

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL**

**DISTRICT OF COLUMBIA PUBLIC SCHOOLS
ACTIVITIES AUDIT OF THE
FACILITIES MANAGEMENT DEPARTMENT**



**CHARLES C. MADDOX, ESQ.
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



September 13, 2002

Dr. Paul L. Vance
Superintendent
District of Columbia Public Schools
825 North Capitol Street, NE, 9th Floor
Washington, D.C. 20002

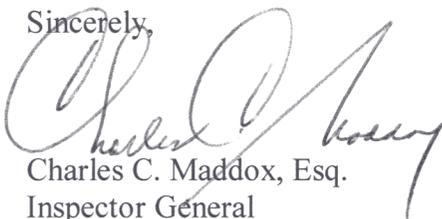
Dear Dr. Vance:

Enclosed is our final report (OIG No. 01-2-24GA) summarizing the results of the Office of the Inspector General's (OIG) Activities Audit of the District of Columbia Public Schools Facilities Management Department. The audit was conducted by contract under the purview of the OIG.

As a result of our audit, we directed 10 recommendations to the District of Columbia Public Schools (DCPS) that represent necessary actions to correct the reported deficiencies. DCPS' responses (Exhibit A) to a draft of this report are generally responsive to the intent of the recommendations. We do request, however, that DCPS reconsider its positions on recommendations 3, 5, 6, and 9 and provide us revised comments that fully address the recommendations. Generally, audit recommendations should be resolved within 6 months of the date of the final report. Accordingly, we will continue to work with DCPS to reach final agreement on these unresolved recommendations.

If you have questions, please call me or William J. DiVello, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,



Charles C. Maddox, Esq.
Inspector General

CCM/ws

Enclosure

cc: See Distribution List

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**DISTRICT OF COLUMBIA PUBLIC SCHOOLS
ACTIVITIES AUDIT OF THE
FACILITIES MANAGEMENT DEPARTMENT**

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**DISTRICT OF COLUMBIA PUBLIC SCHOOLS
ACTIVITIES AUDIT OF THE
FACILITIES MANAGEMENT DEPARTMENT**

BACKGROUND

The Facilities Management Department (FMD) of the District of Columbia Public Schools (DCPS) System is responsible for all facilities maintenance and for the design and construction of major renovations and new buildings.

On April 19, 2001, the Superintendent of DCPS requested assistance from the Office of the Inspector General (OIG) regarding a performance review of the school's Facilities Management Department (FMD). At the same time, the Acquisition and Sourcing Management Team of the General Accounting Office (GAO) was conducting a review of specific contracts and school renovation projects within the District. Subsequent discussions between the OIG and the GAO resulted in a division of responsibilities to avoid duplication of effort. As a result, the OIG agreed to conduct an activity audit that would focus on the internal controls and policies and procedures followed by the FMD in the conduct of their operations, with inquiries into other departments, such as Budgeting, Accounting, and Procurement, to the extent necessary to understand the flow of activities.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our review of FMD addressed the following objectives:

- reviewing the efficiency and effectiveness of FMD's operations;
- assessing FMD's controls and procedures to ensure its ability to meet operational and financial objectives; and
- reviewing FMD's oversight over contractors.

To accomplish our objectives, we used available manuals and other materials to document the significant FMD processes and to develop a narrative of our understanding. We enhanced our understanding by interviewing key personnel regarding internal control activities and by examining documents and management reports. While our review included examination of transaction documents, system documentation, financial reports, and management reports, it did not include detailed testing of expenditure and contract transactions. The scope of our review excluded FMD contract activity between FMD and Washington Gas Company and the Army Corps of Engineers.

This activity review generally covered procedures and transactions that occurred between October 1, 2000, and June 30, 2001. Transactions and procedures that occurred prior to that time frame were included only when related contract activity occurred.

