



U.S. DEPARTMENT OF EDUCATION

THE WANAMAKER BUILDING
100 PENN SQUARE EAST, SUITE 502
PHILADELPHIA, PA 19107

September 17, 2002

REGIONAL OFFICE OF
INSPECTOR GENERAL

Dr. Paul L. Vance
Superintendent
District of Columbia Public Schools
825 N. Capitol Street, NE, 9th Floor
Washington, D.C. 20002-4232

Dear Dr. Vance:

This ***Final Audit Report*** (Control Number ED-OIG/A03-B0023) presents the results of our audit of Caroline Wilder Harris (C.W. Harris) Elementary School's federal grant expenditures for the period July 1, 1999, through June 30, 2001.

District of Columbia Public Schools (DCPS) did not provide written comments to our draft report. A draft of this report, dated June 12, 2002, was provided to DCPS. DCPS had 30 days from the date of the letter to provide written comments to the draft report. DCPS requested three extensions of time to provide comments. The last extension of time to provide comments expired on September 9, 2002.

Background

We received an anonymous complaint letter, which alleged that C.W. Harris, in Washington, DC, misused federal program grant funds, during the school years 1999-2000, and 2000-2001. C.W. Harris is part of the DCPS system. As the local education agency for C.W. Harris, DCPS is responsible for the processes used and expenditures made by C.W. Harris. Expenditures are processed through DCPS' accounting system and are paid by DCPS' Finance Office.

The federal programs mentioned in the complaint were Grants to States for the Education of Children with Disabilities (Special Education), Improving Basic Programs Operated by Local Education Agencies, Part A (Title I), the Eisenhower Professional Development Grant (Title II), and the Innovative Education Program Strategies (Title VI).

We performed an audit of C.W. Harris' expenditures charged to the Title I, Title II and Title VI grant funds during the period July 1, 1999, through June 30, 2001.¹ During this period, C.W. Harris was allocated \$349,157 for these programs, and expended \$282,167.

¹ We did not review expenditures charged to the Special Education program grant funds because DCPS' accounting system commingles both federal and local funds for Special

Audit Results

Except for the expenditures questioned in this report, the Title I, Title II and Title VI program expenditures made by C.W. Harris during the period July 1, 1999, through June 30, 2001, were generally reasonable, allowable, and allocable. The results of our audit did not substantiate the complaint allegations. Our audit identified management control weaknesses, which adversely affected DCPS and C.W. Harris' ability to administer the grant funds. These weaknesses include inadequate records management, inadequate processing of administrative premium payments, and a lack of separation of duties.

Finding No. 1 C.W. Harris Charged Unsupported Expenditures to Federal Grant Funds

During the audit period, C.W. Harris expended \$43,159 in Title I and Title VI grant funds for educational materials. We reviewed all 15 of these expenditures and found that seven of the expenditures, totaling \$33,487, were inadequately supported. The following is a breakdown of the inadequately supported expenditures:

| Expenditure Amount | Program | Fiscal Year |
|---------------------------|----------------|--------------------|
| \$ 996 | Title I | 2000 |
| \$ 3,892 | Title I | 2000 |
| \$ 167 | Title VI | 2000 |
| \$ 222 | Title VI | 2000 |
| \$19,751 | Title I | 2000 |
| \$ 3,459 | Title I | 2000 |
| \$ 5,000 | Title VI | 2001 |

DCPS could not provide adequate documentation to show that these grant funds were actually expended for program purposes. We were able to obtain photocopies of some supporting documentation (e.g., a purchase requisition or purchase order) from C.W. Harris for six of the seven expenditures, totaling \$33,265. The photocopies did not provide us with adequate documentation to determine if the expenditures were for program purposes.

DCPS was not able to provide any documentation for the remaining expenditure of \$222.

The regulations at 34 C.F.R. § 80.20 (b)(6) require that DCPS' account records be supported by source documentation. Cancelled checks and paid bills are examples of adequate source documentation. The source documentation maintained for a federal grant expenditure should fully show how the grant funds were used, as required by 34 C.F.R. § 75.730 (b). DCPS was not in compliance with either regulation because it failed to maintain complete and accurate records for \$33,487 in Title I and Title VI grant

Education programs, except for personnel costs. We did not review the personnel expenditures as a part of our audit.

expenditures. As a result, we could not determine if the expenditures were reasonable and allowable program expenditures.

