

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

**PAYROLL VERIFICATION AUDIT  
FOR THE DISTRICT OF COLUMBIA  
PUBLIC SCHOOLS**



**CHARLES J. WILLOUGHBY  
INSPECTOR GENERAL**

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

Inspector General



July 30, 2010

Michelle A. Rhee  
Chancellor  
District of Columbia Public Schools  
1200 First Street, N.E., 12th Floor  
Washington, D.C. 20002

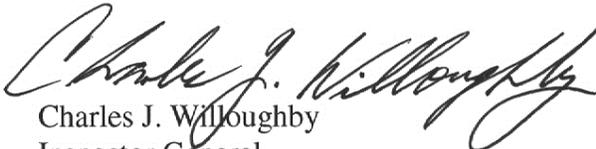
Dear Ms. Rhee:

Enclosed is our final report summarizing the results of the Office of the Inspector General's (OIG) Payroll Verification Audit for the District of Columbia Public Schools (OIG No. 08-2-02GA).

As a result of our audit, we directed six recommendations to the Chancellor, D.C. Public Schools (DCPS) for action we consider necessary to correct identified deficiencies. We received DCPS' written response to the draft report on July 8, 2010. DCPS agreed with our recommendations. We consider actions taken and/or planned by the DCPS to meet the intent of the recommendations. However, DCPS did not provide the target dates for completing the planned actions for any of the recommendations. Thus, we respectfully request that DCPS provide our Office with the target dates for the corrective actions within 60 days of the date of this report. The full text of the DCPS response is included at Exhibit D.

We appreciate the cooperation and courtesies extended to our staff by DCPS. If you have questions, please contact me or Ronald King, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,

  
Charles J. Willoughby  
Inspector General

Enclosure

CJW/mg

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Michelle A. Rhee  
Chancellor  
July 30, 2010  
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**PAYROLL VERIFICATION AUDIT FOR THE  
DISTRICT OF COLUMBIA PUBLIC SCHOOLS**

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## EXECUTIVE DIGEST

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### OVERVIEW

This report summarizes the results of the Office of the Inspector General's (OIG) "Payroll Verification Audit for the District of Columbia Public Schools" (OIG No. 08-2-02GA). Our audit objective was to determine whether payroll check recipients<sup>1</sup> were current, bona fide employees of the District of Columbia Public Schools (DCPS) or affiliated offices<sup>2</sup> whose employees were paid through DCPS' payroll.

The OIG performed the audit due to concerns raised during the citywide audit of the District's financial statements for fiscal year (FY) 2006. These concerns, along with other issues within the District government, were addressed in the *Independent Auditors' Report on Internal Control and Compliance Over Financial Reporting for FY 2006* (OIG No. 07-1-05MA, dated January 31, 2007). A separate report entitled *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* (OIG No. 07-1-22GA(a)), issued on May 23, 2007, addressed problems pertaining only to DCPS.

Our review covered the individuals who received payments on November 23, 2007, for the pay period beginning October 28, 2007, and ending November 10, 2007. We conducted a physical verification and reviewed personnel files in order to determine if individuals were current, bona fide employees. During the audit, we provided briefings to DCPS management to update DCPS on the progress of the audit. We also provided a briefing to the firm that audited the District's financial statements for FYs 2005 through 2009.

### CONCLUSIONS

In Finding 1, we discuss the results of our efforts to account for the 10,358 individuals who were paid on November 23, 2007. During our physical verification, we confirmed that 8,357 of the 10,358 individuals were current, bona fide District employees. There were legitimate reasons why we could not physically verify some individuals. For example, some individuals may have been absent when we visited their schools or administrative offices and some individuals may have stopped working for DCPS prior to our visit. Accordingly, we judgmentally selected a sample of 282 of the unverified individuals and reviewed their personnel files in order to determine if they were bona fide employees for the pay period ending November 10, 2007. Based on our review of the personnel files for the 282 individuals, we concluded that 110 individuals were either not bona fide employees or could

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<sup>1</sup> Check recipients refer to individuals who received direct deposits as well as the individuals who received pay checks.

<sup>2</sup> Affiliated offices included the Office of Public Education Facilities Modernization and the DCPS Division of Transportation.

## **EXECUTIVE DIGEST**

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not be verified as valid employees.<sup>3</sup> DCPS possibly improperly paid these 110 individuals by as much as \$399,140.

In Finding 2, we discuss the internal control deficiencies that we observed during our physical verification audit. Specifically, DCPS did not develop adequate controls to ensure that the Comprehensive Automated Personnel and Payroll System (CAPPS) contained accurate information and timekeepers could not falsify their own working hours in the system. As a result, former and current employees could have received inappropriate payments. Further, we were unable to validate individuals as bona fide employees because their personnel files could not be located, or their files did not contain personnel action forms. Although DCPS replaced CAPPS with the PeopleSoft Human Capital Management System in April 2009, the deficiencies that we identified will continue to exist until DCPS implements adequate controls.

### **SUMMARY OF RECOMMENDATIONS**

We recommended that the Chancellor for the District of Columbia Public Schools develop procedures to prevent individuals from inappropriately receiving payments and recoup funds from individuals who inappropriately received payments. A summary of the potential benefits resulting from the audit is shown at Exhibit A.

### **MANAGEMENT RESPONSES AND OIG COMMENTS**

DCPS officials provided a written response to the draft report on July 8, 2010. Management concurred with the recommendations. However, DCPS did not provide the target dates for completing the planned actions. Thus, we respectfully request that DCPS provide our Office with the target dates for the corrective actions within 60 days of the date of this report. The full text of the DCPS' response is included at Exhibit D.

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<sup>3</sup> Current, bona fide employees are also referred to as valid employees throughout this report.

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## INTRODUCTION

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### BACKGROUND

The District of Columbia Public Schools' (DCPS) mission is to educate children in the District of Columbia and provide them with the knowledge and skills that they need to achieve academic success and choose a rewarding professional path. To achieve its mission, DCPS employs thousands of employees. During school year (SY) 2007-2008, these employees were housed at various facilities throughout the city, including several administration offices and approximately 155 schools.<sup>4</sup>

**Staff Level.** DCPS' staff includes teachers, counselors, social workers, and other support staff. The following table shows the number of full-time equivalents (FTEs) for the current and last three fiscal years (FYs).

