

DISTRICT OF COLUMBIA OFFICE OF THE INSPECTOR GENERAL

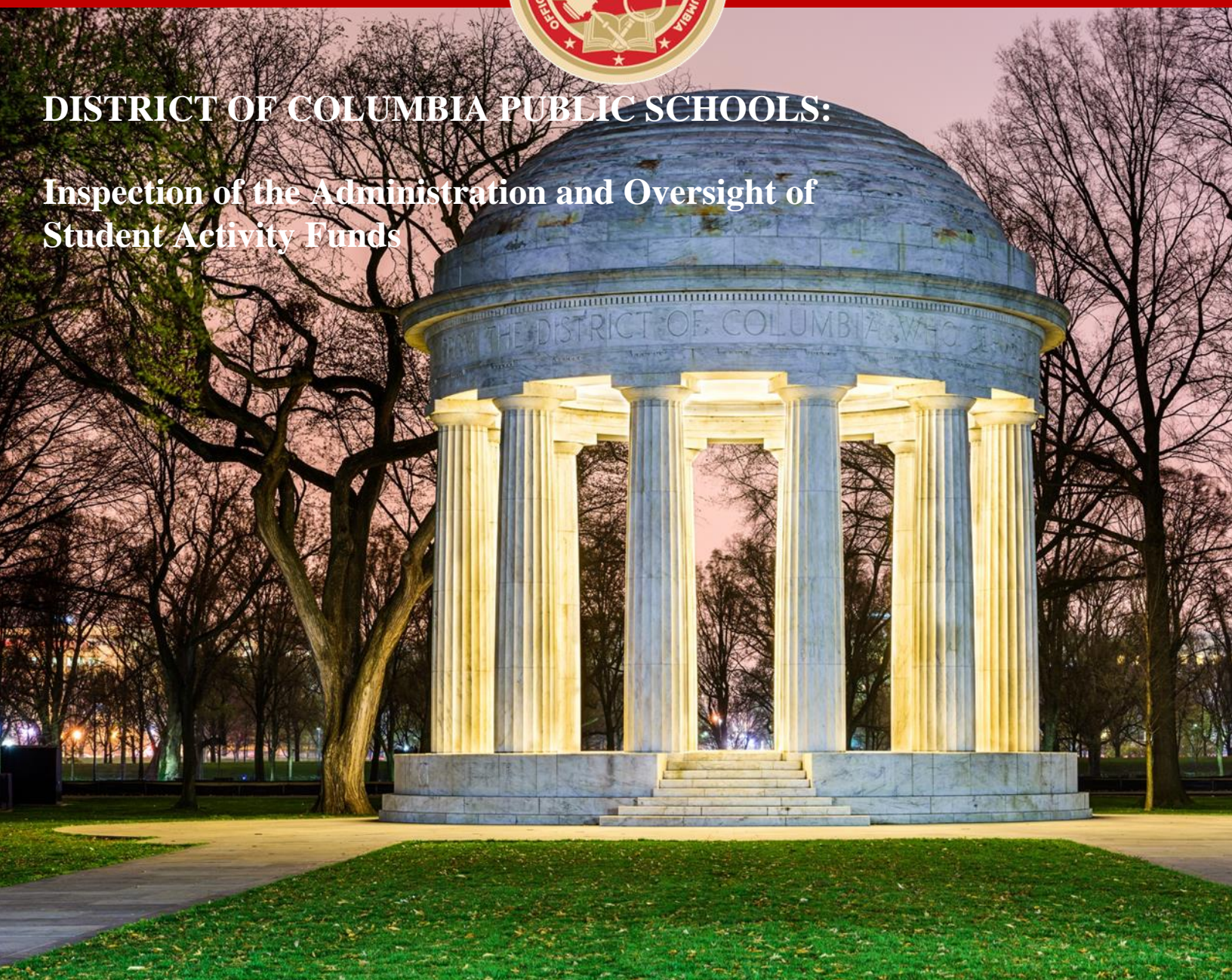
OIG Project No. 19-I-05GA

September 2019



DISTRICT OF COLUMBIA PUBLIC SCHOOLS:

Inspection of the Administration and Oversight of Student Activity Funds



Guiding Principles

*Workforce Engagement * Stakeholders Engagement * Process-oriented * Innovation
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* Diversity * Measurement * Continuous Improvement*

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Our mission is to independently audit, inspect, and investigate matters pertaining to the District of Columbia government in order to:

- prevent and detect corruption, mismanagement, waste, fraud, and abuse;
- promote economy, efficiency, effectiveness, and accountability;
- inform stakeholders about issues relating to District programs and operations; and
- recommend and track the implementation of corrective actions.