Recommendation:

- 1.1 We recommend the Assistant Secretary for Elementary and Secondary Education, U.S. Department of Education (ED), require DCPS to provide adequate supporting documentation to show that the expenditures were appropriately paid from Title I or Title VI funds or refund to the appropriate grant the portions that ED determines have not been adequately documented.

Finding No. 2 DCPS' and C.W. Harris' Payroll Processing Procedures Need Improvement

We found that the procedures used to process payroll at DCPS' central office and at C.W. Harris need improvement. Specifically, we found that: 1) the administrative premium sheet (APS) used to record administrative premium payments did not capture sufficient information to validate payroll expenditures; 2) administrative premium payments were processed for payment without prior verification; 3) monitoring of administrative premium payments was not performed; and 4) segregation of duties relative to the payroll processing at C.W. Harris was not adequate.

DCPS' Management Controls for Processing Administrative Premium Payments Need Improvement

Administrative Premium Sheet

DCPS policy requires that administrative premium payments be supported by an APS. The APS shows the school name, pay period, employee name, employee social security number, and a total amount to be paid by activity or funding source. We found that necessary information was not captured on the APS. First, the APS did not include the dates and hours worked by the employee. Second, the APS did not include the employee's hourly or daily rate of pay. The APS should be revised to include all of the missing information so that DCPS' Payroll office can verify that the administrative premium amount requested is reasonable. Finally, the APS did not provide for all possible funding sources. Administrative premium payments not charged to the proper funding source can result in schools losing the use of their federal allocation. For example, we noted one instance during the audit period where C.W. Harris lost the use of \$4,000 in Title VI funding because Title VI was not a funding category on the APS. These payments were listed under the category of "Other" and "charge to Title VI" was handwritten next to each payment, but because the payments were not identified under a column entitled Title VI, the payment was not charged to the school's Title VI funds.

Revising the APS to include all of the information above will add an additional level of management control over the processing of these payments. The payroll specialist will

be able to verify that the administrative premium payments are correct and are charged to the correct funding source. Revising the APS also is a way to ensure that there is effective control and accountability over the administrative premium payments charged to federal grant funds.

Administrative Premium Payment Processing

DCPS' procedures used to process the administrative premium payments were not adequate. The APS was certified by the school principal and forwarded to DCPS' Payroll office for processing. The payroll specialist processed the APS for payment. The payroll specialist did not have supporting documentation to show that the employee was authorized to receive administrative premium payments, the amount of time the employee was allowed to work, or if the amount of payment requested was correct. No documentation was submitted to or reviewed by the payroll specialist, other than the APS. The payroll specialist relied upon the school principal's approving signature as assurance that the payments were reasonable and allowable. Our audit revealed that C.W. Harris' principal did not always review supporting documentation (e.g., the sign-in sheets for the activity) before approving the APS. Therefore, the payroll specialist's reliance upon the principal's review of the APS was an ineffective management control procedure. If the payroll specialist were provided with documentation to support the administrative premium payments, such as the information stated above, there would be an effective level of control over the payment processing.

Another area of management control that needs improvement was the monitoring of the administrative premium payments. DCPS' Payroll office did not perform periodic reviews of administrative premium payments. Periodic reviews will help to ensure that DCPS' policies and procedures are being followed and that the administrative premium payments are proper.

The regulations at 34 C.F.R. § 80.20 (b)(3) require that: "Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets." The administrative premium processing weaknesses noted increase the risk of loss and misuse of federal funds because employees may receive administrative premium payments that they are not entitled to receive.

C.W. Harris Management Controls Over Payroll Processing Need Improvement

C.W. Harris' secretary certified and input her own bi-weekly payroll into the payroll system. In addition, she prepared the APS (which included her own administrative premium payment) for one of the school's extracurricular activities that she worked on as the program coordinator. Furthermore, the secretary was the only person at the school who prepared and processed the biweekly payroll. In the absence of the principal or assistant principal, she also had the authority to certify the school's payroll. No employee should be responsible for preparing and processing their own payroll or administrative premium payments. Effective management controls require that key

duties and responsibilities in authorizing, processing, and recording transactions should be separate among individuals.

