



Office of the District of Columbia Auditor

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**District of Columbia Public Schools Consulting
Report Local School and Central Office Budget
Process Review (Report #1)**

August 8, 2012

Audit Team:
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Office of the District of Columbia Auditor

017:12:LP:cm

August 8, 2012

The Honorable Phil Mendelson
Chairman
Council of the District of Columbia
1350 Pennsylvania Avenue N.W., Suite 402
Washington, D.C. 20004

RE: Financial and Budgetary Analysis of District of Columbia Public Schools

Dear Chairman Mendelson:

Pursuant to Fiscal Year (FY) 2011 Committee of the Whole of the Council of the District of Columbia budget recommendations, \$250,000 was transferred from the District of Columbia Public School's (DCPS) general budget to the District of Columbia Auditor for the purpose of an audit of DCPS' budget and expenditures in FY 2010. On June 1, 2011, the Office of the D.C. Auditor (ODCA) entered into a contract with Clifton Gunderson, LLP¹ (Contractor) to perform the audit.

The audit objectives were to determine:

- whether identified expenses were recorded properly and accurately;
- the basis and methodology for specific budget allocations; and
- the effectiveness and efficiency of DCPS officials in the development, management and oversight of specific budgets and related allocations approved by the Council of the District of Columbia.

The Contractor provided ODCA with two reports. The first report is included for your review. ODCA will submit the second report separately. The first report identified changes in the DCPS budget process from FY 2007 through FY 2010, details weaknesses in the DCPS's budget process, and provides recommendations to improve efficiency and effectiveness. The report includes an overall review of the budget process for local schools and the DCPS Central Office. The report does not address specific programs such as Special Education.

¹ Now Clifton Gunderson, LarsonAllen.

For FY 2007 and FY 2008, the Contractor was unable to determine or review the methodology DCPS used to create the budget for local schools for the following reasons:

- DCPS did not have written documentation of the process advised;
- transition of staff within the DCPS management team; and
- the resulting loss of institutional knowledge.

It is important to note, DCPS cited the same reasons to explain why, for FY 2007 through FY 2010, DCPS was unable to provide the Contractor with documentation regarding the methodology used to create the budget for the DCPS Central Office.

The following is a summary of the Contractor's key findings and recommendations.

Findings:

1. The Uniform Per-Student Funding Formula (UPSFF) calculation has not been assessed since 2007.

The Contractor found that the UPSFF base had not been reviewed for relevancy to actual costs since 2007. The UPSFF was created as the result of a study performed by a technical working group (TWG) in 2000-2001. The study identified and defined the specific education resources that schools needed – such as a principal, custodian, librarian, counselors, etc., referred to as a “market basket of education goods and services” - and associated a cost to each position. Since the TWG determined that this was the common practice in many states, that methodology was termed a Common Practice Study. The Council first approved the findings of the Common Practice Study in 2003. The TWG met in 2001, 2004, 2005, 2006 and 2007 and submitted recommendations relating to the UPSFF. There is no evidence that the State Education Office (OSE) (currently the Office of the State Superintendent of Education) implemented the TWG's recommendations (OSSE). The Contractor was unable to obtain documentation regarding whether the TWG met or developed recommendations since 2007.

Current year factors influencing DCPS' budget were not considered, evaluated and weighed to determine their affect on the UPSFF. DCPS' local funds budget could be based on unreliable data that fails to represent current operations; possibly leaving DCPS with a budgetary short fall from the beginning of the process.

2. **OSSE, through the UPSFF calculation, is more authoritative in determining local funds needed to operate DCPS than the actual expenditure budget created by DCPS.**

The Contractor found there was no integration between OSSE and DCPS regarding the review of actual costs needed to operate DCPS, and to assess the sufficiency of the UPSFF prior to OSSE's submission to the Mayor's office. The UPSFF is the projected local revenue; however, the UPSFF does not account for:

- a. Changes to the current year's enrollment projections to ensure that the UPSFF is sufficient to meet the needs of DCPS. OSSE provides the UPSFF to the Mayor's office in November prior to the effective budget year. This is prior to DCPS' enrollment projections for the next school year.
- b. Changes to the DCPS's operating budget for specialty schools and school start-ups. The UPSFF was adjusted for inflation and budgetary restraints.

The UPSFF is the authoritative recommendation for DCPS local funds. Consideration for DCPS' current operating needs should be taken into account prior to OSSE's submission to the Mayor's office.

3. **The proposed general education student enrollment used to determine the local fund budget for DCPS is not reviewed, assessed or evaluated in comparison to the current year's audited student enrollment.**

The Contractor found that UPSFF guidance did not identify the enrollment data used for the calculations. OSSE utilized the enrollment data that was readily available and the enrollment data was not adjusted for the fluctuation between the proposed and audited student enrollment. This could reflect a material change in DCPS' local funding.

4. **A lack of institutional knowledge and/or written documentation to support DCPS' methodology and procedures for determining, executing and monitoring the local schools and Central Office's budget.**

The Contractor found that DCPS did not maintain policies, procedures, or documentation (i.e. worksheets, emails, instructional memos, etc.) to support the budget methodology for fiscal years prior to FY 2009 for local schools and FY 2012 for the Central Office. DCPS utilized the Comprehensive Staffing Model (CSM) concept for fiscal years 2009 and 2010 to begin the budget process. This fact was evidenced by CSM based worksheets provided by DCPS. However, the worksheets did not identify the final allocation to the local schools.

DCPS was unable to support the adequacy of FY 2007, FY 2008, FY 2009 and FY 2010 budgets that DCPS presented to the District of Columbia Council. As a result, the Contractor was unable to determine the actual methodology and procedures for determining the final allocation for the local schools. Consequently, the Contractor was unable to determine:

- If the local schools funding was adequate to support current year operations,
- How and/or why the final local fund allocation was determined, and
- The final factors used to determine the allocation, and the weight of those factors in the calculation.

5. DCPS' reprogramming documentation was not consistent.

The review found that DCPS did not maintain reprogramming logs for the Central Office. However, DCPS maintained reprogramming documentation for local schools and the Central Office. DCPS reprogramming documentation failed to fully disclose and support the reason(s) DCPS moved budgeted funds within the organization.

6. For fiscal years 2007, 2008 and part of 2009, system controls over personnel costs were not adequate to prevent overspending of personnel costs.

For FY 2007 and part of FY 2009, DCPS utilized CAPPs. DCPS advised the Contractor that personnel costs could not be directly assigned to a budgetary line and/or category due to a system limitation within CAPPs. Therefore, as personnel costs were processed, CAPPs did not detect when expenditures exceeded the budget. This was an application control weakness of CAPPs.

The internal control weakness was addressed when DCPS replaced CAPPs with PeopleSoft in April 2009. PeopleSoft included the ability to assign budget codes to positions to ensure that only budgeted costs were processed and paid.

Recommendations:

1. The UPSFF should be reviewed on an annual basis and compared to DCPS's actual operating costs to determine the sufficiency of the UPSFF.
2. Reconciliation between the UPSFF and DCPS' projected budget should be performed on an annual basis. The reconciliation can be in the form of a schedule, workbook and/or documented discussions between OSSE and DCPS. This would ensure that all DCPS' expenditure needs are considered in OSSE's recommendation to the Mayor.
3. The October 5th student enrollment count should be reviewed and compared to the student enrollment data used to determine the current year's UPSFF. Variances should be assessed to determine the impact on DCPS' local funds, with the results presented to the Mayor for review. Recommended adjustments to DCPS' local funds allocation should be the responsibility of the Mayor, since the availability of current resources will need to

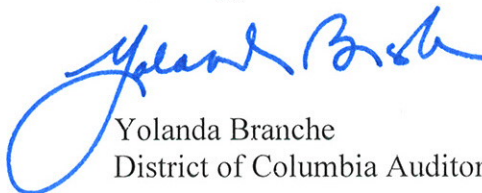
be assessed. This process should assist OSSE and the Mayor's office with documenting their acknowledgement, analysis, review and impact of the change in student enrollment on DCPS' local funds allocation.

4. As well as, establish historical data regarding the effect of the October 5th student enrollment count on DCPS' local funding.
5. Overall, UPSFF's policy and requirements should be updated to provide for periodic monitoring and verification of the budgetary effects on DCPS' local funding in relation to the change in student enrollment.
6. DCPS should formalize their procedures for monitoring budget-to-actual expenditures, along with procedures for communicating budget information to local schools and department chiefs, and to resolve any differences.
7. DCPS operating policies and procedures should be clearly written, communicated, and maintained to ensure consistent application of implemented procedures.
8. DCPS operating procedures should be reviewed on an annual basis to ensure that they are adequate to effectively monitor budget-to-actual expenditures, to communicate budget information to local schools and the Chancellor, and to resolve differences in a timely manner.
9. DCPS should develop procedures to document all reprogramming requests. The procedures should be the same for local schools and the Central Office. The reprogramming documentation should explain:
 - Why the reprogramming was requested.
 - The effect of reprogramming requests to the related local schools and/or Central Office department(s).
 - The effect of the funding sources to the related schools and/or Central Office department(s).
10. DCPS should continue to monitor budget-to-actual salary expenditures to ensure that system controls operate as expected.

ODCA provided the Deputy Mayor for Education, the Office of the State Superintendent of Education, the Chancellor of DCPS, and the Office of the Chief Financial Officer with the draft report for review. Where appropriate, comments of the Deputy Mayor for Education, the Office of the State Superintendent of Education, the Chancellor of DCPS, and the Office of the Chief Financial Officer are included in the report. Additionally, agency comments are presented in their entirety in the Appendices.

Please let me know if you have questions.

Sincerely,



Yolanda Branche
District of Columbia Auditor

cc: Members of the Council of the District of Columbia
Chancellor Kaya Henderson
Dr. Natwar Gandhi
Superintendent Hosanna Mahaley
Deputy Mayor De'Shawn Wright

**DISTRICT OF COLUMBIA PUBLIC SCHOOLS
LOCAL SCHOOLS AND CENTRAL OFFICE BUDGET PROCESS REVIEW
CONSULTING REPORT (REPORT #1)
FISCAL YEAR 2007-2010**

TABLE OF CONTENTS

	PAGE
CONSULTANT'S REPORT	1
METHODOLOGY	2
BACKGROUND	2
CHANGES TO THE BUDGET PROCESS	8
KEY INTERNAL CONTROLS	9
RESULTS OF ANALYSIS	11
APPENDICES	27
Appendix A-1 Local Schools' Reprogramming Log Analysis	28
Appendix A-2 Comprehensive Staffing Model (CSM) Concept	29



CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

Consultant's Report

District of Columbia Auditor
Washington D.C.

We have concluded our engagement to perform procedures in accordance with the specifications identified in contract #OCDA 2011-02 and OCDA 2011-02 modification 1. The procedures performed were applied solely to assist you in evaluating the budget process for the District of Columbia Public Schools (DCPS). DCPS is responsible for the policies, procedures and internal controls related to the budget for the local schools and central office. We performed this engagement in accordance with Statements on Standards for Consulting Services issued by the American Institute of Certified Public Accountants. We make no representations regarding the sufficiency of the procedures performed.

We have attached observations resulting from the consulting engagement for the consideration of the District of Columbia Auditor. Our engagement to perform these procedures was conducted as a consulting services engagement. We do not express an opinion on the operations of DCPS. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We performed our procedures by obtaining an understanding of DCPS' budget process through interviewing DCPS and Office of the State Superintendent of Education (OSSE) personnel, observations and review of policies and procedures.

This report is intended solely for the use of the District of Columbia Auditor.

