommendations made in this report.

Respectfully submitted,

Deborah K. Nichols

District of Columbia Auditor

# APPENDICES

## 300.0 GENERAL ELIGIBILITY REQUIREMENTS

Each family and child must meet all applicable eligibility criteria in order to be approved for subsidized child care. The following four general criteria must be met.

**300.1 RELATIONSHIP -** Any of the following who reside in the same household are considered family: mother, father, child, or children by a previous relationship of either parent if living in the same household. Also, other children for whom custodial status can be verified.

**300.2 RESIDENCE -** Each applicant must be a resident of the District of Columbia and each recipient of services must be a resident having maintained District residency throughout the period of eligibility. The only exception is a foster care parent, or a person caring for a ward of the District placed with that person by the Child and Family Services Agency or the D.C. Superior Court.

**300.3 NEED -** Need in this context relates to the need for child care based on one of the following eligibility categories, classified as priority or non-priority:

I. Priority Groups

- Working parents who are income eligible;
- TANF recipients in countable activities;

- Teenage parents who are attending school;
- Children with a disability;
- Children under Child Protective Services; and
- Children in Foster Care with working foster parent(s).

II. Non-Priority Groups

- Children in other approved guardianship arrangements;
- Non-TANF recipients in Vocational Rehabilitation;
- A child receiving General Public Assistance; and
- Non-TANF recipients in job search or training.

**300.4 INCOME** - The adjusted gross income must fall within the established income range for a particular family size in order for the family to be eligible for subsidized child care.

Any applicant/recipient whose adjusted gross annual income exceeds the amount on the income scale for the family size is not eligible for subsidized child care. Such services must be denied (assuming there are no special eligibility factors as discussed under D.C. Law 3-16, e.g., a disabled child).

All applicable eligibility factors listed above must be met and documentation placed in the case record.

Source: Office of Early Childhood Development

# Appendix II

## Office of Early Childhood Development
## Strategies and Efforts to Address Funding Challenges

| No. | Strategy | Efforts to Implement (DHS/OECD's Representation) |
|---|---|---|
| 1 | Place certain eligible applicants for subsidized child care services on a child care subsidy waiting list, effective June 1, 2002. | OECD established a waiting list for eligible children effective June 1, 2002 which was to generate cost savings of $897,325 for not serving approximately 500 children in FY 2002. Further discussion of this matter is presented later in this report. |
| 2 | Suspend intake services at 645 H Street, N.E. (the Income Maintenance Administration Service Center). | Effective May 2002 child care intake services at 645 H St., NE were suspended; OECD officials indicated that this suspension reduced salary costs by $1,000. |
| 3 | Seek Federal Title IV-E reimbursement from the Child and Family Services Administration for children in its custody for whom OECD provided child care services, including back claims allowable over the prior 2 years. | DHS/OECD partnered with MAXIMUS to reconcile records and submit claims for Title IV-E reimbursement. A claim in the amount of $98,483.30 was submitted for the last quarter of FY 2002. |
| 4 | Proactively refer children to the Head Start Program. | OECD and the DCPS Early Childhood Citywide Office implemented the Head Start First initiative at the end of fiscal year 2002. In FY 2003, about 900 fewer three and four year olds were receiving subsidized child care services.[20] |
| 5 | Work in cooperation with District of Columbia Public Schools to refer children to Pre-Kindergarten (Pre-K). | In FY 2003, there were about 400 fewer four year olds receiving subsidized child care because they were placed in Pre-K at DCPS. |

[20]OECD identified two primary purposes for implementing the Head Start First Initiative: (1) to refer families on the SCCP waiting list to the Head Start program since they likely would not receive subsidized child care from OECD; and (2) to encourage families to enroll eligible children in Head Start rather than subsidized child care in an effort to maximize the number of children served by the Head Start Program and the SCCP.

