

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

District of Columbia Public Schools

**Reportable Conditions in Internal Control
over Financial Reporting
and
Management Letter Comments**

for the year ended September 30, 2004



**AUSTIN A. ANDERSEN.
INTERIM INSPECTOR
GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



May 3, 2005

The Honorable Anthony A. Williams
Mayor
District of Columbia
John A. Wilson Building, Suite 600
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

The Honorable Linda W. Cropp
Chairman
Council of the District of Columbia
John A. Wilson Building, Suite 504
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

Dear Mayor Williams and Chairman Cropp:

In conjunction with the audit of the District of Columbia Public School's (DCPS) Budgetary Comparison Schedule – Governmental Funds and Supplemental Information (With Independent Auditor's Report Thereon) for the fiscal year ended September 30, 2003, KPMG, LLP submitted the enclosed Reports: *Reportable Conditions in Internal Control Over Financial Reporting* and *Management Letter Comments*. These reports provide information about DCPS compliance with laws and regulations and the adequacy of internal controls, and also recommends actions to improve DCPS operations.

KPMG set forth recommendations for correcting reportable conditions and other deficiencies. In most cases, DCPS responded favorably to the recommendations contained in the reports and in some cases, corrective action has already been taken to remedy the issue. While the Office of the Inspector General will continue to assess DCPS's implementation of recommendations, it is the responsibility of DCPS to ensure that the deficiencies noted in audit reports are corrected.

Mayor Williams and City Council Chairman Cropp
OIG No. 05-1-17GA
May 3, 2005
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If you have any questions, or need additional information, please contact me, or have a member of your staff contact William J. DiVello, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,



Austin A. Andersen
Interim Inspector General

AAA/cj

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KPMG LLP
2001 M Street, NW
Washington, DC 20036

The Members
Board of Education of the District of Columbia:

We have audited the Budgetary Comparison Schedule – Governmental Funds (the Schedule) of the District of Columbia Public Schools (DCPS), an agency of the Government of the District of Columbia (the District), for the year ended September 30, 2004, and have issued our report thereon dated January 26, 2005. In planning and performing our audit of the Schedule, we considered internal controls in order to determine our auditing procedures for the purpose of expressing our opinion on the Schedule. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We have not considered internal control since the date of our report.

During our audit, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect DCPS's ability to ensure that the objectives of the internal controls are being achieved. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are material weaknesses. Certain of the reportable conditions we have identified were included in our separately issued Independent Auditors' Report on Internal Control Over Financial Reporting for the District as a whole dated January 26, 2005. Appendix A presents those and other reportable conditions that specifically apply to DCPS's internal control over financial reporting. We considered items I and II of Appendix A to be material weaknesses.

We also noted other matters involving internal control and operations that are presented in the accompanying Appendix B for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of DCPS's management, are intended to improve DCPS's internal controls or result in other operating efficiencies. Appendix C presents the current status of the prior year's management letter comments.

Our audit procedures are designed primarily to enable us to form an opinion on the schedule, and therefore, may not bring to light all weaknesses in policies or procedures that exist. We also acknowledge that there is a cost-benefit relationship between establishing and maintaining internal controls. However, we take this opportunity to share our knowledge of DCPS gained during our fiscal year 2004 audit to make comments and suggestions that we hope will be useful to you. We would be pleased to discuss these comments and recommendations with you at any time



This report is intended solely for the information and use of the Board of Education of DCPS, the management of DCPS, the Mayor and Council of the District, and the Office of Inspector General of the District, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 31, 2005

Reportable Conditions In Internal Control Over Financial Reporting**I. Inadequate Monitoring of Budgeted and Actual Expenditures*****Observation:***

In fiscal year 2004, program offices continued to not utilize the Monthly Financial Reporting Package or similar financial status report to perform monthly review of expenditures relating to each program. The distribution of this report was discontinued during the fiscal year. Each department currently tracks their own expenditures using SOAR reporting queries, but does not have access to the available uniform financial status reports. We obtained and reviewed a monthly financial status report created by an analyst in the Budget Office for limited internal distribution. The information on this report monitors the budget to actual expenditures at the Comp Source Group and Organization Level. It is a useful internal report that is distributed monthly to upper level management in the CFO's office, but not to the program offices.

