

PUBLIC HEARING ON

THE FISCAL YEAR 2007 BUDGET OF THE

DISTRICT OF COLUMBIA PUBLIC SCHOOLS

Before the

Committee on Education, Libraries, and Recreation

Council of the District of Columbia

The Honorable Kathy Patterson, Chairman

March 28, 2006, 9:00 a.m.

John A. Wilson Building

Council Chamber



Testimony of

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Good morning, Chairperson Patterson and members of the Committee on Education, Libraries and Recreation. I am Ben Lorigo, Executive Director of the Office of Integrity and Oversight. My office conducts audits for the Chief Financial Officer of the District of Columbia to ensure that integrity, accountability and efficiency are maintained in the District's financial management systems.

I am pleased to report to the committee the results of three related audits conducted by my office in 2005 concerning the District's special education program. They are:

1. Financial controls over the non-public tuition payment process at the D.C. Public Schools (DCPS) Office of Special Education,
2. Budget planning and execution concerning the non-public tuition program, and
3. Financial controls over the payment process at the DCPS Division of Transportation relating to special education program transportation expenditures.

These audits were requested by Dr. Clifford B. Janey, Superintendent of DCPS, and by Bert Molina, Deputy Chief Financial Officer for the Office of Budget Planning. I have provided the chair with copies of these three audits and would like to summarize for you our key findings and recommendations.

The District's special education program addresses children with special needs within the school system and those children under the care of the District's Child and Family Services Agency and the Department of Mental Health. There are approximately 12,000 special education students in the District's school system. The non-public tuition component of the special education program includes approximately 2,600 students.

Special education non-public tuition involves several types of costs, including day and residential tuition; education evaluations performed by evaluators independent of DCPS; parental transportation reimbursement for certain expenses; and other costs, such as special equipment and tutoring.

In our audit of the financial controls over the non-public tuition payment process at the Office of Special Education, which covered fiscal years 2003 and 2004, we found a lack of financial payment controls and recurring breakdowns in internal controls, including the absence of supervisory review and monitoring, and the lack of oversight of the payment process. The issues included:

- A chaotic invoice processing system in which invoices submitted by vendors lacked the specific information requirements established by court order; this adversely impacted the ability of DCPS to verify key elements, such as identification of the specific student and their eligibility.
- Invoices were not always timely paid as required by the "Petties Court Order" and the D.C Quick Payment Act.

- Inadequate recordkeeping and file maintenance relating to invoices and supporting documentation, which prevented auditors from being able to verify whether some payments were for legitimate tuition related expenses.
- Twelve students received services totaling more than \$95,000 from private schools for services that they were not eligible for according to District records. Due to missing documentation, we could not determine whether all students in our sample of 385 transactions received services for which they were eligible.
- Other payment processing deficiencies, such as instances of paying in advance for services not rendered, making duplicate payments, and not properly date stamping invoices when received and canceling them when paid.

During the review, we also noted other issues affecting this program beyond the payment process, such as procedural violations in the placement referral process, the lack of control over private school tuition rates, and a lack of District residential facilities for special education students.

Our report made specific recommendations for each finding. Since many issues cut across both program and financial areas of responsibility, we recommended that DCPS form a joint task force, comprising program and finance officials, to remedy the invoice processing system and the specific problems associated with it as described in the report.

In responding to our report, DCPS essentially agreed with our findings and described corrective actions taken and planned. We believe that the agency's corrective plans, when fully implemented, will address the issues identified in the audit.

The second audit we conducted concerned budget planning and execution for the non-public tuition program area. The purpose of this audit was to evaluate the adequacy and effectiveness of the budget formulation and execution processes, and identify the true costs of this activity during fiscal years 2003 and 2004.

The budget formulation and execution processes for the D.C. Public Schools' budget are distinctive in comparison to other District agencies, due to the unique structures and authorities that govern DCPS. The District government provides a local revenue target to DCPS in the budget formulation process, but has no authority to allocate these funds within DCPS. The authority to formulate the DCPS budget based on the revenue target provided by the District government rests with the DCPS board.