CliftonLarsonAllen LLP

Baltimore, Maryland
July 23, 2012

**DISTRICT OF COLUMBIA PUBLIC SCHOOLS
LOCAL SCHOOLS AND CENTRAL OFFICE BUDGET PROCESS REVIEW
CONSULTING REPORT (REPORT #1)
FISCAL YEAR 2007-2010**

METHODOLOGY

The purpose of this report is to gain an understanding and conduct an assessment of the District of Columbia Public Schools' (DCPS) budget process, identify changes to the budget process for FY 2007 - FY 2010, and identify weaknesses in the process and provide recommendations based on our review. Our work covered the review of internal controls over DCPS' budget process for the local schools and Central Office. For fiscal years 2007 and 2008, we were unable to determine or review the methodology for creating the local school's budget for those periods. We were informed that this resulted from the transition of staff within the management team, loss of institutional knowledge and lack of written documentation of the process. For fiscal years 2007-2010, the methodology for creating the Central Office budget was not available for reasons similar to those noted for the local schools; as such, we were unable to determine or review the methodology for creating the Central Office's budget for those periods.

This work was completed at the direction of the District of Columbia Auditor.

BACKGROUND:

The key agencies involved in the budget process are the Office of the State Superintendent of Education (OSSE), the District of Columbia Public Schools Chancellor and the Chief Financial Officer (OCFO) budget department, the District of Columbia Office of the Mayor and the District of Columbia City Council.

OSSE is responsible for determining and recommending DCPS' annual local funding to the District of Columbia Office of the Mayor, which is in accordance with the District of Columbia School Reform Act of 1995. OSSE's recommendation is based on a Uniform Per-Student Funding Formula (UPSFF) which was created as a result of a study performed by a technical working group (TWG) in 2000-2001. This study identified and defined the specific education resources that schools needed, such as a principal, custodian, librarian, counselors, etc., referred to as a "market basket of education goods and services", and associated a cost to the positions. The TWG determined that this practice was the common practice in many states, and the methodology was called a Common Practice Study. The findings of the Common Practice Study were first approved by the Council in 2003, based on the 2001 study. The TWG met and provided recommendations to the UPSFF in 2001, 2004, 2005, 2006 and 2007. The initial UPSFF per-pupil expenditure amount has remained relatively unchanged, except for adjustments due to inflation and budgetary constraints.

OSSE is also responsible for determining the allocation of federal funds to DCPS, based on federal guidance and requirements. The federal allocation is provided to DCPS to distribute to the schools. OSSE maintains the responsibility for obtaining all documentation to support federal expenditures prior to drawing down funds from the federal government.

The UPSFF process begins with a foundation level per-pupil expenditure (per-pupil cost) that was derived in 2000-2001, based on a study by an external consultant and the TWG, which was a broad-based group of area experts, parents, city education officials, members of the charter school community, and professionals. The original UPSFF was reviewed by the working group and recommendations for its adjustment were addressed. The latest recommendation was made in 2007.

**DISTRICT OF COLUMBIA PUBLIC SCHOOLS
LOCAL SCHOOLS AND CENTRAL OFFICE BUDGET PROCESS REVIEW
CONSULTING REPORT (REPORT #1)
FISCAL YEAR 2007-2010**

The next step is to determine the student enrollment count. OSSE utilizes the prior year's October 5th enrollment count in conjunction with the most recent enrollment projections from DCPS, if available. In accordance with D.C. Official Code § 38-1804.02 (d)(2) the October 5th enrollment count is audited every year by an independent auditing firm. The DC Official Code § 38-1804.02 (d)(2) requires an audit that evaluates the accuracy of the fall student enrollment count of the D.C. public schools and the public charter schools by an independent auditing firm that was contracted by the OSSE to conduct the count. Changes to the proposed student enrollment after the UPSFF is determined are not reflected in the current year's budget, but will be reflected in next year's calculation.

The UPSFF enrollment process is the same for charter schools, but current year enrollment changes are reflected in the current, not the following, school year. Charter schools receive local funding on a quarterly basis. If the audited enrollment differs from the proposed enrollment, the quarterly allotment is adjusted for the changes in enrollment.

The final part of the calculation is grade-level weights which were determined by the TWG in 2000-2001 as part of the study. The TWG provided recommendations for changes to the grade-level weights after implementation. The last of these recommendations were made in 2007. The weights have not changed since their inception. The grade-level weights increase the per-pupil cost based on student needs within a particular grade level.

The per-pupil cost, student enrollment and grade-level weights are combined, as noted below, to determine the annual local funding for DCPS.

UPSFF calculation:

- (1) Weighted amount x per-pupil cost = total allocation for each pupil
- (2) Total allocation per-pupil x total proposed student enrollment = total funding dollars

The Chancellor of the District of Columbia Public Schools

DCPS' Chancellor is responsible for establishing a budget for each public school and the Central Office. The Chancellor determines the methodology for allocating DCPS' resources to the local schools and Central Office. DCPS' OCFO budget department provides budget recommendations to the Chancellor and keeps the Chancellor apprised of budgetary changes. The budget department uploads the October 1st budget into the System of Accounting and Reporting (SOAR) and monitors the budget-to-actual expenditures throughout the year. Budget revisions and re-programmings are entered into SOAR by the budget department, upon approval.

The Mayor's Budget Process

The District of Columbia Office of the Mayor determines DCPS' final budget. OSSE provides the UPSFF as a budgetary recommendation to the Mayor. The Mayoral approved UPSFF is included in the Mayor's final budget for DCPS schools. The Mayor develops and submits the proposed budget and financial plan for the next fiscal year to the Council of the District of Columbia. DCPS' budget is part of the Mayor's annual budget.

**DISTRICT OF COLUMBIA PUBLIC SCHOOLS
LOCAL SCHOOLS AND CENTRAL OFFICE BUDGET PROCESS REVIEW
CONSULTING REPORT (REPORT #1)
FISCAL YEAR 2007-2010**

The District of Columbia City Council's Budget Process

The District of Columbia City Council, in working with the Mayor and the executive branch, plays a critical role in maintaining a balanced budget and the fiscal health of the District of Columbia government. The Council holds public hearings and accepts the Mayor's budget or adopts its own version. The Mayor may sign or veto the Council's budget. If the Mayor vetoes the budget, the Council may override the veto. Once agreement is reached between the Mayor and the Council, the budget is adopted and transmitted to the President of the United States for submission to Congress for approval. Congress must approve the District's budget as one of the 13 annual Federal Appropriations bills.

District of Columbia Public Schools' Budget Process (DCPS)

Local Schools Budget Process

DCPS' Office of Compliance with the assistance of DCPS' budget department begins the local school budget process in the winter of the up-coming budget year. The Office of Compliance's office projects the allocation to schools based on projected revenue which is affected by student enrollment projections. The concept of a Comprehensive Staffing Model (CSM) (discussed later) was introduced for FY 2009 as the budget model for the local schools. DCPS developed CSM based budget worksheets to assist them with the local schools' allocation; however, the model was not fully implemented until FY 2011, as informed by DCPS' Chief of the Office of Compliance.

DCPS' Chief of the Office of Compliance introduced the concept of CSM for the FY 2009 and 2010 local schools' budget process. While DCPS used the CSM as a starting point, CSM was not fully implemented until FY 2011. For FYs 2009 and 2010, we were unable to determine the actual methodology and procedures for determining the final allocation to the local schools for fiscal years 2009 and 2010 and, consequently, we are unable to determine:

1. If the local schools funding was adequate to support current year operations.
2. How and/or why the final local fund allocation was determined.
3. The final factors used to determine the allocation, and the weight of those factors in the calculation.

Central Office Budget Process (non-local school function)

The process and procedures for developing the Central Office budget for fiscal years 2007-2010 were not available and we were informed that no one had the requisite institutional knowledge; therefore, we were unable to review them. In fiscal year 2012 the Central Office budget was the responsibility of the Special Assistant to the Chancellor. Since the budget processes for fiscal years 2007-2010 were not available, we documented DCPS' process for fiscal year 2012.

Central Office Budget Process (FY 2012)

DCPS' capital expenses are funded from the District's capital budget. DCPS' budget process begins in the fall/winter of the year prior to the upcoming budget year. The budget department, Chief of Staff (Chancellor's office) and the Special Assistant to the Chancellor (Chancellor's office) work together to determine DCPS' total revenue for the next fiscal year. The projection is

**DISTRICT OF COLUMBIA PUBLIC SCHOOLS
LOCAL SCHOOLS AND CENTRAL OFFICE BUDGET PROCESS REVIEW
CONSULTING REPORT (REPORT #1)
FISCAL YEAR 2007-2010**

based on last year's revenue adjusted for known changes that may affect next year's budget (material increase/decrease in student enrollment, Congressional appropriations, OSSE's UPSFF, and private funds). DCPS continues to modify the projected revenue sources before determining the allocations to the local schools and Central Office. DCPS utilizes revenue projections from the Mayor's office in the modification process. Once the projected revenue sources are considered to reflect actual amounts, the projected expenditures are determined from the projected revenue.

DCPS identifies the following as the major expenditure categories:

1. Allocations to the schools (Chief of Staff-discussed later),
2. Fixed costs,
3. Unbudgeted federal payments,
4. Private funds, (specific purpose funds)
5. Attorney fees,
6. Equitable services (Title I Supplemental Services and other program set-asides based on information from OSSE),
7. Settlements and judgments (identified by DCPS' attorney),
8. Department Chiefs (remainder, discussed later).

The Chancellor is responsible for reviewing the proposed budget and presenting it to the Mayor by the end of March. Once the Mayor's final approved budget is released, DCPS' budget department adjusts the projected budget which includes adjustments to the local schools and Central Office Chiefs' allocation. This process requires guidance and meeting with the school principals and Chiefs in order to adjust the preliminary budget to the approved budget. Once the DCPS' total budget is in-line with the approved budget, it's entered into the System of Accounting and Reporting (SOAR) by the budget office. SOAR is used to budget and disburse funds (local and federal) to the local schools and Central Office. The final total budget allocations cannot be adjusted but the budget line items may be shifted. The local schools and Chiefs must submit a reprogramming form for approval prior to shifting budget resources.

The Central Office budget is used to support DCPS' administrative and central staff, and to provide support to the local schools. The Central Office budget is supported by local funds not allocated to the local schools, Title funds (administrative), private grants and appropriation from Congress (intra-district funds). Based on the Mayor's approved budget, each Chief is required to create a spend plan for departments managed by them. DCPS has nine Chiefs:

1. Office of the Chief Academic Officer (OCAO)
2. Office of the Chief Operating Officer (OCFO)
3. Office of Human Resources and Human Capital Development (HR/HCAP)
4. Office of Family and Public Engagement (OFPE)
5. Chief of Staff (COS)
6. Office of Special Education - non-school (OSE)
7. Office of Transformation Management (TMO)
8. Office of Contracts and Administration and Grants (OCA and Grants)
9. Office of Data and Accountability (ODA)

**DISTRICT OF COLUMBIA PUBLIC SCHOOLS
LOCAL SCHOOLS AND CENTRAL OFFICE BUDGET PROCESS REVIEW
CONSULTING REPORT (REPORT #1)
FISCAL YEAR 2007-2010**

The spend plans outline how the Chiefs will use budgeted funds. The Chancellor approves the final allocation to each Chief. The Chiefs are responsible for monitoring their budgets. In fiscal years 2010 and 2009, DCPS' budget office provided assistance and guidance to the Chiefs by enhancing communication of projected and actual budget overruns to the Chiefs and Chancellor.

DCPS' budget department is responsible for monitoring the October 1st (enacted) budget-to-actual expenditures, and communicating the results to local schools, department Chiefs and the Chancellor. During the year, DCPS receives additional resources that are used to support current year expenditures. A budget amendment is prepared to adjust the October 1st budget and allocate the resources to DCPS' Central Office and local schools.