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* Transparency * Empowerment * Courage * Passion
* Leadership



GOVERNMENT OF THE DISTRICT OF COLUMBIA

Office of the Inspector General



Inspector General

September 30, 2019

Lewis D. Ferebee
Chancellor
District of Columbia Public Schools
1200 First Street, N.E.
Washington, D.C. 20002

Jeffrey S. DeWitt
Chief Financial Officer
Office of the Chief Financial Officer
1350 Pennsylvania Avenue, N.W., Suite 203
Washington, D.C. 20004

Dear Chancellor Ferebee and Chief Financial Officer DeWitt:

Enclosed is our final report entitled: *District of Columbia Public Schools: Inspection of the Administration and Oversight of Student Activity Funds* (OIG Project No. 19-I-05GA). The primary objective of this inspection, which was part of my Office's *Fiscal Year 2019 Audit and Inspection Plan*,¹ was to assess schools' compliance with Student Activity Fund (SAF) policies and procedures established by the District of Columbia Public Schools (DCPS) and the Office of the Chief Financial Officer (OCFO). This objective includes assessing DCPS' and OCFO's oversight and monitoring of SAFs. We conducted this inspection using quality standards promulgated by the Council of the Inspectors General on Integrity and Efficiency (CIGIE).²

The OIG sent a draft report for comment on August 23, 2019. DCPS' and OCP's responses, dated September 6, 2019, and September 25, 2019, respectively, are quoted in the final report and presented in their entirety in Appendix D. If you have questions about this report, please contact me or Edward Farley, Assistant Inspector General for Inspections and Evaluations, at (202) 727-2540. The OIG will follow up on the implementation status of each recommendation next fiscal year.

Sincerely,


Daniel W. Lucas
Inspector General

DWL/ef

cc: See Distribution List

¹ OIG website, available at <http://oig.dc.gov>.

² CIGIE website, available at <https://www.ignet.gov/sites/default/files/files/iestds12.pdf>.

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Why the OIG Did This Inspection

This inspection was part of the OIG's *Fiscal Year 2019 Audit and Inspection Plan*, and was prompted in part by several complaints the OIG received related to the administration of Student Activity Funds (SAFs).

The objective of the inspection was to assess schools' compliance with SAF policies and procedures established by the District of Columbia Public Schools (DCPS) and the Office of the Chief Financial Officer (OCFO), and DCPS' and OCFO's oversight and monitoring of SAFs.

What the OIG Recommends

The OIG's recommendations focus on clearly defining DCPS and OCFO employees' responsibilities for investigating and resolving potential violations of SAF policy; and greater public visibility into SAF account activity to (1) supplement OCFO and DCPS oversight activity and (2) deter recurring non-compliant practices at DCPS schools.

Changes to Current System of Internal Control, Shared Oversight Needed to More Effectively Track and Resolve Potential SAF Policy Violations and Drive Accountability

What the OIG Found

Superintendent's Directive 623, dated September 14, 1992, authorizes DCPS Student Activity Funds (SAFs): "SAFs shall be raised and expended to promote the general welfare, education[,] and morale of the students, and to finance the recognized extra-curricular activities of student bodies of the District of Columbia Public Schools (DCPS)."

OCFO's Standard Operating Procedure Manual (OCFO Manual) for SAFs contains detailed criteria regarding the administration of these accounts, and both OCFO and DCPS personnel assess schools' compliance with OCFO policy. In general, a system of concurrent oversight can be beneficial, e.g., by establishing separation of duties, but concurrent oversight also creates the potential for gaps and misunderstanding. The OIG team observed weaknesses in DCPS' and OCFO's bifurcated oversight system, most notably a lack of shared understanding as to which entity should follow-through to investigate and remedy issues that have been identified, in particular those that may involve misconduct.

The OCFO Manual defines automatic and discretionary penalties when schools violate OCFO policy, but OCFO oversight personnel are more inclined to first work with school personnel to avoid imposing the penalties. The OIG appreciates OCFO's willingness to work with schools to avoid such penalties, but is also wary that perceived leniency may remove the element of deterrence from the penalties, and undermine the system of internal controls.

In addition to the findings detailed in this report, in March 2019, the OIG sent a Management Alert Report (MAR) to DCPS to inform them that revenue from renting Woodrow Wilson High School's (Wilson) building and grounds was being deposited into its SAF account, in violation of the D.C. Code and potentially the federal Anti-Deficiency Act (ADA). DCPS responded in April 2019, and agreed with all three recommendations in the MAR.³

³ The MAR and DCPS' response to it are in Appendix E.