**INDEPENDENT ACCOUNTANT'S REPORT
ACTIVITY AUDIT OF THE DISTRICT OF COLUMBIA
PUBLIC SCHOOLS FACILITIES DEPARTMENT**

Dr. Paul L. Vance, Superintendent
District of Columbia Public Schools
825 North Capitol Street, NE, 9th Floor
Washington, D.C. 20002

We have performed the procedures as enumerated below, which were agreed to by the Government of the District of Columbia, Office of the Inspector General, and the District of Columbia Public Schools (DCPS) solely to assist the Office of the Inspector General in evaluating the operations of the District of Columbia Public Schools Facilities Management Department (FMD) during the period October 1, 2000, through June 30, 2001. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants and in accordance with Generally Accepted Government Auditing Standards as presented in *Government Auditing Standards*, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of the Office of the Inspector General and DCPS. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures performed disclosed certain instances of noncompliance that are described further in the Findings and Recommendations Section of this report.

The following procedures were performed during the review of the Facilities Management Department:

- Reviewed FMD management's objectives, controls, and policies and procedures.
- Conducted interviews with the DCPS and FMD management, staff, and other key persons to assess if controls, policies, and procedures are operating efficiently and effectively.
- Reviewed available documentation to assess if controls, policies, and procedures are operating efficiently and effectively.
- Reviewed FMD's compliance with applicable procurement laws, regulations, and procedures.
- Reviewed procurement, budgeting, capital and maintenance expenditures, and contract oversight processes.

SUMMARY OF RESULTS

The procedures performed disclosed the following instances of noncompliance that are described further in the Findings and Recommendations of this report. A summary of the findings is listed below:

CONDITION #1: Current written financial policies and procedures to measure key processes such as the status of a repair request, obtaining the required authorizations, or complying with procurement and financial regulations are not available.

CONDITION #2: FMD lacked the financial expertise to properly monitor, budget, classify, and report on FMD's financial issues. Individuals without sufficient formal training in governmental, financial, and accounting requirements performed almost all financial management at FMD.

CONDITION #3: Financial review procedures were not in place either in Procurement or in Finance to prevent the improper classification of routine maintenance repairs as capital projects when proposed by FMD personnel.

CONDITION #4: Job descriptions for key employees are vague and do not contain measurable performance-based objectives.

CONDITION #5: At FMD, the position of the Chief Facilities Officer remained vacant for almost six months. The position of the Capital Budget Analyst remained vacant for over five months.

CONDITION #6: FMD personnel responsible for procurement decisions were in a position where they appeared to be working at the direction of FMD operations management instead of reporting to the procurement department. Neither DCPS nor FMD has a written employee code of conduct regarding business conduct and conflict of interest issues.

CONDITION #7: It appears FMD's budget may not have been adequate to perform its routine maintenance and operations. Funding requirements may not have been based on realistic cost estimates, or required maintenance did not receive sufficient funding. When budget pressures arose and a reallocation was needed, appropriate mechanisms were not in place to identify this and respond.

CONDITION #8: Currently, FMD does not issue standard operational and financial reports to management, which measure performance objectives. During the course of our review, FMD and DCPS were unable to produce reports and financial data relating to budget, expenditures, and contract information.

CONDITION #9: FMD does not inventory or track the use of project supplies, tools, or small equipment. In addition, employees are not held accountable for project supplies, tools, and small equipment. This lack of accountability contributes to higher replacement costs.

CONDITION #10: The DCPS internal audit function does not periodically evaluate and monitor internal controls at FMD.

**INDEPENDENT ACCOUNTANT’S REPORT
ACTIVITY AUDIT OF THE DISTRICT OF COLUMBIA
PUBLIC SCHOOLS FACILITIES DEPARTMENT**

FINDINGS AND RECOMMENDATIONS

CONDITION #1: Current written financial policies and procedures are not available to measure key processes such as the status of a repair request, obtaining the required authorizations, or complying with procurement and financial regulations.