In an effort to increase communication with the Chancellor to ensure that budget-to-actual information was readily available, in FY 2009, DCPS began to enhance the budget monitoring process by including the following:

- a. 90 and 60 day alerts when actual expenditures may exceed the budget.
- b. Bi-weekly "Chancellor Check- in" where the Chancellor is informed about budget, teacher, service and other issues relating to the public schools.
- c. Providing the Chancellor's office read-only access to SOAR to assist the Chancellor with obtaining current financial information as needed.

Reprogrammings

D.C. Official Code 47-361(2001), Reprogramming Policy Act, authorizes reallocation of budget amounts within appropriation title. General and capital fund reprogrammings from \$1-\$499,999 require approval from the Executive Office of the Mayor (EOM). Reprogrammings \$500,000 and over must be submitted to the Council for approval. Re-allocation of budget line items can be performed after a reprogramming form has been submitted to the budget office and approved. The budget office is responsible for reviewing the form to ensure it is complete and that the resources are available to be reallocated. The budget office forwards the reprogramming form to DCPS Chancellor's office for approval. The Chancellor's Office approves the reprogramming then sends the form to EOM. Once approved, it's forwarded to the District of Columbia's Office of Budget and Planning (OBP). If the reprogramming requires the Council's approval, OBP prepares the document for Council review. Once the reprogramming is approved by all required agencies and Council (if applicable), DCPS' budget office enters the changes into SOAR. The reprogramming process is the same for local schools and Chiefs. DCPS maintains a reprogramming log of all approved and processed reprogrammings.

Budget Amendments

Supplemental appropriations (funding) must be requested by DCPS and approved by the Mayor and City Council.

**DISTRICT OF COLUMBIA PUBLIC SCHOOLS
LOCAL SCHOOLS AND CENTRAL OFFICE BUDGET PROCESS REVIEW
CONSULTING REPORT (REPORT #1)
FISCAL YEAR 2007-2010**

Budget Integration

The final budget is loaded into SOAR to provide budgetary integration and aid in monitoring the budget-to-actual expenditures. All expenditures (salary and non-personnel spending (NPS)) are assigned to a budget code. As expenditures are paid by the accounts payable and payroll department, the expenditure is applied against the budget code. If a budget code does not exist for an expenditure or funding is not available, the payment is not processed until the funding issue is resolved. This process ensures that unbudgeted costs are not processed and paid, resulting in over spending. The exception to this control is personnel costs related to overtime or administrative premium incurred by teachers and hourly staff. The payroll costs are processed in spite of available funding. The budget office is alerted of such a payment via monthly budget-to-actual expenditures monitoring activities. The budget office contacts the Principal and/or department chief and requests them to submit a reprogramming form to allocate funds to cover the budget shortfall. DCPS stated that the overtime and administrative premiums are not material to DCPS' Central Office or local schools budget, and any overage should not materially affect the budget.

DISTRICT OF COLUMBIA PUBLIC SCHOOLS
LOCAL SCHOOLS AND CENTRAL OFFICE BUDGET PROCESS REVIEW
CONSULTING REPORT (REPORT #1)
FISCAL YEAR 2007-2010

CHANGES TO THE BUDGET PROCESS

Procedural Changes

Based on our review of DCPS' policies and procedures, and management interviews of OSSE and DCPS' personnel, we identified the following procedural changes that had a material effect on DCPS' budget process.

2009

1. In April 2009, DCPS implemented the PeopleSoft financial and payroll system and discontinued CAPPS. For fiscal years 2007, 2008 and part of 2009, internal controls over personnel costs appeared to have a control weakness due to the limitation of CAPPs. Personnel costs were not assigned to a budget line which would prevent the processing and payment of unbudgeted personnel costs.
2. In FY 2009, DCPS increased communication with the Chancellor to ensure that budget-to-actual information was readily available to the Chancellor. DCPS implemented the following communication tools:
 - a. 90 and 60 day alerts when actual expenditures may exceed the budget.
 - b. Bi-weekly "Chancellor Check-in" budget meetings where the Chancellor is informed about budget, teacher, service and other issues relating to the public schools.
 - c. Allowing the Chancellor's office read-only access to the financial system. This allows the Chancellor to obtain financial information as needed.
 - d. Quarterly financial reporting until the 3rd quarter, then the report changes to monthly.

2010 - Current

In FY 2010 DCPS updated the prior year's budget development and staffing guide to assist the Principals with the budget process. This manual provided additional details on the CSM, and how the model affected the allocation to the schools.

**DISTRICT OF COLUMBIA PUBLIC SCHOOLS
LOCAL SCHOOLS AND CENTRAL OFFICE BUDGET PROCESS REVIEW
CONSULTING REPORT (REPORT #1)
FISCAL YEAR 2007-2010**

KEY INTERNAL CONTROLS

Based on our discussions with DCPS we identified key internal controls related to the budget process. Our assessment of the internal controls and processes does not cover the entire period contemplated, fiscal years 2007-2010. As previously mentioned, we were only able to observe processes and internal controls for fiscal years 2009-2010 for local schools, and fiscal year 2012 for the Central Office. The budget process is still in transition with improvements to the budget creation process, communication and monitoring.

1. DCPS' budget is part of the Mayor's annual budget which is reviewed, vetted and approved by the City Council.
2. DCPS has allocated staffing and management resources from the budget department to assist each school with the annual budget process and throughout the year. As part of the annual budget process, DCPS' budget office provides written guidance on the budget processes, conducts budget meetings and assists the Principals with reviewing and managing their processes. This assists with the consistent performance of established budgeting procedures and processes.
3. DCPS provides budget information to the Chancellor's office on a bi-weekly, monthly and quarterly basis. This process has improved communication between the DCPS' OCFO, the Chancellor, Principals and department Chiefs by providing accurate, reliable, and timely financial information.
4. Department Chiefs' spend plans are reviewed and approved by the Special Assistant to the Chancellor prior to becoming effective. We were informed that this process has changed to provide more information to the Chiefs on developing and managing budgets. This assists with the consistent performance of established budgeting procedures and processes.

Budget Process

1. The OSSE (local revenue funding) and DCPS (costing) budgeting models are based on standard cost principles. In order for the standards to be relevant, the underlying assumptions must constantly be reviewed and challenged. The assumptions must be reviewed and tested to determine if they are adequate, and will assist in producing reasonable and reliable outcomes. The UPSFF, CSM and Central Office budget models did not appear to undergo periodic (annual - at least) review and scrutiny to determine the adequacy of the inputs used to determine the budget.
2. Based on our observation, DCPS does create a budget in which the actual cost, required to operate DCPS, were determined and compared to OSSE's and DCPS' proposed budget. DCPS' budget, although a good tool, may not reflect the actual costs needed to operate DCPS; therefore, DCPS' budget may not be sufficient.

**DISTRICT OF COLUMBIA PUBLIC SCHOOLS
LOCAL SCHOOLS AND CENTRAL OFFICE BUDGET PROCESS REVIEW
CONSULTING REPORT (REPORT #1)
FISCAL YEAR 2007-2010**

3. DCPS has begun to create written documentation of the budget methodology and procedures. This was evident by DCPS' creation of the FY 2011 Budget Development Guide, which was distributed to DCPS staff involved in the local school budget process. The Guide identifies the CSM budget methodology and DCPS' application of the methodology.

CSM Worksheet

1. The CSM is a good tool for documenting DCPS' rationale for allocation of local funds to the local schools. Similar to our other observations of DCPS' budgeting process, there is no connection between the CSM worksheet and what is needed to operate the school or the actual allocation to the schools. The CSM starts the process but seems to be missing the ending piece that ties the budget to the actual allocation.
2. DCPS utilized the CSM concept as a starting point for creating the local schools' budget for FY 2009 and 2010. However, the CSM was not fully implemented until FY 2011. DCPS did not identify the budget methodology used to determine the final allocations to the local schools. See discussion of CSM, Appendix A-2.

DISTRICT OF COLUMBIA PUBLIC SCHOOLS
LOCAL SCHOOLS AND CENTRAL OFFICE BUDGET PROCESS REVIEW
CONSULTING REPORT (REPORT #1)
FISCAL YEAR 2007-2010

RESULT OF ANALYSIS

FINDING #1:

UPSFF calculation has not been assessed since 2007.

The calculation for determining the UPSFF was formed under the guidance of a technical working group. The calculation has been performed as initially implemented and the procedures do not allow for the assessment of all applicable financial and environmental factors that may influence actual costs. A policy should be established to provide for periodic monitoring and verification to allow for the accomplishment of budgetary objectives. The UPSFF may not adequately support the correlation between DCPS' local funding needs and the budget presented to City Council.

Failure to review the UPSFF's criteria limits the identification and analysis of risks that may be relevant to achievement of objectives needed to develop a realistic budget.

The Uniform Per-Student Formula (UPSFF) base has not been reviewed for relevancy to actual costs since 2007. The UPSFF was created as a result of a study performed by a technical working group (TWG) in 2000-2001. This study identified and defined the specific education resources that schools needed – such as a principal, custodian, librarian, counselors, etc., referred to as a “market basket of education goods and services” - and associated a cost to each position. Since the TWG determined that this was the common practice in many states, that methodology was called a Common Practice Study. The findings of the Common Practice Study were first approved by the Council in 2003, based on the 2001 study. The TWG met in 2001, 2004, 2005, 2006 and 2007 and submitted recommendations relating to the UPSFF. There is no evidence that recommendations were implemented by the State Education Office (OSE) (currently OSSE). We have not obtained documentation to suggest that the TWG has met or submitted recommendations since 2007.

Therefore, current year factors influencing DCPS' budget are not considered, evaluated and weighed to determine their affect on the UPSFF. DCPS' local funds budget could be based on unreliable data that fails to represent current operations; possibly leaving DCPS with a budgetary shortage from the beginning of the process.

Recommendation #1:

The UPSFF should be reviewed on an annual basis and compared to DCPS' actual operating costs to determine the sufficiency of the UPSFF.

OSSE's Response:

OSSE agrees that the UPSFF funding components should be reviewed on a regular basis to determine the weights and base funding capture the true costs of educating a student in the District. However, OSSE believes strongly that the UPSFF must be determined by the true costs of education for all Local Education Agencies (LEA), not just DCPS's projected operating costs.

**DISTRICT OF COLUMBIA PUBLIC SCHOOLS
LOCAL SCHOOLS AND CENTRAL OFFICE BUDGET PROCESS REVIEW
CONSULTING REPORT (REPORT #1)
FISCAL YEAR 2007-2010**

DCPS' Response:

As recommended by the Public Education Finance Reform Commission¹, in summer 2012, DME is planning to contract with a consultant to conduct a study of the UPSFF that will yield information on the adequacy of public education funding pursuant to the formula (Adequacy Study).

The purpose of the Adequacy Study is to (1) develop a data-driven estimate of the cost of an "adequate" P-K -12 education, and to (2) recommend changes in the structure and level of foundation funding in the UPSFF and weightings for students with special learning needs which may entail additional costs. The Adequacy Study will also identify other resources that are key to helping schools meet academic performance standards in the District.

The contractor selected to perform the Adequacy Study will also be expected to establish an advisory group to review and recommend updates to the Adequacy Study on a regular basis. The advisory group will replace the technical working group established by the Mayor under the auspices of the Office of the State Superintendent of Education (OSSE) to ensure sharing of information key to decision-making, ongoing review of whether the District has committed adequate funds to support public education, and an analysis of the capacity of existing revenue structures to meet funding needs over time. The advisory group will be managed by OSSE.

The Adequacy Study is expected to be completed and submitted to DME one year after the contract award date, and the results will inform the FY 2015 budgeting process. In the intervening period, the advisory group will monitor the adequacy of funding levels, and DCPS will continue to monitor its expenditures on a quarterly basis pursuant to the Agency Financial Review Process (FRP) to determine whether it is operating within its allocated budget. Both of these processes will yield information on an ongoing basis about any gaps between budgeted and actual expenditures.

