

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

**District of Columbia Public Schools**

**Material Weaknesses and  
Reportable Conditions in Internal Control  
Over Financial Reporting and  
Management Letter Comments**

**for the year ended September 30, 2006**



**CHARLES J. WILLOUGHBY  
INSPECTOR GENERAL**

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**Office of the Inspector General**

Inspector General



May 23, 2007

Clifford B. Janey, Ed.D.  
Superintendent  
District of Columbia Public Schools  
825 North Capitol Street, N.E., 9th Floor  
Washington, D.C. 20002

Natwar M. Gandhi, PhD.  
Chief Financial Officer  
Office of the Chief Financial Officer  
1350 Pennsylvania Avenue, N.W., Room 203  
Washington, D.C. 20004

Dear Dr. Janey and Dr. Gandhi:

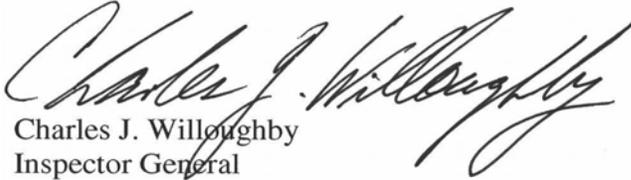
In conjunction with the audit of the District of Columbia Public School's (DCPS) Budgetary Comparison Schedule – Governmental Funds and Supplemental Information (With Independent Auditor's Report Thereon) for the fiscal year ended September 30, 2006, BDO Seidman, LLP submitted the enclosed Reports: *Material Weaknesses and Reportable Conditions in Internal Control Over Financial Reporting and Management Letter Comments*. These reports provide information about DCPS's compliance with laws and regulations and the adequacy of internal controls, and also recommend actions to improve DCPS operations.

BDO Seidman set forth recommendations for correcting reportable conditions and other deficiencies. DCPS and the Office of the Chief Financial Officer responded favorably to the recommendations contained in the reports and, in some cases, corrective action has already been taken to remedy the issues. These responses update the District management responses provided with regard to the *District of Columbia Independent Auditors' Report on Internal Control and Compliance Over Financial Reporting Fiscal Year Ended September 30, 2006*, report OIG No. 07-1-05MA, issued on January 31, 2007.

While the Office of the Inspector General will continue to assess DCPS's implementation of recommendations, it is DCPS's responsibility to ensure that the deficiencies noted in audit reports are corrected.

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,



Charles J. Willoughby  
Inspector General

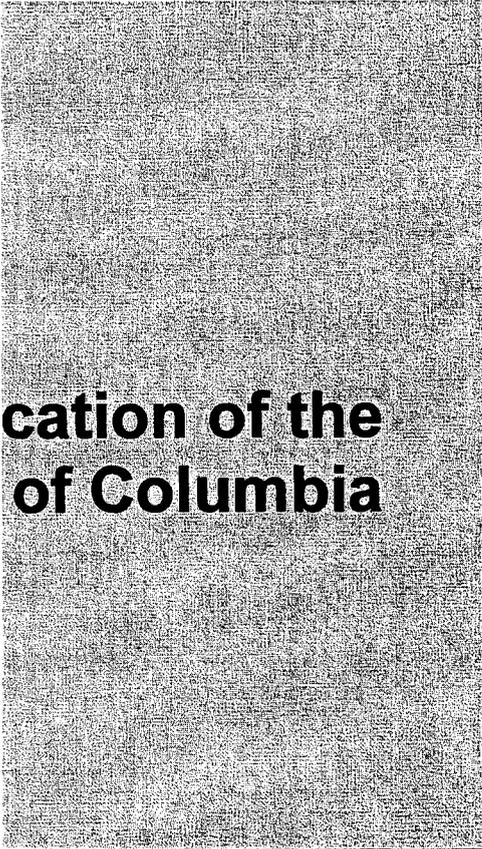
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**Board of Education of the  
District of Columbia**

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**Management Letter**  
Year Ended September 30, 2006



**BDO Seidman, LLP**  
Accountants and Consultants



March 9, 2007

To the Members  
**Board of Education of the District of Columbia**  
825 North Capitol Street, NE  
Washington, D.C. 20002

In planning and performing our audit of 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, for the year ended September 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the Schedule and not to provide assurance on internal control. However, we noted certain matters involving internal control 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 internal control that, in our judgment, could adversely affect DCPS' ability to initiate, record, process, and report financial data consistent with the assertions of management in the Schedule.