## Office of Early Childhood Development
## Strategies and Efforts to Address Funding Challenges

| | | |
|---|---|---|
| 6 | Institute an annual "Parent Activity Fee" for those families who do not pay some level of co-payment. The Parent Activity Fee was to help providers offset reduced revenue they would receive as a result of the waiting list and fewer children being enrolled in subsidized child care. The fee would be collected by the provider and could be used to pay for equipment and field trips. | Since funds from the activity fee would not realize savings to DHS, the proposal was not implemented in either in FY 2002 or FY 2003. |
| 7 | Establish partnerships with District agencies to obtain reimbursement for child care costs for children of customers linked to other District agency programs. | In FY 2002, the Department of Employment Services (DOES) contributed $321,000 to OECD for the cost of child care services provided to |
| 8 | Establish partnerships with Federal agencies to seek reimbursement for supplemental costs of child care provided to children whose parents are employed by the Federal government. | OECD met with the General Services Administration on January 15, 2003 to learn about available federal subsidies and to discuss options for financial collaboration. OECD officials stated that they were meeting with representatives of the Office of Personnel Management to pursue federal |
| 9 | Reduce spending on quality initiatives. | A total of $2,052,990 was saved as a result of reduced spending for professional development, start-up and expansion grants, and technical assistance. (See Appendix III for OECD's listing of grantee award savings from FY 2002 to FY 2003). |
| 10 | Develop partnerships with major retailers and employers. | Representatives of the private sector testified that they would assist the District in developing strategies for long term financing for child care and-out-of school time services. A Task Force is expected to be launched. OECD officials reported that information to establish the Task Force has been forwarded to the District of Columbia Office of Boards and Commissions (DCOBC).[21] |

[21] The Auditor contacted DCOBC to obtain a status of the plan to establish a Task Force with the private sector. DCOBC officials stated that establishing the Task Force had been delayed because OECD officials had failed to receive proper approvals from the Deputy Mayor for Children, Youth, Families and Elders, and the Director of DHS before announcing publicly

**Office of Early Childhood Development**
**Strategies and Efforts to Address Funding Challenges**

| | | |
|---|---|---|
| 11 | Determine how to maximize the use of funds by researching a youth development model versus an early childhood education model for providing services to school children during out of school time. | DC Agenda, the Children Youth Investment Trust Corporation, and the Children Youth Investment Action Team have proposed a day long forum to explore options for out-of-school time services in the District. |

Source: Department of Human Services

that a Task Force was being launched. DCOBC officials confirmed that the proper approvals have been received and the Task Force will be launched in the near future.

# AGENCY COMMENTS

# AGENCY COMMENTS

On September 11, 2003, the Office of the District of Columbia Auditor submitted this report, in draft for review and comment to the following agency officials: Deputy Mayor for Children, Youth, Families and Elders; the Acting Director of the Department of Human Services; Associate Chief Financial Officer (CFO) of the Department of Human Services (DHS); the Executive Director of the Office of Early Childhood Development; Superintendent of the District of Columbia Public Schools (DCPS); the Chief Operating Officer of DCPS; and the City Administrator.

An exit conference was held on September 29, 2003 in which the Auditor provided an opportunity for DHS officials, including the DHS CFO, to discuss concerns and present questions about the draft report. Following the exit conference, we conducted additional field work and a revised report was provided again for agency review and comment on November 13, 2003.

Written comments were received from: DCPS's Superintendent on September 26, 2003, DHS's Associate Chief Financial Officer on October 1, 2003, the Director of DHS on December 4, 2003 and again on January 23, 2004, and the Chief Financial Officer of the District of Columbia on December 11, 2003.

After the exit conference and an extensive review and analysis of comments submitted, the Auditor determined that additional documentation and analysis were necessary. A final revised draft report was issued on September 1, 2004 for review and comment to the Director of DHS, Executive Director of OECD, Interim Superintendent for DCPS, Chief Financial Officer of the District of Columbia, and Associate Chief Financial Officer for DHS.