**Table 1. Staff Level<sup>5</sup>**

Fiscal Year	Number of DCPS FTEs <sup>6</sup>	DCPS FTEs Transferred to other Agencies	Total
FY 2007 (actual)	10,525.4	0.0	10,525.4
FY 2008 (actual)	9,411.0	0.0	9,411.0
FY 2009 (approved)	7,375.5	1,611.0	8,986.5
FY 2010 (proposed)	7,137.6	0.0	7,137.6

As shown in Table 1, the number of DCPS employees has declined over the last few years. This is due, in part, to the Public Education Reform Amendment Act of 2007 (D.C. Law 17-9, effective Jun. 12, 2007). Under the Public Education Reform Amendment Act of 2007, all state-level education functions were transferred from DCPS to the Office of the State Superintendent of Education (OSSE). As a result, employees working for the DCPS Division of Transportation (DOT) were transferred to OSSE, as well as other DCPS employees performing state-level functions.<sup>7</sup> The Public Education Reform Amendment Act of 2007 also established the Office of Public Education Facilities Modernization (OPEFM) to manage school modernization. As such, employees working for the DCPS Office of Facilities Management (OFM) were transferred to OPEFM. The number of DCPS employees has decreased also due to the DCPS Chancellor's decisions to: (1) reduce its information technology (IT) staff and rely on the Office of the Chief Technology Officer to

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<sup>4</sup> The school year starts in August and ends in July.

<sup>5</sup> The figures in this table, except for the figures in the last column, were taken from the District's Budget and Financial Plans for FY 2009 and FY 2010.

<sup>6</sup> The Executive Summary of the District's FY 2011 Proposed Budget and Financial Plan (page D-4) defines an FTE as an "employment indicator that translates the total number of hours worked in a year by all employees, including part-time workers, to an equivalent number of work years. For example, one FTE equals 2,080 hours and .75 FTE equals 1,560 hours."

<sup>7</sup> Although DOT employees were considered DCPS employees during SY 2007-2008, the Chancellor for DCPS was not responsible for overseeing the operations of the DOT. A court-appointed Administrator was responsible for overseeing and managing the Division.

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## INTRODUCTION

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handle IT functions; and (2) reduce other staff in an effort to decrease operating costs. The overall decrease in DCPS staff is largely due to legislative changes and budgetary cuts.

**School Budget.** The majority of DCPS’ operating budget is attributed to personal services (salaries, fringe benefits, and overtime payments for employees). In FY 2008, DCPS spent 62 percent of its operating budget on personal services. The following table shows the amount spent or allocated for personal services for the current year and the past 3 years.

**Table 2. DCPS Budget for Personal Services (Dollars in Thousands)<sup>8</sup>**

Fiscal Year	Budget for FTEs <sup>9</sup>	Total Budget	Percent of FTE Budget to Total
FY 2007 (actual)	617,032	1,035,030	60%
FY 2008 (actual)	629,616	1,009,137	62%
FY 2009 (approved)	548,232	764,573	72%
FY 2010 (proposed)	572,331	771,237	74%

As shown in Table 2, DCPS continues to spend a significant amount of its operating budget on personal services even though the number of employees has decreased.

**Payroll Process.** During SY 2007-2008, payroll functions for DCPS were handled jointly by DCPS and the Office of the Chief Financial Officer (OCFO). DCPS and OCFO utilized the Comprehensive Automated Personnel and Payroll System (CAPPS) to process payroll on a bi-weekly basis. DCPS managers, such as school principals and department heads, were responsible for approving employees’ time and DCPS timekeepers were responsible for entering employees’ time (except for substitute teachers) in CAPPS.<sup>10</sup> OCFO employees were responsible for entering time for the substitute teachers in CAPPS and ensuring DCPS timekeepers accurately entered employees’ time in CAPPS. The OCFO also trained timekeepers and assisted them with entering time when they encountered problems with CAPPS. The payroll process for SY 2007-2008 is described in detail in Exhibit B.

During SY 2008-2009, DCPS replaced CAPPS with the PeopleSoft Human Capital Management System (PeopleSoft). DCPS utilizes this new system to process personnel, benefits, and payroll-related transactions. By upgrading to the PeopleSoft system, DCPS expects to reduce the processing time for personnel, benefits, and payroll-related transactions. PeopleSoft was implemented in other District government agencies in 2008, and in April 2009, DCPS joined the rest of the District in utilizing the system.

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<sup>8</sup> The figures in this table, except for the figures in the last column, were taken from the District’s Budget and Financial Plans for FY 2009 and FY 2010.

<sup>9</sup> The amounts for FY 2007 include transportation and facility employees. The amounts for FY 2008 include facility employees, but not transportation employees. The amounts for FY 2009 and FY 2010 include neither transportation nor facility employees.

<sup>10</sup> “Time” refers to employee working hours and leave (i.e., annual, sick, administrative, etc.).

## INTRODUCTION

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### OBJECTIVES, SCOPE, AND METHODOLOGY

**Audit Objectives.** The audit objective was to determine whether check recipients were current, bona fide employees of DCPS or affiliated offices whose employees were paid through DCPS payroll. The OIG performed the audit due to concerns raised during the citywide audit of the District's financial statements for FY 2006. These concerns, along with other issues within the District government, were addressed in the *Independent Auditors' Report on Internal Control and Compliance Over Financial Reporting for FY 2006* (OIG No. 07-1-05MA, dated January 31, 2007). In addition, a separate report specifically addressed the problems pertaining only to DCPS. This report, entitled *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* (OIG No. 07-1-22GA(a)), was issued on May 23, 2007. We discuss OIG No. 07-1-22GA(a) later in this report in the section entitled "Prior Reviews."

**Audit Scope and Methodology.** Prior to performing our physical verification, we interviewed employees to obtain an understanding of the personnel and payroll process. We interviewed the following individuals: (1) employees in the DCPS Office of Human Resources (OHR); (2) the principals and timekeepers at three schools; and (3) timekeepers for transportation employees, facility employees, and special education employees. In addition, we interviewed the OCFO payroll manager assigned to DCPS and several of his payroll technicians.

To perform our physical verification, we first obtained the payroll history for November 23, 2007, from the OCFO Office of the Chief Information Officer. The OCFO extracted the data from CAPPS. The payroll history showed that 10,358 individuals received payments on November 23, 2007. From March 2008 to September 2008, we visited all of the DCPS school buildings and administrative offices to verify whether the 10,358 payees were current, bona fide employees. After we visited all of the locations, we judgmentally selected a sample of individuals who were not present when we conducted our physical verification and reviewed their personnel files to determine if they were current, bona fide employees. Our review did not entail determining whether individuals were accurately paid. Exhibit C provides more detailed information on our methodology.