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 caused by error or fraud 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 would not necessarily disclose all matters that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses, as defined above. In addition, because of inherent limitations in internal control, misstatements due to error or fraud may occur and not be detected by such controls. However, we noted the following reportable conditions, described in greater detail in Appendix A, which we believe to be material weaknesses.

- I. DCPS is Classified as a "High Risk" School District by the U.S. Department of Education
- II. District of Columbia Office of Inspector General identified DCPS as "High Risk"
- III. Procurement Practices
- IV. Human Resources/Payroll System
- V. Medicaid Cost Reports Are Not Filed Timely
- VI. Medicaid Receivable Is Not Recorded at Year End

We also noted the following reportable conditions, described in greater detail in Appendix A, which are not believed to be material weaknesses.

- VII. Central Investment Fund Expenditures Lacked Adequate Supporting Documentation
- VIII. Official Personnel Folders and Inadequate Supporting Documentation



**BDO Seidman, LLP**  
Accountants and Consultants

We have also prepared suggestions for improvements in DCPS' internal control that we did not consider to be reportable conditions or material weaknesses. These are presented in Appendix B for your consideration. The status of prior year material weaknesses, reportable conditions, and advisory comments is presented in Appendix C.

This letter 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.

Very truly yours,

*BDO Seidman, LLP*

**BDO SEIDMAN, LLP**

**Material Weaknesses and Reportable Conditions  
In Internal Controls Over Financial Reporting**

**I. DCPS is Classified as a “High Risk” School District by the U.S. Department of Education**

Observation:

In a letter dated April 21, 2006, the U.S. Department of Education cited DCPS as “high risk”, due to systemic weaknesses. The issues cited include:

- a) Submission of untimely audits.
- b) Inadequate monitoring of federal funds.
- c) Inadequate documentation of salary charges.
- d) Insufficient support for charter school funding.

As a result, there is potential for DCPS to lose federal funding and it may be required to have a third party monitor its federal funds. It should also be noted that the U.S. Department of Education indicated that it would consider imposing penalties if no progress was made within a year’s time.

Management’s Response:

DCPS takes the United States Department of Education “High Risk” designation very seriously and is committed to resolving all of the above issues.

Corrective Action Plan:

1. DCPS has established a task force that is working diligently to correct all issues that have placed DCPS under the “High Risk” designation.
2. DCPS/OCFO will put in place a comprehensive framework of internal controls, which will allow management to attain its objectives and meet its responsibilities. The controls will possess the following elements:
  - A favorable control environment;
  - Ongoing risk assessments;
  - Control-related policies and procedures;
  - Effective communication of information; and
  - Monitoring the effectiveness of internal controls and the resolution of potential problems identified by those controls
3. DCPS/OCFO management is truly committed to strengthening internal controls. The key element in a favorable control environment is the attitude of management.

**Material Weaknesses and Reportable Conditions  
In Internal Controls Over Financial Reporting**

**I. DCPS is Classified as a “High Risk” School District by the U.S. Department of Education  
- (continued)**

4. In addition to the above, DCPS/OCFO has already established policies and procedures in the following areas:

- Student Activities Fund
- Imprest Fund (Petty Cash)
- Travel
- Central Investment Fund
- Flow of information in Accounts Payable
- Document Retention

a) The Office of the Chief Financial Officer is committed to engaging the federal audits on a timely basis to ensure timely submission. When necessary, extensions will be requested in time for approval before it is considered late.

b) In addition to performing financial monitoring of sub-recipients, timely (year –end) closeouts of sub-recipients agreements will identify any outstanding funds that need to be returned to the District. All close out reports will include the return of any left over cash that is still in the possession of the sub-recipient. This also addresses the deficiency of distributing more funds to recipients than is required in order to take care of “immediate cash needs.” A review of monthly invoices would quickly identify excess funds that needed to be utilized or returned by the recipient. Further, beginning with the first quarter and on a monthly basis during the program year, expenditure reports shall be compared with the spending plan. When differences are plus or minus 15%, the sub-grantee shall be required to submit a corrective plan of action.

c) All required supporting payroll (costs) documents are collected and safeguarded by the Department of Human Resources at the time of application, orientation, and any open enrollment periods. A comprehensive cost allocation plan needs to be developed and applied to those employees/managers who are charged to one or more grants.

d) When an application package requesting funding for a new charter school is completed and approved by the SEA, the original packet (including the approval letter of the “Developer’s Charter Application”) will be filed in a locked filing cabinet; a copy will be made available for staff utilization. This will ensure that complete and accurate applicant documentation is maintained on file along with proof of funding eligibility.