Written comments were received only from the Interim Superintendent of DCPS on September 15, 2004. The Executive Director of the Office of Early Childhood Development submitted comments on September 14, 2004, however, these were withdrawn with the expectation that comments would be provided by the Director of the Department of Human Services and the Chief Financial Officer of the District of Columbia. No comments were provided by either official at the time this report was released. All relevant comments are appended in their entirety to this final report. Where appropriate changes were made to the final report to reflect the comments received.

**DISTRICT OF COLUMBIA PUBLIC SCHOOLS**

**OFFICE OF THE SUPERINTENDENT**
**825 North Capitol Street, NE, 9th Floor**
**Washington, D.C., 20002-1994**
**(202) 442-5885 – fax: (202) 442-5026**

September 15, 2004

Deborah K. Nichols
District of Columbia Auditor
Office of the District of Columbia Auditor
717 14th Street, NW, Suite 900
Washington DC 20005-3217

Dear Ms. Nichols:

Thank you for the opportunity to respond to your draft report entitled *Review of the Office of Early Childhood Development's Budget, Expenditures, and Other Matters for Fiscal Years 2001 and 2002.*

Your audit has highlighted several areas of concern within DCPS's operations. As we go forward with our actions to implement your recommendations, we will review the programs' operations to ensure that we do not repeat the conditions your audit found. I believe that our corrective actions will address your recommendations.

Should you have any questions on this letter, or our proposed corrective actions, please contact Arthur Curry, DCPS Acting Chief Academic Officer, at (202) 442-5063, or John Cashmon, DCPS Director of Compliance, at (202) 442-5656.

Thank you for your continuing interest in DCPS's operations and funding.

Sincerely,

Robert C. Rice, Ph.D.
Interim Superintendent

# Review of the Office of Early Childhood Development's Budget, Expenditures, and Other Matters Fiscal Years 2001 and 2002

**Recommendation:** The DCPS Superintendent thoroughly review the actions taken by the Director of the DCPS TANF Program in managing the AFTERCARE program during FY 2001 and FY 2002. Furthermore, the DCPS Superintendent should consider whether the actions of the Director constituted negligence or willful disregard for applicable rules, regulation, and rules the Director should be held accountable to the fullest extent permitted under District laws and DCPS personnel rules, including termination.

**DCPS Response:** DCPS partially concurs with the recommendation. The auditor's report describes an alleged over expenditure of funds on which this recommendation appears to be based. However, the AFTERCARE program drew from the Office of Early Childhood Development (OECD) only the allotted amount of $11,500,060. We have attached the supporting documentation from the FY 2002 "Closing Package. The balance of the funds to support the program came from the DCPS local funds appropriation. DCPS, as a whole, completed FY 2002 with a small surplus.

The Acting Chief Academic Officer has been directed to review the Director's actions including his response to this audit and determine whether an adverse employment action is warranted under the District's laws or DCPS rules and regulations. A report on this matter is to be provided to the Superintendent not later than November 1, 2004. This report will be used by the Superintendent to determine and take appropriate personnel action, if any.

**Recommendation:** The Director of DCPS TANF Programs immediately establish an electronic list of the students enrolled in the DCPS TANF programs and provide an electronic copy of this list to the Auditor within 45 days of this report.

**DCPS Response:** We concur with the Auditor's recommendation in part. DCPS will on a go-forward basis establish the electronic student listings and maintain these records together with the paper copy of each application form. However, the DCPS TANF Program, as described in the draft report, did not take steps to retain and safeguard the Fiscal Year 2002 application data. As a result, the TANF Program staff and management may not have the ability to provide the Auditor with a complete and accurate listing of all the students who enrolled/attended the AFTERCARE program. We will comply with the recommendation to digitize the applications to the extent that our records are available. This data will be provided to the Auditor within 45 days of your final report.