Although we relied on the payroll history generated from CAPPS, we reviewed personnel files to determine when individuals worked for DCPS. Our audit results would not disclose individuals who were paid but subsequently removed (either unintentionally or fraudulently) from the payroll history. For example, if an OHR employee entered an individual's name in CAPPS and created a personnel action form for the individual, a timekeeper entered time in CAPPS for the individual, and an OCFO employee removed the individual's name from the payroll history after he/she received payment, we would not have been able to detect this occurrence.

## INTRODUCTION

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We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### PRIOR REVIEWS

In the last 5 years, our Office has not conducted a payroll verification audit for DCPS. Our research also disclosed that neither the U.S. Government Accountability Office nor the Office of the District of Columbia Auditor has conducted a payroll verification audit for DCPS during the last 5 years.

On June 9, 2005, the OCFO Office of Contracts and Procurement hired a contractor to conduct a 100 percent review and head count of all DCPS employees. The contractor issued a draft report, dated June 1, 2006. However, according to OCFO officials, the contractor did not issue a final report documenting its results. The OCFO did not explain why the contractor did not issue a final report, and neither the OCFO nor DCPS could readily provide the draft report. After several attempts to obtain the report, the OCFO provided the draft report. However, several pages were missing from the report and all of the exhibits were missing.

Our review of the draft report disclosed that there were 13,272 employees listed as active in CAPPs as of January 19, 2006, and the contractor was unable to verify 4,505 of the 13,272 employees.<sup>11</sup> In addition to performing a physical verification, the contractor performed audit procedures to identify discrepancies and anomalies with DCPS human resource and payroll data. For example, the contractor determined that: (1) 151 employees received payments outside their employment dates; and (2) the names of 354 individuals were in the payroll file, but not in the human resources file. Based on its audit results, the contractor concluded there was a high risk that incorrect and/or inappropriate payments could occur.

During the citywide audit of the District's financial statements for FYs 2006 through 2009, limitations were disclosed with CAPPs and deficiencies were noted in the payroll process. For FY 2006, the auditor reported the following: (1) CAPPs did not have the capability to track and calculate step increases for employees; (2) it was difficult to validate data because the checks and balances for the system was a manual process; and (3) it was difficult to produce reports from CAPPs to analyze human resource and payroll functions.<sup>12</sup> Similar limitations were also disclosed for FYs 2007 and 2008. Further, during the FY 2007 audit,

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<sup>11</sup> The contractor determined that 2,493 of the 4,505 employees had not been paid in the last 2 years even though they were listed in CAPPs as active employees. As such, the contractor concluded that these 2,493 employees were in fact inactive employees (that is, former employees).

<sup>12</sup> See OIG No. 07-1-22GA(a), 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, app. A, at A-6 (May 23, 2007).

## INTRODUCTION

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the auditor reported that terminated employees were not automatically removed from CAPPS once their final payments were processed, and during the FY 2008 audit, the auditor reported personnel action forms could not be located for some employees.<sup>13</sup> DCPS agreed with these findings and anticipated that operations would improve once the agency converted to PeopleSoft. However, during the FY 2009 audit, the auditor noted deficiencies in the payroll process after DCPS converted to PeopleSoft. Specifically, the auditor found that: (1) new employees were not timely entered in PeopleSoft; (2) the status for terminated employees was not timely updated in PeopleSoft; and (3) the paperwork for transferred employees was not properly authorized and recorded in PeopleSoft.<sup>14</sup>

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<sup>13</sup> See OIG No. 08-1-20GA(a), DISTRICT OF COLUMBIA PUBLIC SCHOOLS REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ADVISORY COMMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2007, app. A, at A-4 (June 20, 2008), and report OIG No. 09-1-21GA(a), DISTRICT OF COLUMBIA PUBLIC SCHOOLS REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ADVISORY COMMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2008, app. A, at A-6 (June 8, 2009).

<sup>14</sup> See OIG No. 10-1-03MA, DISTRICT OF COLUMBIA INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL AND COMPLIANCE OVER FINANCIAL REPORTING FISCAL YEAR ENDED SEPTEMBER 30, 2009, app. A, at A-4 (Feb. 2, 2010).

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## FINDINGS AND RECOMMENDATIONS

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<b>FINDING 1. RESULTS OF PAYROLL VERIFICATION AUDIT</b>
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### SYNOPSIS

During our physical verification, we confirmed that 8,357 of the 10,358 individuals paid on November 23, 2007, were current, bona fide employees. We were unable to verify some individuals because they were absent when we visited their schools and administrative offices, or they were no longer employed by DCPS when we visited their locations. Because there were legitimate reasons to explain why we could not verify some individuals, we judgmentally selected the personnel files for 282 unverified individuals in order to determine if they were valid employees. Of the 282 individuals, we concluded that 20 individuals were not bona fide employees for the pay period ending (PPE) November 10, 2007. The payroll history shows that these 20 individuals were paid \$40,208 on November 23, 2007, and based on our calculations, these individuals could have been improperly paid by as much as \$303,942. Further, we could not verify whether an additional 90 individuals were bona fide employees based on our review of their personnel files. The payroll history shows that these 90 individuals were paid \$95,198 on November 23, 2007. In total, the improper payments for the 110 individuals (20 plus 90) could be as high as \$399,140 (\$303,942 plus \$95,198).

### DISCUSSION

According to the payroll history, 10,358 individuals were paid on November 23, 2007, for the pay period beginning October 28, 2007, and ending November 10, 2007. From March 2008 to September 2008, we visited all of the DCPS schools and administrative offices to determine if the 10,358 individuals were bona fide employees. The following table summarizes the results of our physical verification.

**Table 3. Physical Verification Results**

Category <sup>15</sup>	Number
<b>Individuals Verified as Bona Fide Employees</b>	
Category 1: Verified Individuals	8,357
<b>Subtotal</b>	<b>8,357</b>
<b>Individuals Not Verified as Bona Fide Employees</b>	
Category 2: Individuals Identified as Current Employees but Absent on Day of Verification	1,144
Category 4: Individuals Not Identified as Current DCPS Employees on Day of Verification, but the Audit Team Identified Their Timekeepers for PPE 11/10/07	434

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<sup>15</sup> Detailed descriptions for the categories are included in Exhibit C.

