

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

Inspector General



**TESTIMONY OF CHARLES J. WILLOUGHBY
INSPECTOR GENERAL
BEFORE THE D.C. COUNCIL
COMMITTEE OF THE WHOLE**

**OVERSIGHT HEARING FOR THE
DISTRICT OF COLUMBIA PUBLIC SCHOOLS**

FEBRUARY 27, 2007

CHAIRMAN GRAY AND OTHER COMMITTEE MEMBERS, I APPRECIATE THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY TO DISCUSS ISSUES THAT RELATE TO THE CONTINUING EFFORTS BY THE DISTRICT OF COLUMBIA TO IMPROVE ITS PUBLIC SCHOOL SYSTEM. MANY OF THESE ISSUES HAVE BECOME PART OF OUR AUDIT AGENDA. MY TESTIMONY TODAY WILL OUTLINE RECENT AND PAST AUDITS THAT ADDRESS SYSTEMIC DEFICIENCIES, SUMMARIZE INVESTIGATIVE MATTERS, AND ADDRESS OUR COMMITMENT TO PLACE A HIGH PRIORITY ON AUDITING SCHOOL OPERATIONS THAT RELATE TO FINANCIAL AND PERFORMANCE ISSUES. SITTING WITH ME AT THE TABLE ARE WILLIAM J. DIVELLO, ASSISTANT INSPECTOR GENERAL FOR AUDITS; SALVATORE D. GULI, DIRECTOR FOR TECHNICAL MATTERS AND FIELD OPERATIONS; AND MONICA GRAVES, DIRECTOR FOR SCHOOL AUDITS. I WILL PRESENT AN ABBREVIATED VERSION OF MY REMARKS AT THIS TIME. THE FULL VERSION OF MY TESTIMONY HAS BEEN SUBMITTED FOR THE RECORD.

PERSPECTIVE

AS YOU KNOW, THE D.C. PUBLIC SCHOOLS (DCPS) SPEND IN EXCESS OF \$1 BILLION ANNUALLY AND HAVE ONE OF THE LARGEST PER CAPITA STUDENT EXPENDITURE RATIOS IN THE NATION. WHILE RECENT AUDIT EFFORTS HAVE SUCCESSFULLY IDENTIFIED LAPSES AND NEEDED IMPROVEMENTS IN VARIOUS PROGRAMS, MUCH REMAINS TO BE DONE TO IMPROVE THE DELIVERY OF VITAL EDUCATION SERVICES AND TO DERIVE THE GREATEST BENEFITS FROM EDUCATION RESOURCES. THE COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR) AUDIT FOR FY 2006, THE SINGLE AUDIT FOR FY 2005, AND RECENT AUDITS CONDUCTED BY THE OFFICE OF THE INSPECTOR GENERAL (OIG) HAVE IDENTIFIED MANY OF THE CURRENT CHALLENGES FACING DCPS.

FY 2006 CAFR

THE INDEPENDENT AUDITOR (BDO SEIDMAN, LLP) ISSUED AN UNQUALIFIED OPINION ON THE DISTRICT'S FINANCIAL STATEMENTS FOR FY 2006. HOWEVER, THE INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL AND COMPLIANCE OVER FINANCIAL REPORTING IDENTIFIED TWO REPORTABLE CONDITIONS: (1) DCPS AND (2) MANAGEMENT OF THE MEDICAID PROGRAM. OF THE TWO REPORTABLE CONDITIONS, THE AUDITOR CLASSIFIED DCPS AS A MATERIAL WEAKNESS. WITH RESPECT TO DCPS, THE AUDITOR IDENTIFIED DEFICIENCIES IN THE FOLLOWING

AREAS: (1) PROCUREMENT, (2) HUMAN RESOURCE/PAYROLL, AND (3) MEDICAID. THESE DEFICIENCIES ARE SUMMARIZED BELOW.