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BACKGROUND

Superintendent's Directive 623, dated September 14, 1992, which authorizes DCPS Student Activity Funds (SAF), states, "SAFs shall be raised and expended to promote the general welfare, education[,] and morale of the students, and to finance the recognized extra-curricular activities of student bodies of the District of Columbia Schools Public Schools (DCPS)." OCFO's District of Columbia Public Schools Standard Operating Procedure Manual for SAFs (OCFO Manual) contains detailed criteria regarding SAFs, and states that SAF accounts are not required by DCPS policy or a District regulation, rather "[t]hey are provided as a means to finance and manage the extra-curricular activities that enhance the students' overall educational experience."¹ The school principal has the "ultimate responsibility for all SAF funds received and disbursed within the school,"² and principals and/or their designees "may be held personally and financially responsible for misuse of the SAF."

As of October 1, 2018, DCPS had 111 SAF accounts totaling \$1,265,661.³ Individual SAF account balances ranged from \$0.51 to \$96,619. The oldest account was opened on November 1, 1974,⁴ while the newest account was opened on February 13, 2017.

SAF Administration by School Employees

According to the OCFO Manual, five individuals at the school-level have SAF-related roles to help ensure segregation of duties.⁵ The principal must authorize SAF transactions and is ultimately responsible for SAF activity; the business manager's role involves disbursements; the banker generally deposits money; and two designated signatories sign checks. According to the OCFO Manual, all deposits and payments must be supported by proper documentation (e.g., receipts, invoices, checks, etc.), and all transactions (disbursements and deposits) must be documented in the SAF software system.

DCPS AND OCFO OVERSIGHT OF SAFs

Both OCFO and DCPS personnel serve SAF oversight roles. School business managers must submit monthly reports to OCFO, including deposits, disbursements, supporting documentation, a year-to-date report noting account balances, and a bank statement. OCFO accountants review these monthly reports to verify whether all SAF activity was allowable according to the OCFO Manual, and follow up with schools with questions about potentially unallowable disbursements

¹ D.C. OFFICE OF THE CHIEF FINANCIAL OFFICER, DISTRICT OF COLUMBIA PUBLIC SCHOOLS STANDARD OPERATING PROCEDURES MANUAL, STUDENT ACTIVITY FUND (SAF) (Rev. Aug. 23, 2018). This Manual contains policies and procedures regarding SAFs, including: general principles of internal control, such as record keeping and segregation of duties, specific accounting requirements pertaining to the deposit and disbursement of SAF funds, and the requirement for submission of monthly reports for review by OCFO personnel.

² *Id.* § 3(a).

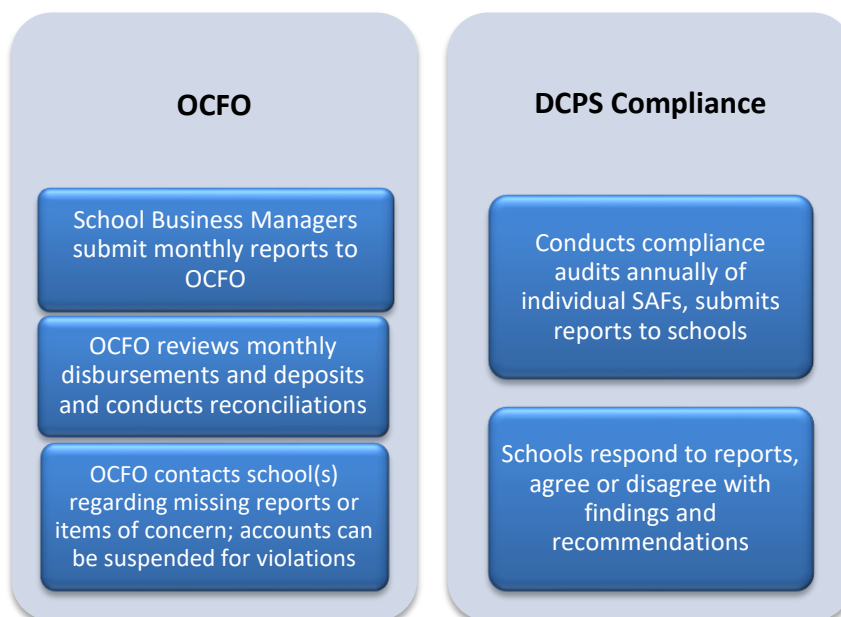
³ Money in the SAFs totaled \$1,551,625 on February 1, 2018, and \$1,540,392 on June 1, 2018.

⁴ The OIG team notes that this predates Superintendent's Directive 623.