## FINDINGS AND RECOMMENDATIONS

**Table 3. Physical Verification Results (Cont'd)**

Category	Number
Category 6: Individuals Identified as Former DOT Employees	79
Category 7: Individuals Present on Day of Verification but Did Not Have Identification	48
Category 8: Individuals Not Identified as Current DCPS Employees and the Audit Team Could Not Identify Their Timekeepers for PPE 11/10/07	179
Category 9: Individuals Present on Day of Verification but Provided Incorrect Social Security Number	1
<b>Subtotal</b>	<b>1,885</b>
<b>Individuals Excluded from Physical Verification</b>	
Category 3: Former DCPS Employees Transferred to OSSE	115
Category 5: Individuals Exempt from Physical Verification (the Chancellor)	1
<b>Subtotal</b>	<b>116</b>
<b>Grand Total</b>	<b>10,358</b>

As shown in Table 3, we could not verify 1,885 individuals. Of those 1,885 individuals, 1,144 were identified as current employees when we conducted our physical verification, but they were absent on the date that we visited their schools or administrative offices (category 2).<sup>16</sup> The audit team required the principals, department heads, or timekeepers to sign a form certifying that these individuals were current employees. During our physical verification, we also did not verify 49 individuals because they did not provide identification or the correct social security number to the audit team (Categories 7 and 9). The principals, department heads, or timekeepers also certified these individuals as current employees.

There are two possible explanations for why we could not verify the remaining 692 individuals: (1) the individuals may have worked for DCPS during the pay period ending November 10, 2007, but were terminated<sup>17</sup> before we conducted our physical verification in 2008; or (2) the individuals were not employees for the pay period ending November 10, 2007. To determine whether individuals fell into the first or second scenario, we reviewed the personnel files for all of the individuals in Category 8 and we judgmentally selected a sample of the individuals in Categories 4 and 6.<sup>18</sup> We also reviewed the personnel file for the one individual in Category 9 because there was only one person in the category. In total, we

<sup>16</sup> The individuals' names were included on the sign-in and sign-out sheets for their respective schools or departments, or listed on the school or department roster.

<sup>17</sup> Terminated employees include individuals who were terminated as well as employees who resigned or were involuntary separated.

<sup>18</sup> We did not review the personnel files for the individuals in Categories 2 and 7 because the principals, department heads, or timekeepers certified they were current employees.

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## FINDINGS AND RECOMMENDATIONS

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reviewed the personnel files of 282 individuals. The following table shows the results of our review of the personnel files.

**Table 4. Review of Personnel Files**

	<b>Bona Fide Employees</b>	<b>Not Bona Fide Employees</b>	<b>Questionable Employees</b>	<b>Total Files Selected for Review</b>
Category 4	68	1	17	<b>86</b>
Category 6	12	2	2	<b>16</b>
Category 8	92	17	70	<b>179</b>
Category 9	0	0	1	<b>1</b>
<b>Total</b>	<b>172</b>	<b>20</b>	<b>90</b>	<b>282</b>

As shown in Table 4, we concluded that 20 individuals were not bona fide employees for the pay period ending November 10, 2007. The personnel files for these individuals showed that they worked for DCPS at one time, but they were terminated prior to the beginning of the pay period. For example, one individual's personnel action form showed that she resigned on August 8, 2007, although she received a payment on November 23, 2007. These 20 individuals were paid \$40,208 on November 23, 2007.<sup>19</sup> If these individuals received the same payments as they received on November 23, 2007, for each pay period between the time that they were terminated and November 23, 2007, DCPS improperly paid these individuals by approximately \$303,942. In one instance, it appeared as though an employee received payment for his accumulated annual leave.<sup>20</sup> However, the personnel files did not include any documentation justifying why these employees received payments after their employment dates. We checked the payroll history for the next pay period and determined that 4 of the 20 individuals also received payments on December 7, 2007.

Further, we could not conclusively determine whether 90 individuals were or were not valid employees. The personnel files for these individuals did not include a personnel action form showing that they were terminated or recent documentation indicating that they were current employees. In Table 4, these individuals are labeled as "Questionable Employees." According to the payroll history, these 90 individuals were paid \$95,198 on November 23, 2007.

On October 15, 2009, we provided DCPS with the names of the individuals who were not current, bona fide employees for the pay period ending November 10, 2007, or who were identified as questionable employees. If DCPS had documents to support the validity of the individuals' employment, we requested to review these documents by October 30, 2009.

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<sup>19</sup> This figure is based on data on the payroll history.

<sup>20</sup> The amount that this individual received on November 23, 2007, is included in the \$40,208 figure, and the amount that this individual possibly received between the time of termination and November 23, 2007, is included in the \$303,942 figure.

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## FINDINGS AND RECOMMENDATIONS

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DCPS did not provide any documentation in response to our request. In addition to determining if the 90 questionable individuals were bona fide employees, we believe that DCPS needs to determine the validity of the 1,718 individuals who were not validated as bona fide employees for the pay period ending November 10, 2007, and whose personnel files were not included in our sample of reviewed files.<sup>21</sup>

### RECOMMENDATIONS

We recommend that the Chancellor for the District of Columbia Public Schools:

1. Recover funds paid to former employees who inappropriately received payments after their employment date.
2. Determine if the 90 individuals identified as questionable employees were bona fide employees for the pay period ending November 10, 2007, and take action to recover any funds inappropriately paid to these individuals.
3. Review the personnel files for the 1,718 individuals who were not validated as bona fide employees for the pay period ending November 10, 2007, and whose personnel files were not included in our sample of reviewed files and: (a) determine if they were bona fide employees for the pay period ending November 10, 2007; and (b) recover any funds inappropriately paid to those individuals who were not bona fide employees as of the pay period ending November 10, 2007.

### MANAGEMENT RESPONSES AND OIG COMMENT

#### Management Responses (Recommendations 1, 2, and 3)

DCPS concurred with these three recommendations. In its response, DCPS stated it has convened a working group, which consists of representatives from Human Resources and the DCPS Office of the Chief Financial Officer to review the list of 90 questionable individuals and the 1,718 individuals whose status could not be determined. Upon completion of the review, any individuals not confirmed as bona fide employees and who received compensation but were not entitled to it will be referred to the DCPS, Office of the General Counsel for appropriate action.