CRITERIA: All major financial and operational functions in an organization should have a written policy and procedure manual that documents the flow of activities.

CAUSE: In some cases, significant operational processes of FMD have changed, but the procedures have not been formally documented. For existing processes, the written procedures have not always been updated. Employees have not been provided written procedures and are not always aware of the existence of procedures. There are few overall FMD specific policy and procedure documents that employees can use to assist them in performing their job responsibilities.

EFFECT: Lack of written financial policies and procedures increase the risk that management objectives and controls will not be implemented in an efficient and effective manner.

RECOMMENDATION 1: The FMD should establish an overall FMD policy and procedure manual documenting the significant processes within the FMD.

DCPS RESPONSE: The office of DCPS CFO does indeed have appropriate documentation requirements and procedural manuals on financial processes. In addition, actions such as repair requests are monitored within TMA (“Maintenance Answer”), the automated work management system utilized by our facilities division.

AUDITOR RESPONSE: At the time of our review, we made numerous requests for DCPS and FMD policies and procedures. DCPS was unable to provide written policies and procedures for many of FMD’s operational and accounting processes. Furthermore, based upon interviews with employees, it was apparent that FMD and DCPS staff were not aware of the existence of written policies and procedures.

CONDITION #2: FMD lacked the financial expertise to properly monitor, budget, classify, and report on FMD’s financial issues. Individuals without sufficient formal training in

governmental, financial, and accounting requirements performed almost all financial management at FMD.

CRITERIA: An organization should include in its structure skilled financial professionals and staff with sufficient authority and independence to ensure that financial transactions are accurate, properly classified, and evaluated in both budgets and financial reports.

CAUSE: Individuals with conflicting goals and responsibilities performed almost all financial responsibilities at FMD. Throughout the organization, there is a general lack of financial expertise to properly budget, classify, approve, and evaluate financial issues.

EFFECT: The lack of direct financial expertise resulted in inaccurate or incomplete financial reporting, the development of unrealistic budgets, and insufficient control over the execution of the budget.

RECOMMENDATION 2: DCPS should consider separating the financial and operational management at FMD. This could be accomplished by appointing a senior level financial officer who would be familiar with the financial objectives and issues inherent in governmental accounting. This officer could report directly to the CFO for the DCPS. The FMD should also implement routine training for personnel involved in the financial process.

DCPS RESPONSE: DCPS has sought to establish a single budget or other financial officer within the office of DCPS CFO as a point person responsive to the needs of the Office of Facilities Management. Staffing is an issue; however, it is our intention to ensure finance personnel provide adequate financial expertise in support of OFM.

AUDITOR RESPONSE: DCPS's response is a positive step towards strengthening the financial expertise of FMD. We would encourage DCPS to develop a formal corrective action that also addresses training for FMD employees.

CONDITION #3: Financial review procedures were not in place either in Procurement or in Finance to prevent the improper classification of routine maintenance repairs as capital projects when proposed by FMD personnel.

CRITERIA: Definitions of Maintenance and Capital Projects should conform to generally accepted financial terminology and should be the basis for proper classifications. All policies and procedures for identifying and classifying FMD expenditures should be clearly defined, coordinated between FMD, Purchasing, and Accounting, and developed in an understandable written form with attendant employee duties and responsibility.

CAUSE: DCPS and FMD did not follow their existing definitions for maintenance and capital projects. No coordinated classification policies or procedures existed.

EFFECT: As a result of improperly classifying routine maintenance repairs as capital projects, funds were spent improperly and scheduled projects could not be completed. In addition, these procedures violated budgeting restrictions. FMD, Purchasing, and Accounting personnel operated under different beliefs regarding their responsibilities for approving and classifying expenditures.

RECOMMENDATION 3: DCPS should establish definitions for Capital spending and Maintenance spending that conform to generally accepted financial standards. These definitions should be enforced in all FMD transactions, with both the Purchasing function and the Accounting function having accountability for enforcement. A coordinated policy and procedure manual should be developed and implemented.