⁵ "**Segregation of Incompatible Duties.** An 'incompatible' duty is one that would put a single individual in the position of being able to commit an irregularity and then to conceal it To achieve this separation of duties, the Principal shall designate one staff person to act as the SAF Business Manager, one staff person to act as the School Banker and two staff members to act as authorized signatories." The school principal is also a signatory on the SAF account. OCFO MANUAL, *supra* note 1, § 4(d).

or deposits to obtain additional information and clarification. Additionally, OCFO accountants compare bank statements to school records each month and perform a reconciliation. Concurrently with OCFO's oversight, DCPS' Division of Compliance and Policy (DCPS Compliance) conducts a limited number of compliance audits of SAFs that involve interviews with DCPS school staff and documentation reviews. DCPS Compliance publishes its findings and recommendations in reports and transmits them to schools. The schools then provide written responses wherein they agree or disagree with report findings and recommendations. This system of oversight is summarized in the figure 1 below.⁶

Figure 1: OCFO and DCPS Concurrent Oversight Roles



Source: OIG Illustration Based on Review of OCFO Documents

STANDARDS FOR INTERNAL CONTROL

To assess the SAF program, the OIG used the Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government* (GAO-14-704G, the Green Book).⁷ The Green Book sets internal control standards for federal entities, and may be adopted by state and local entities as a framework for an internal control system.⁸

⁶ Although the public can request DCPS audit reports through the Freedom of Information Act (FOIA), oversight information is not available on a public website.

⁷ U.S. GOV'T ACCOUNTABILITY OFFICE, GAO-14-704G, STANDARDS FOR INTERNAL CONTROL IN THE FEDERAL GOVERNMENT (Sept. 2014), available at, <https://www.gao.gov/products/GAO-14-704G> (last visited Jan. 8, 2019).

⁸ "Internal control comprises the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objectives of [an] entity. Internal control serves as the first line of defense in safeguarding assets. In short, internal control helps managers achieve desired results through effective stewardship of public resources." *Id.* § OV1.03 at 5.

Internal control is “a process used by management to help an entity achieve its objectives.”⁹ Further, internal control helps assure accurate financial reporting and helps to prevent fraud, waste, and abuse. The Green Book explains that “[m]anagement is directly responsible for all activities of an entity, including the design, implementation, and operating effectiveness of an entity’s internal control system.”¹⁰ The internal control system comprises five components that “must be effectively designed, implemented, and operating, and operating together in an integrated manner, for an internal control system to be effective.”¹¹ A description of the five components of internal control is included in Table 1.

Table 1: Components of Internal Control

Component	General Description
Control Environment	The foundation for an internal control system. It provides the discipline and structure to help an entity achieve its objectives.
Risk Assessment	Assesses the risks facing the entity as it seeks to achieve its objectives. This assessment provides the basis for developing appropriate risk responses.
Control Activities	The actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity’s information system.
Information and Communication	The quality information management and personnel communicate and use to support the internal control system.
Monitoring	Activities management establishes and operates to assess the quality of performance over time and promptly resolve the findings of audits and other reviews.

Source: *Standards for Internal Control in the Federal Government* § OV2.04 (GAO-14-704G).

The components of internal control help an entity run its operations, report reliable information about its operations, and comply with laws and regulations.

FINDINGS

Our review of the SAF internal control system found weaknesses in control activities. Although OCFO often timely identified SAF-related violations through its review of monthly reports, and communicated many violations to school personnel and DCPS Compliance employees via email,¹² SAF-related violations recurred and automatic penalties articulated in the OCFO Manual were not applied. Additionally, DCPS Compliance identified SAF-related deficiencies through its performance audits but did not conduct adequate follow-through to ensure issues identified were resolved. This lack of follow-through creates an environment where OCFO and DCPS Compliance identify and communicate SAF-related violations to schools, but school personnel

⁹ U.S. GOV’T ACCOUNTABILITY OFFICE, *supra* note 4, TITLE Page.

¹⁰ *Id.* § OV2.14 at 12.

¹¹ *Id.* § OV2.04 at 7.

¹² DCPS employees were often copied on OCFO emails to school employees, alerting DCPS to issues that OCFO found. Additionally, DCPS employees told the OIG that they requested information from OCFO when conducting performance audits.

do not feel it is necessary to correct deficient practices and comply with SAF policies. The weaknesses in SAF program internal control activities increase the risk of recurring errors, mismanagement, abuse, and fraud.

Management Alert Report regarding Facility Rental Practices at Woodrow Wilson High School - In addition to the findings noted in this report, the OIG sent a Management Alert Report (MAR) to DCPS in March 2019 informing the Chancellor that revenue from renting Woodrow Wilson High School's (Wilson) building and grounds was being deposited into its SAF account, in violation of the D.C. Code and potentially the federal Anti-Deficiency Act (ADA).¹³ DCPS responded in April 2019, and agreed with the MAR's three recommendations, which advised the Chancellor, DCPS to: 1) direct Wilson to forward all requests for buildings and grounds to DGS, and for DGS to deposit the money into the proper fund; 2) implement a process at Wilson to ensure all disbursements and deposits conform to SAF policies and procedures; and 3) assess rental revenue practices at all DCPS schools to determine compliance with D.C. Code and SAF requirements.