#### OIG Comment

We consider DCPS actions to be responsive to these recommendations and request DCPS provide estimated completion dates for the corrective actions.

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<sup>21</sup> This figure includes the 116 individuals who were exempt from our physical verification.

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## FINDINGS AND RECOMMENDATIONS

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<b>FINDING 2. INTERNAL CONTROL DEFICIENCIES</b>
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### SYNOPSIS

When we conducted our payroll verification, we observed several internal control deficiencies. These deficiencies occurred because DCPS did not develop adequate controls to ensure that: (1) the personnel and payroll system contained accurate information; and (2) timekeepers accurately entered their own time in CAPPs. As a result, former and current employees could have received inappropriate payments. Further, we were unable to validate individuals as bona fide employees because their personnel files could not be located or their files did not contain personnel action forms.

### DISCUSSION

We observed internal control deficiencies when we conducted our physical verification and reviewed personnel files. Specifically, we determined that DCPS did not develop adequate internal controls to ensure that the employee status and worksite locations were updated in CAPPs and that timekeepers could not falsify their own working hours in CAPPs. In addition, DCPS could not locate personnel files for some individuals, and essential documents (such as personnel action forms) were not included in the personnel files of others.

**Information in CAPPs.** When employees were terminated from DCPS, DCPS personnel did not change their status from active to inactive. Allowing former employees to remain active in the personnel and payroll system increases the risk that these individuals (or other individuals posing as these former employees) could receive inappropriate payments. Although DCPS is currently using PeopleSoft, the same internal control weakness will continue to exist if DCPS personnel do not timely change the status for former employees in the new system.

DCPS personnel also did not update the location codes for employees when they transferred from one school or administrative office to another. While it is understandable that it may take some time to update an employee's location in CAPPs, we identified instances where employees were listed at their old location for several months or years. For example, the timekeeper at H.D. Cooke Elementary School stated that an employee left the school in 2003, but the employee was included on the school's pre-printed timesheet for the pay period ending November 10, 2007.<sup>22</sup> This prolonged problem frustrated timekeepers because they were required to strike the names of the individuals who did not actually work at their

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<sup>22</sup> The pre-printed timesheets include the individuals who are listed as active in CAPPs.

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## FINDINGS AND RECOMMENDATIONS

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locations each pay period.<sup>23</sup> The timekeepers viewed this process as inefficient and over time it became a nuisance.

**Time Entry for Timekeepers.** Timekeepers had the capability to enter their own time in CAPPs. Because CAPPs did not have a mechanism for someone to approve time in the system, the timekeepers were essentially approving their own time. Granting timekeepers access to enter their own time in CAPPs increased the risk that timekeepers could have received inappropriate payments. Although OCFO personnel reviewed the pre-printed timesheets, leave slips, and other documents to ensure that timekeepers accurately entered time in CAPPs, this did not lessen or eliminate the risk because the timekeepers generally delivered the documents to the OCFO themselves. For example, a school timekeeper could have taken 15 hours of annual leave during a specific pay period and could have provided a leave slip to the principal. However, the timekeepers could enter the 15 hours as regular pay and neglect to provide the leave slip to the OCFO. In this instance, DCPS and the OCFO would not have been able to detect the falsified hours and an inappropriate payment would issue.

Although CAPPs did not have a mechanism for managers to approve their timekeepers' time in the system, DCPS could have developed alternative procedures to ensure timekeepers could not falsify their own time. In PeopleSoft, there is a mechanism for employees to enter their own time in the system and for their managers to approve those entries in the system. However, when we talked to OCFO personnel in January 2010, we determined that DCPS does not fully utilize this component of the PeopleSoft system. For example, teachers are not currently entering their own time in PeopleSoft. According to the OCFO, there are plans for DCPS to fully utilize this component, and once implemented, the risk that timekeepers can receive inappropriate payments will decrease.

**Personnel Files for DCPS Employees.** We attempted to review the personnel files for 282 individuals that we did not verify when we conducted our physical verification. However, we could not locate all of the personnel files for individuals included in our sample. For example, DCPS personnel could not locate the hard copies of the official personnel files for 13 of the 179 individuals included in Category 8. The failure to locate personnel files indicates that either DCPS never created personnel files for these individuals or DCPS created personnel files for the individuals, but the files were subsequently lost or misplaced.

Some personnel files also did not contain essential documents. According to DCPS policy, personnel action forms and other documents (such as offer letters and appointment affidavits) must be maintained in employees' official personnel folders. However, we could not find the personnel action forms to support 136 of the 179 DCPS individuals in Category 8. The forms were not included in their personnel files or in FileNet.<sup>24</sup> The failure to locate the

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<sup>23</sup> The payroll process is detailed in Exhibit B.

<sup>24</sup> FileNet is the computerized information and document management system used by the DCPS OHR.

## **FINDINGS AND RECOMMENDATIONS**

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personnel action forms indicates that either DCPS staff entered employees' data in CAPPS without having the forms or forms were completed but subsequently lost or misplaced. Because personnel files could not be located for some individuals or their files did not contain personnel action forms, we were unable to validate them as bona fide employees.

In addition, we found that personnel documents were not properly organized in FileNet. When we reviewed the scanned documents in FileNet, we noted that personnel documents were not stored in the correct location. For example, we determined an employee's personnel action form was not included under the subfile entitled "personnel action form." To ensure that we did not overlook any pertinent documents for individuals in our sample, we reviewed all of the scanned documents, which took a significant amount of time. In order for DCPS to locate personnel documents expeditiously, it should ensure documents are filed in the appropriate location.

### **RECOMMENDATIONS**

We recommend that the Chancellor for the District of Columbia Public Schools:

4. Develop procedures for updating information in PeopleSoft to prevent former employees from receiving inappropriate payments.
5. Implement the PeopleSoft component that enables employees to enter their own time into the payroll system and managers (or other designated personnel) to approve those entries, and develop controls to ensure that no employee can approve his/her own time in the system.
6. Establish procedures to ensure that all employees have complete official personnel files and that essential documents are maintained in the employees' personnel files and on FileNet.

