

## Single Audit Management Letter Comments

**(1) Strengthen Procedures and Documentation over Payroll Time and Effort Reporting**

Employees' salaries are identified by agency codes. Employees working on federal programs complete a time sheet each pay period that is reviewed by supervisors and processed for payment by agency timekeepers. However, the time sheets do not contain any information on the daily effort expended by the employees on specific federal programs. Each pay period, all payroll expenditures are charged to local funds. Periodically, the payroll charged to the local funds is reclassified to federal funds based on an allocation methodology that is not federally approved.

OMB Circular A-87 Attachment B Section II. Paragraph h. requires the following:

1. Charges to federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with the generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.
2. No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.
3. Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.
4. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system or other substitute system has been approved by the cognizant federal agency. Such documentary support will be required where employees work on:
  - 1) More than one federal award,
  - 2) A federal award and a nonfederal award,
  - 3) An indirect cost activity and a direct cost activity,
  - 4) Two or more indirect activities that are allocated using different allocation bases, or
  - 5) An unallowable activity and a direct or indirect cost activity.
5. Personnel activity reports or equivalent documentation must meet the following standards:
  - 1) They must reflect an after-the-fact distribution of the actual activity of each employee,
  - 2) They must account for the total activity for which each employee is compensated,
  - 3) They must be prepared at least monthly and must coincide with one or more pay periods, and
  - 4) They must be signed by the employee.

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6. Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provided that:
- 1) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;
  - 2) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than 10%; and
  - 3) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

We believe that the District has several options it may choose from to improve its controls over payroll time and effort reporting. First, the District could modify its existing time sheets to require the employee to document specifically on which federal award program the employee worked during the period covered by the time sheet. This would allow for the required after-the-fact time distribution discussed above. The time sheet codes documenting the specific federal award program should be designed to map directly to general ledger expense codes established in SOAR. This would allow payroll timekeepers to easily keypunch this information. Absent a time sheet modification, we recommend the District consider the following:

- For those employees who charge their time to a single federal award, the District should require those employees to prepare a semi-annual certification indicating that 100% of the time they worked during the previous six months should be charged to the federal award. These certifications should be approved by their supervisor and maintained in a central departmental location.
- For those employees at agencies who charge their time to multiple federal awards, the District could consider performing federally approved time studies to allow for an allocation of their time to the appropriate grants. These time studies are already performed at the Department of Human Services (DHS).

We have noted that during the past year, the DOH implemented a certification process for documenting employee time worked on specific federal award programs during the fourth quarter of FY 2002. However, we believe this certification process needs certain modifications, as discussed in the schedule of findings and recommendations, to meet all the requirements of OMB Circular A-87.

***Management's Response*****OIO – Management's Response**

The City Administrator issued a memorandum developed in conjunction with the OCFO, dated March 16, 2004, requiring that all District employees that work on a federal program must have a periodic certification in accordance with OMB Circular A-87 for charges of salaries and wages. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages must be supported by personnel activity reports or equivalent documentation. The form for this certification can be located in the Subrecipient Monitoring Manual Time and Effort Record Federal Funds. This is a requirement for all District employees working on federal grants and satisfies the requirement for OMB Circular A-87.

**Single Audit Management Letter Comments****DCPS – Management’s Response**

The DCPS Office of Federal Grant Programs has developed a combined personnel activity reporting time sheet and payroll certification form that is distributed to each employee working on a federal program(s). Every two weeks, the employee reports the daily hours worked for each specific program. Signatory approval by the employee and the employee’s supervisor is required on the form certifying reported activity for each pay period. The form is reviewed and filed in the Federal Programs Office. Accounting staff compare the activity reports to actual salary expenditures charged to each grant quarterly and make any necessary adjustments.

DCPS OCFO grants division will work closely with the Office of Federal Grants to implement a semi-annual certification as recommended. DCPS OCFO grants division will work closely with the Office of Federal Grants to determine whether the implementation of a time sheet that delineates grant allocation or whether a time study to allow for an allocation of time would be more appropriate for our tracking and reporting purposes.