PROCUREMENT. THE AUDITOR NOTED NUMEROUS DEFICIENCIES RELATED TO DCPS' PROCUREMENT PRACTICES. FOR EXAMPLE, THE AUDITOR DETERMINED: (1) DCPS DID NOT HAVE APPROVED REQUISITION ORDERS FOR PURCHASE ORDERS AND SOLE SOURCE CONTRACTS; (2) DCPS DID NOT HAVE EVIDENCE JUSTIFYING THE USE OF SOLE SOURCE CONTRACTORS; (3) DCPS WAS UNABLE TO PROVIDE AN ACCURATE POPULATION OF PURCHASE ORDERS AND MODIFICATIONS; AND (4) DCPS DID NOT HAVE EVIDENCE THAT THE CITY COUNCIL AND THE BOARD OF EDUCATION APPROVED PURCHASE ORDERS AND SOLE SOURCE CONTRACTS.

HUMAN RESOURCE/PAYROLL. THE AUDITOR DETERMINED THAT THERE ARE SEVERAL SYSTEMIC DEFICIENCIES WITH THE COMPREHENSIVE AUTOMATED PERSONNEL PAYROLL SYSTEM (CAPPS), WHICH IS THE CURRENT SYSTEM THAT DCPS USES TO PROCESS AND MANAGE PAYROLL. CAPPS IS LESS AUTOMATED AND REQUIRES MORE MANUAL INTERFACE THAN THE PREVIOUS PAYROLL SYSTEM.

MEDICAID. THE AUDITOR DETERMINED THAT DCPS HAS NOT TIMELY FILED COST REPORTS FOR FISCAL YEARS 2003, 2004, 2005, AND 2006. THE DISALLOWANCES FOR FISCAL YEARS 2003, 2004, 2005, AND 2006 ARE

UNKNOWN AS OF JANUARY 2007, AND NO LIABILITY HAS BEEN RECORDED FOR THESE POTENTIAL DISALLOWANCES. BASED ON A HISTORICAL ANALYSIS OF PRIOR YEAR DISALLOWANCES, THERE IS A POTENTIAL \$8 MILLION DISALLOWANCE RELATING TO FY 2003 THROUGH FY 2005. FURTHER, THE AUDITOR DETERMINED THAT DCPS CURRENTLY RECORDS MEDICAID REVENUE USING THE CASH BASIS OF ACCOUNTING RATHER THAN THE ACCEPTABLE ACCRUAL BASIS OF ACCOUNTING. CONSEQUENTLY, NO RECEIVABLE IS EVER BOOKED FOR MEDICAID REVENUE.

HIGH RISK DESIGNATION. THE AUDITOR ALSO REPORTED THAT THE U.S. DEPARTMENT OF EDUCATION DESIGNATED DCPS AS “HIGH RISK” DUE TO SYSTEMIC WEAKNESSES. THE WEAKNESSES INCLUDE: (1) SUBMISSION OF UNTIMELY AUDITS, (2) INADEQUATE MONITORING OF FEDERAL FUNDS, (3) INADEQUATE DOCUMENTATION OF SALARY CHARGES, AND (4) INSUFFICIENT SUPPORT FOR CHARTER SCHOOL FUNDING.

SINGLE AUDIT REPORT FOR FY 2005

FOR FY 2005, BDO SEIDMAN, LLP REPORTED THAT THE DISTRICT DID NOT COMPLY WITH CERTAIN REQUIREMENTS THAT WERE APPLICABLE TO SOME OF ITS MAJOR PROGRAMS. THE AUDITOR IDENTIFIED 22 FINDINGS RELATIVE TO DCPS, DETERMINING AMONG OTHER THINGS, THAT DCPS

DID NOT: (1) MAINTAIN ADEQUATE DOCUMENTATION SUPPORTING PAYROLL COSTS FOR A HEAD START GRANT AND A VOCATIONAL EDUCATION GRANT; (2) COMPLETE AND SUBMIT SEMIANNUAL TIME AND EFFORT CERTIFICATIONS TO SUBSTANTIATE PAYROLL COSTS FOR SEVERAL GRANTS; (3) PROVIDE THE REQUIRED MATCHING FUNDS FOR A HEAD START GRANT; AND (4) PROVIDE EVIDENCE THAT IT PROPERLY MONITORS SUBRECIPIENTS FOR SEVERAL GRANTS. MANY OF THE FY 2005 SINGLE AUDIT FINDINGS WERE REPEAT FINDINGS FROM FY 2004.