### **MANAGEMENT RESPONSES AND OIG RESPONSE**

#### **Management Response (Recommendation 4)**

DCPS concurred with this recommendation. In its response, DCPS stated its Human Resource (HR) Department created a Standard Operating Procedure (SOP) manual in 2009, when the transition from CAPPS to PeopleSoft occurred. In June 2010, additional enhancements and upgrades to the DCPS PeopleSoft were implemented requiring HR to revise the 2009 SOP. Revisions are currently underway and are almost complete.

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## FINDINGS AND RECOMMENDATIONS

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### **OIG Comment**

We consider DCPS' actions to be responsive to the recommendation and request DCPS provide estimated completion dates for the corrective actions.

### **MANAGEMENT RESPONSE (Recommendation 5)**

#### **Management Response**

DCPS concurred with this recommendation. In its response DCPS stated with the June 2010 PeopleSoft enhancement, DCPS Central Office employees' enter their time in PeopleSoft and their managers receive notification for approval. However, this capability is not available to school based employees, but efforts are underway to roll this functionality out to school based employees. Until this functionality is completely rolled out in each school, designated timekeepers enter employee's time into PeopleSoft and the Principals will approve it.

### **OIG Comment**

We consider DCPS' actions to be responsive to the recommendation and request DCPS provide estimated completion dates for time entry in PeopleSoft for school based employees.

### **MANAGEMENT RESPONSE (Recommendation 6)**

#### **Management Response**

DCPS concurred with this recommendation stating that the HR Department has completed its cleanup of the file room and all personnel files have been scanned in and are maintained on the FileNet system. In addition, instruction on its intake procedures from recruitment to on boarding and the creation and processing of employee's personnel files have been included as a part of the SOP manual.

### **OIG Comment**

We consider DCPS' actions to be responsive to this recommendation.

**EXHIBIT A. SUMMARY OF POTENTIAL BENEFITS  
RESULTING FROM AUDIT**

<b>Recommendation</b>	<b>Description of Benefit</b>	<b>Amount and Type of Benefit</b>	<b>Agency Reported Estimated Completion Date</b>	<b>Status<sup>25</sup></b>
1	<b>Economy and Efficiency.</b> Ensures funds inappropriately paid to former employees are recovered and put to better use.	Monetary (Up to \$303,942)	TBD	Open
2	<b>Economy and Efficiency.</b> Ensures the validity of the employment for the individuals who could not be validated as bona fide employees and recovers any inappropriate payments and puts these funds to better use.	Monetary (Up to \$95,198)	TBD	Open
3	<b>Economy and Efficiency.</b> Ensures the validity of the employment for the individuals who were not validated as bona fide employees and who were not included in our sample of reviewed personnel files.	Monetary Undeterminable	TBD	Open
4	<b>Internal Control.</b> Prevents former employees from receiving inappropriate payments.	Monetary Undeterminable	TBD	Open

<sup>25</sup> This column provides the status of a recommendation as of the report date. For final reports, “**Open**” means management and the OIG are in agreement on the action to be taken, but action is not complete. “**Closed**” means management has advised that the action necessary to correct the condition is complete. If a completion date was not provided, the date of management’s response is used. “**Unresolved**” means that management has neither agreed to take the recommended action nor proposed satisfactory alternative actions to correct the condition.

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**EXHIBIT A. SUMMARY OF POTENTIAL BENEFITS  
 RESULTING FROM AUDIT**

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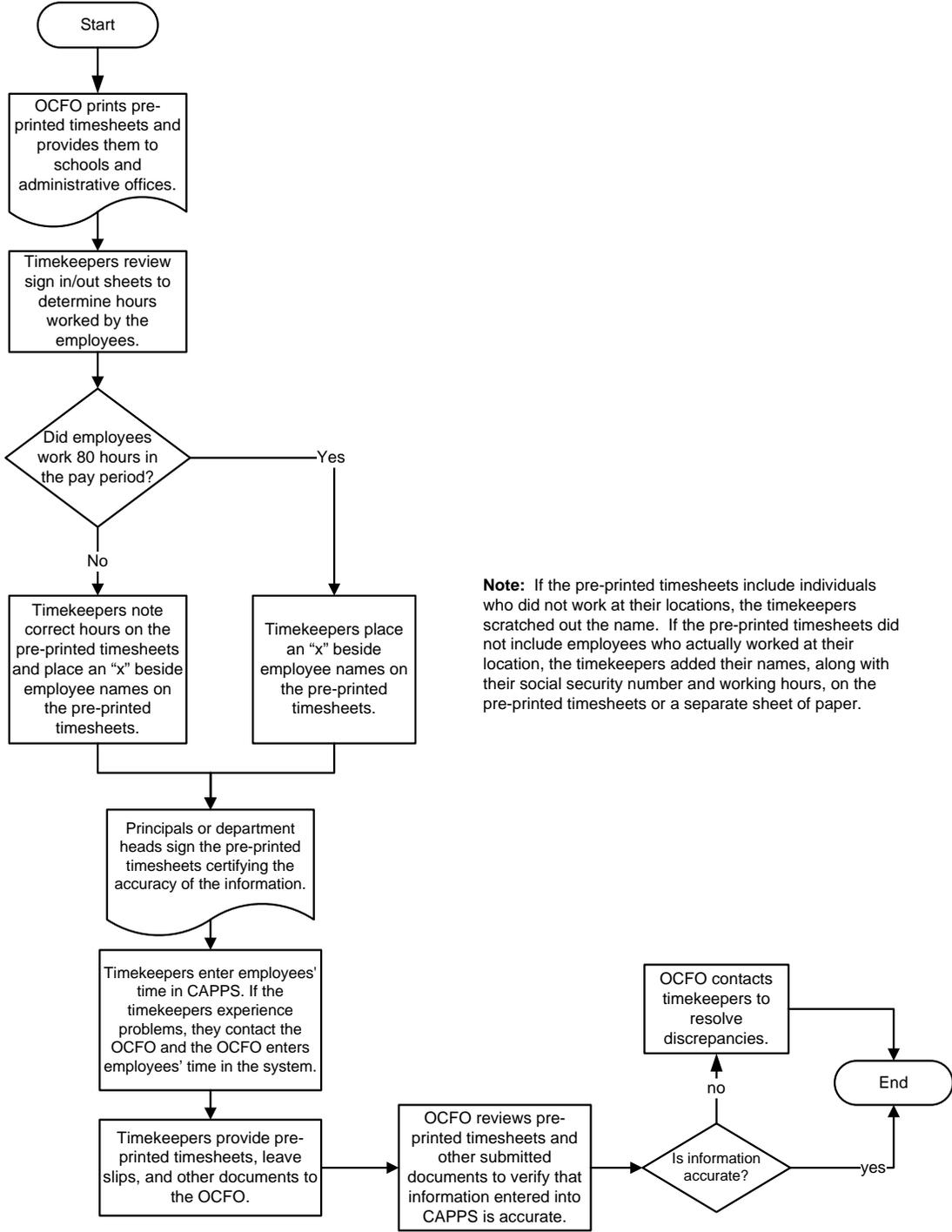
<b>Recommendation</b>	<b>Description of Benefit</b>	<b>Amount and Type of Benefit</b>	<b>Agency Reported Estimated Completion Date</b>	<b>Status<sup>26</sup></b>
5	<b>Internal Control.</b> Ensures that there is an adequate separation of duties for entering and approving payroll transactions and prevents timekeepers from receiving inappropriate payments.	Monetary Undeterminable	TBD	Open
6	<b>Internal Control.</b> Ensures that all employees have complete official personnel files so the validity of their employment can be readily determined or established.	Non-Monetary	TBD	Closed