DCPS RESPONSE: Following the requisition of either a capital or maintenance expense, the budget office reviews the request to determine the appropriate account from which to charge the expense. The procurement office selects a vendor and the budget office again confirms the availability of funds in the appropriate account. These separate steps help to ensure that the distinction between capital and routine maintenance expenditures is maintained.

AUDITOR RESPONSE: In addition to the controls cited in DCPS response, it is important for DCPS to adopt a clear definition for classifying capital and maintenance expenditures. All departments, including FMD management, budget, and procurement, should understand and adhere to the established classification guidelines.

CONDITION #4: Job descriptions for key employees are vague and do not contain measurable performance-based objectives.

CRITERIA: Job descriptions for key employees should be clear and concise with measurable performance-based objectives tied to the overall operational objectives of FMD. Operational objectives for FMD should develop out of broader DCPS objectives.

CAUSE: Business processes and related job duties have changed significantly at FMD over recent years. However, DCPS has not developed or updated job descriptions for FMD key employees. The current job descriptions are vague and not linked to the definable objectives of the organization. FMD does not have performance-based objectives for its departments or management level employees.

EFFECT: Employees who do not have clear and concise job descriptions may take on added responsibilities or neglect duties based on a misunderstanding of their job requirements. As a result of not having performance-based objectives, FMD cannot assess how well it is meeting its operational objectives and which areas need improvement.

RECOMMENDATION 4: DCPS should develop clearly defined operational objectives for the entire school system with measurable results. These objectives should then be defined for each operational unit, including FMD. Once FMD has clear operational objectives, each key employee should define his/her specific contribution to these objectives, a method of measurement, and a periodic means of measuring the objective.

DCPS RESPONSE: The Central Office Transformation process, currently underway, has led to the revision of all position descriptions within the OFM. Position descriptions for all managers and key employees were transformed and reclassified using federal job classification standards. In addition, ranking factors were established for each position to aid in evaluating each individual's appropriateness to serve in that particular role.

AUDITOR RESPONSE: The DCPS response appears to adequately address the condition cited. We would encourage DCPS to ensure that the individual position criteria and performance measures are consistent with DCPS FMD objectives.

CONDITION #5: At FMD, the position of the Chief Facilities Officer remained vacant for almost six months. The position of the Capital Budget Analyst remained vacant for over five months.

CRITERIA: Key positions should cover all major organizational requirements and should be filled with qualified, skilled, and knowledgeable personnel. An organization should provide training for backup coverage in the event that a key position becomes vacant.

CAUSE: FMD placed all senior management responsibility in one individual and was not prepared to cover these responsibilities with an Acting Facilities Officer when the position became vacant. Additionally, FMD had difficulty filling the positions in a timely manner.

EFFECT: The lack of either a Chief Facilities Officer or an Acting Facilities Officer left the organization without effective leadership. The lack of a Capital Budget Analyst increased the risk that the FMD would not be able to properly track and monitor its financial and operational objectives.

RECOMMENDATION 5: FMD should fill key management positions immediately with qualified personnel. Further, it should examine its organizational structure to develop backup training for key positions so that these positions can be covered during transitions.

DCPS RESPONSE: The top OFM positions were filled during the period this audit was performed. In addition, the Central Office Transformation process has sought to identify the ideal OFM staffing plan and fill all vacant positions with highly qualified individuals. That process is presently underway and is to be completed shortly.

AUDITOR RESPONSE: The staffing plan under development by DCPS should include procedures to ensure contingency plans for filling key positions in a timely manner and to identify personnel who can perform in an acting capacity until the permanent position can be filled.

CONDITION #6: FMD personnel responsible for procurement decisions were in a position where they appeared to be working at the direction of FMD operations management instead of reporting to the procurement department. Neither DCPS nor FMD has a written employee code of conduct regarding business conduct and conflict of interest issues.