**Material Weaknesses and Reportable Conditions  
In Internal Controls Over Financial Reporting**

## **II. District of Columbia Office of Inspector General identified DCPS as “High Risk”**

### Observation:

In its fiscal year 2006 Audit and Inspection Plan, issued August 29, 2005, the Office of Inspector General (OIG) identified DCPS as one of six areas assessed as high risk in the District of Columbia. The distinction as high risk is defined by the OIG as “areas that present the highest risks to maintaining the District’s fiscal integrity and continued financial strength.” As a result of this assessment, the OIG decided to provide onsite presence at DCPS to conduct internal control reviews and assessments of issues throughout the year.

The OIG conducted various other audits throughout the course of fiscal year 2006. One audit at DCPS found overtime payments that were:

- a) Made for hours when basic pay should have been paid while employees were on official leave or holiday;
- b) Not properly authorized;
- c) Not authorized in advance;
- d) Not recorded in the period in which overtime was worked; and
- e) Lacking the required overtime request forms.

These conditions occurred because DCPS did not have adequate internal controls for processing overtime pay and sufficient management oversight was not exercised to ensure that processing overtime was effective and efficient. Also, adequate written policies and procedures were not provided to payroll staff to ensure that there was a complete understanding of the payroll process. As a result, there was no assurance that DCPS overtime payments were always valid, or that the overtime was needed to fulfill genuine work requirements.

Other areas the OIG audited included security service billings and the capital improvement campaign. These audits also revealed a systematic lack of policies and procedures, insufficient oversight of vendors, duplicate payment of invoices, lack of fee collections, and the inability to enforce contract provisions.

OIG has also considered DCPS as a high risk area in its fiscal year 2007 Audit and Inspection Plan, which was issued on August 31, 2006.

### Management’s Response:

DCPS agrees with this finding and takes the issues identified very seriously. DCPS is committed to employing all resources to correct these findings.

### Corrective Action Plan:

1. DCPS has established a task force that is working to correct all issues that have been placed under “High Risk” by the District of Columbia Inspector General. Members of this task force includes executives of DCPS, OCFO, and the Office of Integrity and Oversight of the District Chief Financial Officer. The task force is committed to the following:

**Material Weaknesses and Reportable Conditions  
In Internal Controls Over Financial Reporting**

**II. District of Columbia Office of Inspector General identified DCPS as “High Risk” -  
(continued)**

- DCPS will obtain DCOIG reports written/issued during FY 2006.
- OIO will review corrective actions noted by DCPS and perform tests to ensure that the solution has been implemented.
- The Office of Human Resources along with the CFO’s office will create a task force to develop and create a Policy and Procedures Manual to address overtime issues. This manual will clearly state all areas of overtime, to include who may authorize, approve, and record overtime, as well as procedures to be followed during the holiday seasons when leave is at its heaviest level. In addition, leave forms will be assessed to determine if changes or modifications are required. The manual will be created using the DPM, DCMR, and the Superintendent Directives, and will be a user friendly guide. DVD will also be available.

**III. Procurement Practices**

Observation:

During the audit process, we noted numerous deficiencies related to procurement practices:

- DCPS was cited for inadequately training staff and maintaining dual databases containing conflicting information.
- It was further determined that DCPS lacked written policies and procedures for procurement of goods and services for use in its facilities. This condition led to a system of missing or incomplete procurement files and delays and issues with both the issuance of bid requests and bid awards.

Our audit process noted the following specific deficiencies with procurement practices:

- One (1) of the eight (8) sampled purchase order (POs) were not provided by DCPS.
- Five (5) of the eight (8) sampled POs did not have an approved requisition order.
- Two (2) of the eight (8) sampled POs did not have evidence of City Council or School Board approval.
- One (1) of the ten (10) sampled sole source contracts was not provided by DCPS.
- Seven (7) of the ten (10) sampled sole source contracts did not have an approved requisition order.
- Two (2) of the ten (10) sampled sole source contracts did not have evidence of City Council or School Board approval.

**Material Weaknesses and Reportable Conditions  
In Internal Controls Over Financial Reporting**

**III. Procurement Practices - (continued)**

- Two (2) of the ten (10) sampled sole source contracts had no evidence justifying the use of a sole source contractor.
- Further, DCPS was unable to provide an accurate population of purchase order modifications.

The lack of supporting documentation and not following a written set of policies and procedures can lead to expenses being incurred which are not allowed under both DCPS' internal policies and under the conditions of various Federal awards. Additionally, the disjointed systems in place at DCPS could result in higher costs. It can also lead to significant problems in its contracting practice.