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<sup>26</sup> This column provides the status of a recommendation as of the report date. For final reports, “**Open**” means management and the OIG are in agreement on the action to be taken, but action is not complete. “**Closed**” means management has advised that the action necessary to correct the condition is complete. If a completion date was not provided, the date of management’s response is used. “**Unresolved**” means that management has neither agreed to take the recommended action nor proposed satisfactory alternative actions to correct the condition.

**EXHIBIT B. PAYROLL PROCESS**

The following flowchart summarizes the payroll process for SY 2007-2008.<sup>27</sup>



**Note:** If the pre-printed timesheets include individuals who did not work at their locations, the timekeepers scratched out the name. If the pre-printed timesheets did not include employees who actually worked at their location, the timekeepers added their names, along with their social security number and working hours, on the pre-printed timesheets or a separate sheet of paper.

<sup>27</sup> This flowchart does not depict the process for entering time for substitute teachers.

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## **EXHIBIT C. PROCEDURES FOR PAYROLL VERIFICATION AUDIT**

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The following steps describe the procedures that we followed for our payroll verification audit.

### **Step 1. Determined individuals who were paid on a specific date.**

At our request, the OCFO provided the payroll history for several pay periods. We decided to verify the existence of the individuals paid on November 23, 2007, for the 2-week pay period beginning October 28, 2007, and ending November 10, 2007. The payroll history for November 23, 2007, showed that 12,475 payments (either in the form of paychecks or direct deposits) were made to 10,358 individuals.<sup>28</sup> We did not inform DCPS or OCFO of the pay period that we were examining until after we obtained the payroll history.

### **Step 2. Visited DCPS schools and administrative offices.**

From March 2008 to September 2008, we visited all DCPS schools and administrative offices to verify whether the November 23, 2007, payees were current, bona fide employees. We visited 155 schools starting in March 2008 and ending in June 2008. During this period, we also visited the DOT locations (bus lots and administrative office), OFM, and a few of the DCPS administrative offices. In July 2008 through September 2008, we visited the remaining DCPS administrative offices.

When we visited the schools and administrative offices, we required school employees to provide the following to us so that we could verify their identity: (1) photo identification issued by either a state government or DCPS; and (2) the last four digits of their social security number. Generally, we observed employees as they signed in or out for the day, or we observed them in their work area. Given the size of OFM staff, facility employees were requested to visit us at a central location in OFM's building.

### **Step 3. Summarized the results of physical verification.**

Once we completed our physical verification, we placed the 10,358 individuals paid on November 23, 2007, into one of the following 9 categories:

*Category 1:* This category includes individuals who were verified as current, bona fide employees. These individuals provided proper identification and the correct last four digits of their social security number.

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<sup>28</sup> An employee will receive more than one payment for a given pay period if he/she has more than one position. For example, a teacher working at an elementary school during normal school hours and working at an aftercare school program will receive two payments. Similarly, a teacher working at a day school and a night school will also receive two payments.

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## EXHIBIT C. PROCEDURES FOR PAYROLL VERIFICATION AUDIT

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- Category 2:* This category includes the individuals who were identified as current employees but were absent during our physical verification. We included these individuals on a list and required principals or department heads to sign the list certifying that these individuals were in fact current employees.<sup>29</sup>
- Category 3:* This category includes individuals who were physically transferred to OSSE from DCPS prior to the pay period beginning October 28, 2007, and ending November 10, 2007. Consequently, we did not attempt to verify these individuals. We were able to identify these individuals on the payroll history because they were listed under a separate agency code. They were paid through DCPS payroll until they were added to OSSE's payroll.
- Category 4:* This category includes individuals who were not verified or identified as absent during our physical verification, but we were able to determine which employees certified their time. Individuals who worked for DCPS during the pay period ending November 10, 2007, but left the agency prior to our physical verification would fall into this category.<sup>30</sup>
- Category 5:* This category includes the individual who we did not require to provide identification or the last four digits of his/her social security number. Only one person - the Chancellor for DCPS - fell into this category.
- Category 6:* This category includes the individuals who were identified on the payroll history as transportation employees and identified by DOT officials as former transportation employees.
- Category 7:* This category includes the individuals who were present during our physical verification and provided the correct last four digits of their social security numbers but did not have identification. Individuals in this category were placed on the list with the absent employees that was certified by the principals or department heads.
- Category 8:* This category includes individuals who were not verified or identified as absent during our physical verification, nor could we identify which DCPS employees certified their time for the pay period ending November 10, 2007.

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<sup>29</sup> In their absence, the timekeepers (or other designated official, such as the assistant principal) signed the list.

<sup>30</sup> Categories 4 and 8 (below) exclude the individuals identified as transportation employees on the payroll history.

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## EXHIBIT C. PROCEDURES FOR PAYROLL VERIFICATION AUDIT

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*Category 9:* This category includes the individuals who were present during our physical verification and provided proper identification but provided the incorrect social security number.

