

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

**District of Columbia Public Schools**  
**Reportable Conditions in Internal Control  
over Financial Reporting  
and  
Management Letter Comments**  
**for the year ended September 30, 2003**



Austin A. Andersen  
Interim Inspector General

GOVERNMENT OF THE DISTRICT OF COLUMBIA  
Office of the Inspector General

Inspector General



June 10, 2004

Robert C. Rice  
Interim Superintendent  
D.C. Public Schools  
825 North Capitol Street, N.E., 9<sup>th</sup> Floor  
Washington, D.C. 20002

Peggy Cooper Cafritz  
President  
D.C. Board of Education  
825 North Capitol Street, N.E., 9<sup>th</sup> Floor  
Washington, D.C. 20002

Dear Dr. Rice and Ms. Cafritz:

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, 2003, KPMG LLP submitted the enclosed Reports: *Reportable Conditions in Internal Control Over Financial Reporting and Management Letter Comments*. These reports provide information about DCPS' compliance with laws and regulations and the adequacy of internal controls, and also recommends actions to improve DCPS operations.

DCPS responded to the draft report on May 21, 2004. DCPS fully concurred with the report recommendations. We consider actions taken and/or planned by DCPS to be fully responsive to the recommendations. The full text of the DCPS' responses are at Exhibit D.

If you have any questions, or need additional information, please contact me, or have a member of your staff contact William J. DiVello, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,

A handwritten signature in black ink, appearing to read "Austin A. Andersen".

Austin A. Andersen  
Interim Inspector General

AAA/cj

Enclosure

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KPMG LLP  
2001 M Street, NW  
Washington, DC 20036

## The Members

### Board of Education of the District of Columbia:

We have audited the Budgetary Comparison Schedule (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, 2003, and have issued our report thereon dated January 23, 2004. In planning and performing our audit of the Schedule, we considered internal controls in order to determine our audit procedures for the purpose of expressing our opinion on the Schedule. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We have not considered internal control since the date of our report.

During our audit, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's and DCPS's ability to ensure that the objectives of the internal controls are being achieved. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are material weaknesses. Certain of the reportable conditions we have identified were included in our separately issued Independent Auditors' Report on Internal Control Over Financial Reporting for the District as a whole dated January 23, 2004. Appendix A presents those and other reportable conditions that specifically apply to DCPS's internal control over financial reporting. We considered items I and V of Appendix A to be material weaknesses.

We also noted other matters involving internal control and operations that are presented in the accompanying Appendix B for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of DCPS's management, are intended to improve DCPS's internal controls or result in other operating efficiencies. Appendix C presents the current status of the prior year's management letter comments.

Our audit procedures are designed primarily to enable us to form an opinion on the schedule, and therefore, may not bring to light all weaknesses in policies or procedures that exist. We also acknowledge that there is a cost-benefit relationship between establishing and maintaining internal controls. However, we take this opportunity to share our knowledge of DCPS gained during our fiscal year 2003 audit 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 report is intended solely for the information and use of the Board of Education of DCPS, the management of DCPS, the Mayor and Council of the District, and the Office of Inspector General of the District, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 31, 2004

**I. Inadequate Monitoring of Budgeted and Actual Expenditures via the Monthly Financial Reporting Package**

***Observation:***

Program offices do not utilize the Monthly Financial Reporting package to perform monthly review of expenditures relating to each program. Each department keeps track of its own expenditures and does not review the Monthly Financial Report for budget information. Each program office must monitor its expenditures in order to properly manage the allotted budget.

Additionally, not all current department principals receive the Monthly Financial Reporting package. The department distribution lists are not up-to-date. Several of the individuals on the list are no longer working for DCPS. Many of the office locations of individuals on the list are not accurate.

***Recommendation:***

We recommend that an updated department list be available and used in order to ensure that the Monthly Financial Reporting Package is distributed to the department/program offices in order for them to monitor their monthly expenditures using uniform information. Program managers reviewing the monthly reporting package should be required to acknowledge, in writing, to both the superintendent and the Chief Financial Officer (CFO) that they have reviewed the monthly financial results and are unaware of any adjustments that are required.

***DCPS Response:***

DCPS agrees with the recommendation. The DCPS CFO has recently designed a new financial reporting document that provides a higher level of detail for program and budget managers. Additionally, a form has been developed that all program and budget managers will sign off on subsequent to the recommendation. See Appendix D for complete response from DCPS.