01 PY
2:57 1061 CFY: 03 CFM: 02 LCY: 01 LCM: 00 FICHE: ( ) ( ) ( ) ( ) ( ) ( ) RUN DATE: 11/16/02 TIME: 06:53:55 R*STARS

DISTRICT OF COLUMBIA PUBLIC SCHOOLS (GAO)
GENERAL LEDGER REPORT FOR APPD FUND 0700
FOR USE WITH CHAPTER 4 OF THE CLOSING PACKAGE
REPORT PERIOD= FISCAL YEAR 02

CENT OF YEAR ELAPSED: 100%

DSNF V

ROPRIATED FUND 0700 INTRADISTRICT FUNDS
TE FUND GROUP 0100 GENERAL FUND

PAGE 1

| ) | PROJECT NO | TITLE | EN BAL RECEIVABLES | YTD CASH REV | YTD CASH/ACCD REV | YTD CASH/ACCD EXP | CLOSE BAL RECEIVABLES | CLOSE BAL DEF REV |
|---|---|---|---|---|---|---|---|---|
| 3 | 000DPF 02 | CUSTODIAL OVERTIME - POLICE DEPARTMENT | .00 | 3,544.91 | 3,544.91 | 3,544.91 | .00 | .00 |
| 4 | 000RAY 02 | SCHOOL RENTAL | .00 | 6,327.08 | 6,327.08 | 6,327.08 | .00 | .00 |
| 5 | 000DMC 02 | HEAD START TRAINING | .00 | 397,349.34 | 397,349.34 | 397,349.34 | .00 | .00 |
| 5 | 000D11 02 | TRAINING FOR AFDC-TANF | .00 | 1,596,006.12 | 1,596,006.12 | 1,596,006.12 | .00 | .00 |
| 5 | 000D12 02 | SUMMER ED,ARTS AND SPORTS - SEAS | .00 | 11,500,060.00 | 11,500,060.00 | 11,500,060.00 | .00 | .00 |
| 5 | 000SAL 02 | SECURING ADULT LITERACY SKILLS | .00 | 3,263,630.17 | 3,263,630.17 | 3,263,630.17 | .00 | .00 |
| 5 | 000SUM 02 | OFFER OUT-OF SCHOOL TIME - SUMMER | .00 | 617,686.59 | 617,686.59 | 617,686.59 | .00 | .00 |
| 5 | 000SRM 02 | STATE REVENUE MATCH - DCPS FNS | .00 | 467,212.00 | 467,212.00 | 467,212.00 | .00 | .00 |
| 5 | 000XCC 02 | SCHOOL LUNCH | .00 | 13,726,524.34 | 13,726,524.34 | 13,726,524.34 | .00 | .00 |
| 5 | 000XDZ 02 | SCHOOL BREAKFAST | .00 | 3,775,046.64 | 3,775,046.64 | 3,775,046.64 | .00 | .00 |
| 5 | 000XGB 02 | CACFP - FOOD | .00 | 57,588.94 | 57,588.94 | 57,588.94 | .00 | .00 |
| 5 | 000XHD 02 | SUMMER FOOD | .00 | 656,058.58 | 656,058.58 | 656,058.58 | .00 | .00 |
| 5 | 000XHF 02 | SUMMER ADMIN | .00 | 55,782.17 | 55,782.17 | 55,782.17 | .00 | .00 |
| 7 | 000RAN 02 | DRIVER'S EDUCATION | .00 | 141,839.20 | 141,839.20 | 141,839.20 | .00 | .00 |

**DISTRICT OF COLUMBIA PUBLIC SCHOOLS**
**Fy 2002 SCHEDULE OF EXPENDITURES**
**000D12 02**

| Object Class | Description | Amount |
|---|---|---|
| 11,12,13 | SALARIES | 8,420,239 |
| 14 | BENEFITS | 99,661 |
| | PERSONAL SERVICES | 8,519,900 |
| 20 | SUPPLIES | 8,908 |
| 31 | ENERGY | 13,420 |
| 40 | OTHER SERVICES AND CHARGES | 27,722 |
| 41 | CONTRACTS | 2,662,717 |
| 50 | GRATUITIES | 64,984 |
| 70 | EQUIPMENT | 202,409 |
| | OTHER THAN PERSONAL SERCICES | 2,980,160 |
| | TOTAL EXPENDITURES | 11,500,060 |

3/8/2004 au