



September 9, 2010

TO: Yvette Sanchez Fuentes
Director, Office of Head Start
Administration for Children and Families

FROM: /Lori S. Pilcher/
Assistant Inspector General for Grants, Internal Activities,
and Information Technology Audits

SUBJECT: Results of Limited Scope Review at District of Columbia Public Schools
(A-03-09-00366)

The attached final report provides the results of our limited scope review at District of Columbia Public Schools. This review was requested by the Administration for Children and Families, Office of Head Start, as part of its overall assessment of Head Start grantees that have applied for additional funding under the American Recovery and Reinvestment Act of 2009.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that the Office of Inspector General (OIG) post its publicly available reports on the OIG Web site. Accordingly this report will be posted at <http://oig.hhs.gov>.

Please send us your final management decision, including any action plan, as appropriate, within 60 days. If you have any questions or comments about this report, please do not hesitate to contact me at (202) 619-1175 or through email at Lori.Pilcher@oig.hhs.gov. Please refer to report number A-03-09-00366 in all correspondence.

Attachment

Department of Health & Human Services

**OFFICE OF
INSPECTOR GENERAL**

**RESULTS OF LIMITED SCOPE
REVIEW AT DISTRICT OF
COLUMBIA PUBLIC SCHOOLS**



Daniel R. Levinson
Inspector General

September 2010
A-03-09-00366

Office of Inspector General

<http://oig.hhs.gov>

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Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

EXECUTIVE SUMMARY

BACKGROUND

Pursuant to Public Law 110-134, Improving Head Start for School Readiness Act of 2007, Head Start is a national program that promotes school readiness by enhancing the social and cognitive development of children through the provision of educational, health, nutritional, social, and other services to enrolled children and families. Within the U.S. Department of Health & Human Services, the Administration for Children and Families (ACF) administers the Head Start program.

Under the American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), enacted February 17, 2009, ACF received \$1 billion, including nearly \$354 million to help improve staff compensation and training, upgrade Head Start centers and classrooms, increase hours of operation, and enhance transportation services. An additional \$356 million was allocated to award all Head Start grantees a nearly 5 percent cost-of-living increase and bolster training and technical assistance activities.

The District of Columbia Public Schools' (DCPS) Head Start program is a child development and family program serving children and their families residing in the District of Columbia (the District). At the time of our audit, the program served 1,081 children under a direct grant from ACF and an additional 701 families as a delegate agency of the United Planning Organization.

Prior to 2007, management of DCPS was the responsibility of the District of Columbia Board of Education. However, the District's Public Education Reform Amendment Act of 2007 transferred the day-to-day management of DCPS from the Board of Education to the Mayor's office as a cabinet-level agency. Within the Mayor's office, responsibility for DCPS was aligned under the Office of the Chancellor with oversight of the DCPS Head Start program the responsibility of the Office of the Chief Academic Officer.

The DCPS Head Start program is funded primarily through Federal and local government grants. For the period September 2007 through August 2009, ACF awarded grant funds totaling \$13,234,334 to the DCPS Head Start program. In addition, the DCPS Head Start program has been awarded \$1,000,000 in Recovery Act grant funding for fiscal year 2010.

OBJECTIVE

The objective of our limited scope review was to assess the DCPS Head Start program's capacity to manage and account for Federal funds and to operate its program in accordance with Federal regulations.

SUMMARY OF FINDINGS

Based on our assessment, we believe the DCPS Head Start program currently does not have the capacity to manage and account for Federal funds and is not capable of operating a Head Start

program in accordance with Federal regulations. Our review identified weaknesses relating to the DCPS Head Start program's financial management system and program governance.

RECOMMENDATION

In determining whether the DCPS Head Start program should be awarded additional Head Start and Recovery Act grant funding, we recommend that ACF consider the information presented in this report in assessing the DCPS Head Start program's ability to account for and manage Federal funds and to operate a Head Start program.