Our understanding is that DCPS has currently not fully implemented corrective action to significantly improve its procurement practices which in turn, presents issues for the District of Columbia, as a whole.

**Management's Response:**

Currently, the Office of Contracts and Acquisitions (OCA) has reconfigured its office, added additional personnel, developed performance measures, and implemented policies and procedures to strengthen the procurement process. In addition, OCA is working with the Office of Facilities Management, its process partner, to develop a constructive collaborative working relationship.

Recently, the Chief Procurement Officer has taken critical steps to shore up the written policies and procedures associated with the procurement of goods and services for DCPS. Procurement has hired a manager, whose sole role is to develop procedures, policies, and administrative issuances. In addition, performance measures have been developed and disseminated. All OCA employees are required to satisfy annual training requirements.

The Chief Procurement Officer has recognized that accurate and consistent documentation is critical to the procurement process. OCA employees have been directed to keep and maintain their files in a consistent manner. There has been an administrative directive issued exclusively addressing the establishment and maintenance of contract files.

The Chief Procurement Officer has informed all employees that any deviation from the procurement regulations Title 27DCMR, including Chapter 17, that addressed emergency procurements will not be tolerated.

**Corrective Action Plan:**

1. Written policies and procedures are in existence. OCA is governed by District of Columbia Municipal Regulations (DCMR) Title 27 and the Procurement Practices Act. In addition, OCA has supplemented the written guidelines and law by issuing policies and procedures governing procurement of goods and services to DCPS facilities.

## Material Weaknesses and Reportable Conditions In Internal Controls Over Financial Reporting

### III. Procurement Practices - (continued)

2. DCPS has stopped maintaining dual databases and migration of the databases have been completed. All staff has been instructed on how to use the comprehensive database, and there will be continuous training offered to them.

3. DCPS will ensure that all files are complete, henceforth. OCA has issued directives that specifically address file maintenance. These directives are aimed at supplementing 27 DCMR and other existing procurement regulations by providing staff with clear procedures to improve file documentation within OCA. The written directives were issued between March 24, 2006 and November 1, 2006.

4. The total population of purchase order modifications is currently maintained. OCA follows 27 DCMR, section 1700 and the Procurement Practices Act (1995), section 2-303.05 when processing sole source contracts. OCA also follows 27 DCMR, section 3600 when processing modifications.

### IV. Human Resources/Payroll System

#### Observation:

DCPS, Human Resources Department utilizes the Comprehensive Automated Personnel Payroll System (CAPPS) to process and manage payroll. CAPPS was implemented in 1999 and replaced the Unified Personnel Payroll System (UPPS).

Our audit process noted several systemic deficiencies with CAPPS. CAPPS is less automated and requires more manual interface than UPPS which results in unintentional errors and the use of an antiquated system. For instance:

- CAPPS does not have the capability to track and calculate step increases for employees. Therefore, human resource personnel must determine when an employee is eligible for a step increase and process it manually.
- Checks and balances for CAPPS is a manual process making it difficult to validate the data in CAPPS.
- Furthermore, it is difficult to produce reports from CAPPS to help analyze human resource/payroll functions such as the amount of overtime spent during the year or employees terminated but still reflected as active in the system.

For fiscal year 2006, DCPS had an approved personnel services budget totaling \$626.4 million. In order to help ensure that DCPS is properly and accurately processing payroll on a bi-weekly basis, DCPS should reduce the number of manual and more labor intensive processes involved and consider the implementation of an automated system capable of efficiently processing its payroll volume.

**Material Weaknesses and Reportable Conditions  
In Internal Controls Over Financial Reporting**

**IV. Human Resources/Payroll System – (continued)**

**Management's Response:**

DCPS will transition from CAPPs to PeopleSoft in the timeframe of late fiscal year 2008 and early fiscal year 2009, utilizing the time and attendance, labor distribution, and the human resource components.