¹ The Public Education Finance Reform Commission (PEFRC) is an independent body created by legislation to make recommendations to the Mayor regarding the UPSFF to inform the Fiscal Year 2013 budget. The Commission concluded its work earlier this year and submitted its recommendations to the DME in February.

**DISTRICT OF COLUMBIA PUBLIC SCHOOLS
LOCAL SCHOOLS AND CENTRAL OFFICE BUDGET PROCESS REVIEW
CONSULTING REPORT (REPORT #1)
FISCAL YEAR 2007-2010**

FINDING #2:

OSSE through the UPSFF calculation is more authoritative in determining the local funds needed to operate DCPS than the actual expenditure budget created by DCPS.

It appears that there is no integration between OSSE and DCPS to review the actual costs needed to operate DCPS, and assess the sufficiency of the UPSFF prior to OSSE's submission to the Mayor's office. The UPSFF is the projected local revenue; however, the UPSFF does not account for:

- a. Changes to the current year's enrollment projections to ensure that the UPSFF is sufficient to meet DCPS' needs. OSSE provides the UPSFF to the Mayor's office in November prior to the effective budget year, which is prior to DCPS' enrollment projections for the next school year.
- b. Changes to the DCPS' operating budget for specialty schools and school start-ups. The UPSFF is adjusted for inflation and budgetary restraints.

The UPSFF is the authoritative recommendation for DCPS local funds. Consideration for DCPS' current operating needs should be taken into account prior to OSSE's submission to the Mayor's office.

Timely and consistent communication between OSSE and DCPS should be implemented as part of OSSE's procedures for determining the UPSFF. This will affect the accuracy of the data points used in the UPSFF and allow DCPS to be proactive in identifying projected shortfall early in the budget process.

The budget is based on the projected revenue sources allocated to meet projected expenditures, while OSSE's UPSFF is formulaic without consideration of DCPS' expenditure needs.

The OSSE and DCPS' budgeting processes appear to be independent of each other which increase the risk of providing insufficient local resources to cover current year expenditures.

Recommendation #2:

Reconciliation between the UPSFF and DCPS' projected budget should be performed on an annual basis. The reconciliation can be in the form of a schedule, workbook and/or documented discussions between OSSE and DCPS. This would ensure that all DCPS' expenditure needs were considered in OSSE's recommendation to the Mayor.

OSSE's Response:

It is unclear what is meant by "UPSFF" in this statement. The UPSFF is DCPS's projected budget. Every year projected enrollments are put into the formula to develop DCPS's budget allocation for the upcoming fiscal year. As stated in the response above, the UPSFF is meant to capture the actual costs of educating a student (regardless of LEA) in the District. To reconcile the UPSFF to DCPS's projected needs would defeat the parity purpose of a "unified" funding formula.

**DISTRICT OF COLUMBIA PUBLIC SCHOOLS
LOCAL SCHOOLS AND CENTRAL OFFICE BUDGET PROCESS REVIEW
CONSULTING REPORT (REPORT #1)
FISCAL YEAR 2007-2010**

DCPS' Response:

As stated above (DCPS' response to recommendation #1), the advisory group will monitor any gaps between budgeted and actual expenditures on an ongoing basis. In addition, DCPS will continue to assess its expenditures on a quarterly basis (as described above).

Consultant's Additional Clarifying Points:

Our recommendation was not meant to defeat the parity purpose of a "unified" funding formula. However, the UPSFF does not consider economic factors that have a direct affect on DCPS' expenditures. Our recommendation was meant to increase communication between OSSE and DCPS. This would aide in ensuring that all of DCPS' expenditure needs were considered in OSSE's recommendation to the Mayor.

**DISTRICT OF COLUMBIA PUBLIC SCHOOLS
LOCAL SCHOOLS AND CENTRAL OFFICE BUDGET PROCESS REVIEW
CONSULTING REPORT (REPORT #1)
FISCAL YEAR 2007-2010**

FINDING #3:

The proposed general education student enrollment used to determine the local fund budget for DCPS is not reviewed, assessed or evaluated in comparison to the current year's audited student enrollment once this information is available.

UPSFF guidance does not identify the enrollment data used for the calculations. OSSE utilizes the enrollment data that is readily available and is not adjusted for the fluctuation between the proposed and audited student enrollment, which could reflect in a material change in DCPS' local funding.

Table 1: UPSFF PER-PUPIL COST, TOTAL LOCAL FUNDING AND STUDENT ENROLLMENT				
	2010	2009	2008	2007
Foundation per-pupil cost	\$8,770	\$8,770	\$8,322	\$8,002
Total-local education agency funding	\$550,177,127	\$562,108,999	\$554,695,000	\$584,058,000
Proposed general education student enrollment	44,681	47,744	51,331	57,031 (^)

Source: Foundation per-pupil cost and total local education agency funding: District of Columbia Mayor's published budget, Agency Budget chapters: District of Columbia Schools.

(^) reflects SY 2005-2006 audited student enrollment, not proposed enrollment.

Table 2: UPSFF STUDENT ENROLLMENT VS AUDITED STUDENT ENROLLMENT				
	2010	2009	2008	2007
Proposed general education student enrollment	44,681	47,744	51,331	57,031(^)
(*) Actual October 5th student enrollment (SY)	45,630	44,718	44,190	49,123
Difference	(949)	3,026	7,141	1,908
Difference percentage	(2%)	6.3%	13.9%	3.3%
Estimated Effect on Total-local education agency funding (~)	(\$1,100,354)	\$35,412,867	\$77,102,605	\$19,273,914

Source: (*) Annual Enrollment Census Report audited by an Independent Auditor.

(^) reflects SY 2005-2006 audited student enrollment, not proposed enrollment.

(~) difference percentage (table 2) X Total local education agency funding (table 1) The total local education agency funding is determined based on weighted student enrollment data. The change in student enrollment may not have a direct correlation to the total local education agency funding because of the weights. Therefore, we are estimating the effect on local funding without consideration of the weights. (see page 14).

**DISTRICT OF COLUMBIA PUBLIC SCHOOLS
LOCAL SCHOOLS AND CENTRAL OFFICE BUDGET PROCESS REVIEW
CONSULTING REPORT (REPORT #1)
FISCAL YEAR 2007-2010**

Table 1 is for informational purposes and identifies the local fund allocation to DCPS based on the UPSFF calculation performed by OSSE. The main factor used in the calculation is student enrollment which is weighted based on the predetermined amounts (see page 3).

Table 2 identifies the variation in the student enrollment data used for the UPSFF to the audited October 5th enrollment data. The differences fluctuate year-to-year and could materially impact DCPS' local funding. We estimated the change to DCPS' total-local education agency funding noted in Table 1 based on the fluctuation in the student enrollment data. The estimate does not consider the weights used in OSSE's UPSFF calculation. Furthermore, the estimate does not represent actual increase or decrease in local funding but displays that a material change in local funding may occur as a result of the change in student enrollment; and should be a consideration in the budget process

Based on our estimate of the total-local education agency funding, the change to DCPS' local funds allocation could be material from the initial calculation and warrant review by OSSE and/or the Mayor.

Recommendations #3 & #4:

3. The October 5th calculation should be reviewed and compared to the student enrollment data used to determine the current year's UPSFF. Variances should be assessed to determine the impact on DCPS' local funds, with the results presented to the Mayor for review. Recommended adjustments to DCPS' local funds allocation should be the responsibility of the Mayor, as the availability of current resources will need to be assessed. This process should assist OSSE (or designee) and the Mayor's office with documenting their acknowledgement, analysis, review and impact of the change in student enrollment on DCPS' local funds allocation and establish historical data regarding the effect of the October 5th student enrollment count on DCPS' local funding.
4. Overall, UPSFF's policy and requirements should be updated to provide for periodic monitoring and verification of the budgetary effects on DCPS' local funding in relation to the change in student enrollment.

OSSE's Response:

OSSE does evaluate the October 5th student enrollment count (both unaudited and audited) as compared to the projected enrollments provided by DCPS and the public charter schools for that year, and those comparisons are transmitted to the Executive Office of the Mayor (EOM). It is OSSE's understanding that EOM uses this data to analyze the budgets of both DCPS and PCS. However, OSSE can start providing the UPSFF budget charts with the October 5th count numbers to demonstrate the budget variance between projected enrollment vs. October 5th enrollment. We can begin documenting this variance in the next October 5th count (October 2012). It should be noted that the unaudited October 5th count numbers sometimes vary significantly compared to the final audited numbers, so calculations should be done again when the audited numbers are finalized. It should also be noted that OSSE does not have the legal authority to reconcile DCPS's budget to the audited count.

**DISTRICT OF COLUMBIA PUBLIC SCHOOLS
LOCAL SCHOOLS AND CENTRAL OFFICE BUDGET PROCESS REVIEW
CONSULTING REPORT (REPORT #1)
FISCAL YEAR 2007-2010**

OSSE agrees that the UPSFF funding components should be reviewed on a regular basis to determine the weights and base funding capture the true costs of educating a student in the District. However, OSSE believes strongly that the UPSFF must be determined by the true costs of education for all LEAs, not just DCPS's projected operating costs.

DCPS' Response:

As stated above, the advisory group assess, on an ongoing basis, whether the District has committed adequate funds to support public education. This will include an analysis of whether a gap exists between DCPS' allocated budget (based on student enrollment) and its actual expenditures. Once an analysis is performed, the District will be in a better position to consider whether adjustments to local fund allocations for DCPS should be considered within a given fiscal year.

DISTRICT OF COLUMBIA PUBLIC SCHOOLS
LOCAL SCHOOLS AND CENTRAL OFFICE BUDGET PROCESS REVIEW
CONSULTING REPORT (REPORT #1)
FISCAL YEAR 2007-2010

FINDING #4

Institutional knowledge and/or written documentation to support DCPS' methodology and procedures for determining, executing and monitoring the local schools and Central Office's budget do not exist.

DCPS did not maintain policies, procedures, documentation (i.e. worksheets, emails, instructional memos, etc.) to support the budget methodology for fiscal years prior to FY 2009 (local schools) and FY 2012 (Central Office). DCPS utilized the CSM concept for fiscal years 2009 and 2010 to begin the budget process which was evident via CSM based worksheets provided by DCPS. However, the worksheets did not identify the final allocation to the local schools.

Operating policies and procedures should be clearly written and communicated to ensure consistent application of procedures as well as subsequent changes to the procedures.

We were unable to identify written procedures for monitoring budget-to-actual expenditures and resolving differences. Written procedures ensure continuity of operations in spite of personnel and environmental changes.

We made several requests to DCPS regarding their methodology used to determine the final local funds allocation to the schools. Our first attempt was via email in September 2011. DCPS did not respond to our requests, and a second attempt was made via memo to DCPS' Chancellor in November 2011. In February 2012, we were granted a teleconference with DCPS' Chief of Staff. All questions were not fully answered during the call and follow-up conference calls were scheduled and subsequently cancelled by DCPS. In an effort to complete documentation of DCPS' budget process we continued to request a written response. DCPS provided written responses to our questions but the responses were after the stated due date and failed to fully address all of our questions.

DCPS stated that the institutional knowledge was lost as staff separated from DCPS.

DCPS was unable to support the adequacy of FY 2007, FY 2008, FY 2009 and FY 2010 budgets presented to the Council. DCPS' Chief of Staff introduced the concept of CSM for the FY 2009 and 2010 local schools' budget process. While DCPS used the CSM as a starting point, CSM was not fully implemented until FY 2011. We were unable to determine the actual methodology and procedures for determining the final allocation for the local schools and, consequently, we were unable to determine:

- If the local schools' funding was adequate to support current year operations,
- How and/or why the final local fund allocation was determined, and
- The final factors used to determine the allocation, and the weight of those factors in the calculation.

