

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

DISTRICT OF COLUMBIA PUBLIC SCHOOLS

**REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING
AND ADVISORY COMMENTS**

FOR THE YEAR ENDED SEPTEMBER 30, 2008



**CHARLES J. WILLOUGHBY
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



June 8, 2009

The Honorable Adrian M. Fenty
Mayor of the District of Columbia
Mayor's Correspondence Unit, Suite 316
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:

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, 2008, BDO Seidman, LLP submitted the enclosed report on material weaknesses and significant deficiencies in internal control over financial reporting and advisory comments. This report provides recommendations, a summary of management responses, and the status of actions planned/taken to resolve noted deficiencies.

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

cc: See Distribution List

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Mayor Fenty and Chairman Gray
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April 24, 2009

To the Inspector General of the Government of the District of Columbia
Chancellor, District of Columbia Public Schools
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 (the District), for the year ended September 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Schedule but not for the purpose of expressing an opinion on the effectiveness of DCPS' internal control. Accordingly, we do not express an opinion on the effectiveness of DCPS' internal control.

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

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 DCPS' 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 DCPS' Schedule that is more than inconsequential, will not be prevented or detected by DCPS' internal control. Significant deficiencies in internal control are identified below and described in greater detail in Appendix A.

- I. Grants Management
- II. Inadequate Disbursement Practices
- III. Insufficient Control over Cafeteria Cash Receipts
- IV. Deficiencies in Human Resources/Payroll System
- V. Incomplete Recording of Transactions and Expenditures
- VI. Inadequate Management of the Student Activity Fund
- VII. Inadequate Documentation of Budget Reprogrammings
- VIII. Medicaid Provider Programs and Claims
- IX. Inadequate Procurement Documentation
- X. Improper Classification and Documentation of Fixed Assets

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 Schedule will not be



prevented or detected by DCPS' internal control. Of the significant deficiencies described above, we consider the following to be material weaknesses.

- I. Grants Management
- II. Inadequate Disbursement Practices
- III. Insufficient Control over Cafeteria Cash Receipts
- IV. Deficiencies in Human Resources/Payroll System
- V. Incomplete Recording of Transactions and Expenditures
- VI. Inadequate Management of the Student Activity Fund
- VII. Inadequate Documentation of Budget Reprogrammings
- VIII. Medicaid Provider Programs and Claims

We also noted an additional matter that we consider to be a material non-compliance issue which we have discussed in a separate report. We refer the Mayor, the Council of the District, the OIG of the District, and the management of DCPS to the *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*. This report, dated January 30, 2009, describes in detail the following material non-compliance related to DCPS.

I. Expenditures in Excess of Budgetary Authority

The status of prior year material weaknesses, significant deficiencies, and advisory comments is presented in Appendix B.

DCPS' written responses to the suggestions outlined above have not been subjected to the auditing procedures applied in the audit of the Schedule and, accordingly, we express no opinion on them.

This letter is intended solely for the information and use of the management of DCPS, the Mayor and Council of the District, and the Office of the 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 Significant Deficiencies In Internal Control

I. Grants Management

Observation and Recommendation:

DCPS has set guidelines on creating payment /draw down requests. In general, draw down amounts should not exceed the actual expenditure. Based on an analysis prepared for FY 2007, it appeared that there were instances when the cash receipts exceeded the federal expenditures for the corresponding period.

As a result, it was noted that subsequent to year-end in October 2008, DCPS and the Office of the State Superintendent of Education calculated the exact amount overdrawn considering cumulative expenditures incurred over all open phases of various grants. District officials represent that they have sent back approximately \$11,213,000 in overdrawn funds and accrued interest to the U.S. Department of Education.

We recommend that DCPS request federal funds based on its actual expenditures. We also recommend that DCPS develop written procedures for its draw down process. Those procedures should be consistently performed for each draw down request.

Management's Response:

Our drawdowns systematically included accrued expenses and thus resulted in drawdowns in advance of the cash expenditures. We have revised our draw down procedures to include drawing down grant funds for cash expenditures only, except for the last drawdown of the fiscal year. To ensure that federal drawdowns are received during the correct period we include accrued expenditures in our final drawdown for the fiscal year (September 30).

As indicated above, the District has completed an extensive analysis on grant drawdown activity and has returned overdrawn funds to the U.S. Department of Education.