**Corrective Action Plan:**

1. DCPS will obtain all related DCOIG reports written/issued during FY 2006.
2. OIO will review corrective actions noted by DCPS and perform tests to ensure that the solution has been implemented.
3. DCPS has established a task force that includes the Office of Human Resources and the Office of the Chief Financial Officer to develop and create policy and procedures to address overtime issues. This manual will effectively identify all areas of overtime to include who is authorizing approval and recording overtime, and will also include procedures to be followed during the holiday season when leave is at its heaviest. In addition, leave forms will be assessed to determine if changes or modifications are required. The manual will be created using the District Personnel Manual, DCMR and the Superintendent Directives, and will be a user friendly guide. DVD will also be available.
4. CAPPs has the ability to track and calculate step increases. Office of Pay and Retirement Services (OPRS) is currently performing a mass update for the teachers prior to the opening of this coming school year. DCPS will provide OPRS with the rules regarding the waiting periods between steps. OPRS and Office of the Chief Information Officer will work together to effectuate an automated step increase process. OPRS will continue to train the DCPS staff on the use of CAPPs. Pursuant to the training plan, the DCPS, Office of Human Resources (OHR) along with the CFO's office will develop a task force to provide necessary training needed for the appropriate HR staff to be completed by the end of Fiscal Year 2007. A total of 30 to 35 HR staff members will be trained. This training will be conducted by a training team and augmented by external support as needed. Training will take place between April 2007 and June 2007 starting with 10 employees. After the training is completed OHR will develop a training manual between July and August 2007. This manual will be developed by the training team and will be user friendly and will be consistent with the DPM, DCMR and the Superintendent Directives.
5. CAPPs has the capability to validate data. OPRS will train DCPS staff on how to validate data in CAPPs. The DCPS, OHR along with the CFO's office will develop a task force to provide the necessary training needed for the appropriate OHR staff to be completed by the end of the Fiscal Year 2007. As a result of this there will be training manuals developed along with a DVD version as well. A total of 30 to 35 HR staff members will be trained. This training will be conducted by a training team and augmented by external support as needed. Training will take place between April 2007 and June 2007 starting with 10 employees. After the training is completed OHR will develop a training manual between July and August 2007. This manual will be developed by the training team and will be user friendly and will be consistent with the DPM, DCMR and the Superintendent Directives.

**Material Weaknesses and Reportable Conditions  
In Internal Controls Over Financial Reporting**

**IV. Human Resources/Payroll System – (continued)**

6. CAPPs has the capability to produce reports to analyze human resource/payroll functions such as the amount of overtime spent during the year or employees terminated but still reflected as active in the system. OPRS will train DCPS staff on how to use this operation. OHR along with the CFO's office will develop a task force to provide the necessary training needed for the appropriate OHR staff to be completed by the end of Fiscal Year 2007. As a result of this, there will be a training manual developed along with a DVD version as well. A total of 30 to 35 HR staff members will be trained. This training will be conducted by a training team and augmented by external support as needed. Training will take place between April 2007 and June 2007 starting with 10 employees. After the training is completed OHR will develop a training manual between July and August 2007. This manual will be developed by the training team and will be user friendly and will be consistent with the DPM, DCMR and the Superintendent Directives.

**V. Medicaid Costs Reports Are Not Filed Timely**

Observation:

Medicaid regulations require submission of cost reports within 5 months of the cost reporting fiscal year or 30 days after a valid Provider Statistical and Reimbursement Report is sent to the provider by the intermediary (whichever is later). If additional claims are able to be supported within two years of providing the services, cost reports can be resubmitted. As of January 2007, DCPS has not filed the fiscal year 2003, 2004, 2005, and 2006 cost reports. DCPS is in direct violation of compliance with the filing requirements. In addition, the longer that DCPS waits to submit these cost reports, the greater the risk increases that DCPS may not be able to locate the appropriate documentation during the respective cost report audit. We recommend that DCPS gather the information needed to file a complete and accurate cost report and file these reports that are past due. Going forward, an effort should be made to file these reports within the regulated time frame. We further noted that the fiscal year 2002 cost report was only submitted in fiscal year 2005 and DCPS is currently in negotiations concerning its Medicaid disallowances. Based on our discussion with DCPS personnel, disallowances for fiscal year 2002 could range as high as \$2 million. The fiscal year 2003, 2004, 2005, and 2006 disallowances are unknown as of January 2007, and no liability has been recorded for these potential disallowances.

Based upon a historical analysis of prior year disallowances, there is a potential \$8 million disallowance relating to fiscal years 2003 through 2005.

Recommendation

We recommend that DCPS gather the information needed to file a complete and accurate cost report and file the reports that are past due. In addition, we recommend that DCPS adhere to Medicaid regulations and file the Medicaid cost reports within the required time frame

**Material Weaknesses and Reportable Conditions  
In Internal Controls Over Financial Reporting**

**V. Medicaid Costs Reports Are Not Filed Timely – (continued)**

**Management's Response:**

While it is true that documentation is hard to locate after two years, the District of Columbia State Plan for Medicaid services does not specify a time limit for DCPS to submit cost reports. DCPS, as a public agency, has a two-year window, from the date of service to submit Medicaid claims (Legal citation: 45 CFR 95.7 (2001)).