***Auditors Comments:***

DCPS' action meets the intent of this recommendation.

**II. Controls over the Budget Modification Process**

***Observation:***

We observed that the Budget Modification Request Form (the Form) requires approval signatures by the Budget Analyst and Budget Director. The Form also requires signatures in the following areas, "Authorized By," "Entered in SOAR by," and "Approved in SOAR By." None of the two monthly forms selected were completed properly. Further, we also observed that the Office of Budget and Planning (OBP) did not approve all of the budget modifications. Seventeen out of 62 budget modifications did not have either the CFO approval form with signature or OBP approval in SOAR.

DCPS policy states that all budget modifications need to be approved by the Budget Analyst and Budget Director at the individual level before monthly approval by the CFO and properly authorized and entered into SOAR.

***Recommendations:***

We recommend that DCPS utilize the Budget Request Form already created and obtain the approval signatures of the Budget Analyst and Budget Director for each individual budget modification. Signatures need to be obtained to show authorization to enter modifications into SOAR and for the actual entering into SOAR. All data entry clerks should be precluded from entering such budget modifications into SOAR without proper approvals.

***DCPS Response:***

The OCFO, DCPS agrees with the recommendation. Proper procedures are now being followed and monitored by the Budget Director and the Deputy Budget Director.

***Auditors Comments:***

DCPS' action meets the intent of this recommendation.

**III. Inadequate Inventory Control Environment**

***Observation:***

We noted that there were no controls over the safeguarding of inventory items recorded on the fixed assets system on the school grounds and central offices within DCPS. We selected a sample of 15 inventory items from the fixed asset report to test for the existence of the inventory items at the physical location. We noted that out of the 15 items selected for existence, 10 items could not be located or accounted for at the physical location.

Inventory items on school grounds and at the central office should be adequately safeguarded and accounted for on the fixed asset report.

There were a number of attributable causes to the weakness in the control environment surrounding inventory:

- Inadequate communication and coordination between the central office and the warehouse staff.
- The staff at the warehouse is not trained on the use of the fixed assets system. The warehouse staff still uses the Mapper System while the central office uses the FAS system for the recording of inventory and fixed assets.

***Recommendations:***

To improve internal control over the inventory management process we recommend that DCPS:

- Ensures adequate communication and coordination exists between the warehouse staff and the central office for the accountability and the recording of inventory in the fixed asset system.
- Trains the staff at the warehouse on the use of the fixed assets system in order to adequately monitor inventory items on school grounds and at the central office. FAS should be used.

***DCPS Response:***

DCPS agrees with the recommendation. This action will be completed through the office of the Chief Operating Office. See Appendix D for complete response from DCPS.

***Auditors Comments:***

DCPS' action meets the intent of this recommendation.

**IV. Insufficient Tracking of Personnel Movement**

***Observation:***

We observed that there is a lack of controls over tracking personnel movement within DCPS from one school to another. If a teacher moves within the public school system and payroll is not notified, his or her profile will remain the same. The timekeeper at the new school has the ability to enter time for the teacher under the old school code. Therefore, the preprinted time sheets for the old school will show this teacher, and the timekeeper would have to cross the teacher's name out. The timekeeper at the new school would have to add the teacher onto the preprinted sheet and fill in his or her time on the CAPPs system. If the payroll department is not aware of this change, it will not be able to locate the employee since on the system the employee is still coded for the old school.

We also noted that the Office of Personnel does not have any procedures in place to track when people have started and the appropriate adjustments to their salary. As all teachers do not start work at the beginning of the school year, their salary must be adjusted to reflect the number of days left in the school year that they will be working. For example, if an employee is hired in the middle of the calendar year, but there are only 30 days left in the school year, his or her salary should not be one-half of a year's salary (as was the case for several employees); instead it should be prorated for the 30 remaining days (out of 192) in the school year.