**Government Direction & Support – Management’s Response**

We concur with this finding and corresponding recommendations. We will ensure that our responsible agencies submit their proper allocation of time among federal grants for their employees bi-weekly. The proper allocation of time among federal grants is addressed by using time allocation software to record the charges made to each program on a per-pay period basis. This allocation system started this year.

**Human Support Services – Management’s Response**

DOH employees who work solely on a federal grant program, perform semi-annual certifications that indicate 100% of the time worked during the previous six-month period. The certifications are approved by the supervisor and maintained on file for review. Effective April 2003, DOH employees who work on more than one federal grant document their time spent on each activity on a weekly basis with time sheets developed by their specific administration that meet federal standards as required in OMB Circular A-87. These time sheets are signed by the employee and their supervisor and forwarded to the OCFO so that adjustments can be made in SOAR to properly record the labor distribution between grants.

In the DHS, for employees who work on multiple federal grants, the allocation to the respective grants is based on a quarterly random moment study and the approved cost allocation plan. Effective FY 2004, DHS program managers will be expected to obtain and maintain certifications that the respective employee worked solely on that program.

In the Child and Family Services Administration, charges to the federal grant are based on quarterly random moment-time studies.

## Single Audit Management Letter Comments

**(2) Improve Matching, Level of Effort, and Earmarking Monitoring**

Many federal awards programs require the District to provide a certain amount of local funding to maximize the federal participation in the program (matching). Additionally, awards program may specify certain minimum or maximum percentages of expenditures that must be maintained (level of effort). Finally, awards programs may also specify that a certain level of funding be spent in a specific area (earmarking). The District's program managers are generally aware of these various requirements, and design and submit their annual budgets to ensure that the budget is in compliance with these requirements. However, we saw little evidence that program managers are monitoring compliance with the requirements throughout the year. Additionally, we were informed that, in some instances, compliance with matching, level of effort, or earmarking requirements could not be determined because SOAR or other computerized programs were not programmed to provide the necessary information to make these determinations.

We recommend that the District identify all federal awards in which it participates that have matching, level of effort and earmarking requirements. We further recommend that the District require program managers to prepare, at least quarterly, the required calculations to ensure the District is in current compliance with these requirements, and to project spending on these federal awards through year-end to ensure annual compliance. These calculations could be submitted to either the Office of Budget and Planning (OBP) or the Office of Research and Analysis (ORA) in order for those offices to monitor compliance.

Additionally, where information necessary to calculate compliance with these requirements is not available, the program managers should work with the appropriate information technology specialists within the District to either write the programs needed or provide assistance in using the report writing function of the computer to extract the necessary information to calculate and monitor compliance.

***Management's Response*****OIO – Management's Response**

The Office of Budget and Planning (OBP) has agreed to monitor compliance with grants that have matching, level of effort, and earmarking requirements.

**DCPS – Management's Response**

DCPS OCFO has recently hired someone to serve as Deputy Budget Director of Grants. This is a position that is new to the DCPS OCFO structure. The purpose of the position is to monitor and help track all aspects of grant-related activities, to include federal grants. The person in this position works closely with grant managers as well as OBP. Reporting for all grants is part of an ongoing and continual basis so that compliance to all requirements is being met, as well as eliminating lapse grant issues.

**Government Direction & Support**

We concur with this finding and corresponding recommendation, we have identified all federal awards in which it participates that have matching, level of effort, and earmarking requirements. We will monitor matching requirements to ensure that we are in compliance during the course of the year. In our view, a centralized monitoring function by OBP, would help ensure that the city, as a whole, remains in compliance.

## Single Audit Management Letter Comments

**(3) Improve Controls over Subrecipient Monitoring**

A significant amount of the federal awards received by the District are passed through to subrecipients. Although the District does not expend these awards at the individual participant level, under OMB Circular A-133 it is responsible for monitoring its subrecipients to ensure that they are expending the federal awards in compliance with applicable laws and regulations. Further, as required by OMB Circular A-102, the Common Rule (.40), "Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity." We also observed that many District agencies had difficulty distinguishing between its subrecipients and its vendors. Failure to make such distinctions can lead to incomplete or inefficient subrecipient monitoring.