It is the understanding of DCPS that all allowable Medicaid claims have to be submitted prior to preparing a comprehensive cost report; DCPS has been utilizing the two-year window to research and submit claims in an appropriate manner. DCPS is re-examining its understanding of the requirements and processes regarding the submission of cost reports within the five months of the reporting fiscal year end. It is not the desire of DCPS to lose significant amounts of school-based Medicaid reimbursements with implementation of the five month requirement and DCPS will, to the fullest extent, make modifications of the report and utilize the two-year window to file Medicaid claims from the date of service.

**Corrective Action Plan:**

1. The Centers for Medicare and Medicaid Services, under Title 42 Part 413, Subchapter B of the Code of Federal Regulations, specifies regulations for cost reimbursement and reporting for the Medicare Program. Section 413.20(b) of the Regulations addresses frequency of cost reporting and Section 413.24(f) (2) requires cost reports to be completed within five months after the close of the period covered by the report. Title 42, Subchapter B references the Medicare Program, (specifically end-stage renal disease services that are provided by skilled nursing facilities).
2. While the current State Plan Amendment does reference the principles of reasonable cost reimbursement for public clinics, these clinics are only a subset of all revenue collected by the DCPS Medicaid Recovery Unit. Therefore, the Medicare regulations in question, apply only to a subset of all revenue collected by DCPS. In the District, all public agencies have been granted a two-year window from the date of service within which the Medicaid claim can be billed. Since all public agencies utilize the two-year window, cost reports are not prepared until after this two-year time frame has elapsed (since submitting the cost reports before this time will truncate the public agency's ability to collect further revenue that is relevant to the applicable fiscal years). The Code of Federal Regulation does not provide guidance for acceptable time frames within which public agencies (such as DCPS, CFSA, YSA, etc.) shall submit cost reports after the end of each fiscal year.
3. DCPS will seek further confirmation from the Medical Assistance Administration (and Centers for Medicare and Medicaid) regarding reasonable time frames for submission of future cost reports. A timely written request for extension will be made if necessary. DCPS submitted cost reports for the year 2003 in July 2006.

**Material Weaknesses and Reportable Conditions  
In Internal Controls Over Financial Reporting**

**VI. Medicaid Receivable Is Not Recorded at Year End**Observation:

We also noted that DCPS currently records Medicaid revenue using the cash basis of accounting. As such, no receivable is ever booked for Medicaid revenue. DCPS is also unable to quantify the amount of unbilled claims at year-end. This is due to the fact that DCPS has not yet developed a methodology to properly analyze and determine the potential incurred but not recorded (IBNR) Medicaid claims at year-end. We recommend that DCPS develop such a methodology and implement it as soon as possible. As a result of not having a calculation or requiring its Medicaid claims processing vendor to quantify unbilled claims at year-end, DCPS' related receivables and liabilities are understated. In addition, we noted that DCPS has not submitted claims in a timely fashion.

Recommendation

We recommend that management develop a methodology to reasonably determine or calculate an Incurred But Not Recorded (IBNR) at the end of each fiscal year.

Management's Response:

DCPS' corrective action for this audit finding is the implementation and full use of the accrual basis of accounting in order to fully book Medicaid revenue. This methodology will be instrumental in allowing us to properly analyze and determine the potential incurred but not recorded (IBNR) medical claims at year end. Medicaid claims for DCPS is a complex operation that is highly dependent on the data submitted by over 140 public schools, 50 non-public schools, the Department of Special Education and the Department of Transportation. Due to systemic delays in receiving clinician service data, errors and inconsistencies can occur and significantly affect the calculation of IBNR liability.

Corrective Action Plan:

1. DCPS will record Medicaid claims using the accrual basis of accounting for the billing information available.
2. DCPS will record all Medicaid receivables in the future.
3. DCPS is proposing a workgroup consisting of representatives from the Medicaid Recovery Unit, the Office of the Chief Financial Officer, Medical Assistance Administration and the Department of Special Education to discuss the development of a methodology to estimate an IBNR amount from available claim data at fiscal year end.
4. DCPS will notify all clinicians and service providers to document health services within 15 days of providing service.