C.W. Harris did not have effective control over the payroll process at the school, which is a requirement under the federal regulations governing the administration of federal funds. The regulations at 34 C.F.R. § 80.20 (b)(3) state, "Effective control and accountability must be maintained for all grant and subgrant cash...and other assets."

Recommendation:

- 2.1 We recommend that the Assistant Secretary for Elementary and Secondary Education require DCPS to strengthen management controls to ensure that the weaknesses identified above are corrected.

Other Matters

In addition to the findings discussed in the Audit Results section of this report, we noted the following minor finding issues. We are reporting these issues for appropriate corrective action.

Unallowable Payroll Expenditures Were Charged to Title I Funds

C.W. Harris used \$335 in Title I funds for unallowable payroll expenditures. Two employees were compensated for working hours in excess of their tour of duty (TOD) hours.² There was no evidence to show whether the payment for the additional hours was overtime or some other supplemental payment. The employees were not included on any of C.W. Harris' administrative premium sheets for working on extracurricular activities for the applicable period. Employees should not be paid more than their regular salary unless there is adequate documentation to show why the employee is receiving the additional compensation. Although the total amount noted is not material, DCPS should perform a review of its payroll records for the period audited to determine if other employees were inappropriately compensated for more than their TOD hours. DCPS should also develop procedures to ensure that employees are only paid for time actually worked. Additionally, if employees are to be compensated for working additional hours, DCPS should ensure that documentation supporting the extra payment is maintained.

² An employee's tour of duty is the normal number of hours they are scheduled to work during a pay period. For example, an employee that is scheduled to work seven hours a day has a tour of duty of 70 hours for each biweekly pay period.

Unallowable Stipend Payments Were Charged to Title I Funds

We reviewed the 10 stipend payments, totaling \$1,360, made to C.W. Harris' parent partners³ during the audit period. We found that \$48 in unallowable payments was paid to one of C.W. Harris' two parent partners. We noted two occurrences where one parent partner was overpaid because she was compensated for working over the maximum number of days allowed by DCPS policy. DCPS' Accounts Payable office did not always check to ensure that stipend payments to parent partners were paid in accordance with DCPS' policies and procedures, thereby permitting unallowable stipend payments to be made from Title I grant funds. The amount noted is not material; however, in the future, DCPS should follow its policies and procedures to ensure that parent partners do not receive stipend payments for days worked over the maximum limits.

Unsupported Payroll Expenditures Were Charged To Title I Funds

We found that \$3,094 of the \$107,020 identified as expended for C.W. Harris' FY 2000 Title I payroll costs was unsupported. DCPS should reconcile the payroll records to determine if the \$3,094 was expended for reasonable and allowable Title I purposes. Additionally, DCPS should ensure that expenditures charged to Title I funds are accurate, and reasonable and allowable.

Unsupported Administrative Premium Payments Were Charged to Title I Funds

In FY 2000 C.W. Harris expended \$1,316 of the Title I grant funds budgeted for administrative premium payments to its employees. We reviewed C.W. Harris' APS' for the period budgeted and found that the expenditures were not included on any of them. In addition, we noted that the Title I expenditure report identified the expenditure as holiday pay. DCPS could not provide supporting documentation detailing the specifics of the expenditure. As a result, we could not determine if the grant funds were actually expended for administrative premium payments or if the expenditures were reasonable and allowable. DCPS should determine if the \$1,316 was expended for administrative premium payments for Title I related activities. In the future, DCPS should ensure that charges made to the Title I program are adequately supported.

Inadequately Supported Stipend Payments Were Charged to Title I Funds

We noted inadequately supported payments, totaling \$432, for seven of the 10 stipend payments reviewed. Before parent partners are eligible to receive a stipend payment, they must work at least four hours a day, two days a week. Parent partners are required to sign-in and out daily to document that they worked during the week, and in order to be paid. C.W. Harris maintained weekly sign-in sheets for the parent partners. For these seven payments the parent partner did not sign-in or out on the days indicated on the

³ Parent partners are volunteers who assist teachers and students. DCPS policy allows the parent partners to receive \$16 a day to reimburse them for expenses incurred while they are working.

stipend worksheet C.W. Harris submitted for payment. For example, a parent partner was compensated for working in June 2000, but C.W. Harris did not have a parent partner sign-in sheet for the month. Additionally, there were several months where the parents did not sign-in or out at all during the week, but were certified on the stipend worksheets as having worked two or three days during that week. Without the parent signing in and out, there is no evidence of the hours worked.