***Recommendations:***

To improve internal control over the payroll process we recommend the following to DCPS:

- The Payroll Department develop procedures for handling transfers within the school system. The Payroll Department should send out monthly requests to all schools to verify the status of all employees. If an employee has transferred, this should be indicated on the request, and the Payroll Department should identify his or her status on the new school's request. Once this is determined, the employee's school code should be changed to the correct code.
- DCPS should develop policies and procedures for tracking when employees have started working (in relation to the number of school days that are remaining in the school year) and make the appropriate adjustments to their salary before their first paycheck is issued.
- A control should be implemented in CAPPs that clearly separates user rights and capabilities. Each timekeeper should only be authorized to input time at his or her respective school.

***DCPS Response:***

The DCPS Payroll Department has teamed with the DCPS Office of Human Resources to alleviate these types of issues. The two departments are putting together processes and procedures to deal with transfers as well as terminations. See Appendix D for complete response from DCPS.

***Auditors Comments:***

DCPS' action meets the intent of this recommendation.

**V. Retroactive Payment of Salary Step Increases**

***Observation:***

We observed that the CAPPs system does not properly detect and calculate employee pay increases. Further, there is a lack of staffing in the DCPS payroll department to effectively manually process retroactive pay increases. At September 30, 2003, DCPS accrued retroactive pay of \$5.7 Million. This is an increase over the fiscal years 2002 and 2001 accruals of approximately \$4.5 Million and \$2.3 Million respectively. The majority of the retroactive pay adjustments are processed subsequent to year-end. Accordingly, the payroll expenditures reported in SOAR and used by management for financial and budgetary analysis are not complete.

***Recommendations:***

We recommend that DCPS complete its retroactive payroll increases for all employees currently backlogged. DCPS should develop and implement procedures to ensure that future pay increases are identified and paid in a timely manner. DCPS should ensure that all retroactive pay increases are completed before the implementation of PeopleSoft.

***DCPS Response:***

DCPS agrees with the recommendation. The DCPS OCFO is currently working with various city agencies to effectuate the retroactive payroll process for salary increases and steps. All retroactive pay increases will be completed before the implementation of PeopleSoft or any other ASMP project. See Appendix D for complete response from DCPS.

***Auditors Comments:***

DCPS' action meets the intent of this recommendation.

**I. Checks Outstanding for Greater than 60 Days Remain Uncleared**

***Observation:***

We selected a sample of 15 Student Activity Funds (SAF) to test the bank reconciliations for two months. We determined that 11 out of the 15 SAF accounts had outstanding checks for more than 60 days. We noted that some accounts had outstanding checks since 1999. Checks outstanding for more than 60 days should be cleared from the book balances of the SAF accounts. The checks issued by the SAF accounts do not have a “Void after...” stipulation. DCPS and the individual schools are in the process of developing a system to clear the outstanding checks.

***Recommendations:***

We recommend that DCPS add, “Void after 60 days,” on all issued checks. Checks that remain outstanding for more than 60 days should be cleared from the account.

***DCPS Response:***

DCPS agrees with the recommendation. The recommendation will be implemented once old check stock has been depleted and new stock ordered.

***Auditors Comments:***

DCPS’ action meets the intent of this recommendation.

**II. Official Personnel Folders**

***Observation:***

We noted that one or more key documents were missing from employees’ Official Personnel Folders (OPFs). OPFs should contain employees’ job application form, INS form I-9, and the required forms of identification.

We judgmentally selected 50 DCPS employees from an overall list of active employees for our control test work, noting the following exceptions:

- Three of 50 OPFs were unable to be located and provided by the DCPS human resources department. As such, the respective documents (employment application, I-9 form, and the required forms of identification) were not observed.
- Ten of 50 OPFs were lacking the employees’ I-9 form and the required forms of identification.

The District Personnel Manual Issuance System, DPM Bulletin No. 31-B-1, requires that all OPFs be reviewed, on an annual basis, to ensure retention of all key documents in employees’ OPFs.

***Recommendation:***

DCPS should review all personnel files at least annually to ensure all appropriate documentation is maintained.

***DCPS Response:***

DCPS agrees with the recommendation and is currently putting in processes and procedures to implement that recommendation.

***Auditors Comments:***

DCPS' action meets the intent of this recommendation.

**III. Nonactive Employees Found on the Active-Employee Roster**

***Observation:***

We noted that there were no controls to ensure that terminated employees were adequately eliminated from the payroll system in a timely manner. We selected a sample of 50 active employees from a list of DCPS employees and noted that out of 50 selected, 5 "active" employees had not received a payroll check for fiscal year 2003. As such, there were nonactive employees found on the active employee listing. Employees not active within the payroll system for one year or more should not be listed as active employees within the CAPPS system.