CHANGES TO CONTROL ACTIVITIES NEEDED TO ADDRESS RECURRING DEFICIENCIES, TRACK AND RESOLVE MAJOR POTENTIAL SAF POLICY VIOLATIONS, AND HOLD NON-COMPLIANT SCHOOLS ACCOUNTABLE

Standards for Internal Control in the Federal Government (the "Green Book"), control activity component principles 16 and 17, delineate standards for performing monitoring activities, evaluation of issues, and remediation of identified deficiencies. These standards dictate that oversight should include the design and implementation of internal control system monitoring and an evaluation of results. Management should then timely remediate identified deficiencies by reporting issues, evaluating issues, and taking corrective actions.

Common recurrent issues

The OIG team analyzed 30 DCPS Compliance performance audit reports issued from January 2017 to October 2018 and identified the most common recurring issues. The most frequent performance audit findings across the 30 audits that the OIG team analyzed were as follows:

- 15 instances of money not being timely deposited;¹⁴
- 14 instances of missing, incomplete, or late monthly reports;
- 11 instances of unsigned bank statements;¹⁵
- 8 instances of missing SAF records;¹⁶
- 5 instances of unapproved transportation vendors used; and
- 5 instances in which there was a lack of segregation of duties among SAF-related functions.¹⁷

¹³ The MAR and DCPS' response are in Appendix E.

¹⁴ The OCFO Manual requires that, "bank deposits must be made, at a minimum, on every Wednesday and Friday of the week." OCFO MANUAL, *supra* note 1, § 6(i).

¹⁵ The OCFO Manual dictates that monthly reports must include a monthly bank statement signed by the principal, to show that the principal reviewed the statement.

¹⁶ The OCFO Manual dictates that SAF records must be maintained for 7 years.

Late/incomplete OCFO monthly reports: According to the OCFO Manual, School business managers must submit monthly reports to OCFO by the 15th of each month and include deposits, disbursements, supporting documentation, a year-to-date report noting account balances, and a bank statement. The OIG observed OCFO email communication with DCPS about instances of late/incomplete monthly reports; this is a recurring issue at multiple schools. Per the OCFO Manual, “[f]ailure to submit the report packages timely and accurately for 2 consecutive months will result in the immediate revocation of the SAF for the remainder of the school year.”¹⁸

Lack of supporting documentation for disbursements; unallowable expenses processed through the SAFs: OCFO’s Manual details allowable SAF expenditures (e.g., student awards, field trips, etc.), expenditures requiring OCFO pre-approval (e.g., purchase or lease of equipment attached to a school-building), and unallowable expenditures (e.g., laptops, gift cards, non-educational trips, compensation for DCPS employees, travel and training expenses for DCPS employees). Expenditures require completed SAF-23 forms and invoices detailing each transaction. The OIG reviewed evidence of repeated instances of unallowable expenditures from SAFs and identified expenditures that lacked supporting documentation (e.g., invoices). Regarding unallowable disbursements, the OCFO Manual states a written warning will be issued to the Principal on the first occurrence; a “second occurrence of a disbursement from the SAF that is not allowable per this Manual may result in revocation of the SAF account for the remainder of the school year.”¹⁹

Cash not deposited into SAF: The OCFO Manual states that “[c]ash receipts must be deposited intact; this means that all cash collected must be deposited in the SAF bank account. Disbursements must never be made from cash receipts **Failure to comply will result in immediate suspension of the SAF account.**”²⁰ A June 2015 email from OCFO to DCPS Compliance states that one school was not depositing all cash collected from its concession stand, school store, and fundraisers into its SAF, and instead used some of the cash to replenish the school store and concessions stand.

A 2017 DCPS Compliance audit report underscores the importance of depositing cash timely.

On May 14, 2016, a break-in occurred at [the school]. During this break-in, an unknown amount of SAF funds estimated to be between \$10,000 and \$20,000 were stolen from the school premises.... We acknowledge that [the school had] purchased a safe to hold funds until deposited as recommended by SAF policy and that the funds that remained on site were kept in the safe; however, we are compelled to note that had an effective and timely

¹⁷ The OCFO Manual delineates the requirements for the principal, BM, banker, and signatories. It notes that the segregation of duties “enhances the integrity of the accounting process and encourages accuracy.” OCFO MANUAL, *supra* note 1, § 4(d).