II. Inadequate Disbursement Practices

Observation and Recommendation:

The DCPS Office of the Chief Financial Officer issued policies and procedures for disbursements. The purpose of the policies was to provide appropriate and consistent procedures for the payment of invoices and to establish internal controls related to disbursements. The policy directive requires that all invoices be sent directly to the Central Invoice Receiving Unit for processing. The directive further reiterates the requirement that the District of Columbia must comply with the Prompt Payment Act which requires that invoices be paid within 30 days of receipt at DCPS.

We sampled 105 disbursements made during fiscal 2008 and noted the following specific deficiencies with the disbursement practices:

- One (1) of the disbursements sampled lacked adequate supporting documentation.

Material Weaknesses and Significant Deficiencies In Internal Control

- Twenty-seven (27) of the disbursements sampled were not date stamped indicating the date they were received.
- Twenty-one (21) of the disbursements sampled were not paid within 30 days, as required by the Prompt Payment Act.
- Seven (7) of the disbursements sampled had no signature indicating that the transaction had been posted to SOAR, the District's accounting system of record.

In addition, DCPS lacked the supporting documentation for two (2) of the forty-five (45) direct disbursements sampled.

These deficiencies could result in the improper processing of disbursements, and the possibility that errors could go undetected or unresolved by management. These issues were also noted in the prior year audit.

We recommend that DCPS follow its existing policies for documentation related to the disbursement process. We further recommend DCPS focus on the maintenance of the related records, to help ensure that all transactions are proper and appropriately supported.

Management's Response:

DCPS concurs with the finding. We will revise our current internal policies and procedures to further incorporate the integrated features of SOAR, the District's official system of record. Since SOAR electronically dates and time stamps all transactions, this date will be used as evidence of posting. We will continue to date and time stamp each invoice received. Policies will be revised to include a process by which invoices erroneously missed during the log in process will be manually date stamped. Staff has also been instructed to ensure that each invoice is properly date stamped prior to processing via PASS. Individuals responsible for approving vouchers and journal entries have been counseled to review each transaction for sufficient evidential support.

III. Insufficient Control over Cafeteria Cash Receipts

Observation and Recommendation:

During our review of DCPS' cafeteria cash receipts, we noted that there were few internal controls utilized prior to August 2008. Schools were required to follow a set of operating procedures that included filling out an "Accountability Form" which listed their sales and expenses as well as providing reconciliations to the Treasury Department. During this time period, there were no appropriate accounting procedures performed regarding cash received, inventory purchased, cash remitted to the Treasury Department, and Accountability Forms were generally omitted. The cash that was received was not immediately deposited. Due to the fact that the armored car service was sporadically paid, its services were sporadic. Consequently, cash would accumulate at the public schools for months at a time. However, the cash was not kept in a safe until it was picked up by the armored car service.

Material Weaknesses and Significant Deficiencies In Internal Control

Safes were purchased to distribute to the schools, but they were never sent to them. In addition, it was noted that most public schools did not keep register tapes or track their day to day sales, as well as approved free lunches for eligible students. Such inadequate controls could result in the misstatement of cash and related revenues.

Sound internal controls dictate that a set of prescribed controls be properly maintained and strictly enforced related to the cafeteria cash function on a daily basis. It was noted that beginning, August 2008, the public schools outsourced their cafeteria function to a third party cafeteria management service, that now manages the public school lunch program, which includes a POS system to track cash receipts. Therefore, we recommend that DCPS continue to improve its internal controls over the cafeteria cash receipts process at its schools.

Management's Response:

In July 2008, DCPS outsourced its food services operations and engaged Chartwells-Thompson Hospitality (Chartwells) as its Food Service Management Company. As part of this process, Chartwells partnered with School Link Technologies (DCPS' vendor for its Point of Sale - POS - System) to track daily meal counts and deposits. Chartwells hired cashiers and provided inventory data for all DCPS school sites. In addition, Chartwells compiles Point of Sale System data and submits it to DCPS and the Treasury Department on a daily basis. Chartwells tracks expenses and revenues through its CAPS accounting system and provides expense and revenue reports to DCPS. As part of this process, a contract was established with Dunbar Armored Car Services for cash pick-ups from all DCPS school sites. The terms and conditions of the contract calls for cash pick-ups based on the amount of cash collected and a schedule established by Chartwells Finance staff in coordination with DCPS Office of Food and Nutrition Services. Deposits to Bank of America are reconciled by both Chartwells and DCPS on a monthly basis.

IV. Deficiencies in Human Resources/Payroll System

Observation and Recommendation:

DCPS' Human Resource 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).