Recommendation:

We recommend that an updated distribution list be developed and used to distribute the monthly financial status report to the program offices in order for them to monitor monthly expenditures using uniform information. We further recommend that the program offices be trained by CFO's office on how to use these reports effectively so that redundant efforts are not made in tracking expenditures. Finally, specific policies and procedures regarding the communication of budgetary variance analysis from the program offices to the OCFO should be developed.

Management's Response

The OCFO disagrees and takes exception to the audit findings. The CFO has been proactive in both educating the program managers how to utilize the reporting mechanism we put in place "CFO SOURCE" and "EIS" and improving the reporting mechanism during its rapid transition from "old fashion" hard copy (paper) based reporting to the most effective and efficient online reporting technique. The reporting mechanism we put in place is fully capable to monitor the expenditure and the budget allotment online.

The OCFO conducted several training class in fiscal year 2004 to facilitate the training process. Program managers can run CFO SOURCE and EIS reports to print hard copies of the reports. This method provides up to date fiscal information on daily basis as opposed to the program office using data that can be up to 30 days old.

II. Retroactive Payment of Salary Step Increases***Observation:***

The CAPPS system, DCPS's payroll system, does not properly detect and calculate employee pay increases; the DCPS payroll department must manually enter all step increases. There is a lack of staffing in the DCPS payroll department to manually process retroactive pay increases. In FY 2004 accrued retroactive step increases as of September 30, 2004 were \$9.1 million. This represents a backlog of manual paperwork needing to be processed into CAPPS that are owed to DCPS employees. At September 30, 2003, DCPS accrued retroactive pay of \$5.7 million. This is an increase over the fiscal years 2002 and 2001 accrual of approximately \$4.5 million and \$2.3 million, respectively. The majority of the retroactive pay adjustments are processed subsequent to year-end. Accordingly, the payroll expenditures reported in SOAR throughout the year and used by management for financial and budgetary analysis are not complete. Because there is a significant understatement of payroll costs incurred throughout the year, it is difficult to monitor the accuracy of the budgetary status, and management information to make such operational decisions is incomplete.

Recommendation:

We recommend that DCPS complete its retroactive payroll increases for all employees currently backlogged. DCPS should develop and implement procedures to ensure that annual pay increases are identified and paid in a timely manner. This will improve the timeliness and quality of management information with which to make operational decisions.

Management's Response

Management concurs with this finding. The OCFO-DCPS began a concerted effort with the Office of Human Resource Management (HRM) in January 2004 to address and pay retroactive payments. Since that time, over 7000 employees and former employees have received retroactive payments for step increases and salary table changes. This process continues and, within the next 90 days, the majority of retroactive payments will have been made. As identified in this finding, the process is a manual process, and will remain a manual process, until a new payroll system is implemented in DCPS. Close and effective coordination and cooperation between DCPS HRM and OCFO staff is a must to make the payment process timely, and the team effort between the two departments is ongoing. However, retroactive payments will continue to occur and timely processing is a goal.

III. Improper Use of Direct Disbursements

Observation:

Twenty-one items are identified by the DCPS Office of Finance on the Schedule of Approved Direct Payments as being eligible for direct payments, which allows for a "streamlined" management approval process under very limited circumstances. We observed that 12 of the 45 non-payroll direct disbursements should not have been considered as eligible direct payments. Additionally, 1 of the 12 exception items did not have an approval signature noting supervisory review and approval, and 2 of the original sample items could not be provided. Failure to adhere to the requirements for direct payment of invoices can lead to disbursements being made without appropriate management authorization.

Recommendation:

We recommend that DCPS limit the number of individuals that can approve a direct payment invoice. These individuals should ensure that all items paid through the direct payment process are on the Schedule of Approved Direct Payments and all direct payments have a proper approval signature prior to payment of invoices. We also recommend that supplemental training should be provided on the requirements and eligibility of direct payments.

Management's Response

The OCFO agree with the audit finding and recommendation, The OCFO will establish a policy before the end of the fiscal year. The DCPS Controller will be responsible for the implementation of the new policy.

IV. Inadequate Supporting Documentation

Observation:

We selected a sample of 40 supplemental payroll checks to test the review and approval of the supplemental payments to DCPS employees. These supplemental checks are for employees who were paid an incorrect amount, pay for supplemental work (such as coaching) or for employees whose initial employment paperwork was not timely entered into CAPPs to facilitate the issuance of their first paycheck. DCPS was unable to locate the supporting check approval form for 36 of the sample items.