**Material Weaknesses and Reportable Conditions  
In Internal Controls Over Financial Reporting**

**VII. Central Investment Fund Expenditures Lacked Adequate Supporting Documentation**

Observation:

DCPS lacked supporting documentation for disbursements from the Central Investment Fund (CIF) for 5 of 20 items selected for testing. Specifically, DCPS could not provide invoices or copies of receipts for purchases totaling \$1,150 made from the Neediest Kids Fund during FY 2006. This condition was also reported in an Office of Inspector General Report No. 03-2-12GA dated July 29, 2003. In that report it was noted that DCPS did not maintain adequate documentation to support disbursements made from the CIF.

DCPS Chief Financial Officer issued a directive on September 22, 2005 which established accounting procedures and internal controls for the CIF. The directive required that all disbursements must have proper documentation attached to each request. In addition, the CFO issued policy for the Neediest Kids Fund which provided for the proper use and accountability of the fund. The policy requires that adequate receipts and documentation must also be maintained to support all transactions made from the Fund.

Without adequate documentation, the validity of the disbursements from the CIF could not be supported.

Recommendation:

We recommend that DCPS personnel adhere to the Chief Financial Officer's policy regarding disbursements made from the Fund and maintain adequate support and documentation for all transactions made from the fund.

Management's Response:

DCPS agrees with the finding. All staff will be instructed on following the existing policy governing the Central Investment funds and all related sub accounts

Corrective Action Plan:

1. The Central Investment Fund is largely suspended while the Superintendent obtains clarification on its appropriate use.
2. DCPS/OCFO works with its General Counsel to obtain legal appropriateness before any disbursements are made from the Central Investment Fund. This process also ensures that all required supporting documents for the request are adequate and present.
3. DCPS has provided instructions to all staff on the proper protocols for document retention.

**Material Weaknesses and Reportable Conditions  
In Internal Controls Over Financial Reporting**

**VIII. Official Personnel Folders and Inadequate Supporting Documentation**

**Observation:**

We noted that DCPS does not maintain adequate supporting documents authorizing the processing of payroll for new and terminated employees in the official personnel folders, which is essential to ensure accurate payment of the bi-weekly payroll. Without this documentation on file, errors in payroll may not be detected in a timely manner and may result in improper payments to current and terminated employees.

We also noted that the Human Resources department has operated without a formal policy and procedures manual.

**Recommendation:**

We recommend that DCPS consider a system similar to the District of Columbia Office of Financial Operations and Systems (OFOS) that allows for truly automated document preparation and personnel management functions. In addition, the system will allow for greater flexibility in tracking active teachers within the school system.

We also recommend that management establish a standard operating procedures manual outlining policies to be followed. Written procedures, instructions, and assignments of duties will prevent or reduce misunderstandings, errors, inefficient or wasted effort duplicated or omitted procedures, and other situations that can result in inaccurate or untimely accounting records. A well-devised manual can help to ensure that all similar transactions are treated consistently and that records are produced in the form desired by management. A good manual should also aid in the training of new employees.

**Management's Response:**

Management concurs with the finding. The Office of Human Resources agrees with the finding and is planning to develop a policy and procedures manual. In addition, the Office of Human Resources is hopeful that funding for the project can be secured in fiscal year 2007.

**Corrective Action Plan:**

1. The Office of Human Resources is expected to go on line with PeopleSoft during the year 2008-2009. In the meantime, OHR will develop a manual that will establish operating policies and procedures.
2. Current and new employees in OHR will be trained to ensure that records are maintained and are consistent with protocols established in the manual. Quality control checks will be put in place to ensure consistency.
3. DCPS will develop and implement a computer program to allow for payroll tracking of (active) teachers.
4. The Office of Human Resources is committed to resolving this issue by the beginning of next fiscal year 2008.

**Advisory Comments****IX. Car Allowance Expenditures Were Not Supported****Observation:**

DCPS did not have documentation in the personnel files to support a car allowance for 1 of the 6 employees reviewed resulting in unallowed car expenses totaling \$2,981 for the period August 2005 through October 2006. During FY 2006, DCPS spent over \$200,000 on car allowances for employees to cover the cost of transportation for DCPS employees to conduct business throughout the District. Proper authorization for a car allowance was not provided and documented in the personnel file. Sound internal control procedures dictate that expenditures be adequately supported.

Without proper documentation or authorization to support the car allowance, the District is expending funds improperly.

**Recommendation:**

We recommend that the Human Resource Department review the DCPS employees receiving car allowances for FY 2006 and determine whether they are properly authorized and documented.