CAPPS is less automated and requires more manual interface than UPPS, which results in unintentional errors. 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 overtime spent during the year or employees terminated but still reflected as active in the system. In addition, there is a system limitation in CAPPS to automatically remove employees once their final pay is processed. Thus, a CAPPS Processing Schedule, which shows when employees will receive their final pay based on their effective date, is used by the HR Specialist to manually monitor when employees will be removed from the system. Our audit process noted various deficiencies regarding the payroll system.

**Material Weaknesses and Significant Deficiencies
In Internal Control**

- During our review of the payroll records for fifty (50) employees, we noted the following deficiencies:
 - Eight (8) of the transactions sampled did not have properly approved time sheets.
 - For two (2) of the transactions sampled, the hours per the actual time sheets did not agree with the hours per the check register.
 - For fifteen (15) of the transactions sampled, the actual pay rate did not match the employee master file.
- During our review of fifty (50) new hires and terminations, we noted the following deficiencies:
 - Three (3) of the items tested had personnel action forms (SF52's) that could not be located.
 - One (1) of the items tested did not have the necessary signatures on the SF52.
- During our review of fifty (50) resigned or terminated employees, we noted the following deficiencies:
 - Four (4) of the items tested had SF52's that could not be located.
 - One (1) of the items tested was miscoded as terminated when it was actually an active employee.

DCPS Human Resource Specialists manually monitor when employees will be removed from the system based on when their final pay is received. Thus, timely recording of resigned/terminated employees may not be performed.

During fiscal 2008, DCPS automated the step increase function. During our test work, we noted that for one (1) of the 45 employees selected, there was a delay in processing the step increase for an employee who was eligible. This employee was due a step increase at the beginning of November 2007; however, the step increase was not processed until December 2007.

The lack of properly maintained documentation may result in employee data not being updated in the payroll system. In addition, ultimately this could result in payroll expenses being misstated.

These issues were noted in the prior year as well. We recommend that DCPS' overall controls over payroll processing be strengthened. A quality review should be developed and implemented to ensure that all documents are properly maintained in the individual's personnel file or applicable Human Resource records.

Material Weaknesses and Significant Deficiencies In Internal Control

Management's Response:

DCPS concurs with the finding. DCPS anticipates conversion to the PeopleSoft personnel system in April 2009. This improved system, along with the process redesign work that DCPS is doing in anticipation of the new system will dramatically improve business processes for many functions including those associated with removing employees from the personnel system.

DCPS payroll personnel review each time sheet for evidence of supervisory approval prior to processing in CAPPs.

We are continuing to improve our record retention procedures by implementing an electronic filing system. We anticipate the use of the electronic filing system will improve our ability to locate authorized original and revised timesheets.

V. Incomplete Recording of Transactions and Expenditures

Observation and Recommendation:

We reviewed fifty four (54) subsequent cash disbursements and noted that four (4) items, totaling approximately \$7,000,000, were not properly accrued for in fiscal 2008 by DCPS management. The amounts were related to construction and food service expenditures and were adjusted during the audit process for year-end financial statement presentation. As noted in the prior year, we recommend that DCPS consider a more detailed analysis of its disbursements to ensure that they are reported in the proper period.

DCPS participates in the Schools and Libraries Program of the Universal Service Fund, known as the E-Rate program, which provides discounts to schools and libraries in the United States to assist in providing affordable telecommunications and internet access. Under the program, DCPS is eligible for a discount ranging from 20 to 90 percent of eligible services, depending on the poverty level and the urban/rural status of the population of the area.

We noted that DCPS calculated and applied for the E-Rate program discount in fiscal 2006 and received the funds in fiscal 2008. However, we noted that DCPS did not establish a receivable to account for the requested refund in fiscal 2006. The funds were received in September 2008 and a journal entry was then made to record the revenue and cash receipts in the SOAR system.

We recommend that DCPS reflect the amount of the calculated discount in the fiscal year in which it is eligible for the refund and establish the applicable receivable.

Management's Response:

DCPS concurs with the finding with regards to subsequent cash disbursements. DCPS will work to ensure that all subsequent disbursements are properly accrued in the proper fiscal year.

DCPS does not concur with the portion of the finding regarding receivables. The deposit in question is related to a federal reimbursement program and is not associated with a specific funding source.

**Material Weaknesses and Significant Deficiencies
In Internal Control**

The amount is not a grant receivable. Additionally, the rebate amount cannot be reasonably estimated. The deposit in question was properly recorded as cash in transit and revenue in FY 2008.