In addition, we selected a sample of 45 non-payroll related direct disbursements to test the controls over the procurement and disbursement process at DCPS for FY04. DCPS was unable to provide supporting documentation for 2 of the 45 items for our review.

We also selected a sample of Medicaid claims. However, 22 of 30 claims could not be provided by the DCPS Medicaid Recovery Unit in a timely manner. The support for these claims was retained offsite by the prior third party claims processor, but DCPS personnel could not provide us any information on the claims processed.

Sound internal control procedures indicate that documentation should be maintained for all transactions to evidence that they were executed in accordance with management's assertions.

Recommendation:

DCPS should improve its filing system to retain and organize all information supporting all financial transactions. Supporting information should be adequately secured and readily accessible. The existing policies and procedures around document retention should be updated and additional training should be held to emphasize the importance of accurate record keeping.

Management's Response

The OCFO agrees with the audit findings related to supplemental payroll checks and direct disbursements and will examine electronic filing system "Document Scanning" and will develop procedures for efficient and cost effective filing system. Currently we have one individual to coordinate the filing process. The OCFO will work diligently to facilitate the transition from paper filing system to electronic filing system before the end of fiscal year 2006.

The OCFO disagrees with the audit findings related to Medicaid claims support. The MRU provided detailed supporting documentation for more than 22 of the selected test claims. The missing documentation where services were billed prior to January 1st 2005 was housed by the previous claims processing agent. They were unable to retrieve these documents in the allotted timeframe. The MRU has implemented new data management procedures that house Medicaid billed supporting documentation in house. This will eliminate the inability to present such documentation in a timely manner.

V. Inadequate Inventory Control

Observation:

All fixed assets should be adequately safeguarded to ensure that the risk of loss through unauthorized use is minimized. There are limited controls over the safeguarding of inventory items recorded on the fixed assets system on the school grounds and central offices within DCPS. We selected a sample of 15 inventory items from the fixed asset report to test the existence of the fixed asset items. We noted that out of the 15 items selected, 4 items could not be located or accounted for at the physical location.

In addition, we selected 15 fixed assets at various school grounds and central offices within DCPS to test the completeness of the fixed asset report. We noted that out of the 15 items selected, 6 items could not be identified on the fixed asset report. Finally, out of the 30 total items tested, 26 items did not have correct property control numbers. There were a number of attributable causes to the weakness in the control environment surrounding inventory:

- Inadequate communication and coordination between the central office and the warehouse staff.

- The staff at the warehouse is not trained on the use of the fixed assets system. The warehouse staff still uses the Mapper System while the central office uses the FAS system for the recording of inventory and fixed assets.

Recommendations:

To improve internal control over the inventory management process we recommend that DCPS:

- Ensure adequate communication and coordination exists between the warehouse staff and the central office for the accountability and the recording of inventory in the fixed asset system.
- Train the staff at the warehouse on the use of the fixed assets system in order to adequately monitor inventory items on school grounds and at the central office. FAS should be used.
- Conduct a 100% physical count of fixed asset inventory items at least once every 2 years to ensure that the fixed asset records are complete and up to date. Any errors in the fixed asset report should be identified and recorded in the fixed asset records at the time of the physical count.

Management's Response

Management concurs with this finding. The OCFO-DCPS will work through the Chief Business Officer-DCPS to coordinate training and for the warehouse staff on the District's Fixed Asset System and develop better internal procedures for DCPS in recording and accounting for fixed assets entering the warehouse. Additionally, DCPS will participate in the citywide effort for inventory of fixed assets.

VI. Insufficient Tracking of Personnel Movement

Observation:

There is a lack of control over tracking personnel movement within DCPS from one school to another. If a teacher moves within DCPS and the payroll department is not notified, the employee profile will remain the same. The timekeeper at the new school has the ability to enter time for the teacher under the old school code. Therefore, the preprinted time sheets for the old school will show the teacher and the timekeeper would have to cross the teacher's name out. The timekeeper at the new school would have to add the teacher onto the preprinted sheet and fill in the time worked in the CAPPs system. If the payroll department is not aware of this change, they will not be able to locate the employee since in the system the employee is still coded for the old school. Because of this failure to record employee costs accurately at the location level, it is very difficult for DCPS management to identify the root cause of any payroll variances and to take appropriate remedial action.