**DISTRICT OF COLUMBIA PUBLIC SCHOOLS
LOCAL SCHOOLS AND CENTRAL OFFICE BUDGET PROCESS REVIEW
CONSULTING REPORT (REPORT #1)
FISCAL YEAR 2007-2010**

Recommendations #5, 6 & 7:

5. DCPS should formalize their procedures for monitoring budget-to-actual expenditures, along with the procedures for communicating budget information to local schools and department chiefs, and for the resolution of differences.
6. Operating policies and procedures should be clearly written, communicated, and maintained to ensure consistent applications of implemented procedures.
7. The procedures should be reviewed on an annual basis to ensure that they are adequate for the monitoring of budget-to-actual expenditures, communication to the local schools' department chiefs and the Chancellor, and the timely resolutions of differences.

DCPS' Response:

Response to recommendation #5:

DCPS does have a process for monitoring budget-to-actual expenditures. Once the monthly financial system "close" occurs, the DCPS/OCFO generates and transmits electronically monthly reports for each chief and for each school that informs each affected area of:

- Budget
- Year -to-Date Expenditures
- Obligations - include encumbrance, pre-encumbrance and Intra Districts
- Available Balance

The referenced reports are generated for each operating fund and a summary (gross) total is provided. Additionally, a detailed report of payments made against each purchase order is provided. Effective FY 2012, in addition to the quarterly Agency Financial Review Process (FRP) which is submitted to the central budget office, a forecast is prepared for each organizational unit and each school. Once complete, meetings are scheduled with each chief to discuss projections and any operating plans for the rest of the fiscal year. Since these are all new for the fiscal year, these will be formalized in FY 2013.

Response to recommendation #6:

While the audit period covered FY 2007 - FY 2010, in March 2011, DCPS developed the budget Development Guide for SY 2011 - 2012. The guide explains the development of school budgets for Fiscal Year 2012, outlines central office program requirements, provides instructions on the use of fund types, and describes the process for completing the budget template during the budget petition process. A copy of the March 2011 DCPS Budget Development Guide was provided to the auditors during the audit.

DCPS/OCFO also has established operating policies and procedures that are clearly written, communicated, and maintained including the following:

- a. Intra District Budget Authority
- b. PeopleSoft Policy and Procedures - Creating and Modifying Positions
- c. Travel and Training Funding Policy and Procedure
- d. Administrative Premium Central Organization Policy
- e. Reprogramming Request Policy and Procedure
- f. IMPREST Fund Policies and Procedures
- g. Budget Modifications

**DISTRICT OF COLUMBIA PUBLIC SCHOOLS
LOCAL SCHOOLS AND CENTRAL OFFICE BUDGET PROCESS REVIEW
CONSULTING REPORT (REPORT #1)
FISCAL YEAR 2007-2010**

With a change in leadership in the DCPS/OCFO, operating procedures are being reviewed and streamlined. Once completed, policies and procedures will again be formalized and reissued.

Response to recommendation #7:

We concur. This was addressed in the response to recommendation #5.

Consultant's Additional Clarifying Points:

Although DCPS has established a process for monitoring budget-to-actual expenditures, our recommendation was addressing documenting the processes in order to preserve the institutional knowledge for future use.

**DISTRICT OF COLUMBIA PUBLIC SCHOOLS
LOCAL SCHOOLS AND CENTRAL OFFICE BUDGET PROCESS REVIEW
CONSULTING REPORT (REPORT #1)
FISCAL YEAR 2007-2010**

FINDING #5

DCPS' documentation to support reprogrammings was not consistent between fiscal years, as well as in the local schools and Central Office.

1. DCPS did not maintain reprogramming logs for the Central Office as they did for the local schools. We requested a log similar to those provided for the local schools, and we were provided an excel schedule (SOAR generated report) that identified the org code, appropriated fund and total reprogramming amount. The excel worksheets did not contain a reason for the reprogramming requests.
2. DCPS provided similar excel worksheets (SOAR generated report) for the local schools. The excel worksheets did not contain a reason for the reprogramming requests, and the total amount of the reprogrammings differed from the total amount reported on the reprogramming logs. DCPS informed us that only approved reprogrammings are recorded in SOAR.

Table 3: Local Schools Reprogramming Logs vs. SOAR Report				
	2010	2009	2008	2007
Reprogramming logs	\$114,475,773	\$271,471,457	\$ 123,862,816	Not applicable
SOAR report (Note 1)	(22,143,432)	(816,913)	2,703,424	9,759,246

(Note1) Excel worksheet: Reprogramming Info. local schools FYs 07-10, VOCDA, provided by DCPS' budget department.

See Appendix A-1 for analysis of the reprogramming requests based on the description identified in the reprogramming logs provided by DCPS.

Table 3 identifies and supports the inconsistency between the reprogramming logs for the local schools maintained by DCPS and SOAR. DCPS informed us that the reprogrammings logs were complete and reflected all posted reprogrammings. We could not resolve the differences or determine why there were negative totals reported in SOAR.

Central Office:

Table 3a: Central Office Reprogrammings Per SOAR			
2010	2009	2008	2007
\$22,350,919	(\$10,796,806)	(\$2,703,424)	9,759,246

Source: Excel worksheet: Reprogramming Info. Central Adm. FYs 07-10, VOCDA, provided by DCPS' budget department.

Table 3a identifies the Central Office reprogrammings processed in SOAR. DCPS' documentation of Central Office reprogrammings was inconsistent with the local schools as DCPS did not maintain reprogramming logs for the Central Office. The local schools' reprogramming logs provided a brief reason for the reprogramming which assisted the reader with understanding why the request was processed; such information for the Central Office was not available. We could not resolve the differences or determine why there were negative totals reported in SOAR.

**DISTRICT OF COLUMBIA PUBLIC SCHOOLS
LOCAL SCHOOLS AND CENTRAL OFFICE BUDGET PROCESS REVIEW
CONSULTING REPORT (REPORT #1)
FISCAL YEAR 2007-2010**

Policies and procedures for the same processes should be consistently applied throughout the DCPS (local schools and Central Office) to ensure the accounting records reflect all changes and documents changes to the budgetary line items and/or categories. Reconciliation between the accounting system and subsidiary ledgers (worksheets, logs) should be performed to ensure the completeness of the accounting records.

Based on discussions with DCPS' budget department, we were informed that DCPS provided the best documentation available to the current managing staff. However, the provided documentation failed to fully disclose and support the reason(s) DCPS moved budgeted funds within the organization.

Overall:

1. We did not obtain the actual (hard-copy) of the reprogramming requests for all reprogrammings posted to SOAR and could not determine the reason for the requests. We relied on DCPS' statement that the reprogramming logs for the local schools' were complete.
2. The SOAR generated report for the Central Office and local schools reported negative reprogramming totals for several of the fiscal years. Based on our understanding, reprogrammings should move funds within the budget, not increase or decrease the total budget; therefore, the changes should net to zero.
3. In regards to the approved reprogrammings and reprogramming logs which were provided by DCPS for the local schools we noted:
 - a. The descriptions in the reprogramming logs did not consistently explain the reason for the requests. The user of the log could not fully assess the reason and adequacy of the request.
 - b. Reprogramming (hard-copy) for all schools and funding sources are maintained on the same log. Therefore, it was difficult to determine the reprogramming's effect on specific schools and local funding.
 - c. DCPS did not provide a reprogramming log for FY 2007.

Recommendation #8:

DCPS should develop procedures for documenting all reprogramming requests. The procedures should be the same for local schools and the Central Office. The reprogramming documentation should be enhanced to improve transparency to assist users with understanding:

1. Why the reprogramming was requested.
2. The effect of the requests to the related local schools and/or Central Office department(s).
3. The effect of the funding sources to the related schools and/or Central Office department(s).

**DISTRICT OF COLUMBIA PUBLIC SCHOOLS
LOCAL SCHOOLS AND CENTRAL OFFICE BUDGET PROCESS REVIEW
CONSULTING REPORT (REPORT #1)
FISCAL YEAR 2007-2010**

DCPS' Response:

DCPS has developed procedures for all reprogramming requests that support the citywide policy issued by The Office of Budget and Planning (OBP). OBP has a template that addresses the three (3) recommendations made. The following questions must be answered in all reprogramming requests:

- Why are the funds needed?
- Is this a reprogramming to restore a budget cut authorized by the Mayor and/or Council?
- How will the funds be reprogrammed?
- Why are the funds available?
- What hardship will the District face if the action is postponed until the subsequent fiscal year?
- What programs, services or other purchases will be delayed as a result of the action, and the impact on the program or agency?

In addition, DCPS/OCFO maintains an electronic tracking log used to transmit information to the City Council once a year. The log contains the following information:

- Date of Request
- Appropriated Fund Type
- Grant number (if applicable)
- Fund Detail Description
- Budget Analyst
- Department requesting reprogramming or budget modification
- Date sent to OBP
- Date entered into SOAR
- SOAR Document number
- Amount
- Reason for reprogramming or budget modification

DISTRICT OF COLUMBIA PUBLIC SCHOOLS
LOCAL SCHOOLS AND CENTRAL OFFICE BUDGET PROCESS REVIEW
CONSULTING REPORT (REPORT #1)
FISCAL YEAR 2007-2010

Finding #6

For fiscal years 2007, 2008 and part of 2009, system controls over personnel costs were not adequate to ensure that overspending of personnel costs did not occur.

For FYs 2007- partial 2009 DCPS utilized CAPPs. During our discussion with DCPS we were informed that personnel costs could not be directly assigned to a budgetary line and/or category due to a system limitation within CAPPs. Therefore, as personnel costs were processed, CAPPs did not (could not) detect when expenditures exceeded the budget which was a weakness in the systems' internal controls.

Accounting and related systems should have controls to support budgetary objectives. If the system is limited and lacks adequate controls to achieve the required objectives, manual processes should be implemented to supplement the accounting activity performed by the system to detect such overages.

DCPS addressed the CAPPs internal control weakness by replacing CAPPs with PeopleSoft in April 2009. PeopleSoft possesses the ability to assign budget codes to positions to ensure that only budgeted costs were processed and paid. However, for FYs 2007-partial 2009 the weakness in the CAPPs internal control structure existed.

CAPPs did not have position control which assigns specific personnel to a specific budget control.

Unbudgeted personnel costs could be processed and paid regardless of the availability of resources.

Recommendation #9:

DCPS should continue to monitor budget-to-actual salary expenditures to ensure the control is operating as expected.

DCPS' Response:

We concur. DCPS will continue to monitor and work with program staff to ensure that management has the information it needs to make appropriate decisions during the fiscal year.

DCPS' Additional Comments:

In addition to the responses to the specific findings provided in the joint letter dated June 14, 2012 from Office of the Deputy Mayor for Education (DME) and District of Columbia Public Schools (DCPS) to the draft report entitled, "District of Columbia Public Schools Consulting Report Local School and Central Office Budget Process Review (Report # I)", we believe it is important to underscore the following:

DCPS has significantly improved its budget development process. The scope of this audit is from FY 07 through FY 10. It is important to remember that FY 07 budgets were built in the spring of 2006, prior to even the enactment of the Public Education Reform Amendment Act, which has governed DCPS for the past five years. Many of the improvements we have made over the past years are outside the scope of and not reflected in this audit, which ends in FY 10. For example, the school budget development guide, which has been published in FY 11, 12 and FY 13 (all years beyond the scope of the audit), provides clear written procedures for school budget development. Moreover, DCPS published a central budget guide for the first time in FY 13 to help readers better understand how DCPS builds and spends its central budgets. These improvements are not fully captured in the report.