**Management Response:**

DCPS agrees with the audit finding and recommendations. Currently, DCPS is in the process of developing a policy and standard procedures related to this issue.

**Corrective Action Plan:**

1. DCPS has compiled a listing of employees who currently receive the car allowance. DCPS has also determined those employees who were provided with written verification at the time of initial employment that a car allowance would be provided. Individuals who clearly should not be receiving the allowance have been notified that it is terminated.
2. DCPS has established a committee to draft a proposed directive regarding eligibility to receive a car allowance. The directive will provide the factors that will determine eligibility. The committee will also review the amount of allowance that should be provided and determine whether the current allotment is appropriate or should be changed. Once the directive is approved, the requirement set forth in it will be applied to each position currently receiving the allowance. An employee who holds a position that does not meet the requirements will be notified that the allowance will no longer be provided. DCPS expects to correct this situation on or before October 1, 2007.

**X. Supervisory Review of Bank Reconciliations Were Not Performed****Observation:**

During our test of DCPS Student Activity Fund (SAF) bank accounts, we noted that the bank reconciliations for the SAF accounts were not always reviewed and approved by supervisory personnel. Additionally, we noted that the reconciliations were being redone by the DCPS OCFO after submission by the various public schools, which were also not having supervisory reviews.

## Advisory Comments

**X. Supervisory Review of Bank Reconciliations Were Not Performed – (continued)**

We also noted that bank reconciliations and statements were not available for review for two schools - one in the month of January 2006, and the other in the months of July and September. DCPS policy and procedures require that all bank reconciliations of SAF accounts be reviewed and approved.

In addition, during our test of DCPS bank accounts, we noted that the bank reconciliation for the Superintendent Imprest Fund for August 2006 was not reviewed and approved by supervisory personnel. We also noted that the bank reconciliations for July through September 2006 for the Expedite Purchasing System Imprest Fund were not reviewed and approved by a supervisor. As a result, errors could go undetected and unresolved for an extended period of time.

DCPS' Imprest Fund policy does not include internal control procedures to require that bank reconciliations be reviewed and approved by a supervisor. Sound internal control procedures dictate that reconciliations should be reviewed and approved by a supervisor.

**Recommendation:**

We recommend that DCPS provide supplemental training on reconciliation policies and procedures to school personnel responsible for the reconciliation of SAF accounts. DCPS staff should not re-create the bank reconciliation but review those submitted by the schools and initial changes made, along with signing off as reviewed. DCPS should also consider the feasibility of requiring and training all schools in the use of the same software and coding for maintenance of their SAF accounts.

We also recommend that DCPS establish internal control procedures to include review and approval of bank reconciliations by a supervisor for the Imprest Funds.

**Management's Response:**

DCPS agrees with the audit finding and takes the recommendation very seriously.

**Corrective Action Plan:**

1. DCPS/OCFO will continue to provide training to all school personnel responsible for the reconciliation of SAF accounts on the reconciliation policies and procedures. Formal training for new staff with these responsibilities will be made mandatory. An appropriate manual will also be provided to all personnel who have the responsibility of reconciling bank accounts. The finance staff will not re-create the schools' reconciliation; it will review what the schools submit for accuracy and completeness as well as note changes that are made to these reports.

2. DCPS has hired a staff accountant whose sole responsibility is to ensure that all bank accounts have been reconciled on a monthly basis as well as the accounting officer has reviewed each one and documented same.

## Status of Prior Year Comments

Nature of Comment	Type of Comment in Fiscal Year 2005	Current Year Status
Retroactive Payment of Salary Step Increases	Material Weakness	Material Weakness*
Benefit Payments for Inactive Employees	Material Weakness	Material Weakness*
Official Personnel Folders and Inadequate Supporting Documentation	Reportable Condition	Reportable Condition
Supervisory Review of Journal Entries	Advisory Comment	Resolved
Application of Indirect Cost Rates	Advisory Comment	Resolved
Receivables and Revenue Cut-off Process	Advisory Comment	Resolved
Medicaid Cost Reports	Advisory Comment	Material Weakness
Insufficient Tracking of Personnel Movement	Reportable Condition	Reportable Condition**
Lack of Provider SAS 70 Report	Advisory Comment	Advisory Comment**

\*These represent findings from the prior year which have been incorporated as part of the Human Resources/Payroll System finding in fiscal year 2006.

\*\*These represent findings from fiscal year 2004 noted again in fiscal year 2006. Management represented in 2005 that it is comfortable with current procedures. Management continues with this position in fiscal year 2006 and no changes will be implemented.