We also noted that there are not policies and procedures in place to track when salaried employees have started working and the appropriate adjustments to their salary. As all salaried employees do not start work at the beginning of the school year, their salary must be adjusted to reflect the number of days left in the school year that they will be working. Because CAPPs does not automatically perform this calculation, it must be performed manually to ensure that the employee is paid the proper amount.

Recommendations:

We recommend the following:

- The Payroll Department should develop and implement procedures for handling transfers within the school system. The Payroll Department should send out monthly requests to all schools to verify the status of all employees and to verify the propriety of the information in CAPPs. If an employee has transferred, this should be indicated on the request, and the Payroll Department should identify their

status on the new school's request. Once this is determined, the employee's school code should be changed to the correct code within CAPPs.

- The Payroll Department should develop policies and procedures for tracking when salaried employees have started working (in relation to the number of school days remaining in the school year) and make the appropriate adjustments to the salary in CAPPs before their first paycheck is issued.

Management's Response

While management concur with the facts of this finding, management does not concur with the recommendations. While the OCFO-DCPS payroll department ("payroll") is responsible for the financial system for the disbursement of payroll/checks through the CAPPs, payroll is not the first tier user of this system. Payroll is not responsible for information placed in this system as far as it pertains to individual personnel information. The DCPS Human Resources Management department has responsibility for recruiting, hiring, and tracking employees within the CAPPs system including such items as transfers, changes in grade, steps, and salary table changes. Additionally, the OCFO has no direct responsibility over input and certification of time at each school and/or department under the decentralized system.

Currently, the OCFO's only method of monitoring this process is a manual one, based upon the payroll technicians who are knowledgeable in their assigned school and central office departments. A manual process of checking with individual timekeepers at each school/central department, reviewing certain CAPPs reports such as "no pay" listing are used to serve as a quality control of the bi-weekly payment process. Additionally, the payroll staff has started to review the Personnel Action Form 52s, when submitted to the budget office, in order to help track changes in individual status that may affect payment.

For those personnel such as teachers, teacher aides, food service and other personnel who are hired after the beginning of the school year, the salaries are adjusted for the actual number of pay periods worked as they are worked. All other school employees are paid over the normal twenty-six (26) pay periods, and adjustments are not required since payments are made bi-weekly based on the timekeeper's input and certification.

VII. Improper Use of Advanced Funds

Observation:

The Congressional appropriation allows DCPS management to charge certain types of operational expenditures incurred during July, August and September to the subsequent year's annual appropriation. This was done to allow the funding of expenditures to more closely match the schools operating cycle.

Advanced AY2005 funds were available starting July 1, 2004 to make advanced expenditures for supplies and materials to adequately prepare schools for the approaching school year. We noted that advanced expenditures of \$20.2 million were used for unallowable special education services. Subsequently these expenditures were reclassified to available AY2004 funding sources.

Recommendations:

We recommend that DCPS:

- Should ensure that all currently available AY funds are expended before using advanced resources.
- Should only use advanced funds to pay for allowable advance expenditures.
- All advance expenditures need to be approved by management that have an understanding of the Appropriations Act in the budget.

- Supplemental policies and procedures should be developed for the use of advanced funds.
- Training on established policies and procedures should be provided to individuals with budgetary responsibilities for advanced funds.

Management's Response

Management concurs with this finding. Management clearly understands the Appropriations Act for FY05 and will adhere to the Act and future Appropriations Act for the purposes intended. However, at no time during the July - Sept 2004 timeframe was the ordering of supplies and materials jeopardized for start up of the new academic year for 2004-2005, and, in fact, DCPS only expended \$6.6M of the entire \$76.0M advance.

VIII. Lack of Controls over Sole Source Contracts and Contract Modifications

Observation:

During our test work over Sole Source Contracts and modified contracts, we noted the following:

District of Columbia Municipal Regulations Title 27 section 2425.9 states, "the contracting officer shall execute a definitized contract within 120 days after the date of execution of the letter contract or before the completion of the work to be performed".

- A definitized contract was not negotiated for one contract following the expiration of the Letter Contract. Total amount of contracts was \$1,512,896.
- A definitized contract was not negotiated for another contract following the expiration of the Letter Contract. Ten letter contracts were executed between the periods of 7/8/04 – 6/2/04 in the amount of approximately \$12.5 million.