The report itself contains a number of technical errors, which we anticipate will be corrected prior to the time that the final report is released. For example, the draft report specifies that budget to actual reports were first available in FY 09 (p. 6) but then later indicates the reports were available in FY 10 (p. 8). The DCPS departments listed on page 5 are incorrect. Similarly, the creation of the Comprehensive Staffing Model (CSM) is incorrectly attributed to the Chief of Staff. Statements that the CSM was not implemented until FY 11 is incorrect as are comments on page 15 regarding the instances in which DCPS or OCFO discussed or met with the auditors or its consultants on this matter. According to our records, DCPS staff met with the auditors or their consultants at least 7 times (March 16, 2011, DCPS OCFO and Compliance Director met to discuss DCPS Personnel, Medicaid, and Special Education; September 1, 2011, DCPS OCFO and Pete Weber met to discuss the Central Office Budget process; June 22, 2011, DCPS Chief of Staff Lisa Ruda, Compliance Director and OCFO met to discuss the CSM and the budget; January 19, 2012, DCPS OCFO visited your office to provide clarity around budget processes; January 30, 2012, DCPS OCFO and Compliance Director met to discuss budget matters; February 6, 2012, DCPS Chief of Staff and Compliance Director held a conference call with auditors and consultants to discuss the CSM; March 21, 2012, DCPS Chief of Staff received an email with additional questions regarding the CSM; April 5, 2012, responses were sent to the DC Auditor.) The foregoing is a sample of the technical errors included in the report.

Throughout the audit, DCPS continued to express concern that that the auditors and their consultants did not fully understand the budgeting process around concepts such as the UPSFF, school budget allocations, CSM or average/actual salaries. We continue to worry that confusion around these concepts may lead the reader to incorrect conclusions. For example, the CSM is in fact the mechanism that DCPS uses to identify the resources it believes schools needs to be successful. However, the UPSFF is a mechanism that the government uses to provide funding to the school district and the public charter schools.

Consultants Additional Clarifying Points:

Technical changes were made to the report where necessary.

Our work and report focused on DCPS' budget process for fiscal years 2007-2010. Our review consisted of understanding the process via interviews of DCPS personnel and review of relevant documentation. As noted in our report, we were unable to verify all aspects of the budget process due to the lack of consistent documentation for the periods under consideration.

While our review of DCPS' budget process for fiscal years 2007-2010 focused on understanding and documenting the budget process; we also reviewed the process to identify any enhancements and/or weaknesses in the process.

Based on our discussions with DCPS, we understood that CSM was introduced as part of the FY 2009 budget process. However, all concepts of CSM were not fully implemented until FY 2011.

APPENDICES

**APPENDIX A-1
DISTRICT OF COLUMBIA PUBLIC SCHOOLS
CONSULTING REPORT
LOCAL SCHOOLS' REPROGRAMMING LOG ANALYSIS**

Appendix A-1 identifies the overall category for which the reprogramming request was processed.

Categories	2010	2009	2008	2007 (Note 1)
Personnel costs (Note 2)	\$ 60,320	\$ 3,548,656	\$ 3,541,845	Not provided
Non-personnel (program) costs	114,415,453	261,621,450	115,394,980	Not provided
Undetermined	-0-	6,301,351	4,925,990	Not provided
Total	\$114,475,773	\$271,471,457	\$123,862,816	9,759,246 (Note 1)

Source: Reprogramming logs, provided by DCPS' budget department.

(Note 1) Excel worksheet: Reprogramming Info, Central Adm. FYs 07-10, VOCDA, provided by DCPS' budget department.

Categories explanation:

Personnel costs: Reprogramming description identified staff positions, salary and/or fringe payment as the reason for the request.

Non-personnel costs: Reprogramming description identified supplies, training, non-salary costs as the reason for the request.

Undetermined: Based on the reprogramming description, we were unable to determine if the costs supported personnel or non-personnel costs as described above.

APPENDIX A-2
DISTRICT OF COLUMBIA PUBLIC SCHOOLS
CONSULTING REPORT
COMPREHENSIVE STAFFING MODEL CONCEPT

Source: Excerpt from DCPS FY 2011 Budget Guide,

The CSM utilizes identified core staffing positions and student enrollment as the main basis for determining the local fund allocation for each local school. The preliminary budget allocation is provided to each Principal for review as well as to determine the spending needs for all non-core staff positions. Principals may petition for changes of a budget line item, but cannot exceed the total budget allocation. The Principals' budget must be submitted to DCPS' budget office for review and submission to the Mayor by the end of March. Once the Mayor's budget has been approved, the CSM allocation may be adjusted to reflect the approved budget. This may result in a significant increase or decrease from the initial CSM allocation determined by DCPS. DCPS' budget department inputs the final budget into SOAR. Once the final budget is entered into SOAR, shifting of budgeted resources is performed via approved reprogrammings.

CSM determines the local resources to be allocated to each local school based on identified core positions needed to adequately support the educational program of the school. The CSM consists of core positions identified by DCPS and the estimated salary related to the position. The core positions "normally" cannot be changed or modified unless the Principal petitions and receives approval for the elimination of the position. The Principal may petition for the required staffing position to be eliminated if the Principal demonstrates that the elimination or changes to the position will not decrease the services and benefits to the students. These positions include principal, student services manager, social worker/counselor, literacy and numeracy professional developer, media specialist/librarian, art, music, PE teacher, aides and custodial foreman. The Principal has autonomy for allocating the remaining funds for additional staffing.

The CSM allocation is based on several central factors:

- *Projected Student Enrollment:* The primary driver for the school's initial budget allocation is projected student enrollment. Projected student enrollment is determined by analyzing the past four years of enrollment data by school to estimate enrollment for the upcoming school year. Projections also take into account more non-traditional factors that can significantly affect enrollment, such as school closures, capture rates and spikes in birth rates. The Principals are required to review the count and recommend adjustments. This process is separate from the enrollment count completed by OSSE, and is audited by an independent firm. DCPS conducts their count the winter prior to the effective budget year.
- *Special Education Student Population:* Staffing the Special Education student population is determined by a review of all current Individualized Education Plans (IEPs). Staffing for these needs is guided by the Office of Special Education (OSE) staffing ratios. Funds are then allocated according to the given ratios. For example, if a school has 10 students with full-time IEPs at the kindergarten through grade 8 level, that school will receive funds for one full-time Special Education Teacher. Schools are not able to repurpose funds designed to support Special Education needs.
- *English Language Learner (ELL) Student Population:* Similar to the Special Education student population, English Language Learner (ELL) student population support needs are determined by a review of the number of ELL students currently enrolled and their classification (Level I through Level IV.) Staffing for ELL students is guided by the Office of Bilingual Education (OBE) staffing ratios. Funds are then allocated according to the given ratios.

**APPENDIX A-2
DISTRICT OF COLUMBIA PUBLIC SCHOOLS
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- *Free and Reduced Meals (FARM) Forms Submitted*
- *Designation Within the CSM:* "CSM-Full" is a designation that allows for enhanced staffing (and a higher initial budget allocation). Schools that have served as "receivers" for students from closed schools have been designated as CSM-Full. There are currently 30 CSM-Full schools. Historically, CSM-Full schools receive funding for additional positions that have been identified as necessary to ensure a successful transition following a school merger, or a school receiving new students from a closed school.
- *School Configuration (Elementary School, K-8 Model School, Middle School, or High School):* The grade configuration determines the appropriate CSM designation. Elementary schools, for example, are run through the "Elementary" designation (except when an elementary school is a "CSM-Full"). Within that designation are specific rules that are unique to elementary schools and will affect the allocation. A good example is the teacher-to-student ratios at the preschool and pre-K levels, where the teacher-to-student ratio is lower (fewer students to a teacher) than teacher-to-student ratios in more advanced grades. An elementary school with a high number of preschool and pre-K students will therefore receive a higher allocation than a school without preschool or pre-K (such as a middle school), given the need for more teachers to adhere to the given ratios at the preschool and pre-K levels.
- *Teacher-to-Student Ratios by Grade Configurations*
- *Specialty School Status:* Currently, five schools within DCPS receive "non-formula funds," or specialty funds that promote the unique goals of their program. A good example is the Ellington School for the Arts, which uses its non-formula funds to sustain a dual-curriculum that provides both general studies and arts-intensive classes. Non-formula funds are included in the initial school budget allocations for these programs.
- *Non-Personnel Spending (NPS):* All schools are allocated an equally weighted NPS fund which reflects 3.5 percent of the final total school allocation. For example, if a school receives an allocation for \$1 million (prior to the add-on for NPS), it will then receive \$35,000 for NPS. This results in a total school budget allocation of \$1,035,000.
- *Per-Pupil Funding Minimum:* The cost of maintaining lower-enrollment schools and expanding early childhood programs often falls disproportionately on the larger-enrollment schools. The cost is reflected in the fact that the largest schools spend the least per student. Without any adjustment, these larger schools lose funding while they are gaining in their overall enrollment. DCPS identified all schools that were funded at less than \$8,400 and added funds to restore their per-pupil spending to \$8,400. Even with the adjustment, these large-enrollment schools spend the least per student. Each school is given funding on a per-pupil basis for local funding. Additional local funding is provided for Special Education and Early Language Learner students. Based on information from OSSE, the federal Title funds are allocated to the eligible schools. These revenue sources are combined to determine the total allocation for the school. The CSM does not capture revenue from private sources, foundations, etc., as those funds are specific for the designated school(s) and not allocated to all local schools.

**APPENDIX A-2
DISTRICT OF COLUMBIA PUBLIC SCHOOLS
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The next step is the staffing costs for the designated positions and non-personnel spending (NPS). The remaining funds are eligible for the Principal to acquire additional staff. The Chancellor is required to approve the final allocation for each school after the Principals have finalized their budgets. The Principals are responsible for monitoring their budgets for their schools.

Appendix 2

Agency comments to Clifton Gunderson, LLP's draft report entitled, "District of Columbia Public Schools Consulting Report Local School and Central Office Budget Process Review (Report #1)."



Office of the



State Superintendent of Education

May 24, 2012

Ms. Yolanda Branche
District of Columbia Auditor
Office of the District of Columbia Auditor
717 14th Street NW, Suite 900
Washington, DC 20005

Dear Ms. Branche,

Attached please find the Office of the State Superintendent of Education's written responses to your May 11, 2012 draft report entitled, "District of Columbia Public Schools Consulting Report Local School and Central Office Budget Process Review (Report #1)." OSSE responded to the four recommendations relevant to the agency. We look forward to seeing any revised reports during the review process.

If you have any questions regarding OSSE's responses, please contact Ann Willemssen, Program Officer, at (202) 340-5697.

Sincerely,

Hosanna Mahaley
State Superintendent of Education

Office of the State Superintendent of Education

Response to Office of the District of Columbia Auditor Report:

District of Columbia Public Schools Consulting Report Local School and Central Office Budget Process and Review

Prepared: May 24, 2012

Recommendation	Agency Agrees	Agency Disagrees
The UPSFF should be reviewed on an annual basis and compared to DCPS's actual operating costs to determine the sufficiency of the UPSFF.	OSSE agrees that the UPSFF funding components should be reviewed on a regular basis to determine the weights and base funding capture the true costs of educating a student in the District. However, OSSE believes strongly that the UPSFF must be determined by the true costs of education for all LEAs, not just DCPS's projected operating costs.	
Reconciliation between the UPSFF and DCPS' projected budget should be performed on an annual basis. The reconciliation can be in the form of a schedule, workbook and/or documented discussions between OSSE and DCPS. This would ensure that all of DCPS' expenditure needs were considered in OSSE's recommendation to the Mayor.		It is unclear what is meant by "UPSFF" in this statement. The UPSFF is DCPS's projected budget. Every year projected enrollments are put into the formula to develop DCPS's budget allocation for the upcoming fiscal year. As stated in the response above, the UPSFF is meant to capture the actual costs of educating a student (regardless of LEA) in the District. To reconcile the UPSFF to DCPS's projected needs would defeat the parity purpose of a "unified" funding formula.