GRANTEE'S COMMENTS

In its comments on our draft report, DCPS described the actions it has taken to correct the weaknesses identified in this review and stated that it has been working with ACF over the past 6 months to develop a plan of action that will strengthen the DCPS Head Start program. DCPS's comments are included as the Appendix. We have excluded the attachments accompanying DCPS's comments because of their volume.

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INTRODUCTION

BACKGROUND

Head Start Program

Pursuant to Public Law 110-134, Improving Head Start for School Readiness Act of 2007, Head Start is a national program that promotes school readiness by enhancing the social and cognitive development of children through the provision of educational, health, nutritional, social, and other services to enrolled children and families. Within the U.S. Department of Health & Human Services, the Administration for Children and Families (ACF), Office of Head Start (OHS), administers the Head Start program.

The Head Start program provides grants to local public and private nonprofit and for-profit agencies to provide comprehensive child development services to economically disadvantaged children and families, with a special focus on helping preschoolers develop the early reading and math skills needed to be successful in school. Head Start programs engage parents in their children's learning and emphasize parental involvement in the administration of local Head Start programs.

Under the American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), enacted February 17, 2009, ACF received \$1 billion, including nearly \$354 million to help improve staff compensation and training, upgrade Head Start centers and classrooms, increase hours of operation, and enhance transportation services. An additional \$356 million was allocated to award all Head Start grantees a nearly 5 percent cost-of-living increase and bolster training and technical assistance activities.

District of Columbia Public Schools Head Start Program

The District of Columbia Public Schools' (DCPS) Head Start program is a child development and family program serving children and their families residing in the District of Columbia (the District). At the time of our audit, the program served 1,081 children under a direct grant from ACF and an additional 701 families as a delegate agency of the United Planning Organization.

Prior to 2007, management of DCPS was the responsibility of the District of Columbia Board of Education. However, the District's Public Education Reform Amendment Act of 2007 transferred the day-to-day management of DCPS from the Board of Education to the Mayor's office as a cabinet-level agency. Within the Mayor's office, responsibility for DCPS was aligned under the Office of the Chancellor with oversight of the DCPS Head Start program the responsibility of the Office of the Chief Academic Officer.

The DCPS Head Start program is funded primarily through Federal and local government grants. For the period September 2007 through August 2009, ACF awarded grant funds to the DCPS Head Start program totaling \$13,234,334. In addition, the DCPS Head Start program has been awarded \$1,000,000 in Recovery Act grant funding for fiscal year 2010.

Federal Requirements

Office of Management and Budget (OMB) Circular A-87, “Cost Principles for State, Local and Indian Tribal Governments,” found at 2 CFR pt. 225, provides requirements governing the allowability of costs claimed for reimbursement under Federal grants, contracts, and other agreements with State and local governments. Appendix A (2 CFR pt. 225 App. A, § C.1.h) specifies that allowable costs must not be included as a cost, or used to meet cost sharing or matching requirements, of any other Federal award

The Standards for Financial Management Systems found at 45 CFR § 92.20, establish regulations for grantees to maintain financial management systems. Grantees’ financial management systems must provide for accounting records, including cost accounting records, that are supported by source documentation (45 CFR § 92.20(b)(6)). Grantees’ financial management systems must also provide effective control over and accountability of all funds, property, and other assets so that recipients adequately safeguard all such assets and assure they are used solely for authorized purposes (45 CFR § 92.20(b)(3)).

Pursuant to 45 CFR § 92.41(b)(4)) recipients shall submit Standard Form 269, Financial Status Report, no later than 30 days after the end of each specified reporting period for quarterly and semi-annual reports and 90 calendar days for annual and final reports.

Section 642(c) of the Head Start Act requires grantees to establish and maintain a formal structure for program governance, including a governing body with legal and fiscal responsibility for administering and overseeing the Head Start agency, including the safeguarding of Federal funds, and a policy council responsible for the direction of the Head Start program, including program design and operation. Section 642(d)(2) requires grantees to ensure the sharing of accurate and regular information for use by the governing body and policy council about program planning, policies, and Head Start agency operations.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of our limited scope review was to assess the DCPS Head Start program’s capacity to manage and account for Federal funds and to operate its program in accordance with Federal regulations.