A *subrecipient* may have some or all of the following characteristics:

- Performance is measured against meeting the objectives of the program;
- Has authority and responsibility for administrative and/or programmatic decision making;
- Provides ongoing service for the life of the program;
- Carries out its own program as compared to providing services for a program of the prime recipient; and
- Has responsibility for applicable program compliance requirements.

A *vendor* has the following characteristics:

- Provides the service reimbursed with grant funding as part of its normal business operations;
- Provides a similar service to many different purchasers;
- Operates in a competitive environment (i.e., competes with others who can provide a similar service); and
- Program compliance requirements do not pertain to the service provided.

In summary, a subrecipient serves as a partner with the primary grant recipient, and is responsible for achieving program results equally with the pass-through entity where federal funds are being passed through to another entity. By definition, a subrecipient relationship can only be established where federal funds are involved. A vendor is responsible for providing ancillary goods or services, as determined by the primary grant recipient. A vendor is not responsible for program results.

Because of the critical importance of effective subrecipient monitoring, we recommend that the District consider centralizing the subrecipient monitoring process across all District agencies, possibly in the Office of Integrity and Oversight of the Office of the Chief Financial Officer. This will allow the assigned employees to focus specifically on monitoring, which should lead to efficiencies. This centralized unit would also be able to identify where subrecipient agreements can be standardized across the District, improving subrecipient compliance with OMB Circular A-133 requirements.

**Single Audit Management Letter Comments**

We further recommend that the District develop a standard policies and procedures manual to be used for performing subrecipient monitoring. We recommend that the manual should discuss the following:

- How to distinguish between a vendor and a subrecipient;
- How to identify those subrecipients requiring review. This could be a risk-based approach based on certain criteria that will drive the scope of the review;
- Scope of the review (i.e., site visit, review of management documentation, review of performance requirements, review of A-133 reports, review of financial requirements, etc.);
- Date of the review;
- Person(s) performing the review;
- Documentation and record retention of reviews made;
- Communicating the results of the review to subrecipients; and
- Follow-up procedures to ensure corrective action is taken by the subrecipients, if required.

We further recommend the District ensure that all subrecipient agreements include the catalog of federal domestic assistance number (CFDA) to ensure that its subrecipients know they are participating in a federal awards program. Additionally, the District should include standard language in its subrecipient agreements to ensure that its subrecipients are aware of the requirement to have an OMB Circular A-133 audit performed if they expend over \$500,000 (effective for fiscal years ending on or after December 31, 2003) in total federal awards from all sources. Such a reminder should improve the likelihood that the District will obtain annual Single Audit reports from entities required to provide them.

***Management's Response*****OIO – Management's Response**

As of March 16, 2004, the City Administrator in conjunction with the District CFO distributed a subrecipient manual for monitoring guidance to all District agencies. The manual is to be used by each agency for the monitoring of grants. The manual will provide District agencies with subrecipient monitoring tools and practices that will enable us to document and ensure that the dollars we re-grant out are being properly used. Additionally, training is being scheduled for subrecipient monitoring.

**DCPS – Management's Response**

The OFGP performs periodic monitoring of grant recipients through the use of tracking and spending reports, and monitoring of Local Education Agencies (LEA). The Office of the Chief Financial Officer reviews invoices and supporting documents for the DCPS LEA prior to payment. The OFGP uses the information obtained from the Single Audit and the Chartering Authority's review to identify risks during subrecipient monitoring. OFGP has developed and implemented compliance and monitoring procedures and tools in a Compliance and Monitoring Manual. The compliance review plan identifies: (1) the scope of the review, (2) documents to be reviewed, (3) date of the review, (4) persons performing the review, and (5) results of the review, corrective actions, and follow-up dates.