CRITERIA: All organizations should have a written employee code regarding business conduct and conflict of interest issues and should communicate these requirements to personnel. This code of conduct should contain measurable objectives when possible.

CAUSE: The DCPS/FMD has not developed and implemented a written code of conduct or established standards for conflict of interest issues.

EFFECT: The lack of a written code of conduct addressing conflict of interest issues creates a higher risk that employees, especially those with purchasing and contracting authority, have not adhered to acceptable business practices, have engaged in conflicts of interest, and/or have not adhered to expected standards of professional behavior.

RECOMMENDATION 6: The FMD should create a written code of conduct that should be reinforced through the behavior of management. This code should provide explicit guidance for acceptable professional behavior, standards for conflict of interest situations, and should outline the penalties to employees who violate the code. Management should disseminate, communicate, and train personnel on the code and use it in periodic performance evaluations.

DCPS RESPONSE: The Office of Facilities Management is staffed separately from the procurement division. The procurement staff is responsible for observing all regulations, laws, and other professional standards of government procurement and reports to the Chief Operating Officer. They are not facilities management office employees.

In addition, much of the DCPS' contracting for capital projects is currently managed by the US Army Corps of Engineers. That agency rigorously follows all relevant federal procurement and contracting standards.

AUDITOR RESPONSE: Effective October 2000, DCPS was granted full procurement authority. It is critical that the procurement office is independent to ensure goods and services are purchased in accordance with procurement laws and regulations and to avoid any

real or apparent conflict of interest. As DCPS assumes a greater role in procurement, it is important to have clear written lines of authority that ensure the procurement process is independent.

CONDITION #7: It appears FMD's budget may not have been adequate to perform its routine maintenance and operations. Funding requirements may not have been based on realistic cost estimates, or required maintenance did not receive sufficient funding. When a budget pressures arose and a reallocation was needed, appropriate mechanisms were not in place to identify this and respond.

CRITERIA: Realistic goals and expectations should be established for an operating unit. Adequate budgets should be provided and effectively monitored. Funding should be sufficient so that school facilities meet all building code requirements and schools open on time. If funding is not available, the goals and expectations for the operating unit should be adjusted to meet the available funding while still meeting basic safety requirements.

CAUSE: FMD did not appear to have a realistic budget to cover repairs that were mandated for school opening requirements. Because of this, requests were bundled and funneled through the capital budget in order to meet these requirements.

EFFECT: The lack of an adequate budget to meet both legal and building code requirements increased pressure on FMD to circumvent procurement and financial regulations in order to accomplish their responsibilities. The lack of monitoring on several fronts made it possible for funds to be re-channeled without adequate approval.

RECOMMENDATION 7: Maintenance and capital objectives should be reviewed and a realistic budget established considering the existing school properties. Projects should be adequately reviewed and estimated and approved projects should match the funding. A budget monitoring mechanism should be established that would anticipate deviations in a timely manner.

DCPS RESPONSE: The Deputy Director for Planning, Design, and Construction has implemented procedures for the review of projects to be funded through the capital program. If a project is not programmed into the capital budget it will not be executed without a Board of Education approved modification.

AUDITOR RESPONSE: The DCPS response appears to adequately address the condition cited.

CONDITION #8: Currently, FMD does not issue standard operational and financial reports that measure performance objectives to management. During the course of our review, FMD

and DCPS were unable to produce requested reports and financial data relating to budget, expenditures, and contract information

CRITERIA: FMD should have a policy requiring the issuance and periodic review of standard operational and financial reports to management.

CAUSE: FMD does not have an established policy requiring the issuance and periodic review of standard operational and financial reports to management. FMD management has not identified financial and operational reports to address the needs of key stakeholders such as DCPS management, the Board of Education, the Mayor's Office and City Council, vendors, oversight agencies, and the public.

EFFECT: There is an increased risk that management will be unable to detect fraud, cost overruns, inaccurate financial reporting, or assess if goals are being met.