VI. Inadequate Management of the Student Activity Fund

Observation and Recommendation:

School personnel responsible for management of the Student Activity Fund (SAF) accounts are not adhering to established policies and procedures to ensure cash receipts and disbursements are safeguarded and properly accounted for. The District had 170 SAF accounts amounting to approximately \$2.5 million in cash at September 30, 2008.

The Office of Compliance within DCPS performed audits and follow-up audits during fiscal 2008 and reported the following discrepancies:

- School personnel are not adhering to policies and procedures.
- Deposits are not made in a timely manner.
- Lack of original documentation and receipts to support the disbursement of funds.
- Inadequate separation of duties in the processing of cash receipts and disbursements.
- Lack of adequate training which had an adverse impact on the overall operations of the SAF.
- Required forms for disbursements were not used by the schools to document expenditures in the SAF.
- Fidelity insurance not obtained by many of the schools, which is required.

Currently, the Principal of each school is responsible for management of the SAF accounts including receipt and disbursement of funds. However, due to the discrepancies noted above, SAF assets were not adequately accounted for or properly safeguarded.

During our review of fifteen (15) SAF bank accounts, we noted the following deficiencies:

- Three (3) of the schools bank accounts sampled had outstanding checks greater than 180 days.
- Four (4) of school bank account reconciliations contained corrections that were made to outstanding checks due to voided items; however, the applicable adjustments were not reflected in the general ledger.
- One (1) of the school bank account reconciliations and bank statements requested could not be located

Material Weaknesses and Significant Deficiencies In Internal Control

We examined fifteen (15) SAF disbursements and noted the following deficiencies:

- Individual public school's SAF disbursement ledgers contained gaps in the check number sequences. These breaks were attributed to voided checks, misprints or hand written checks recorded without the proper check number. DCPS personnel prepare the bank reconciliations; however, they are not notified as to the cause of these gaps.
- Four (4) of the disbursements sampled did not have the necessary principal approval to incur the expense. In addition, DCPS did not provide the necessary documentation for two (2) of the fifteen (15) disbursements sampled.

As stated in the prior year, since there is a lack of adherence to established policies and procedures, there is no assurance that SAF funds are being accounted for properly. We recommend that DCPS comply with established internal controls, and review and approve all SAF expenditures as required by DCPS Office of the Chief Financial Officer (OCFO) policies and procedures. In addition, school management should adhere to DCPS policies and procedures regarding voided checks. Lastly, we recommend that the individual schools send DCPS personnel a report listing all the voided, misprinted or handwritten checks each month, along with the bank reconciliations, to ensure that all checks have been properly identified and accounted for. DCPS should also establish a training program relative to SAF fund financial reporting and ensure that all applicable school personnel take the program, along with updates each year.

Management's Response:

DCPS concurs with the finding and will take every step to ensure that policies and procedures are followed and recommendations are incorporated. In addition to annual training offered to all Principals, Business Managers and other interested staff, we provide school specific trainings upon request. We will work closely with the DCPS Compliance office to develop an action plan to address the SAF items noted.

VII. Inadequate Documentation of Budget Reprogrammings

Observation and Recommendation:

During our review of forty-five (45) budget modifications, we noted the following deficiencies:

- Six (6) of the modifications tested, were not properly approved.
- For one (1) of the modifications tested, the Operating Budget Reprogramming Request Form could not be located.

The lack of adequate documentation could result in incomplete or inaccurate budget modifications being entered into the system. We recommend that DCPS ensure that budget modifications are properly approved and documentation properly maintained to support the information reflected in the SOAR system.

**Material Weaknesses and Significant Deficiencies
In Internal Control**

Management's Response:

DCPS does not concur with this finding. All budget modifications were reviewed and approved by the appropriate parties at the time of request consistent with the Reprogramming Policy Act. All six of the modifications in question included approval signatures on the request letter. It was the attached attribute sheet that was not signed but was included with the request letter. In addition, the proper approvals were completed and documented in SOAR. This documentation was provided to the auditors. DCPS has since taken steps to review the approval process with all budget analysts to ensure appropriate signatures are obtained on all budget modification attachments.