District of Columbia Official Code 2001: Text C1F states, "A certification that the proposed contract is within the appropriated budget authority for the agency for the fiscal year and is consistent with the financial plan and budget adopted in accordance with 47-392.01 and 47-392.02."

- DCPS did not obtain the appropriated authority forms with budget office approval for 5 of 27 files reviewed. Total amount of contracts was \$32,434,734.

DCPS policy states that contracts over a 1 million have to be approved by City Council of DC.

- DCPS did not obtain approval from the City Council for 5 of 27 files reviewed. Total amount of contracts was \$11,189,084.
- 1 of the items selected was not approved by the Board of Education and the Council of the District of Columbia prior to execution of the contract.

District of Columbia Municipal Regulations Title 27 section 1206 states, "a determination and finding (D&F) shall be used for an individual contract action and shall be retained in the contract file."

- 1 out of 27 items reviewed, did not execute a definitions and finding statement, which provides the scope and period of contract.

Recommendation:

We recommend additional training of all procurement and contracting staff to ensure that all procurement and contracting personnel are aware of all relevant District regulations governing the procurement of goods and services. We recommend that periodic internal self assessments be established to test for compliance with the

appropriate laws and regulations, and that the results of these self assessments be reported to the Board of Education and Council.

Management's Reponse

Management concurs with this finding.

IX. Lack of Approval and Segregation of Duties over Manual Journal Entries

Observation:

We selected a sample of 60 manual journal entries to test the review and approval process for journal entries (monitoring of expenditures). We determined that 13 out of the 60 manual journal entries were not properly approved. We noted that these exceptions arose from journal entries for grants transactions prepared for the purpose of reclassifying grant phases.

During our testing over the payroll default reconciliation, we selected a sample of 2 months May and September payroll default journal entries and observed that 27 out of 42 journal entries were not properly reviewed and authorized prior to system input.

In addition, during test work over fixed asset additions, DCPS was not able to provide supporting documentation for adjustments that were made to the fixed asset system. In all instances, the individual who records the transaction is the same individual who enters the transaction into the system.

Failure to segregate incompatible duties over the initiation, processing, recordation and approval of transactions increases the risk that transactions are recorded that are not in accordance with management's assertions.

Recommendation:

We recommend that DCPS utilize the Journal Voucher Form for all journal entries and obtain the approval signature noting supervisory review as required on the form. The approval signature is obtained to show authorization to enter journal entries into SOAR. Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing, processing and recording transactions.

Management's Response

The OCFO disagree with the audit findings. The finding highlights a one time instance, and the OCFO has a system in place to ensure incompatible duties are performed among different individuals.

Management Letter Comments**I. Checks Outstanding for Greater than 60 Days Remain Uncleared*****Observation:***

We selected a sample of 15 Student Activity Funds accounts (SAF) to test 2 monthly bank reconciliations. We determined that 10 out of the 15 SAF accounts had outstanding checks for more than 60 days. We noted that some accounts were carrying outstanding checks as reconciling items since 2001. We also selected 2 months to test the Payroll Imprest Fund, EPS, and Superintendent's Imprest Fund accounts. We noted that on the Payroll Imprest Fund reconciliations, checks outstanding in December remained outstanding on the March reconciliation. The EPS reconciliations did not note the date of the uncleared checks. On the Superintendent's Imprest Fund December reconciliation, checks from 2000 and 2002 remained uncleared. On the March reconciliation, these items were voided. Policies and procedures indicate that all items outstanding greater than 60 days are to be voided.

Recommendation:

We recommend that DCPS void all checks outstanding for more than 60 days as an accounting best practice. We recommend that DCPS add, "Void after 60 days," on all issued checks. In addition, supplemental training on reconciliation policies and procedures should periodically be provided to school personnel responsible for the Student Activity.

Management's Response

The OCFO disagrees and takes exception to the audit findings. The cost of internal controls never should exceed the benefits they provide. To void a check (stop payment) after 60 day will be costly and may not out right the benefits. Most local governments void all checks outstanding for more than 180 days as an accounting best practice.

DCPS will establish a policy to void all checks outstanding for more than 180 days and will implement this policy before the end of the 2005 fiscal year.