RECOMMENDATION 8: FMD should establish a policy requiring the issuance and periodic review of standard operational and financial reports to management.

DCPS RESPONSE: The DCPS office of CFO began in May 2002 to issue monthly budgetary reports to each of its major departments. These documents provided detailed information on each department's budget, expenditures to date, encumbrances, and other timely financial data. With the subsequent imposition of a budget freeze on discretionary spending, this practice was temporarily suspended. However it will be resumed for the next fiscal year.

AUDITOR RESPONSE: The DCPS response appears to adequately address the condition cited. However, we believe that the issuance of monthly financial and operational reports should not be discretionary; rather, they are an important control to ensure proper management oversight over DCPS expenditures.

CONDITION #9: FMD does not inventory or track the use of project supplies, tools, or small equipment. In addition, employees are not held accountable for project supplies, tools, and small equipment. This lack of accountability contributes to higher replacement costs.

CRITERIA: Project supplies, tools, and small equipment should be inventoried and tracked in order to reduce the risk of theft or loss. Any tracking system should also have an inventory control procedure manual that addresses an employee's duties related to project supplies, tools and small equipment, and identifies each employee's responsibility for these items.

CAUSE: FMD has not implemented an inventory control system to monitor the use of project supplies, tools, and equipment. FMD management has not developed a written

inventory control manual addressing employees' responsibilities for these items. As a result of not having an accountability mechanism, employees are more prone to lose or misplace items and funds are spent unnecessarily for replacements.

EFFECT: The lack of an inventory control system results in the replacement of project supplies, tools and small equipment more frequently than normal because these supplies, tools and equipment are being lost, stolen, or misplaced. Lack of an inventory control system and specific procedures has created an environment where it is difficult for management to control the physical inventory assets and related costs.

RECOMMENDATION 9: FMD should implement an inventory control system that is equipped to track the use of project supplies, tools and small equipment. A concurrent inventory control manual should be written and implemented addressing policies and procedures. It should contain specific descriptions of employee duties and responsibilities for the use of tools and equipment.

DCPS RESPONSE: The facilities automated work management system (TMA) includes a module for inventory control (equipment, tools and stock supplies). In addition, all tools and equipment are assigned a particular employee when in use on a project. That employee is responsible for any loss and is held accountable. In addition, losses due to theft are thoroughly investigated by police and appropriate documentation is filed.

AUDITOR RESPONSE: Based on our observations and discussions with FMD, we did not note any evidence that FMD was utilizing an automated or manual system for tracking and monitoring project supplies, tools, or small equipment during the period of our review. We did not note any indication that the inventory control system cited in the District's response was operational. If DCPS does have an automated system available, we encourage them to implement it as soon as possible.

CONDITION #10: The DCPS internal audit function does not periodically evaluate and monitor internal controls at FMD.

CRITERIA: The internal audit function should be organized to assist management in monitoring the policies, procedures, and controls of an organization. The internal audit team should be charged with detecting financial system weaknesses in a timely manner and proposing prompt corrections. Among other things, the internal audit team would review system-wide procedures, ensure the development of adequate written manuals, and spot check for regulatory compliance.

CAUSE: Although DCPS has an internal audit function, it has not effectively tested, documented, evaluated, and reported on the internal controls at FMD.

EFFECT: The lack of an effective internal audit function increases the risk that fraud, control deficiencies, and operational non-compliance would not be detected in a timely manner.

RECOMMENDATION 10: DCPS should establish an internal audit team to monitor and evaluate FMD's financial and operational activities on an ongoing basis.

DCPS RESPONSE: Additional staffing would greatly assist DCPS in performing a broader range of internal audit functions. This recommendation will be considered and is appreciated.

AUDITOR RESPONSE: If DCPS can obtain additional staffing we encourage them to develop an audit plan to identify and address significant financial and operational control risks.