VIII. Medicaid Provider Programs and Claims

Observation and Recommendation:

It was noted that the Medicaid Cost Reports for fiscal 2007, for the seven Medicaid provider programs at DCPS, had not been completed as of the end of fiscal 2008. The cost reports are required by the Medicaid State Plan to be audited. We noted that final audited cost reports are completed after a significant period of time. Reasons for the delay in completion of the audit of the cost reports are generally due to: (1) delays in submission of the cost report; (2) appeals for the disallowance by Medicaid Assistance Administration (MAA) caused by failure to file Medicaid claims timely, as well as to provide sufficient support for the claims that are incurred; (3) delays in resubmission of revised cost reports together with the additional documentation to support previously disallowed claims; and (4) the lack of a contract with an audit firm to perform the required audits of the cost reports. The difference between costs submitted for reimbursement and the costs actually reimbursed result in the use of local, rather than federal, dollars to fund Medicaid expenditures. Further, Medicaid guidelines require that the report be submitted to the Department of Health Care Finance within six months after fiscal year end. Consequently, DCPS is not in compliance with applicable Federal and state guidelines.

In connection with the cost report audits mentioned previously, the audited cost reports from fiscal 2003 to 2006 reported that DCPS owed back to the Federal Government in the amount of \$24,529,979 for potential Medicaid claim disallowances. These potential disallowances were recorded as accrued liabilities as year-end. DCPS had been very aggressive in claiming reimbursement from fiscal 2003 to 2006. Based on the audited cost reports, the potential disallowances were mainly due to claim expenditures that were not adequately supported and claim reimbursements that were not allowable.

As a result of these potential disallowances from the previous years, a portion of the Medicaid claims from fiscal 2006 to 2008 and some remaining Medicaid accounts receivable are also subject to disallowance. As a result, management estimated additional potential disallowances and reflected these as accrued liabilities in the accounting records at year-end in the amount of \$9,024,762.

DCPS should improve its claims documentation in order to minimize potential disallowances in future years. In addition, it must ensure that all claims submitted are allowable and fully supported in accordance with the approved Medicaid State Plan.

**Material Weaknesses and Significant Deficiencies
In Internal Control**

Further, receivable balances should be reviewed regularly to ensure that only valid receivables are reflected on the books.

In addition, during our review of seventy-seven (77) Medicaid Claims, we noted that one (1) of the claims lacked supporting documentation.

We recommend cost report audits be done for the seven Medicaid provider programs in a timely manner. We also recommend that DCPS improve the submission of claims and submit cost reports to MAA on time and improve communication and better coordinate the submission of claims in a form that is acceptable to MAA. Furthermore, we recommend that DCPS maintain its files in a manner that allows for timely retrieval.

Management's Response:

DCPS does not concur with this finding. The time for claiming payments for Title XIX (School-Based Programs) expenditures is two (2) Years. This is in accordance with 45 CFR, Section 95.1(a). During the past eight months, DCPS cleared the back-log of outstanding cost reports by completing cost settlements for fiscal years 2003 through 2006 and notices of program reimbursement were issued January 9, 2009. Due to the on-going settlements, DCPS requested and received an extension from MAA (now DHCF) for the 2007 Cost Report (for the seven Providers). DCPS will submit the Cost Report for 2007 (seven Providers) by June 30, 2009. By September 30, 2009, cost report audits for fiscal 2007 will be complete and cost report audits of fiscal 2008 will be in process.

DCPS is ensuring better documentation of services provided through utilizing a new electronic data system and archiving key documents, in addition to changing the billing structure associated with the liabilities named above.

DCPS concurs with the finding (1) of 77 Medicaid Claims lacked supporting documentation. DCPS has implemented an electronic document management system which will enhance our ability to manage and retrieve documents.

IX. Inadequate Procurement Documentation

Observation and Recommendation:

During our review of internal controls related to the procurement process, we noted the following:

- For three (3) of the twenty-five (25) contracts selected for testing, DCPS did not provide the contract files.
- For four (4) of the twenty-five (25) contracts selected for testing, DCPS failed to provide the required Determination and Findings (D&F) documentation.
- For one (1) of the twenty-five contracts selected for testing, DCPS did not have the tax certification affidavit notarized.

Material Weaknesses and Significant Deficiencies In Internal Control

- One (1) of the twenty-five contracts selected for testing lacked evidence of review of the Debarment, Suspension, and Ineligibility List and the District's Excluded Parties List.