Our audit on budget planning and execution for this program disclosed that:

- Budget amounts allocated to this program by DCPS were unrealistic and not based on past actual expenditures or special education student statistics. The budget formulation process did not follow performance-based budgeting or any other acceptable budgetary methods. In the two years examined, budgeted amounts were not fully allocated to the program. As a result, when spending pressures materialized, officials had to re-program funds from elsewhere in DCPS to prevent deficits. These actions would have been un-

necessary if the total approved budgeted amounts in the adopted budget were provided at the beginning of the fiscal year.

- The system lacks an adequate and reliable database of students in the special education program to track students, costs and budgets.
- There is no adequate cost accounting system to routinely track special education costs by categories and classification for budgetary and program purposes.
- Costs have not been properly classified by program officials in terms of the appropriate budget accounts: Non-Public Tuition (for those receiving services outside the D.C. school system); Child and Family Services (for those who have been declared wards of the District but require specialized services, such as speech therapy); and Department of Mental Health (for those who are severely impaired in this area). Our review also found that these accounting classifications are inadequate to capture the various types of special education expenses identified in the students' individualized education programs.
- The lack of supervisory oversight and management continuity in key program and finance positions during this period adversely impacted program administration and also impaired the audit's ability to obtain reliable information from key decision makers.

Determining the actual costs of the non-public tuition program became an imprecise task. A reliable annual cost estimate of the program could not be

determined, because the overall costs associated with the program were not properly classified, correctly posted, and recorded in the non-public tuition designated accounts. We found certain non-public tuition expenditures were directly posted to Medicaid reserves and other non-public tuition budget line items, resulting in understatement of the total costs of the program. Our analysis indicated that the program spent approximately \$108 million in FY 2003 and \$120 million in FY 2004.

We recommended that a task force of program and financial officials be established to address the budget formulation process to ensure that it includes past expenditures and cost drivers, such as inflation and the increase in the number of students in the program, and that approved budget amounts are fully allocated to the program at the beginning of the fiscal year.

We also recommended several specific actions to improve the accounting structure in order to more accurately classify expenditures for proper budgeting and reporting.

The Office of Budget and Planning (OBP) concurred with the findings and recommendations and described actions taken to strengthen the capacity of D.C. Public Schools to track budget and expenditures related to the non-public tuition program. Specifically, OBP cited the investments made by the District to develop a special education unit within the CFO's office at DCPS to perform this task, and that there would be an enrollment audit at the District's State Education Office concerning students in non-public educational facilities. We found the initiatives cited by OBP to be responsive to the issues we raised and, when fully implemented, the action plans should satisfy the intent of our recommendations.

The third part of our non-public tuition audits was a review of DCPS special education transportation expenditures at the DCPS Division of Transportation. The Division of Transportation provides transportation as a related service for special education students, when necessary, in order for a student with a disability to participate in an approved educational program.

The objective of our audit was to determine if there were adequate financial controls over the transportation payment process and whether expenditures were proper and were accurately paid.

Our review, which addressed fiscal years 2003 and 2004, found that the expenditures we examined were reasonable and covered approved costs. However, we found significant deficiencies in the accounts payable processing area. Specifically, payment records were not properly maintained and invoices were not properly approved before payment. There were internal control weaknesses in the Division of Transportation's time and attendance process, including inconsistent approval of sign-in sheets and timesheets. We also found that the DCPS Human Resources Office had not maintained and updated personnel records, leading to benefits being paid for employees who had separated from DCPS.

As a result of this review, we received separate responses from the Superintendent of D.C. Public Schools, the Chief Financial Officer for DCPS, and the Transportation Administrator. The responses concurred with our findings and recommendations and described corrective actions already taken and those underway. We found these action plans to be responsive and, when fully implemented, should address the deficiencies we found.

We plan to follow-up next year on the corrective actions cited in these three audits, and we will evaluate the effectiveness of the financial controls and accounting systems put in place.

Madame Chairperson, this concludes my testimony. I would be pleased to respond to any questions the committee may have.