**DISTRICT OF COLUMBIA
PUBLIC SCHOOLS**

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September 10, 2002

Mr. Abdool Akhran
Partner
Bert Smith & Co.
1401 New York Avenue, NW
Washington, DC 20005

Dear Mr. Akhran:

Below is the District of Columbia Public Schools (DCPS) response to Bert Smith & Company's recent audit of the DCPS Office of Facilities Management. This information was previously conveyed to Bert Smith & Co. July 15, 2002 via electronic means. However, I am pleased to again provide this material as requested by Mr. Dan Costello.

Condition 1: Current written financial policies and procedures are not available against which to measure key processes such as the status of a repair request; obtaining the required authorizations; or complying with procurement and financial regulations.

Recommendation: The FMD (Facilities Management Division) (or the OFM – Office of Facilities Management) should establish an overall FMD (OFM) policy and procedure manual documenting the significant processes within the FMD (OFM).

DCPS Response: The office of DCPS CFO does indeed have appropriate documentation requirements and procedural manuals on financial processes. In addition, actions such as repair requests are monitored within TMA ("Maintenance Answer"), the automated work management system utilized by our facilities division.

Condition 2: FMD (OFM) lacked the financial expertise to properly monitor, budget, classify and report on FMD's (OFM's) financial issues. Individuals without sufficient formal training in governmental financial and accounting requirements performed almost all financial management at FMD (OFM).

Recommendation: DCPS should consider separating the financial and operational management at FMD (OFM). This could be accomplished by appointing a senior level financial officer who would be familiar with the financial objectives and issues inherent in governmental accounting. This officer could report directly to the CFO for the DCPS. The FMD (OFM) should also implement routine training for personnel involved in the financial process.

DCPS Response: DCPS has sought to establish a single budget or other financial officer within the office of DCPS CFO as a point person responsive to the needs of the Office of Facilities Management. Staffing is an issue, however, it is our intention to ensure finance personnel provide adequate financial expertise in support of OFM.

Condition 3: Financial review procedures were not in place either in Procurement or in Finance to prevent the improper classification of routine maintenance repairs as capital projects when proposed by FMD (OFM) personnel.

Recommendation: DCPS should establish definitions for capital spending and maintenance spending that conform to generally accepted financial standards. These definitions should be enforced in all FMD (OFM) transactions, with both the purchasing function and the accounting function having accountability for enforcement. A coordinated policy and procedure manual should be developed and implemented.

DCPS Response: Following the requisition of either a capital or maintenance expense, the budget office reviews the request to determine the appropriate account from which to charge the expense. The procurement office selects a vendor and the office of budget again confirms the availability of funds in the appropriate account. These separate steps help to ensure that the distinction between capital and routine maintenance expenditures is maintained.

Condition 4 Job descriptions for key employees are vague and do not contain measurable performance based objectives.

Recommendation: DCPS should develop clearly defined operational objectives for the entire schools system with measurable results. These objectives should then be defined for each operational unit, including FMD (OFM). Once FMD (OFM) has clear operational objectives, each employee should define his/her specific contribution to these objectives, a method of measurement, and a periodic means of measuring those objectives.

DCPS Response: The Central Office Transformation process, currently underway, has led to the revision of all position descriptions within the OFM. Position descriptions for all managers and key employees were transformed and reclassified using federal job classification standards. In addition, ranking factors were established for each position to aid in evaluating each individual's appropriateness to serve in that particular role.

Condition 5: At FMD (OFM), the position of the Chief Facilities Officer remained vacant for almost six months. The position of the Capital Budget Analyst remained vacant for over five months.

Recommendation: FMD (OFM) should fill key management positions immediately with qualified personnel. Further, it should examine its organizational structure to

develop backup training for key positions so that these positions can be covered during transitions.

DCPS Response: The top OFM positions were filled during the period this audit was performed. In addition, the Central Office Transformation process has sought to identify the ideal OFM staffing plan and fill all vacant positions with highly qualified individuals. That process is presently underway and to be completed shortly.