Scope

We performed this review in response to a June 22, 2009, limited scope request from ACF. Therefore, we did not perform an overall assessment of the DCPS Head Start program’s internal control structure. Rather, we reviewed only the internal controls that pertained directly to our objectives. Our review period was September 1, 2007, through August 31, 2009.

We performed our fieldwork at the DCPS Head Start program’s administrative office in the District during July and August 2009.

Methodology

To accomplish our objectives, we:

- reviewed relevant Federal laws, regulations, and guidance;
- reviewed the DCPS Head Start program's Head Start application and supporting documentation;
- reviewed Federal Head Start grant award documentation to determine the DCPS Head Start program's total Head Start and Recovery Act Federal funding;
- interviewed the DCPS Head Start program's personnel to gain an understanding of its internal controls and its accounting system controls;
- reviewed the DCPS Head Start program's fiscal procedures related to procurement, accounting documentation and preparation of financial reports; and
- reviewed the DCPS Head Start program's Board and Policy Council composition and meeting minutes.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

FINDINGS AND RECOMMENDATION

Based on our assessment, we believe the DCPS Head Start program currently does not have the capacity to manage and account for Federal funds and is not capable of operating a Head Start program in accordance with Federal regulations. Our review identified weaknesses relating to the DCPS Head Start program's financial management system and program governance.

INADEQUATE FINANCIAL MANAGEMENT SYSTEM

Unallowable Costs

The OMB cost principles (2 CFR pt. 225) provide requirements for the allowability of costs claimed for reimbursement under Federal grants, contracts, and other agreements with State and local governments. Appendix A (2 CFR pt. 225 App. A, § C.1.h) specifies that allowable costs must not be included as a cost, or used to meet cost sharing or matching requirements, of any other Federal award

The DCPS Head Start program used some Head Start grant funds to cover costs under another Federal grant. Our review identified \$156,535 of the \$6,617,167 in Head Start grant expenses

reported on the final fiscal year 2008 Financial Status Report as unsupported. DCPS Head Start program officials stated that the \$156,535 represented a decrease in cash revenue as a result of overdrawn funds returned to the Department of Education.

Reporting Errors

Pursuant to 45 CFR § 92.20(b)(6), Grantees' financial management systems must provide for accounting records, including cost accounting records, that are supported by source documentation

DCPS Head Start program officials provided electronic spreadsheets to support the expenditures reported on the February 2009 Financial Status Report. The spreadsheets showed \$184,447 in administrative costs and \$4,728 in training costs that had not been reported. DCPS Head Start program officials could not explain the differences between the electronic spreadsheets and the amounts reported on the February 2009 Financial Status Report. In addition, DCPS Head Start program officials could not provide general ledger extracts to support any of the administrative and training costs listed on the electronic spreadsheets or reported on the February 2009 Financial Status Report.

Unsupported Expenses

Pursuant to 45 CFR § 92.20(b)(6), Grantees' financial management systems must provide for accounting records, including cost accounting records, that are supported by source documentation.

Our review found that the DCPS Head Start program could not provide support for all of its reported salary expenses. The DCPS Head Start program listed the same employee in its budgeted staffing plan as both the Nutrition Coordinator and the Nutrition Assistant. The plan listed an expected annual salary of \$52,529 for the Nutrition Coordinator and \$36,352 for the Nutrition Assistant. Human Resources records list the employee's salary, based on the calendar year, as \$52,529. As of August 31, 2009, only 8 months into the calendar year, the employee's gross salary paid to date was \$49,446 or 94 percent of the employee's stated annual salary. The DCPS Head Start program noted that the employee holds a position with another State agency in addition to her position with the DCPS Head Start program. However, the timesheets submitted by the DCPS Head Start program listed only time allocated to the Head Start program and officials were unable to provide documentation supporting an allocation of the employee's time to the other State agency.

