

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

**UNIVERSITY OF THE
DISTRICT OF COLUMBIA**

**Management Letter Report
for the Year Ended
September 30, 2013**



**BLANCHE L. BRUCE
INTERIM INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



May 30, 2014

The Honorable Vincent C. Gray
Mayor
District of Columbia
Mayor's Correspondence Unit, Suite 316
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

The Honorable Phil Mendelson
Chairman
Council of the District of Columbia
John A. Wilson Building, Suite 504
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

Dear Mayor Gray and Chairman Mendelson:

In connection with the audit of the District of Columbia's (the District) general purpose financial statements for fiscal year (FY) 2013, KPMG LLP (KPMG) submitted the enclosed management letter report for the University of the District of Columbia (UDC) for FY 2013 (OIG No. 14-1-11GG(b)). This report sets forth KPMG's comments and recommendations to improve internal control or result in other operating efficiencies, which are summarized in Exhibit I of the enclosed report.

KPMG identified certain matters involving internal control and other operational matters, and presented them to management for consideration. Management's responses to those matters presented are included in this final report.

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

Sincerely,

A handwritten signature in blue ink that reads "Blanche L. Bruce". The signature is written in a cursive, flowing style.

Blanche L. Bruce
Interim Inspector General

BLB/ws

Enclosure

cc: See Distribution List

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The Honorable José E. Serrano, Ranking Member, House Subcommittee on Financial Services and General Government, Attention: Angela Ohm (via email)
The Honorable Barbara Mikulski, Chairwoman, Senate Committee on Appropriations, Attention: Kali Matalon (via email)

Mayor Gray and Chairman Mendelson
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The Honorable Richard Shelby, Ranking Member, Senate Committee on Appropriations,
Attention: Dana Wade (via email)

The Honorable Tom Udall, Chairman, Senate Subcommittee on Financial Services and
General Government, Attention: Marianne Upton (via email)

The Honorable Mike Johanns, Ranking Member, Senate Subcommittee on Financial Services
and General Government, Attention: Dale Cabaniss (via email)

Mr. Paul Geraty, CPA, Public Sector Audit Division KPMG LLP (1 copy)



KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

February 4, 2014

The Audit Committee
University of the District of Columbia
Washington, District of Columbia

Ladies and Gentlemen:

In planning and performing our audit of the financial statements of University of District of Columbia (the University), a component unit of the Government of the District of Columbia as of and for the years ended September 30, 2013 and 2012, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States,, we considered the University's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized as in Exhibit I.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and, therefore, may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the University's organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

This communication is intended solely for the information and use of management, the Audit Committee, others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

UNIVERSITY OF THE DISTRICT OF COLUMBIA

2013 Comment and Recommendation from KPMG

Compliance with Quick Payment Act

During our testwork over compliance with the District of Columbia Quick Payment Act of 1984, we noted for three of 54 samples selected, the invoice was paid between 1 to 18 months after the invoice due date. In addition, the University did not pay interest on the invoice amount to the vendors. The total interest owed to vendors was \$75.

We recommend the University's management reinforce the importance of paying invoices within the required due dates, and develop and implement policies and procedures to ensure that interest is appropriately added to the amount paid to the vendor for invoices paid late.

Management's Response

Management has taken corrective action to ensure that invoices received by the Accounts Payable office will be paid within 30 days of receipt. The accounts payable manager is currently utilizing a system generated invoice tracking report that highlights for special attention any invoice that is close to the due date.

Inaccurate Accounts Receivable Balances

The University had \$3,731,939 in accounts receivable recorded in its financial statements as of September 30, 2013. During our testwork over accounts receivable, we noted the following:

- Two of the 39 receivable balances selected for testwork were internal receivable balances and should have been eliminated in the preparation of the financial statements. As such, the ending balance was overstated by approximately \$484 thousand.
- Three of the 39 sample items selected for testwork did not represent amounts owed to the University and therefore should not have been reported in the financial statements. As such, the ending balance was overstated by approximately \$6 thousand.

We recommend University management establish policies and procedures to ensure accounts receivable recorded in the general ledger are complete and accurate.

Management's Response

Management will review receivables balances on a quarterly basis to ensure its accuracy and completeness. The review will take into consideration validity of the charges and promptly correct any identified errors. In addition, all uncollectable receivables will be written off as part of this review process.

UNIVERSITY OF THE DISTRICT OF COLUMBIA

2013 Comment and Recommendation from KPMG

Inadequate Controls over Approval of New Hires

During our test work over new hire approvals we noted:

- For 21 of 40 samples selected, the required SF 52 form (SF52) was approved by the budget office after the employee's start date.
- For 3 of 40 samples selected, the SF 52 was approved by the President or Vice President after the employee's start date.