¹⁸ *Id.* § 9.

¹⁹ *Id.* § 7(e).

²⁰ *Id.* § 6(a).

*review of SAF transactions taken place, the former Principal would have known that deposits were not being made on a regular and recurring basis, thereby reducing the amount of funds lost, although he could not have prevented the break-in.*²¹

The fact that the school could not determine the exact amount of cash in the safe that was stolen is an additional concern.

Non-approved transportation vendors transported students and were paid through SAFs: DCPS' Office of Contracts and Acquisitions (OCA) periodically distributes a list of approved vendors that schools must use when transporting students.²² OCFO employees identified schools' use of unapproved transportation vendors, a practice that places the District of Columbia at risk because the city is not listed as an insured party on these vendors' insurance policies, and these vendors' employees may not be subject to background checks.²³

Instances where two signatories did not sign disbursement checks: The OCFO Manual requires that two authorized signatories sign disbursement checks. The OIG team observed an email from DCPS Compliance to OCFO about only one person signing checks at a DCPS school. An OCFO manager told the OIG team that OCFO does not review copies of disbursed checks as part of its review of monthly reports, which may result in this SAF-violation going unnoticed unless DCPS alerts OCFO to this issue during a DCPS performance audit.²⁴

²¹ D.C. PUBLIC SCHOOLS, DIVISION OF COMPLIANCE & POLICY, AUDITS & RISK MANAGEMENT TEAM, REPORT NO. 16-02 at 6 (Mar. 2017). The 2016 OCFO Manual stated: "In the event of a theft or break-in, the following persons/agencies must be notified immediately: (a) the Metropolitan Police Department; (b) the Security Division; and (c) the Office of the Chief Financial Officer. Failure to do so may result in the suspension or termination of the SAF." D.C. OFFICE OF THE CHIEF FINANCIAL OFFICER, DISTRICT OF COLUMBIA PUBLIC SCHOOLS STANDARD OPERATING PROCEDURES MANUAL, STUDENT ACTIVITY FUND (SAF), § 10(f) (Rev. Sept. 6, 2016). The audit report is silent on the issue of whether such a requirement was in place at the time of the break-in and whether the school took appropriate action.

²² The November 2016 Field Trips & Student Travel: Domestic and International, Chancellor's Directive 310.7 states that schools are responsible for the expense and contracting of ground transportation to field trips, and should use a bus transportation vendor approved by the DCPS Contracts and Acquisitions team. Additionally, Title 5E DCMR § 2306(b) states that "[t]hose planning and implementing field trips and student travel must ensure that these experiences: . . . (3) Ensure the safety, well-being, and protection of the rights of participating students at all times...."

²³ The OCFO Manual states that all vendors providing services to DCPS shall ensure that their employees submit to all background checks required by DCPS. The following footnote from a recent DCPS Compliance audit reiterates the importance of using only approved transportation vendors: "DCPS requires that schools only utilize transportation vendors whose drivers have been fingerprinted utilizing the [Federal Bureau of Investigation] background check system and who possess liability insurance naming DCPS as an additional insured to further reduce and/or eliminate risks to the District." D.C. PUBLIC SCHOOLS, DIVISION OF COMPLIANCE & POLICY, REPORT NO. 16-01 at 9 (Jan. 2017).

²⁴ DCPS Compliance auditors told us that they recently initiated the practice of reviewing a school's checks to determine whether they were signed by two authorized signatories.

Reimbursement for instructors' Reserve Officer Training Corps (ROTC) training was paid through the SAF: An OCFO manager explained how one school used its SAF account to reimburse ROTC coordinators for travel and training, that the reimbursements should be administered through normal DCPS travel and training procedures, and that federal ROTC funds should not be deposited into a school's SAF. The manager indicated this was an issue at other DCPS schools.

Lack of responsibility between OCFO and DCPS Compliance regarding which entity is responsible for tracking issues through to resolution

In principle, concurrent oversight by separate entities can be beneficial because it introduces redundancy and separation of duties to an oversight system. However, absent well-defined responsibilities, gaps in oversight can develop, e.g., where each entity believes the other is responsible for remediating a matter that may require corrective action. Although OCFO identified many SAF-related issues through its review of monthly reports and communicated these issues to the school(s) and DCPS Compliance, the OIG observed instances where neither OCFO nor DCPS Compliance followed through to determine whether the school remediated the issue.

Below are examples of potential major SAF-violations not thoroughly investigated when identified.