II. Official Personnel Folders***Observation:***

We selected a sample of 80 employees to inspect the respective employee's Official Personnel File for the SF-52 Personnel Action Form, Employee Application, INS Form I-9 and a form of identification. From the 80 files we examined, we noted the following exceptions:

- 4 of the 80 Official Personnel Files (OPF) were unable to be located and provided to KPMG by the DCPS Human Resources Department. As such, the respective documents (SF-52, Employee Application, Form I-9 and form of identification) were not cited.
- 50 of the 80 OPF's were missing one or more elements of the required documentation.

Recommendation:

All pertinent documents for an OPF should be obtained by DCPS Human Resources Department in a timely manner during the employment process and be properly retained. We recommend that DCPS review employee's personnel files for all key documents to ensure that they are complete, accurate and readily available. We recommend that a comprehensive file tracking system be developed to document and track the location of all OPF. The listing should also identify any individual who in possession of a file.

Management's Response

Management concurs with this finding.

III. Lack of Service Provider SAS 70 Report

Observation:

DCPS has outsourced the processing of its Medicaid claims to a third party. However, DCPS does not perform monitoring or oversight over the performance of its Medicaid claims processing agent. Statement on Accounting Standards No. 70 indicates that service organizations must disclose their controls and services to their customers in a uniform reporting format. The service organization's services are part of an entity's information system if they affect any of the following:

- The classes of transactions in the entity's operations that are significant to the financial statements;
- The procedures, both automated and manual, by which transactions are initiated recorded, and reported, whether electronic or manual supporting information and specific accounts in the financial statements involve in initiating, recording, processing and reporting transactions;
- The information system captures other events and conditions that are significant to the financial statements;
- The financial report process used to prepare the entity's financial statements including significant accounting estimates and disclosures.

Recommendation:

DCPS should increase its monitoring and oversight of its Medicaid claims processor. To supplement DCPS personnel in performing the oversight review, management should obtain a type II SAS 70 report from its claims processor. The SAS 70 report allows DCPS to annually review the operating effectiveness of controls in place over the Medicaid billing process at the claims processor and provides a basis for determining reliance on the contractor's efforts.

Management's Response

The Office of Special Education (OSE) disagree with the finding and recommendations, The Medicaid Recovery Unit (MRU) performs monitoring and oversight over the performance of the claims processing agent. The MRU was provided monthly status reports and remittance advices by the former claims processing agent that enabled staff to review their ability to accurately submit and monitor claims. The MRU currently communicates daily with the current claims processing agent and meets with them every other week.

IV. Accrued Liabilities Overstated

Observation:

During the financial statement closing process, DCPS personnel must record its estimate of costs for all goods and services received, but not yet paid for, as of September 30, 2004. While testing the balance of these costs, we noted 3 items that were not properly accrued, resulting in an overstatement of \$895,288.63.

Recommendations:

We recommend that:

- Modify its process for recording accrued liabilities by using vendor invoices as support instead of outstanding purchase orders.
- Supplemental training should be provided to financial reporting personnel on proper accrual procedures.

Management's Response

Management concurs with this finding.

Status Of Prior Year's Management Letter Comments

Board of Education of The District of Columbia

<u>Nature of Comment</u>	<u>Type of Comment</u>	<u>Current Year Status</u>
Inadequate Monitoring of Budgeted and Actual Expenditures via the Monthly Financial Reporting Package	Reportable Condition	Repeat Finding
Controls over the Budget Modification Process	Reportable Condition	Resolved
Inadequate Inventory Control Environment	Reportable Condition	Repeat Finding
Insufficient Tracking of Personnel Movement	Reportable Condition	Repeat Finding
Retroactive Payment of Salary Step Increases	Reportable Condition	Repeat Finding
Checks Outstanding for Greater than 60 Days Remain Uncleared	Management Letter Comment	Repeat Finding
Official Personnel Files	Management Letter Comment	Repeat Finding
Non-Active Employees Found on the Active-Employee Roster	Management Letter Comment	Resolved
Disclosure of the Medicaid Receivable from MAA for Fiscal Years 1999 through 2002	Management Letter Comment	Resolved
Presentation and Disclosure of Fixed Assets	Management Letter Comment	Resolved
Change of Fiscal Year	Management Letter Comment	Repeat Finding