GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL

UNIVERSITY OF THE
DISTRICT OF COLUMBIA

INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL OVER
FINANCIAL REPORTING
AND MANAGEMENT LETTER COMMENTS

FISCAL YEAR ENDED SEPTEMBER 30, 2006

CHARLES J. WILLOUGHBY
INSPECTOR GENERAL

OIG No. 08-1-21GF(a) **June 20, 2008**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General

June 20, 2008

The Honorable Adrian M. Fenty
Mayor of the District of Columbia
Mayor's Correspondence Unit, Suite 221
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

The Honorable Vincent C. Gray
Chairman
Council of the District of Columbia
1350 Pennsylvania Avenue, N.W., Suite 504
Washington, D.C. 20004

Dear Mayor Fenty and Chairman Gray:

As part of our contract for the audit of the District of Columbia's general purpose financial statements for fiscal year (FY) 2007, BDO Seidman, LLP (BDO Seidman) submitted the enclosed final report on the University of the District of Columbia (UDC's) Internal Control Over Financial Reporting and Management Letter Comments.

BDO Seidman set forth recommendations for correcting internal control weaknesses. UDC management responses are noted and, in some cases, corrective action has already been taken to remedy the noted deficiencies. UDC management did not concur with Recommendation 1 with regard to weaknesses in the procurement process; we will actively seek resolution of this noted deficiency.

If you have questions or need additional information, please contact William J. DiVello, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,

Charles J. Willoughby
Inspector General

Enclosure

CJW/ws

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Independent Auditors' Report
on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Trustees
University of the District of Columbia
Washington, DC

We have audited the basic financial statements of the **University of the District of Columbia** (the University), a component unit of the Government of the District of Columbia (the District), as of and for the year ended September 30, 2007, and have issued our report thereon dated April 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the University's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the University's basic financial statements that is more than inconsequential will not be prevented or detected by the University's internal control. We consider the deficiencies described in Appendix A of this letter to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the basic financial statements will not be prevented or detected by the University's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 2008-03 as discussed in Appendix A of this letter to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the University in a separate letter dated April 15, 2008.

The University's responses to the findings identified in our audit are described in Appendix A of this letter. We did not audit the University's response and, accordingly, we express no opinion on it.

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

BDO Seidman, LLP

Washington, DC
April 15, 2008

Appendix A

Findings Related to Internal Controls Over Financial Reporting

2008 - 1: Internal Control Weaknesses in Procurement Process

During the audit, the University was unable to provide us with certain important documentation supporting procurement. This signified a lack of control over the procurement process. The details of the exceptions were as follows:

a. We noted that one staff member within the budget office who has authority to approve only up to $25,000 for procuring items, actually approved two (out of 61 selected samples) items which exceeded this limit;
b. We noted that in 2 instances there were no collateral sheets available, and in 3 instances there were no approval sheets available;
c. For one item sampled out of 61 selections, we noted that the bidding process was inadequate. The University follows the District's Supply/Service Schedule which requires obtaining at least 3 quotations. However in the instance specified, there was only one bid obtained; and
d. We found two instances where the purchase orders were found to be generated in fiscal year 2007 even though the transaction had actually taken place in fiscal year 2006.

Management is responsible for designing, implementing, and monitoring the systems of internal control. Any system, regardless of its fundamental soundness, may deteriorate if not reviewed periodically. The system of internal control must be monitored continually to determine whether (1) prescribed policies and procedures are being carried out properly, (2) changes in operating conditions have made the procedures cumbersome, obsolete or inadequate, and (3) effective corrective measures are taken promptly when breakdowns in the system appear.

The University appears to have proper documented controls. However it did not effectively implement the documented controls. In particular, we noted that documentation storage and retrieval was not being done properly. It took the University unusually long periods to provide support for most documents requested, and for some of the recorded transactions in the general ledger, there was no support available.

Lack of internal control can lead to fraud risks and risk of financial statement misstatements.

Recommendation

We recommend that the University assign appropriate personnel to review periodically the accounting and administrative controls, which include systems and procedures providing for proper segregation of duties. These reviews will help insure the safeguarding of documentation and assets and the receipt of materially accurate and reliable financial data. In addition, we recommend the Internal Audit Department periodically review the procurement process to ensure compliance with the University's procedures.

Management's Response

Management does not agree that there was a problem with FY2006 payments on FY2007 purchase orders. The policy was that current year purchase orders were required where an invoice was not accrued on a lapsed purchase order.

2008 - 2: Review of Journal Entries

During the course of testing controls over disbursements, we found that 1 reclassification journal entry out of a sample of 77 samples, was prepared and approved by the same person. Segregation of duties is required in a large size organization in key parts of internal control such as the disbursements process. In addition, we noted that 2 of 77 journal entries were not approved or authorized by the Controller or Chief Financial Officer. Journal entries should be reviewed and approved by the Controller or Chief Financial Officer.