Untimely Submissions of Financial Status Reports

Pursuant to 45 CFR § 92.41(b)(4)) recipients shall submit the Financial Status Report no later than 30 days after the end of each specified reporting period for quarterly and semi-annual reports and 90 calendar days for annual and final reports.

The DCPS Head Start program did not always submit Financial Status Reports to ACF in a timely manner. The DCPS Head Start program submitted the semiannual report ending February 2008, 241 days after it was due, and submitted the semiannual report ending August 2008, 57

days after it was due. In addition, the annual report for fiscal year ending August 2008 was submitted 80 days after it was due.

INSUFFICIENT PROGRAM GOVERNANCE

Pursuant to Section 642(c) of the Head Start Act, grantees must establish and maintain a formal structure for program governance, including a governing body with legal and fiscal responsibility for administering and overseeing the Head Start agency, including the safeguarding of Federal funds, and a policy council responsible for the direction of the Head Start program, including program design and operation. Section 642 (d)(2) requires grantees to ensure the sharing of accurate and regular information for use by the governing body and policy council about program planning, policies, and Head Start agency operations.

The DCPS Head Start program did not have a functioning governing body (Board). During fiscal years 2008 and 2009, the DCPS Head Start program's efforts to establish Board oversight of Federal Head Start funds were not successful. The Office of the Chancellor appointed a three-person Board in March 2008; however, the Board met only once and was formally abolished on July 31, 2009. Based on concerns about Board oversight after the transfer to the Mayor's office, OHS formally requested the status of the Board on two separate occasions during fiscal year 2008. After receiving an inadequate response from DCPS, OHS notified the Mayor in September 2008 that there was inadequate Board oversight of Federal Head Start funds. In its fiscal year 2009 Continuation Grant Application, the DCPS Head Start program reported that a new Board had been appointed.

On July 31, 2009, the Chancellor welcomed four individuals to the new Board and informed them that the first orders of business would be to elect officers and adopt bylaws. At the time of our review, a date for the first meeting had not yet been established.

The DCPS Head Start program established a policy council (Council) and reported in its fiscal year 2009 Continuation Grant Application that Head Start program management would collaborate with the Council to ensure the high quality of the program. However, our review of the Council meeting minutes determined that the collaboration between the Council and Head Start Program Management was minimal and concluded that DCPS Head Start program officials have not provided the Council with all the required on-going, periodic reporting about program planning, policies and operations mandated in the Head Start Act. In addition, the Council has only met 10 times during the past 2 fiscal years, while the Council's bylaws call for monthly meetings. The Council has not been able to report on key decisions to the Board, due to the absence of a Board.

RECOMMENDATION

In determining whether the DCPS Head Start program should be awarded additional Head Start and Recovery Act grant funding, we recommend that ACF consider the information presented in this report in assessing the DCPS Head Start program's ability to account for and manage Federal funds and to operate a Head Start program.

GRANTEE'S COMMENTS

In its comments on our draft report, DCPS described the actions it has taken to correct the weaknesses identified in this review and stated that it has been working with ACF over the past 6 months to develop a plan of action that will strengthen the DCPS Head Start program. DCPS's comments are included as the Appendix. We have excluded the attachments accompanying DCPS's comments because of their volume.

APPENDIX

APPENDIX: GRANTEE COMMENTS

DCPS Response:

DCPS continued its efforts to increase the number of students served and the direct services provided to its preschool and prekindergarten students. DCPS has restructured its Office of Head Start by to enable it to serve an additional 3,000 students through the Head Start program, as previously announced. As DCPS continues to make strides to address the program deficiencies, we have worked with U.S. Department of Health and Human Services (HHS) over the past six months to develop a plan of action that will strengthen the DCPS Head Start program and ensure continued funding for the children currently served. DCPS has received approval from HHS to transform how Head Start operates in the school district, namely, to implement the DCPS Head Start school-wide model. Since January 2010, plans have been underway to implement the school-wide model when classes resume. The school-wide model addresses chronic deficiencies in all program areas, and expands access to Head Start comprehensive services to more children. Most importantly, the new model will allow DCPS to provide services to 4,800 children. This means next year 175 additional classrooms in 16 schools will have wrap-around services, and for the first time all children who qualify for Head Start will now benefit from mental health, family support, health and other services for students with special needs. Last year, approximately 1,800 students were served in the Head Start program.