OIG AUDIT EFFORTS

IN THE PAST SEVERAL YEARS, THE OIG HAS INCREASINGLY DEVOTED AUDIT RESOURCES TO ADDRESS EMERGENT AND LONG-STANDING ISSUES FACING THE DISTRICT'S EDUCATION SYSTEM. THESE ISSUES INCLUDE SPECIAL EDUCATION, PROCUREMENT AND CONTRACT ADMINISTRATION, PAYROLL, SECURITY, INFORMATION TECHNOLOGY, HUMAN CAPITAL, AND GRANTS MANAGEMENT. DUE TO THESE ISSUES, THE OIG HAS IDENTIFIED PUBLIC SCHOOLS AS ONE OF THE FIVE HIGH-RISK PROGRAMS CHALLENGING THE DISTRICT'S FISCAL INTEGRITY AND FINANCIAL STABILITY. SOME OF OUR MORE RECENT AUDIT EFFORTS AND OUR ONGOING AND PLANNED AUDITS ARE DISCUSSED BELOW:

SCHOOL SECURITY. WORKING WITH SCHOOL OFFICIALS, WE COMPLETED A SERIES OF AUDITS DURING THE PAST FEW FISCAL YEARS THAT ADDRESSED SCHOOL SECURITY ISSUES IN AREAS SUCH AS THE USE OF

HOMELAND SECURITY FUNDS, PROCUREMENT, AND BACKGROUND AND TRAINING OF SECURITY PERSONNEL. THE SCHOOL SECURITY PROBLEMS NOTED IN OUR AUDITS WERE INSTRUMENTAL, IN PART, IN THE DISTRICT DEVELOPING A COMPREHENSIVE PLAN FOR SCHOOL SECURITY.

CAPITAL IMPROVEMENT PROGRAM (CIP). WE RECENTLY ISSUED AN AUDIT OF THE MANAGEMENT OF DCPS CAPITAL PROJECTS. THE AUDIT EXAMINED THE DCPS CAPITAL CONSTRUCTION PROGRAM TO ASSESS THE PROGRESS DCPS WAS MAKING IN ASSUMING CAPITAL SCHOOL CONSTRUCTION PROJECTS. THIS RESPONSIBILITY RECENTLY SHIFTED FROM THE U.S. ARMY CORPS OF ENGINEERS TO THE DISTRICT. BASED ON OUR AUDIT RESULTS, WE ARE ENCOURAGED BY THE PROGRESS DCPS IS ALREADY MAKING TO BUILD THE SKILLS NEEDED TO MANAGE THIS PROGRAM.

DCPS OVERTIME. IN JUNE 2006, WE ISSUED AN AUDIT REPORT ON OVERTIME. WE DETERMINED THAT DCPS DID NOT FULLY COMPLY WITH ALL OF THE DISTRICT'S REGULATIONS GOVERNING PROCESSING EMPLOYEE OVERTIME PAYMENTS. WE ALSO DETERMINED THAT THE DCPS DEPARTMENT OF TRANSPORTATION DID NOT HAVE ADEQUATE WRITTEN POLICIES AND PROCEDURES TO MANAGE AND ADMINISTER PAYROLL.

ONGOING AND PLANNED AUDITS

WE WILL CONTINUE OUR INVOLVEMENT IN DCPS SECURITY, CIP, AND OVERTIME ISSUES, AS WELL AS OTHER DCPS ISSUES COVERED IN OUR ONGOING AND PLANNED AUDITS. ONGOING AUDITS INCLUDE:

- TUITION AND RESIDENCY REQUIREMENTS; AND
- AUDIT OF THE DCPS GRADUATION REQUIREMENTS.

EXAMPLES OF PLANNED DCPS AUDITS INCLUDE THE FOLLOWING TOPICS:

- MAINTENANCE AND REPAIRS OF BUILDINGS;
- NO CHILD LEFT BEHIND ACT IMPLEMENTATION;
- BENCHMARKING REVIEWS OF KEY ISSUES; AND
- SPECIAL EDUCATION CAPACITY AND UTILIZATION.