It appears that the preparer may have over-ridden control procedures when preparing and approving the reclassification journal entry. Lack of segregation of duties and overriding of proper internal control procedures might create opportunities for potential misappropriation of assets and misstatements of financial statements.

The proper review of journal entries is a necessary control to ensure that transactions are valid, appropriate and correct. If there is no review, there is the possibility of errors being allowed in the books, on an ongoing basis. Due to the volume of transactions and inherent possibilities of human errors in the processing of transactions, failure to have someone review the work of the preparer could result to material financial statement misstatement and open up the possibility of fraud risks and other irregularities. Review of transactions before posting to the general ledger is recommended as a preventive control.

Recommendation

We strongly recommend that the Controller review and approve journal entries prepared by the Accounting Manager and other accounting staff, and the CFO should review journal entries prepared by the Controller, prior to these being posted to the general ledger.

Management Response

Management concurs with the finding.

2008 - 3: Misapplication of GASB pronouncements

There were several instances were we noted the improper application of governmental accounting standards that lead to material misstatements in the accounting records during the year. These included:

a. There were significant private grant amounts received by the University to be used for purposes of student financial assistance. Revenues were overstated by approximately $914,000. The money received was recognized as revenue during fiscal year 2007. However, since the money was granted with the specific purpose of being used for student financial aid, it should not have been recognized as revenue until the point of time when the financial assistance expense was actually provided. The financial assistance expense was not incurred during 2007.

In governmental organizations, revenues and expenses must be matched in the same period. In this instance a large amount was recognized as revenue even though the corresponding expense had not been incurred. The amount recognized as revenue should have been treated as deferred revenue, instead of being recorded as revenues for the fiscal year.

It appears that there was inadequate review over the revenue recognition and student financial assistance process, and the matching of the revenues against expenditures. This resulted in over recognition of revenues for the fiscal year 2007.

b. During testing we noted that the University had made an accrual as of September 30, 2007 for approximately $8.1 million to accrue sick leave for its employees. The accrual was a departure from the manner in which the University had been accounting for sick leave in prior years because management reconsidered the impact of GASB 34 and incorrectly determined that the accrual was necessary.

   Although management consulted with members of DC's Office of Financial Operations and Systems (OFOS), there was no documentation of this consultation or documentation of the rationale behind making this accrual. There were no changes in the University's sick leave policy during the year. In fact, the accrual was made through a journal entry where the preparer and the reviewer were noted to be the same person.

c. We noted that the University is not following GASB 13, Accounting for Operating Leases with scheduled rent increases. With respect to operational leases, the University should account for lease revenues on a straight line basis over the term of the lease. This is especially applicable in those instances where the rental agreement has an escalation clause in-built over the term of the lease. This must be followed unless the contract provides otherwise which is defined in GASB 13 as "unless another systematic and rational basis is more representative of the time pattern in which use benefit is derived from the leased property".

   The net effect of not applying the GASB 13 literature in the current year is not material to the University's financial statements. However, it is appropriate to comply with the recommended and required accounting treatment in order to avoid such discrepancies in accounting in the future, especially if such future contracts have a material effect on the financial statements.

   We also noted that there were two invoices for security deposits amounting to approximately $242,000 were erroneously treated as expenses of the current year. This resulted in an overstatement of expenses in 2007.

Recommendation

1) We recommend that management use a revenue recognition checklist so as to be sure that revenues are recognized as expenses are incurred. Revenues must be matched with expenses. Further the revenues recognized should be reviewed by a person other than the preparer.

2) We recommend when an accrual of this magnitude is considered that all consultation that occurs be documented and the rationale behind the decision to record the entry be fully documented. In addition, all adjusting journal entries should be approved by an individual other than the preparer.

3) The excessive expense amount in question was corrected and reflected properly in the current year's financial statements. However, we recommend that the appropriate analysis and review of transaction should be performed to ensure that there is no over-ride of controls being attempted to increase expenses.

4) We recommend that the University should comply with the application of GASB literature to avoid possible financial statement misstatements and that consultation and approval of entries be documented accordingly.

Management Response

Management concurs with the finding.

Appendix B

Status of Prior Year Reportable Conditions

Nature of Comment	Type of Comment in FY 2006	Current Year Status
Internal Control over Alternative investments	Reportable Condition*	Partially Corrected
Preparation and Review of SOAR Journal Entries	Reportable Condition*	Repeat Finding
Duplicative Accruals	Reportable Condition*	Corrected in Current Year

** Prior to applicability of SAS 112.*