DCPS employees were not following DCPS' stipend policies and procedures. C.W. Harris was certifying and submitting stipend worksheets for inadequately supported stipend payments and the Accounts Payable office was paying the parents without adequate documentation of services rendered. The amount noted is not material; however, in the future, DCPS should follow its policies and procedures to ensure that parent partners do not receive stipend payments for days they did not sign-in and out.

Improvement Is Needed in Accounting for C.W. Harris' Payroll Costs

There was an inadequate trail between the Title I payroll costs budgeted in C.W. Harris' Local School Plan (LSP) and actual payroll costs expended. Specifically, in the FY 2000 LSP the funding sources listed for the employees may not be the actual funding sources the employees were paid with. For example, one employee was listed in the LSP staffing plan as being funded by the Title I grant, but DCPS' payroll system had the employee being paid from another federal program grant and from another school's budget. C.W. Harris' LSP budget listed three full-time equivalent (FTE)⁴ positions that were to be paid with Title I funds, while the staffing plan, contained in the LSP, listed eight employees (5.2 FTE positions) were to be funded by Title I. In contrast, DCPS' FY 2000 payroll records identified six employees whose salaries were paid with Title I funds during this year. Only two of the eight employees identified in the staffing plan were actually paid from C.W. Harris' Title I grant. The other four employees that were actually paid from the school's Title I grant were identified in the staffing plan as being paid from local funds. In FY 2001, C.W. Harris budgeted eight positions (5.28 FTE) to be paid from Title I funds. The same six employees, who were paid in FY 2000, and a portion of one additional employee's salary, were paid in FY 2001 from Title I funds. The six employees worked under C.W. Harris' Title I program during the audit period.

DCPS should reconcile the school's LSP budget to the payroll records. If an employee is listed in the LSP as being paid from a specific funding source, then that employee's salary should be charged to that funding source. Additionally, DCPS should ensure that a school's LSP budget and staffing plan agree.

We suggest that DCPS ensures that adequate supporting documentation is maintained, DCPS policies and procedures are followed, and that expenditures charged to a federal program's grant funds are expenditures that relate to that program.

⁴ One FTE represents one full-time employee who works 80 hours a bi-weekly pay period.

Objective, Scope and Methodology

Our audit objective was to determine if C.W. Harris' Special Education,⁵ Title I, Title II, and Title VI program expenditures, during the period July 1, 1999 through June 30, 2001, were reasonable, allowable and allocable program expenditures.

To accomplish our objective, we reviewed DCPS and C.W. Harris policies and procedures, accounting records, and supporting documentation. We interviewed DCPS officials from the Office of Categorical Programs and Development, the Office of the Chief Financial Officer, the Accounts Payable office, the Payroll office, and the Office of Special Education. We also interviewed C.W. Harris' principal, business manager, and secretary. We reviewed DCPS' annual audit reports prepared by an independent public accountant for the years ended September 30, 1999, and September 30, 2000. We also reviewed other reports relating to financial management processes at DCPS. We reviewed C.W. Harris' expenditures charged to the federal grants (Title I, Title II, and Title VI) during the audit period to determine if the expenditures were reasonable, allowable, and allocable program expenditures. We separated the expenditures into two categories, payroll (excluding fringe benefits) and other than personnel (OTP) services.

Payroll

We reviewed a judgmentally selected sample of payroll expenditures for those employees we identified as being paid from federal grant funds. We reviewed 16 payroll expenditures, totaling \$17,211, from a universe of 265, totaling \$198,080 (\$105,242⁶ in FY 2000, and \$92,838 in FY 2001). We selected our sample from DCPS payroll history reports for the audit period. We selected expenditures for review that appeared to be anomalies based on the payroll data contained on the employee's payroll history report.

Other Than Personnel (OTP) Services

We reviewed all OTP service expenditures, totaling \$44,519, as identified in DCPS' accounting system, that C.W. Harris charged to the federal grant funds during the audit period.