A COMPLETE LISTING OF PLANNED AUDITS IS INCLUDED IN OUR FISCAL YEAR 2007 AUDIT PLAN.

OIG INVESTIGATION EFFORTS

IN ADDITION TO OUR AUDIT, THE OIG INVESTIGATIONS DIVISION HAS CONDUCTED A BROAD RANGE OF CRIMINAL AND ADMINISTRATIVE INVESTIGATIONS INVOLVING DCPS OFFICIALS, EMPLOYEES, AND CONTRACTORS. FOR EXAMPLE, OUR INVESTIGATORS WERE INVOLVED IN THE WIDELY PUBLICIZED WASHINGTON TEACHER'S UNION (WTU) EMBEZZLEMENT CASE, WHICH WE WORKED JOINTLY WITH THE UNITED STATES ATTORNEY'S OFFICE (USAO) FOR THE DISTRICT OF COLUMBIA AND THE FEDERAL BUREAU OF INVESTIGATION.

OUR CRIMINAL INVESTIGATIONS HAVE FOCUSED MORE DIRECTLY ON THE MISUSE AND THEFT OF DCPS FUNDS AS WELL. AS RECENTLY AS FEBRUARY OF LAST YEAR, ONE OF THE CASES INVESTIGATED BY OUR OFFICE, IN CONJUNCTION WITH THE USAO, RESULTED IN A FEDERAL COURT INDICTMENT OF A FORMER DCPS BUSINESS MANAGER ON BRIBERY AND CONSPIRACY CHARGES. ANOTHER INVESTIGATION REVEALED THAT A FORMER ELEMENTARY SCHOOL PRINCIPAL SPENT – FOR HER OWN PERSONAL USE - NEARLY \$10,000 IN FUNDS DEDICATED TO THE SCHOOL’S STUDENT ACTIVITY ACCOUNT. IN ADDITION TO THESE CASES, THE INVESTIGATIONS DIVISION IS CURRENTLY INVOLVED IN SEVERAL ONGOING INQUIRIES CENTERING ON THE DISTRICT’S PUBLIC AND CHARTER SCHOOLS, INCLUDING CASES CONCERNING FUNDING FOR CHARTER SCHOOL CAPITAL IMPROVEMENTS AND THE NEW SCHOOL FOR ENTERPRISE AND DEVELOPMENT.

MITIGATING RISKS

THE OIG’S PLAN TO HELP MITIGATE RISK HAS FOUR MAIN COMPONENTS:

- (1) MAINTAINING OUR PERMANENT AUDIT SITE AT DCPS;
- (2) CONTINUING EFFORTS TO FOLLOW-UP ON PAST AUDIT RECOMMENDATIONS;

- (3) PROVIDING FINANCIAL OVERSIGHT THROUGH THE CAFR; AND
- (4) MAINTAINING EFFECTIVE WORKING RELATIONSHIPS AND COORDINATION WITH SCHOOL OFFICIALS AND LEADERSHIP.

CONCLUSION

I WANT TO MAKE CLEAR THAT I BELIEVE THAT ONE OF THE MOST IMPORTANT ROLES FOR DISTRICT MANAGERS IS TO IMPLEMENT RECOMMENDATIONS THAT THEY THEMSELVES ACKNOWLEDGE CAN HELP TO RECTIFY PROBLEMS. MY RESPONSIBILITY AS THE INSPECTOR GENERAL IS TO INFORM STAKEHOLDERS OF PROBLEM AREAS IDENTIFIED BY AUDITS AND INVESTIGATIONS, AND ABOUT PROGRESS IN IMPLEMENTING RECOMMENDATIONS THAT ULTIMATELY RESOLVE CRITICAL DEFICIENCIES. I TAKE VERY SERIOUSLY MY RESPONSIBILITY TO USE THE RESOURCES OF MY OFFICE TO CONTINUE TO PERFORM INDEPENDENT ASSESSMENTS OF DCPS OPERATIONS.

THANK YOU FOR PROVIDING ME THE OPPORTUNITY TO ADDRESS THIS MOST IMPORTANT ISSUE. WE'LL BE PLEASED TO RESPOND TO YOUR QUESTIONS AT THIS TIME.