***Recommendation:***

DCPS should establish procedures to ensure that inactive employees are adequately and timely eliminated from CAPPS to mitigate the risk of improper payments to inactive employees.

***DCPS Response:***

DCPS agrees with the recommendation and has currently developed a process in conjunction with DCPS OCFO and DCPS OHRM by which to effectuate that recommendation.

***Auditors Comments:***

DCPS' action meets the intent of this recommendation.

**IV. Disclosure of the Medicaid Receivables from MAA for Fiscal Years 1999 through 2002**

***Observation:***

DCPS did not accrue or disclose the amount of funds receivable from Medicaid. DCPS only had an accrual of \$1.8 Million corresponding to fiscal year 2003 money claimed prior to September 30, 2003, but received after year-end. Total amounts outstanding for fiscal years 1999 through 2002 were approximately \$45 Million, which management fully reserved.

***Recommendation:***

We recommend that DCPS properly accrue and reserve for its estimate of Medicaid funds to be received for fiscal years 1999 through 2003.

***DCPS Response:***

DCPS OCFO agrees that it should properly accrue and reserve as appropriate and necessary. Since this recommendation has long range implications and could potentially affect other District agencies, DCPS OCFO is currently reviewing this recommendation with the District's

Office of Budget and Planning (OBP) as well as the District's Office of Financial Operations and Systems (OFOS). Once we have reviewed the impact and implications of the recommendation we will book the appropriate accrual if necessary. See Appendix D for complete response from DCPS.

***Auditors Comments:***

DCPS' action meets the intent of this recommendation.

**V. Presentation and Disclosure of Fixed Assets**

***Observation:***

DCPS contracts with the U.S. Army Corps of Engineers to implement its capital improvement projects, including those transferred to fixed assets from construction in progress. Twenty of the 61 items completed and transferred to fixed assets were not specifically identifiable as to location. These expenditures totaled \$31,995,737. The District's Financial Policies and Procedures Manual (Section 1020.306 – Stewardship Policy) requires that a listing of fixed assets be maintained to include the location (address, building, etc.) of the fixed assets. DCPS did not obtain from the U.S. Army Corps of Engineers all required information in the listing of all capital projects transferred from construction in progress to fixed assets.

***Recommendation:***

We recommend that DCPS obtain in a timely manner all identifying information regarding fixed assets for which costs have been assigned.

***DCPS Response:***

DCPS agrees with the recommendation, which will be carried out by the Facilities Department.

***Auditors Comments:***

DCPS' action meets the intent of this recommendation.

**VI. Change of Fiscal Year**

***Observation:***

We have discussed with DCPS management to consider the feasibility of changing DCPS's fiscal year-end to June 30. The persuasive argument for the change in the fiscal year-end is that the current year-end of September 30 coincides with the start of the academic year, which increases the complexity of the year-end closing process and related audit. In addition, the September 30 year-end means that the annual closedown process and DCPS's enrollment period occur at substantially the same time of year.

***DCPS Response:***

DCPS agrees with the recommendation and is currently working with the Council of the District of Columbia and the United States Congress to help accomplish the change.

***Auditors Comments:***

DCPS' action meets the intent of this recommendation.

**Appendix C – Status of Prior Year’s  
Management Letter Comments**

**BOARD OF EDUCATION OF THE DISTRICT OF COLUMBIA**

<u>Nature of comment</u>	<u>Type of comment</u>	<u>Current year status</u>
District Medicaid Provider Accounting and Financial Reporting	Reportable Condition	Resolved
Human Resources/Payroll Management Process Management	Reportable Condition	Repeat Finding
Lack of Operating Lease Disclosures	Material Weakness	Resolved
Central Investment Fund	Material Weakness	Resolved
Resource Allocation	Material Weakness	Resolved
Fixed Asset Management	Material Weakness	Repeat Finding
Capital Improvement Projects	Reportable Condition	Resolved
Special Education Direct Payments	Reportable Condition	Resolved
Change in Fiscal Year	Management Letter Comment	Repeat Finding
Implementation of New Human Resource and Financial Reporting Systems	Management Letter Comment	Resolved