SAF account check disbursed to a school employee: An OCFO employee informed DCPS Compliance about a SAF check payable to a school employee in April 2018 (with an associated invoice for a company allegedly founded by that employee, and items delivered to the employee's residential address), a potential act of fraud. OCFO representatives told us that DCPS investigated and resolved the issue, while DCPS representatives said OCFO did. Neither agency followed through to ensure the matter was addressed. Further complicating the matter, a DCPS auditor believed this issue was referred to the OIG.²⁵ Only after the OIG team asked about this transaction in January 2019 did DCPS ask the employee for an explanation.

SAF account checks disbursed to a company owned by a DCPS instructor: In July 2018, an OCFO employee informed DCPS Compliance about four invoices paid from a school's SAF account to a company owned by a DCPS instructor. OCFO wrote the school's business manager had already been notified that "this is a direct violation of the SAF Policy and Procedure Manual. However, I wanted to alert Compliance due to the apparent conflict of interest." DCPS Compliance responded: "Thank you. We will keep [the school] in mind when preparing our audit plan for next school year."

When asked about this matter, an OCFO manager told us he/she was unsure whether DCPS had acted on the information it received. A DCPS Compliance manager opined that it was OCFO's responsibility to alert either the Board of Ethics and Government

²⁵ The OIG found no record of receiving a referral on this matter.

Accountability (BEGA)²⁶ or DCPS Labor Management and Employee Relations (LMER) because the issue is a potential misconduct/ethics violation. This manager also noted that “eventually” DCPS Compliance might conduct a performance audit of the school, but would not audit the school because of one possible violation. The DCPS manager noted that he/she did not know whether OCFO reported the potential violation.

OCFO consistently identifies potential SAF violations through its monthly report review and communicates its questions and concerns to the respective school(s) (often copying DCPS Compliance employees on these follow-up emails), but responsibility for following through to correct deficiencies is not clearly assigned to DCPS Compliance or OCFO. An OCFO employee expressed concern that DCPS does not vet and resolve issues that OCFO has identified. This individual speculated that what OCFO deems important or urgent, DCPS Compliance may not. The OCFO employee noted that he/she thinks DCPS Compliance should conduct performance audits more expeditiously when OCFO identifies a concern, and that DCPS Compliance should contact schools directly to inquire about issues that OCFO identifies. In contrast, a DCPS employee explained that DCPS Compliance employees will determine whether OCFO or DCPS should follow up on the issue. This manager explained that DCPS Compliance has many responsibilities besides SAF oversight and OCFO may need to follow up on issues directly. Both OCFO and DCPS employees appeared to believe that the other entity was responsible for following issues through to resolution after they are identified.

Additionally, the OIG is concerned that recommendations and referrals in DCPS Compliance’s performance audit reports are not shared with external oversight entities. For example, in October 2016, DCPS’ Office of Contracts and Acquisitions proposed reporting a questionable purchase card transaction to the OIG for “further investigation,” and forwarding a copy of the final DCPS Compliance report to the OIG simultaneously. The OIG team found no indication the matter was referred as proposed.

OCFO SAF Manual defines automatic and discretionary penalties for policy violations, but OCFO oversight personnel were more inclined to first work with school personnel to avoid imposing penalties

OCFO has the authority to enforce penalties against schools that habitually submit late or incomplete monthly reports. The OCFO Manual establishes an automatic penalty for late or inaccurate submissions of monthly reports to OCFO. The Manual states, “All monthly reports are reviewed by personnel of the OCFO. Schools will receive notification of any errors or policy violations upon review of the reports. Failure to submit the report packages timely and accurately for 2 consecutive months will result in immediate revocation of the SAF for the remainder of the school year.”²⁷ An OCFO official noted that if a school is late “a couple of months,” OCFO will restrict the school’s SAF account access.²⁸ This OCFO official knew the Manual requires the

²⁶ “The Board of Ethics and Government Accountability (BEGA) investigates alleged ethics laws violations by District government employees and public officials, provides binding ethics advice and conducts mandatory training on the DC Government’s Code of Conduct.” BEGA website, <https://bega.dc.gov/page/mission> (last visited Mar. 12, 2019).

²⁷ OCFO MANUAL, *supra* note 1, § 9.

²⁸ The current software system provides OCFO the ability to stop a school from issuing checks.

SAF account to be suspended after 2 months of late or incomplete monthly reports, but appeared to grant schools more leeway, stating that OCFO enforces these penalties “for the most part.”

The OCFO Manual also cites a discretionary penalty for repeated, unallowable disbursements from the SAF, stating, “A written warning will be issued to the Principal on the first occurrence of a disbursement from the SAF that is not allowable per this Manual. A second occurrence of a disbursement from the SAF that is not allowable per this Manual may result in revocation of the SAF account for the remainder of the school year.”