The October 5th calculation should be reviewed and compared to the student enrollment data used to determine the current year's UPSFF. Variances should be assessed to determine the impact on DCPS' local funds, with the results presented to the Mayor for review. Recommended adjustments to DCPS' local funds allocation should be the responsibility of the Mayor, as the availability of current resources will need to be assessed. This process assists OSSE (or designee) and the Mayor's office with documenting their acknowledgement, analysis, review, and impact of the change in student enrollment on DCPS' local funds allocation. As well as, established historical data regarding the effect of the October 5th student enrollment count on DCPS local funding.	OSSE does evaluate the October 5th student enrollment count (both unaudited and audited) as compared to the projected enrollments provided by DCPS and the public charter schools for that year, and those comparisons are transmitted to the Executive Office of the Mayor (EOM). It is OSSE's understanding that EOM uses this data to analyze the budgets of both DCPS and PCS. However, OSSE can start providing the UPSFF budget charts with the October 5th count numbers to demonstrate the budget variance between projected enrollment vs. October 5th enrollment. We can begin documenting this variance in the next October 5th count (October 2012). It should be noted that the unaudited October 5th count numbers sometimes vary significantly compared to the final audited numbers, so calculations should be done again when the audited numbers are finalized. It should also be noted that OSSE does not have the legal authority to reconcile DCPS's budget to the audited count.	
Overall, UPSFF's policy and requirements should (be) updated to provide for periodic monitoring and verification of the budgetary effects on DCPS' local funding in relation to the change in student enrollment.	OSSE agrees that the UPSFF funding components should be reviewed on a regular basis to determine the weights and base funding capture the true costs of educating a student in the District. However, OSSE believes strongly that the UPSFF must be determined by the true costs of education for all LEAs, not just DCPS's projected operating costs.	

GOVERNMENT OF THE DISTRICT OF COLUMBIA



June 14, 2012

Ms. Yolanda Branche
District of Columbia Auditor
717 14th Street, N.W., Suite 900
Washington, D.C. 20005

Dear Ms. Branche:

Please find below combined responses from the Office of the Deputy Mayor for Education (DME) and District of Columbia Public Schools (DCPS) to the draft report entitled, "District of Columbia Public Schools Consulting Report Local School and Central Office Budget Process Review (Report #1)".

Recommendation #1:

The UPSFF should be reviewed on an annual basis and compared to DCPS' actual operating costs to determine the sufficiency of the UPSFF.

Response:

As recommended by the Public Education Finance Reform Commission,¹ in summer 2012, DME is planning to contract with a consultant to conduct a study of the UPSFF that will yield information on the adequacy of public education funding pursuant to the formula (Adequacy Study).

The purpose of the Adequacy Study is to (1) develop a data-driven estimate of the cost of an "adequate" P-K-12 education, and to (2) recommend changes in the structure and level of foundation funding in the UPSFF and weightings for students with special learning needs which may entail additional costs. The Adequacy Study will also identify other resources that are key to helping schools meet academic performance standards in the District.

The contractor selected to perform the Adequacy Study will also be expected to establish an advisory group to review and recommend updates to the Adequacy Study on a regular basis. The advisory group will replace the technical working group established by the Mayor under the auspices of the Office of the State Superintendent of Education (OSSE) to ensure sharing of information key to decision-making, ongoing review of whether the District has committed adequate funds to support public education, and an

¹ The Public Education Finance Reform Commission (PEFRC) is an independent body created by legislation to make recommendations to the Mayor regarding the UPSFF to inform the Fiscal Year 2013 budget. The Commission concluded its work earlier this year and submitted its recommendations to the DME in February.

analysis of the capacity of existing revenue structures to meet funding needs over time. The advisory group will be managed by OSSE.

The Adequacy Study is expected to be completed and submitted to DME one year after the contract award date, and the results will inform the FY 2015 budgeting process. In the intervening period, the advisory group will monitor the adequacy of funding levels, and DCPS will continue to monitor its expenditures on a quarterly basis pursuant to the Agency Financial Review Process (FRP) to determine whether it is operating within its allocated budget. Both of these processes will yield information on an ongoing basis about any gaps between budgeted and actual expenditures.

Recommendation #2:

Reconciliation between the UPSFF and DCPS' projected budget should be performed on an annual basis. The reconciliation can be in the form of a schedule, workbook and/or documented discussions between OSSE and DCPS. This would ensure that all DCPS' expenditure needs were considered in OSSE's recommendation to the Mayor.

Response:

As stated above, the advisory group will monitor any gaps between budgeted and actual expenditures on an ongoing basis. In addition, DCPS will continue to assess its expenditures on a quarterly basis (as described above).

Recommendation #3:

The October 5th calculation should be reviewed and compared to the student enrollment data used to determine the current year's UPSFF. Variances should be assessed to determine the impact on DCPS' local funds, with the results presented to the Mayor for review. Recommended adjustments to DCPS' local funds allocation should be the responsibility of the Mayor, as the availability of current resources will need to be assessed. This process assists OSSE (or designee) and the Mayor's office with documenting their acknowledgement, analysis, review, and impact of the change in student enrollment on DCPS' local funds allocation. As well as, established historical data regarding the effect of the October 5th student enrollment count on DCPS local funding.

Response:

As stated above, the advisory group assess, on an ongoing basis, whether the District has committed adequate funds to support public education. This will include an analysis of whether a gap exists between DCPS' allocated budget (based on student enrollment) and its actual expenditures. Once an analysis is performed, the District will be in a better position to consider whether adjustments to local fund allocations for DCPS should be considered within a given fiscal year.

Recommendation #4:

Overall, UPSFF's policy and requirements should be updated to provide for periodic monitoring and verification of the budgetary effects on DCPS' local funding in relation to the change in student enrollment.

Response:

See response to Recommendation #3 above.

Recommendation #5:

DCPS should formalize their procedures for monitoring budget-to-actual expenditures, along with the procedures for communicating budget information to local schools and department chiefs, and for the resolution of differences.

Response:

DCPS does have a process for monitoring budget-to-actual expenditures. Once the monthly financial system “close” occurs, the DCPS/OCFO generates and transmits electronically monthly reports for each chief and for each school that informs each affected area of:

- Budget
- Year –to-Date Expenditures
- Obligations – include encumbrance, pre-encumbrance and Intra Districts
- Available Balance

The referenced reports are generated for each operating fund and a summary (gross) total is provided.

Additionally, a detailed report of payments made against each purchase order is provided.

Effective FY 2012, in addition to the quarterly Agency Financial Review Process (FRP) which is submitted to the central budget office, a forecast is prepared for each organizational unit and each school. Once complete, meetings are scheduled with each chief to discuss projections and any operating plans for the rest of the fiscal year.

Since these are all new for the fiscal year, these will be formalized in FY 2013.

Recommendation #6:

Operating policies and procedures should be clearly written, communicated, and maintained to ensure consistent applications of implemented procedures.

Response:

While the audit period covered FY 2007 – FY 2010, in March 2011, DCPS developed the budget Development Guide for SY 2011 – 2012. The guide explains the development of school budgets for Fiscal Year 2012, outlines central office program requirements, provides instructions on the use of fund types, and describes the process for completing the budget template during the budget petition process. A copy of the March 2011 DCPS Budget Development Guide was provided to the auditors during the audit.

DCPS/OCFO also has established operating policies and procedures that are clearly written, communicated, and maintained including the following:

- a. Intra District Budget Authority

- b. PeopleSoft Policy and Procedures – Creating and Modifying Positions
- c. Travel and Training Funding Policy and Procedure
- d. Administrative Premium Central Organization Policy
- e. Reprogramming Request Policy and Procedure
- f. IMPREST Fund Policies and Procedures
- g. Budget Modifications

With a change in leadership in the DCPS/OCFO, operating procedures are being reviewed and streamlined. Once completed, policies and procedures will again be formalized and reissued.

Recommendation #7:

Procedures should be reviewed on an annual basis to ensure that they are adequate for the monitoring of budget-to-actual expenditures, communication to the local schools' department chiefs and the Chancellor, and the timely resolution of differences.

Response:

We concur. This was addressed in the response to finding #5.

Recommendation #8:

DCPS should develop procedures for all reprogramming requests. The procedures should be the same for local schools and the Central Office. The reprogramming documentation should be enhanced to improve transparency to assist users with understanding:

- 1) Why the reprogramming was requested.
- 2) The effect of the request to the related local schools and/or Central Office department(s).
- 3) The effect of the funding sources to the related schools and/or Central Office departments(s).

Response:

DCPS has developed procedures for all reprogramming requests that support the citywide policy issued by The Office of Budget and Planning (OBP). OBP has a template that addresses the three (3) recommendations made. The following questions must be answered in all reprogramming requests:

- Why are the funds needed?
- Is this a reprogramming to restore a budget cut authorized by the Mayor and/or Council?
- How will the funds be reprogrammed?
- Why are the funds available?
- What hardship will the District face if the action is postponed until the subsequent fiscal year?
- What programs, services or other purchases will be delayed as a result of the action, and the impact on the program or agency?

In addition, DCPS/OCFO maintains an electronic tracking log used to transmit information to the City Council once a year. The log contains the following information:

- Date of Request

- Appropriated Fund Type
- Grant number (if applicable)
- Fund Detail /Description
- Budget Analyst
- Department requesting reprogramming or budget modification
- Date sent to OBP
- Date entered into SOAR
- SOAR Document number
- Amount
- Reason for reprogramming or budget modification

Recommendation #9:

DCPS should continue to monitor budget-to-actual salary expenditures to ensure the control is operating as expected.

Response:

We concur. DCPS will continue to monitor and work with program staff to ensure that management has the information it needs to make appropriate decisions during the fiscal year.

With our response, we have also included additional information provided by DCPS which clarifies DCPS' current budget process and calls attention to certain technical errors in the report.

Please let us know if you have any questions about the responses provided above or the attachment below.

Sincerely,



De'Shawn Wright
Deputy Mayor for Education



Kaya Henderson
Chancellor, DCPS

Attachment

Attachment

In addition to the responses to the specific findings provided in the joint letter dated June 14, 2012 from Office of the Deputy Mayor for Education (DME) and District of Columbia Public Schools (DCPS) to the draft report entitled, "District of Columbia Public Schools Consulting Report Local School and Central Office Budget Process Review (Report #1)", we believe it is important to underscore the following:

- DCPS has significantly improved its budget development process. The scope of this audit is from FY 07 through FY 10. It is important to remember that FY 07 budgets were built in the spring of 2006, prior to even the enactment of the Public Education Reform Amendment Act, which has governed DCPS for the past five years. Many of the improvements we have made over the past years are outside the scope of and not reflected in this audit, which ends in FY 10. For example, the school budget development guide, which has been published in FY 11, 12 and FY 13 (all years beyond the scope of the audit), provides clear written procedures for school budget development. Moreover, DCPS published a central budget guide for the first time in FY 13 to help readers better understand how DCPS builds and spends its central budgets. These improvements are not fully captured in the report.
- The report itself contains a number of technical errors, which we anticipate will be corrected prior to the time that the final report is released. For example, the draft report specifies that budget to actual reports were first available in FY 09 (p. 6) but then later indicates the reports were available in FY 10 (p. 8). The DCPS departments listed on page 5 are incorrect. Similarly, the creation of the Comprehensive Staffing Model (CSM) is incorrectly attributed to the Chief of Staff. Statements that the CSM was not implemented until FY 11 is incorrect as are comments on page 15 regarding the instances in which DCPS or OCFO discussed or met with the auditors or its consultants on this matter. According to our records, DCPS staff met with the auditors or their consultants at least 7 times (March 16, 2011, DCPS OCFO and Compliance Director met to discuss DCPS Personnel, Medicaid, and Special Education; September 1, 2011, DCPS OCFO and Pete Weber met to discuss the Central Office Budget process; June 22, 2011, DCPS Chief of Staff Lisa Ruda, Compliance Director and OCFO met to discuss the CSM and the budget; January 19, 2012, DCPS OCFO visited your office to provide clarity around budget processes; January 30, 2012, DCPS OCFO and Compliance Director met to discuss budget matters; February 6, 2012, DCPS Chief of Staff and Compliance Director held a conference call with auditors and consultants to discuss the CSM; March 21, 2012, DCPS Chief of Staff received an email with additional questions regarding the CSM; April 5, 2012, responses were sent to the DC Auditor.) The foregoing are a sample of the technical errors included in the report.
- Throughout the audit, DCPS continued to express concern that the auditors and their consultants did not fully understand the budgeting process around concepts such as the UPSFF, school budget allocations, CSM or average/actual salaries. We continue to worry that confusion around these concepts may lead the reader to incorrect conclusions. For example, the CSM is in fact the mechanism that DCPS uses to identify the resources it believes schools needs to be successful. However, the UPSFF is a mechanism that the government uses to provide funding to the school district and the public charter schools.