To achieve our audit objective, we relied in part on computer-processed data contained in DCPS' financial database. We assessed the reliability of this data and found it to be adequate. We tested the accuracy, authenticity, and completeness of the data by comparing source records to computer data, and comparing computer data to source records. Based on these tests and assessments we concluded that the data were sufficiently reliable to be used in meeting the audit's objective.

⁵ As noted in the Background section, our audit objective was revised to exclude Special Education program expenditures.

⁶ The payroll expenditures include \$1,316 in administrative premium payments expended in FY 2000.

We conducted our fieldwork at DCPS, Washington, D.C. from August 7, 2001, through October 31, 2001. We also performed fieldwork at C.W. Harris, Washington, D.C., from September 19, 2001, through September 21, 2001. An exit conference was held on February 7, 2002. DCPS provided us with additional documentation for review on February 21, 2002. We conducted the audit in accordance with government auditing standards appropriate to the scope of the audit described above.

Statement on Management Controls

As a part of our review we assessed the system of management controls, policies, procedures, and practices applicable to DCPS' and C.W. Harris' administration of the Title I, Title II, and Title VI grant funds. Our assessment was performed to determine the level of control risk for determining the nature, extent, and timing of our substantive tests to accomplish the audit objective.

For the purpose of this report, we assessed and classified the significant controls into the following categories:

- Budgeting;
- Disbursements;
- Records Management; and
- Time and Effort Reporting.

Because of inherent limitations, a study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the management controls. However, our assessment disclosed management control weaknesses, which adversely affected DCPS and C.W. Harris' ability to administer the grant funds. These weaknesses include a lack of separation of duties, inadequate processing of administrative premium payments, and inadequate records management. These weaknesses and their effects are fully discussed in the AUDIT RESULTS section of this report.

Administrative Matters

If you have any comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following U.S. Department of Education official, who will consider them before taking final Departmental action on the audit:

Susan B. Neuman, Assistant Secretary
U. S. Department of Education
Office of Elementary and Secondary Education
400 Maryland Avenue, SW
Room 3W315
Washington, D.C. 20202

Office of Management and Budget Circular A-50 directs Federal agencies to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, we request receipt of your comments within 30 days.

In accordance with the Freedom of Information Act (5 U.S.C. §552), reports issued by the Office of Inspector General are available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

If you have any questions or if you wish to discuss the contents of this report, please contact Teri Lewis, Assistant Regional Inspector General for Audit, or me at (215) 656-6900. Please refer to the control number in all correspondence related to the report.

Sincerely,

Bernard Tadley¹
Regional Inspector General for Audit

**REPORT DISTRIBUTION LIST
A03-B0023**

| | <u>No. of Copies</u> |
|--|---------------------------------|
| Auditee | 1 |
| | |
| <u>Action Official</u> | |
| Susan B. Neuman, Assistant Secretary Office of Elementary and Secondary Education | 1 |
| | |
| <u>Other ED Offices</u> (electronic copies) | |
| Deputy Secretary, Office of the Deputy Secretary | 1 |
| Chief of Staff, Office of the Secretary | 1 |
| Under Secretary, Office of the Under Secretary | 1 |
| Chief Financial Officer, Office of the Chief Financial Officer | 1 |
| Director, Office of Public Affairs | 1 |
| Assistant Secretary, Office of Legislation and Congressional Affairs | 1 |
| Assistant Secretary, Office of the Intergovernmental and Interagency Affairs | 1 |
| Director, Financial Improvement and Post Audit Operations | 1 |
| Correspondence Control, Office of the General Counsel | 1 |
| Post Audit Group, Office of the Chief Financial Officer | 1 |
| Assistant General Counsel, Elementary, Secondary, Adult and Vocational Education Division | 1 |
| Audit Liaison, Office of Elementary and Secondary Education | 1 |
| | |
| <u>ED-OIG</u> | |
| Inspector General (A) | 1 |
| Assistant Inspector General for Audit | 1 |
| Assistant Inspector General for Investigation | 1 |
| Assistant Inspector General for Analysis and Inspections | 1 |
| Deputy Assistant Inspector General for Audit | 1 |
| General Operations Team | 1 |
| Director, State and Local Advisory and Assistance | 1 |
| Directors and Audit Managers | 1 |