Condition 6: FMD (OFM) personnel responsible for procurement decisions were in a position where they appeared to be working at the direction of FMD (OFM) operations management instead of reporting to the procurement department. Neither DCPS nor FMD (OFM) has a written employee code of conduct regarding business conduct and conflict of interest issues.

Recommendation: The FMD (OFM) should create a written code of conduct that should be reinforced through the behavior of management. This code should provide explicit guidance for acceptable professional behavior, standards for conflict of interest situations, and should outline the penalties to employees who violate the code. Management should disseminate, communicate, and train personnel on the code and use it in periodic performance evaluations.

DCPS Response: The Office of Facilities Management is staffed separately from the procurement division. Procurement staff - responsible for observing all regulations, laws and other professional standards of government procurement - report to the Chief Operating Officer. They are not facilities management office employees.

In addition, much of the DCPS's contracting for capital projects is currently managed by the US Army Corps of Engineers. That agency rigorously follows all relevant federal procurement and contracting standards.

Condition 7: It appears FMD's (OFM's) budget may not have been adequate to perform its routine maintenance and operations. Funding requirements may not have been based on realistic cost estimates, or required maintenance did not receive sufficient funding. When budget pressures arose and a reallocation was needed, appropriate mechanisms were not in place to identify this and respond.

Recommendation: Maintenance and capital objectives should be reviewed and a realistic budget established considering the existing school properties. Projects should be adequately reviewed and estimated and approved projects should match the funding. A budget monitoring mechanism should be established that would anticipate deviations in a timely manner.

DCPS Response: The Deputy Director for Planning, Design, and Construction has implemented procedures for the review of projects to be funded through the capital program. If a project is not programmed into the capital budget it will not be executed without a Board of Education approved modification.

Condition 8: Currently, FMD (OFM) does not issue standard operational and financial reports to management level which measure performance objectives. During the course of our review, FMD (OFM) and DCPS were unable to produce requested reports and financial data relating to budget, expenditures, and contract information.

Recommendation: FMD (OFM) should establish a policy requiring the issuance and periodic review of standard operational and financial reports to management.

DCPS Response: The DCPS office of CFO began in May 2002 to issue monthly budgetary reports to each of its major departments. These documents provided detailed information on each department's budget, expenditures to date, encumbrances and other timely financial data. With the subsequent imposition of a budget freeze on discretionary spending, this practice was temporarily suspended. However it will be resumed for the next fiscal year.

Condition 9: FMD (OFM) does not inventory or track the use of project supplies, tools, or small equipment. In addition, employees are not held accountable for project supplies, tools, and small equipment which contributes to higher replacement costs.

Recommendation: FMD (OFM) should implement an inventory control system that is equipped to track the use of project supplies, tools and small equipment. A concurrent inventory control manual should be written and implemented addressing policies and procedures. It should contain specific points on an employee's duties and responsibilities for the use of tools and equipment,

DCPS Response: The facilities automated work management system (TMA) includes a module for inventory control (equip, tools and stock supplies). In addition, all tools and equipment are assigned a particular employee when in use on a project. That employee is responsible for any loss and is held accountable. In addition, losses due to theft are thoroughly investigated by police and appropriate documentation is filed.

Condition 10: The DCPS internal audit function does not periodically evaluate and monitor internal control at FMS (OFM).

Recommendation: DCPS should establish an internal audit team to monitor and evaluate FMD's (OFM's) financial and operational activities on an ongoing basis.

DCPS Response: Additional staffing would greatly assist DCPS in performing a broader range of internal audit functions. This recommendation will be considered and is appreciated.

Thank you, again, for this opportunity to respond. If I may provide any additional information on this matter, please contact my office at (202) 442-5001.

Sincerely,

A handwritten signature in cursive script that reads "Louis J. Erste". The signature is written in black ink and is positioned below the word "Sincerely,".

Louis J. Erste
Chief Operating Officer