**DISTRICT OF COLUMBIA
PUBLIC SCHOOLS**

Office of the Chief Financial Officer

June 18, 2012

Ms. Yolanda Branche
District of Columbia Auditor
717 14th Street, N.W., Suite 900
Washington DC 20005

Dear Ms. Branche:

This is being submitted in response to your audit report entitled, "District of Columbia Public Schools Consulting Report Local School and Central Budget Process Review (Report #1)". The report contained nine (9) recommendations, of which numbers 6 through 9 are applicable to the District of Columbia Public Schools, Office of the Chief Financial Officer (DCPS/OCFO).

The responses contained in those recommendations and submitted by the Deputy Mayor for Education are the DCPS/OCFO responses. Please use this transmittal and the attached responses for recommendations 6 through 9 as the CFO's official response.

If you require additional information, I can be reached on 202-442-6078.

Sincerely,

Deloras A. Shepherd
Associate Chief Financial Officer
Primary and Secondary Education Cluster
Office of the Chief Financial Officer

Attachment

cc: William DiVello, Executive Director
Office of Integrity and Oversight

GOVERNMENT OF THE DISTRICT OF COLUMBIA



June 14, 2012

Ms. Yolanda Branche
District of Columbia Auditor
717 14th Street, N.W., Suite 900
Washington, D.C. 20005

Dear Ms. Branche:

Please find below combined responses from the Office of the Deputy Mayor for Education (DME) and District of Columbia Public Schools (DCPS) to the draft report entitled, "District of Columbia Public Schools Consulting Report Local School and Central Office Budget Process Review (Report #1)".

Recommendation #1:

The UPSFF should be reviewed on an annual basis and compared to DCPS' actual operating costs to determine the sufficiency of the UPSFF.

Response:

As recommended by the Public Education Finance Reform Commission,¹ in summer 2012, DME is planning to contract with a consultant to conduct a study of the UPSFF that will yield information on the adequacy of public education funding pursuant to the formula (Adequacy Study).

The purpose of the Adequacy Study is to (1) develop a data-driven estimate of the cost of an "adequate" P-K-12 education, and to (2) recommend changes in the structure and level of foundation funding in the UPSFF and weightings for students with special learning needs which may entail additional costs. The Adequacy Study will also identify other resources that are key to helping schools meet academic performance standards in the District.

The contractor selected to perform the Adequacy Study will also be expected to establish an advisory group to review and recommend updates to the Adequacy Study on a regular basis. The advisory group will replace the technical working group established by the Mayor under the auspices of the Office of the State Superintendent of Education (OSSE) to ensure sharing of information key to decision-making, ongoing review of whether the District has committed adequate funds to support public education, and an

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analysis of the capacity of existing revenue structures to meet funding needs over time. The advisory group will be managed by OSSE.

The Adequacy Study is expected to be completed and submitted to DME one year after the contract award date, and the results will inform the FY 2015 budgeting process. In the intervening period, the advisory group will monitor the adequacy of funding levels, and DCPS will continue to monitor its expenditures on a quarterly basis pursuant to the Agency Financial Review Process (FRP) to determine whether it is operating within its allocated budget. Both of these processes will yield information on an ongoing basis about any gaps between budgeted and actual expenditures.

Recommendation #2:

Reconciliation between the UPSFF and DCPS' projected budget should be performed on an annual basis. The reconciliation can be in the form of a schedule, workbook and/or documented discussions between OSSE and DCPS. This would ensure that all DCPS' expenditure needs were considered in OSSE's recommendation to the Mayor.

Response:

As stated above, the advisory group will monitor any gaps between budgeted and actual expenditures on an ongoing basis. In addition, DCPS will continue to assess its expenditures on a quarterly basis (as described above).

Recommendation #3:

The October 5th calculation should be reviewed and compared to the student enrollment data used to determine the current year's UPSFF. Variances should be assessed to determine the impact on DCPS' local funds, with the results presented to the Mayor for review. Recommended adjustments to DCPS' local funds allocation should be the responsibility of the Mayor, as the availability of current resources will need to be assessed. This process assists OSSE (or designee) and the Mayor's office with documenting their acknowledgement, analysis, review, and impact of the change in student enrollment on DCPS' local funds allocation. As well as, established historical data regarding the effect of the October 5th student enrollment count on DCPS local funding.

Response:

As stated above, the advisory group assess, on an ongoing basis, whether the District has committed adequate funds to support public education. This will include an analysis of whether a gap exists between DCPS' allocated budget (based on student enrollment) and its actual expenditures. Once an analysis is performed, the District will be in a better position to consider whether adjustments to local fund allocations for DCPS should be considered within a given fiscal year.

Recommendation #4:

Overall, UPSFF's policy and requirements should be updated to provide for periodic monitoring and verification of the budgetary effects on DCPS' local funding in relation to the change in student enrollment.

Response:

See response to Recommendation #3 above.

Recommendation #5:

DCPS should formalize their procedures for monitoring budget-to-actual expenditures, along with the procedures for communicating budget information to local schools and department chiefs, and for the resolution of differences.

Response:

DCPS does have a process for monitoring budget-to-actual expenditures. Once the monthly financial system "close" occurs, the DCPS/OCFO generates and transmits electronically monthly reports for each chief and for each school that informs each affected area of:

- Budget
- Year -to-Date Expenditures
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The referenced reports are generated for each operating fund and a summary (gross) total is provided.

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Since these are all new for the fiscal year, these will be formalized in FY 2013.

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With a change in leadership in the DCPS/OCFO, operating procedures are being reviewed and streamlined. Once completed, policies and procedures will again be formalized and reissued.

Recommendation #7:

Procedures should be reviewed on an annual basis to ensure that they are adequate for the monitoring of budget-to-actual expenditures, communication to the local schools' department chiefs and the Chancellor, and the timely resolution of differences.

Response:

We concur. This was addressed in the response to finding #5.

Recommendation #8:

DCPS should develop procedures for all reprogramming requests. The procedures should be the same for local schools and the Central Office. The reprogramming documentation should be enhanced to improve transparency to assist users with understanding:

- 1) Why the reprogramming was requested.
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- 3) The effect of the funding sources to the related schools and/or Central Office departments(s).

Response:

DCPS has developed procedures for all reprogramming requests that support the citywide policy issued by The Office of Budget and Planning (OBP). OBP has a template that addresses the three (3) recommendations made. The following questions must be answered in all reprogramming requests:

- Why are the funds needed?
- Is this a reprogramming to restore a budget cut authorized by the Mayor and/or Council?
- How will the funds be reprogrammed?
- Why are the funds available?
- What hardship will the District face if the action is postponed until the subsequent fiscal year?
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In addition, DCPS/OCFO maintains an electronic tracking log used to transmit information to the City Council once a year. The log contains the following information:

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- Fund Detail /Description
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- Department requesting reprogramming or budget modification
- Date sent to OBP
- Date entered into SOAR
- SOAR Document number
- Amount
- Reason for reprogramming or budget modification

Recommendation #9:

DCPS should continue to monitor budget-to-actual salary expenditures to ensure the control is operating as expected.

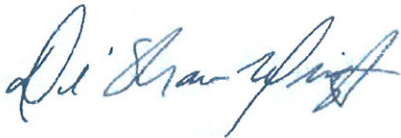
Response:

We concur. DCPS will continue to monitor and work with program staff to ensure that management has the information it needs to make appropriate decisions during the fiscal year.

With our response, we have also included additional information provided by DCPS which clarifies DCPS' current budget process and calls attention to certain technical errors in the report.

Please let us know if you have any questions about the responses provided above or the attachment below.

Sincerely,



De'Shawn Wright
Deputy Mayor for Education



Kaya Henderson
Chancellor, DCPS

Attachment

Attachment

In addition to the responses to the specific findings provided in the joint letter dated June 14, 2012 from Office of the Deputy Mayor for Education (DME) and District of Columbia Public Schools (DCPS) to the draft report entitled, "District of Columbia Public Schools Consulting Report Local School and Central Office Budget Process Review (Report #1)", we believe it is important to underscore the following:

- DCPS has significantly improved its budget development process. The scope of this audit is from FY 07 through FY 10. It is important to remember that FY 07 budgets were built in the spring of 2006, prior to even the enactment of the Public Education Reform Amendment Act, which has governed DCPS for the past five years. Many of the improvements we have made over the past years are outside the scope of and not reflected in this audit, which ends in FY 10. For example, the school budget development guide, which has been published in FY 11, 12 and FY 13 (all years beyond the scope of the audit), provides clear written procedures for school budget development. Moreover, DCPS published a central budget guide for the first time in FY 13 to help readers better understand how DCPS builds and spends its central budgets. These improvements are not fully captured in the report.
- The report itself contains a number of technical errors, which we anticipate will be corrected prior to the time that the final report is released. For example, the draft report specifies that budget to actual reports were first available in FY 09 (p. 6) but then later indicates the reports were available in FY 10 (p. 8). The DCPS departments listed on page 5 are incorrect. Similarly, the creation of the Comprehensive Staffing Model (CSM) is incorrectly attributed to the Chief of Staff. Statements that the CSM was not implemented until FY 11 is incorrect as are comments on page 15 regarding the instances in which DCPS or OCFO discussed or met with the auditors or its consultants on this matter. According to our records, DCPS staff met with the auditors or their consultants at least 7 times (March 16, 2011, DCPS OCFO and Compliance Director met to discuss DCPS Personnel, Medicaid, and Special Education; September 1, 2011, DCPS OCFO and Pete Weber met to discuss the Central Office Budget process; June 22, 2011, DCPS Chief of Staff Lisa Ruda, Compliance Director and OCFO met to discuss the CSM and the budget; January 19, 2012, DCPS OCFO visited your office to provide clarity around budget processes; January 30, 2012, DCPS OCFO and Compliance Director met to discuss budget matters; February 6, 2012, DCPS Chief of Staff and Compliance Director held a conference call with auditors and consultants to discuss the CSM; March 21, 2012, DCPS Chief of Staff received an email with additional questions regarding the CSM; April 5, 2012, responses were sent to the DC Auditor.) The foregoing are a sample of the technical errors included in the report.
- Throughout the audit, DCPS continued to express concern that the auditors and their consultants did not fully understand the budgeting process around concepts such as the UPSFF, school budget allocations, CSM or average/actual salaries. We continue to worry that confusion around these concepts may lead the reader to incorrect conclusions. For example, the CSM is in fact the mechanism that DCPS uses to identify the resources it believes schools need to be successful. However, the UPSFF is a mechanism that the government uses to provide funding to the school district and the public charter schools.