### **Step 4. Review personnel files for a sample of the unverified individuals.**

After we categorized the 10,358 payees, we reviewed the personnel files for a sample of the unverified individuals because individuals could have worked for DCPS during the pay period ending November 10, 2007, and left the agency prior to our physical verification. We reviewed the personnel files for all of the individuals in Category 8 because we could not determine which timekeeper entered their time in CAPPS, and judgmentally selected the files to review for the individuals in Categories 4 and 6. We also reviewed the personnel file for the individual in Category 9.<sup>31</sup> We reviewed official personnel folders as well as the documents scanned in FileNet. In total, we reviewed the personnel files for 282 individuals who were not present when we conducted our physical verification. We used the following criteria to conclude whether these 282 individuals were valid employees:

- *Bona Fide Employees:* We concluded that individuals were current valid employees if their personnel files did not contain a Form 1 showing that they were terminated and their files included documentation (dated January 2007 to November 2007) indicating they were employees. In addition, we concluded that individuals were valid former employees for the pay period ending November 10, 2007, if their files contained a Form 1 for termination and the end date of their employment was on or after October 28, 2007.
- *Questionable Employees:* We concluded that individuals were questionable employees for the pay period ending November 10, 2007, if their personnel files contained personnel documents dated prior to January 2007, but did not include a Form 1 for termination or other documents (such as a resignation letter) indicating they were separated from the DCPS employment.
- *Not Bona Fide Employees:* We concluded that individuals were not valid employees for the pay period ending November 10, 2007, if their personnel files contained a Form 1 for termination and the effective date was prior to October 28, 2007. In addition, we concluded that individuals were not valid employees if their files did not contain a Form 1 for termination, but contained other documents (such as a resignation letter) indicating that they were not employees for the pay period ending November 10, 2007.

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<sup>31</sup> We did not review the personnel files for individuals in categories 2 and 7 because principals or department heads signed a list certifying that these individuals were current, bona fide employees as of the date of our visit.

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## EXHIBIT D. DCPS' RESPONSE TO DRAFT REPORT

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DISTRICT OF COLUMBIA  
PUBLIC SCHOOLS

July 8, 2010

Mr. Charles Willoughby  
Inspector General  
Office of the Inspector General  
717 14<sup>th</sup> Street, N.W.,  
Washington, D.C. 20005

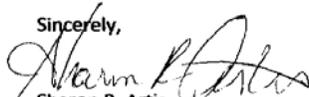
RE: OIG No. 08-2-02GA

Dear Mr. Willoughby:

On behalf of Chancellor Rhee, I'd like to thank you for the opportunity to respond to the findings and recommendations in the Office of the Inspector General's (OIG) draft audit report of the District of Columbia Public Schools' Payroll Verification Audit (OIG No. 08-2-02GA). Responses to your findings and recommendations have been submitted via email as requested to ensure a timely delivery. You should also expect to receive a signed copy of this email submission via USPS as well.

If you have any questions, please don't hesitate to contact me directly, at 202-442-5658.

Sincerely,



Sharon R. Artis  
Director of Compliance

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## EXHIBIT D. DCPS' RESPONSE TO DRAFT REPORT

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### DCPS' Responses to the Office of the Inspector General's Audit Findings and Recommendations

#### "Payroll Verification Audit of the District of Columbia Public Schools"

1. Recover funds paid to former employees who inappropriately received payments after their employment date.

Response: The DCPS Office of Compliance has convened a working group which includes representative from Human Resources (HR) and the DCPS Office of the Chief Financial Officer (OCFO). The purpose of this working group is to review the list of 90 individuals identified as questionable and the list of 1,718 individual whose status could not be determined. (An email was sent on June 30, 2010 to the OIG auditor requesting the names of the 1,718 individuals) Upon completion of this review any individuals not confirmed as bona fide employees and who received compensation for which they were not entitled the information will be referred to the DCPS, Office of the General Counsel for the appropriate action.

2. Determine if the 90 individuals identified as questionable employees were bona fide employees for the PPE 11/10/07 and take action to recover any funds inappropriately paid to these individuals.

Response: On June 29, 2010, the DCPS Office of Compliance in conjunction with the Human Resources and OCFO convened a working group to review the list of 90 individuals identified as questionable. Upon completion of this review if confirmed that any of the 90 individuals were not bona fide employees and who received compensation for which they were not entitled the information will be referred to the DCPS, Office of the General Counsel for the appropriate action.

3. Review the personnel files for the 1,718 individuals who were not validated as bona fide employees for PPE 11/10/07, and whose personnel files were not included in the OIG sample of reviewed files.
  - a. Determine if they were bona fide employees of the PPE 11/10/07, and
  - b. Recover any funds inappropriately paid to these individuals who were not bona fide employees as of the PPE 11/10/07

Response: On June 30, 2010, the DCPS Office of Compliance contacted the OIG auditor via email and requested the names of the 1,718 individuals which had not been verified as bona fide employees. To date a response to this request has not been received. Once a response from the OIG has been received the DCPS' HR, OCFO and Compliance working group will take the appropriate action to verify the status of these 1,718 individuals. If confirmed that any of the 1,718 individuals were not bona fide employees and received compensation for which they

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## EXHIBIT D. DCPS' RESPONSE TO DRAFT REPORT

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were not entitled the information will be provide to the Office of the General Counsel for the appropriate action.

4. Develop procedures for updating information in PeopleSoft to prevent former employees from receiving inappropriate payments.

**Response:** The DCPS Human Resources Department created a Standard Operating Procedures manual (SOP) in 2009, when transitioned its HR systems from CAPPs to PeopleSoft. In June 2010, additional enhancements and upgrades to the DCPS PeopleSoft system were implemented requiring HR to revise the 2009 Standard Operating Procedures manual which is currently underway and is almost complete.

5. Implement the PeopleSoft component that enables employees to enter their own time into the payroll system and managers (or other professionals) to approve those entries, and develop controls to ensure that no employee can approve his/her own time in the system.

**Response:** With the June 2010 People Soft system enhancements, DCPS Central Office employees' entry their time in PeopleSoft and notification is sent to their manager for online approval. While this particular capability has not yet been rolled out to school based employees efforts are underway to roll this functionality out to our school based employee as well. Until this functionality is completely rolled out each school has a designated timekeeper who enters employee's time into PeopleSoft and is approved by the Principal.

6. Establish procedures to ensure that all employees have completed official personnel files and that essential documents are maintained in the employees' personnel files and on FileNet

**Response:** DCPS Human Resources (HR) Department has completed its cleanup of the file room and all personnel files have been scanned in and are maintained on the FileNet system. As part the Standard Operating Procedures manual HR has included instruction on its intake procedures from recruitment to on boarding and the creation and processing employee's personnel files.