Management's Response

Management concurs with this finding. The problem of allowing employees to start working before the SF52 is approved by appropriate budget and management personnel is substantially driven by the manual nature of the SF52 process. Management has initiated steps to automate the SF52 process in PeopleSoft. In the meantime, University personnel are reminded that new hires are not allowed to start working before SF52s are properly approved.

Grant and Contract Accounting

During our internal control testwork over grant expenses, we noted the following:

- For four of 18 unique grants tested, an Office of Sponsoring Programs (OSP) proposal routing form could not be provided.
- For one of 18 unique grants tested, an approved Office of Sponsoring Programs (OSP) proposal routing form could not be provided.

During our substantive test work over grant expenses, we noted the following:

- For two of 87 sample items tested, we noted we were not provided sufficient evidence to verify the grant award approved the reimbursement of indirect costs. There was approximately \$21 thousand in indirect costs related to these awards. These amounts were fully billed to other District agencies and collected by the University during fiscal year 2013.
- For one of 87 sample items tested, we noted that the expense related to services provided in fiscal year 2012 and therefore should not have been expensed in fiscal year 2013. No accrual was made for this amount during fiscal year 2012. As such, we determined fiscal year 2013 grant expenses were overstated by approximately \$165 thousand.

We recommend management establish and refine existing policies and procedures to ensure grant activity is properly recorded in the general ledger.

UNIVERSITY OF THE DISTRICT OF COLUMBIA

2013 Comment and Recommendation from KPMG

Management's Response

In a few instances grant proposals were inadvertently not routed through OSP. The University has scheduled training and continues to emphasize the need to comply with OSP policies as indicated in the OSP PI Handbook.

The MOU signed for the grant in question modifies every year for period of performance and estimated cost of the program. Majority of the terms of the MOU remain the same. The MOU signed for fiscal year 2010 allowed the University to calculate and charge the grantor for 15% indirect costs. The MOU modified for FY 2013 did not specifically allow an indirect cost charges. However, the University and the grantor continue to work with a common understanding that 15% indirect cost charge is always allowed. The parties realized the oversight and the indirect cost rate is incorporated in the FY 2014 MOU modification. University management obtained an e-mail confirmation from the grantor to substantiate its claim of the general understanding of allow ability of the 15% indirect cost charges.

We concur that the transaction related to FY 2012 but the payment request was received by OCFO too late to be accrued in FY 2012 closing process. Since this was clearly an obligation of the University, the former CFO approved an exception to process this transaction as FY 2013 expense.

Filing of 990-T with the Internal Revenue Service

Observation

During our audit of the University's basic financial statements, we conducted a review of the basis for the University's exemption from Federal, State and Local income taxes. We note that public colleges and universities are subject to unrelated business income (UBI) tax (UBIT) under IRC 511(a)(2)(B) under the Internal Revenue Code. Such entities are those that are (1) agencies or instrumentalities of any government or political subdivision of a government, or (2) owned or operated by a government or political subdivision. While there may likely be an exception under the District of Columbia statutes or regulations that would apply to the University, for federal income tax purposes, it appears the University is subject to Form 990-T annual reporting requirements if it has gross UBI of \$1,000 or more and is required to pay federal income tax under Section 511(a)(2)(B) to the extent it has taxable unrelated business income.

Based on discussions with management, the University has not previously filed a Form 990-T with the Internal Revenue Service. We also understand that the University has not conducted any analysis of the merchandise sold in the bookstore to determine what items would count as related or unrelated business income.

Recommendation

We recommend that the University review its situation and revenue streams to determine its reporting requirements for prior years and proactively address its requirements with the Internal Revenue Service, if appropriate.

UNIVERSITY OF THE DISTRICT OF COLUMBIA

2013 Comment and Recommendation from KPMG

Delinquent Information Returns

Observation

During our review of the University's investment portfolio, we identified some alternative assets that appear to constitute investments in foreign entities. It appears that the University may have failed to file Forms 8865 or 926 (these forms are required to report direct cash transfers to foreign investment entities) for years prior to fiscal years prior to 2012. Under Section 6038B of the Internal Revenue Code, failure to file these forms may result in the assessment of substantial penalties. For example, Form 926 is required to be filed for certain transfers of cash or property to foreign corporations. The monetary penalty for failure to file is 10% of the amount transferred, limited to \$100,000 per form. Moreover the statute of limitations for the assessment of such penalties does not begin to run until Form 926 is filed with the Internal Revenue Service. We also understand that the Internal Revenue Service is conducting examinations related to unrelated business income taxes of colleges and universities and that in conducting such examinations the position the Internal Revenue Service is currently taking is that there is not a state college exclusion related to filing Form 926.

Recommendation

We recommend that the University seek assistance in determining its prior years' filing requirements by reviewing the relevant private placement memorandums, prepare the required filings, if any along with a statement of reasonable cause if appropriate, and file any delinquent forms with the Internal Revenue Service as soon as possible.