In addition, we noted that although the budget authority for various transactions is the responsibility of DCPS, the procurement process was handled by the Office of Public Education Facilities and Modernization (OPEFM). However, there does not appear to be adequate coordination between the two agencies and DCPS does not maintain any documentation relating to procurement of these goods or services, which are reflected as part of its costs. Section 1203.7 of the District of Columbia Municipal Regulations (DCMR) requires that files be maintained to ensure effective documentation of contracts, readily accessible to principal users and conformance with any regulations or procedures for file location and maintenance shall be maintained at organizational levels.

We recommend that DCPS comply with the DCMR and maintain documentation to properly support all procurement actions.

Management's Response:

DCPS concurs with the recommendation and is committed to and continues to execute our best efforts to maintain documentation to properly support all procurement actions. It should be noted that DCPS and OPEFM did engage a cooperative working relationship to coordinate the processing of critical procurement actions during the transition period for DCPS procurement actions from Central Administration to OPEFM.

X. Improper Classification and Documentation of Fixed Assets

Observation and Recommendation:

During our review of fixed asset disposals, we noted that there were four (4) instances where appropriate supporting documentation was not available from DCPS. The equipment could not be located by the DCPS Office of the Chief Financial Officer (OCFO) during a site visit, and was therefore removed from the assets in the system. However, no additional documentation was obtained from the schools or department indicating that the asset had indeed been disposed of. Management should recognize that the potential exists for additional discrepancies which in turn, could result in the misstatement of personal property disposals and fixed assets.

During our testing of personal property additions for the sample selected, we noted the following discrepancies:

- Six (6) personal property acquisitions by DCPS included in the list of additions for fiscal 2008 that were actually purchased in fiscal 2007. The acquisitions were recorded in the Fixed Asset System (FAS) over six months after they were purchased. According to the District's Fixed Assets Policies and Procedures, purchases of fixed assets must be added to the agency's fixed asset listing maintained on the FAS within 3 working days from the date of payment for the fixed asset. Consequently, DCPS is not in compliance with the OCFO's policies and procedures, which increases the potential for additional discrepancies, which in turn, could lead to the understatement of depreciation expense.

**Material Weaknesses and Significant Deficiencies
In Internal Control**

- Supporting documentation for four (4) of the items could not be located.

Management needs to improve its controls with regard to safeguarding of its assets. The establishment of stronger physical controls will assist the District in maintaining control over individual assets; such physical controls will also help prevent the loss or unauthorized use of valuable property. In addition, the District should improve and strengthen its controls over maintenance of documentation for its recorded transactions to ensure that all transactions are properly supported.

Management's Response:

DCPS concurs with this finding. General Accounting Policies and Procedures, Section 1000.000 (Assets), Subsection 1020.000 Fixed Assets and a Control Policy Mission amended for Schools during fiscal year 2006; "on a periodic basis, the Accounting officer runs a report from EIS to identify invoices processed using capital equipment account codes. The Accounting officer uses this information to update the inventory record". DCPS will revise our policies and procedures to ensure that we reconcile FAS to EIS on a monthly basis to reduce the amount of time between asset purchase and inclusion in FAS.

We will continue to maintain documentation to support assets recorded in the FAS system.

**Status of Prior Year Significant Deficiencies, Material Weaknesses,
and Advisory Comments**

Nature of Comment	Type of Comment in Fiscal Year 2007	Current Year Status
DCPS is Classified as "High Risk" School District by the U.S. Department of Education	Material Weakness	No change in status.
District of Columbia Office of Inspector General identified DCPS as "High Risk"	Material Weakness	No change in status.
Disbursement Practices	Material Weakness	Material Weakness
Processing of Journal Entries	Material Weakness	Not Repeated
Human Resources/Payroll System	Material Weakness	Material Weakness
Indirect Costs	Material Weakness	Not Repeated
Recording of Expenditures	Material Weakness	Material Weakness
Management of Student Activity Funds	Material Weakness	Material Weakness
Grants Management	Significant Deficiency	Material Weakness
Budget Reprogramming	Significant Deficiency	Material Weakness
Medicaid Cost Reports	Significant Deficiency	Material Weakness
Inadequate Support for Car Allowance Expenditures	Significant Deficiency	Not Repeated
Availability of Board Minutes	Advisory Comment	Not Repeated
Cancellation of Outstanding Checks in the Student Activity Fund	Advisory Comment	Material Weakness
Classification of Fixed Assets	Advisory Comment	Significant Deficiency
Disbursement of Checks to Vendors	Advisory Comment	Not Repeated

Note: "Not Repeated" status does not necessarily equate to the issue being resolved; it was just not noted in the audit process this year.