Staffing changes were necessary to ensure that DCPS could accommodate the expanded number of students served and to improve services to meet compliance. To support the additional students and strengthen the direct services provided to students, DCPS has eliminated positions that do not directly support students and established new positions to strengthen the areas of community engagement, parent education and involvement, and teacher support. Positions will now require new education requirements which will ensure that professionally-trained staff provide needed social services, counseling, and parent education services as well as, support schools in implementing early childhood best practices.

This past year, a new Director of Head Start Program Operations with solid experience in the areas of compliance and management systems was hired. New managers with increased academic and Head Start experience have been recruited to strengthen the capacity of the team and are committed to implement the School-Wide model while remaining compliant with the Head Start Act and the Performance Standards.

Unallowable Cost

The DCPS Office of the Chief Financial Officer has instituted a management overhaul of the budget and accounting operations of DC Public Schools. An experienced management team, composed of an interim Chief Financial Officer, Budget Director and Non-Revenue Manager, was installed to strengthen the financial management and oversight of an agency responsible for more than \$1 billion dollars in local, federal and private funding. This team has worked diligently to address the repeated weaknesses and non-compliance findings in all federal programs, inclusive of the Head Start grant.

Unsupported Expenses

The payroll reports provided to the OIG audit team represented all expenditures for individual employees from the former payroll system, CAPPs. The error in noting the position title occurred because the staffing plan was printed incorrectly and the employee title row was shifted. Also, as explained to the auditors, this Nutrition Coordinator works for the University of the District of Columbia as a part-time instructor from 6 to 9 pm, after her Head Start tour-of-duty. The CAPPs system has been replaced with PeopleSoft and staff responsible for reporting have increased their attention to detail to reduce errors.

Reporting Errors

At this time, a separate code for Administrative Expenses for the Head Start grant has been established on the DC System of Accounting and Reporting. Spreadsheets will be utilized along with electronic data to substantiate the costs reported on the SF-269 Financial Status Reports. Moreover, the new financial team has directed its efforts toward financial analysis and training on new accounting reporting tools such as CFO Solve.

Untimely Submissions of Financial Status Reports

ACF Region III has acknowledged the receipt of the last five Financial Status Reports in a timely fashion. Therefore, this condition has been fully corrected with internal checks and balances from multiple offices from the Chancellor's leadership team, Academic Services and the Office of the Chief Financial Officer.

Grant accounting has been hampered by the lack of real-time reporting for payroll expenditures. This long-standing problem has now been addressed with the full implementation of the PeopleSoft system which updates available funding each pay period. Also, prior to the full implementation, an extensive data "clean-up" was conducted that certified each employee charged or partially charged to the Head Start grant. Charges were reversed to remove any employee inappropriately attributed to the grant.

Insufficient Program Governance

DCPS Head Start has been engaged in ongoing discussion with ACF regarding the development of by-laws that appropriately address the unique structure of DCPS with a politically appointed Chancellor who has no oversight by a school board. ACF recently found (see attached letter of July 15, 2010) that decision-making authority now rests with the Chancellor, who has been determined to "meet the general requirements of the governing body outlined in the Act." This decision enables DCPS to move forward in developing policies and procedures outlining how the governance tenets in the Act will be addressed.

If you have any questions or require additional information regarding the attached response, please feel free to contact me at the number or email listed below.

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On March 1, 2010 DC Public Schools Central Office moved to 1200 First St, NE, Washington, DC 20002. All phone numbers will remain the same.