**Single Audit Management Letter Comments**

The OFGP has developed and implemented compliance and monitoring procedures and tools, and a monitoring schedule to ensure adequate monitoring of subrecipients. The procedures include identifying: (1) the scope of the review, (2) documents to be reviewed, (3) date of the review, (4) persons performing the review, and (5) results of the review, corrective actions, and follow-up dates. In addition, the OFGP keeps information pertaining to the reviews centrally located in file cabinets.

A manual of standardized policies and procedures for performing subrecipient monitoring would be very beneficial to DCPS. The affectation of these policies and procedures would be assigned to the Deputy Budget Director for Grants.

**Government Direction & Support – Management’s Response**

We defer to agencies program management office for their comments. In our view, more central control of this function would lead to greater consistency in the subgranting process, in identifying whether a payee is a subrecipient or a vendor, and determining whether a source of funding, say a federal payment, may be used as a grant or subgrant. This process should be standardized.

## Single Audit Management Letter Comments

**(4) Procurement, Suspension, and Debarment Monitoring**

Nonfederal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Covered transactions include procurement contracts for goods or services equal to or in excess of \$100,000 and all nonprocurement transactions. Contractors receiving individual awards for \$100,000 or more and all subrecipients must certify that the organization and its principals are not suspended or debarred. The nonfederal entities may rely upon the certification unless it knows that the certification is erroneous. Nonfederal entities may, but are not required, to check for suspended and debarred parties, which are listed in the *List of Parties Excluded From Federal Procurement or Nonprocurement Programs*, issued by the General Services Administration (GSA).

We observed that it is unclear to program managers whether the Office of Contracts and Procurement or the agency procuring goods and services is responsible for monitoring compliance with these procurement rules. We recommend that the District establish a policy clearly identifying that it is the responsibility of the procurement officer to document whether the vendor is suspended or debarred. We further recommend that the District require its vendors to certify that they are not suspended or debarred from providing the goods and services to be procured. On multiyear contracts, the procurement officer should obtain evidence on a yearly basis that the vendor or subrecipient was not suspended or debarred during the year. Finally, we recommend that the agencies ensure that the contracting officers are maintaining the suspension and debarment information prior to approving the procurement.

***Management's Response*****OCP – Management's Response**

The Office of Contracting and Procurement believes that applicable District regulations are clear that the contracting officer is the official responsible for determining whether a vendor is suspended or debarred. The procurement regulations at 27 DCMR sec. 2200 state that the contracting officer must determine whether a prospective contractor is a responsible company. In order to make that determination, the contracting officer, pursuant to 27 DCMR 2204.5, must utilize the list of debarred, suspended, and ineligible contractors maintained by the Chief Procurement Officer.

Since the contracting officer is required to check the list of debarred, suspended, and ineligible contractors, there is no need to obtain a certification from the vendor as to whether the firm is suspended or debarred. Such certifications are self-serving, and the information would be subject to verification anyway by the contracting officer as part of the responsibility determination.

As to multiyear contracts, current procurement regulations provide that a suspended or debarred firm may continue performance on contracts or subcontracts in existence at the time a contractor is suspended or debarred. A yearly review of the debarment status of each multiyear contract would not be beneficial since there is no requirement that the contract be terminated if the contractor is suspended or debarred after award.

Finally, there are sufficient requirements now that contracting officers maintain the debarment and suspension information prior to award. Each time the contracting officer makes the responsibility determination required by 27 DCMR sec. 2200, the contracting officer documents, in writing, the bases of the responsibility determination, including any suspension or debarment information. This responsibility determination is maintained in the contract file.

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**OIO – Management’s Response**

As of March 16, 2004, the City Administrator and the Office of the Chief Financial Officer sent out correspondence to all District agencies that receive grant funds, which stated that when granting Federal dollars, we, as a grantee, must certify that the vendors have not been suspended or debarred from participating in Federal programs. District agencies must ensure that the certification of suspension and debarment is a required document for all procurement contracts or grant awards in which Federal funds are used to pay for those goods or services.

**DCPS – Management’s Response**

DCPS Office of Procurement and Acquisitions is currently undergoing restructure and revitalization of current policies and procedures. Any new policies and procedures developed would be incorporated into the current structure.