The OIG appreciates OCFO’s willingness and efforts to work with schools to correct deficient practices instead of simply imposing the penalties defined in the OCFO Manual. However, it is also reasonable to conclude that routinely choosing not to effect automatic penalties may remove the element of deterrence and undermine the system of internal controls. OCFO’s perceived leniency may also foster a permissive management culture at DCPS schools that appears to condone SAF policy violations or expose the account to fraud.

DCPS Compliance’s performance audit cycle results in infrequent oversight

DCPS Compliance conducts performance audits of SAF accounts to identify deficiencies and makes recommendations. These performance audits are more in-depth than OCFO’s monthly reconciliations, and involve interviews and document reviews. Although DCPS told the OIG and the D.C. Council (in response to a question for the Budget Support Act of 2016) that it tries to audit every school on a 3- to 5-year cycle (depending on the funds in the SAF accounts), in reality, it is a much longer cycle. In 2017, 3 individuals audited 19 SAFs. Extrapolating from calendar year 2017 and assuming that the total number of SAF accounts remains relatively stable over time, it would take DCPS Compliance approximately 5.8 years to audit all SAFs. At the time of fieldwork for this inspection, however, only 1 auditor expected to complete 10 performance audits during the year.²⁹ DCPS has yet to conduct a performance audit of every SAF account. A lengthy audit cycle means that DCPS Compliance does not regularly assess all schools’ SAFs to identify deficiencies and recommend improvements.

No external third-party conducts financial audits of SAFs

Superintendent’s Directive 623 states that SAFs “shall be audited annually by a firm of Independent Certified Public Accountants [CPA]” The OCFO Manual is less prescriptive and provides that “Student Activity funds may be audited annually by a firm of independent certified public accountants. This type of audit is conducted annually in connection with yearly preparation of the Comprehensive Annual Financial Report (CAFR).”³⁰ However, SAFs are not audited in conjunction with the preparation of the CAFR, and there is no other independent, third-party audit of the SAFs. An OCFO official noted that the aggregate balances of the SAF are reported in the D.C. System of Accounting and Reporting (SOAR) but OCFO has not selected SAF balances for further review in at least the past 6 years. Further, OCFO accountants who review school monthly reports are not CPAs, nor are the DCPS Compliance auditors who conduct DCPS’ performance audits.

²⁹ According to an interviewee, DCPS Compliance at times lacked auditors to audit SAFs in the past.

³⁰ OCFO MANUAL, *supra* note 1, at 14.

A DCPS manager told the OIG that an annual, third-party financial audit of SAFs is not done because the aggregate value of the SAFs is relatively low, and DCPS must conduct a cost/benefit analysis when deciding whether to audit these accounts. Other employees echoed that a third-party audit is not conducted because of the small amount of money involved in the SAFs. Although the balances in the SAFs are not large compared to DCPS' total budget, the cash transactions and previously identified instances of non-compliance in the accounts (as identified by both OCFO and DCPS) show that the risk of SAF misuse is significant. Further, although the aggregate balance of the SAF accounts may not be high at any point in time, a significant amount of money may flow through the accounts, which would justify an independent financial audit. Finally, the prospect of being the subject of an external audit could help to drive compliance with SAF requirements and deter misuse of funds.

Based on our findings and observations, we recommend that the Chancellor, DCPS and CFO, OCFO work together to:

- (1) Define and document DCPS and OCFO employees' roles and responsibilities for prioritizing, investigating, and resolving instances of potential SAF policy non-compliance, and distribute the guidance to all employees involved with SAF administration and oversight.

Agree X Disagree

DCPS' September 2019 Response to Recommendation 1:³¹ *DCPS agrees with this recommendation. Staff within DCPS' Office of Compliance serving as internal auditors will work with the Office of the Chief Financial Officer's (OCFO) Accounting Officer and other OCFO designated staff to initiate OCFO requests for compliance audits of Student Activity Fund (SAF) accounts due to instances of procedural non-compliance within 60 days of a request and issue associated reports*³² *within 90 days of a request from OCFO. OCFO staff should expeditiously direct instances of non-compliance that clearly suggest potential employee misconduct to DCPS's Office of Labor, Management and Employee Relations (LMER). DCPS' LMER division is charged with timely investigating and administering any required employment action(s) to DCPS employees. By December 31, 2019, DCPS will document this guidance and distribute it to the appropriate staff.*

*In fiscal year 2020 (FY20), DCPS is committed to dedicating resources to the monitoring and enforcement of SAF compliance by incorporating resolution of procedural non-compliance with SAF policy within its Risk Management*³³ *department. In addition to enterprise risk functions, the Risk Management department staff will be charged with working with instructional superintendents and the chiefs of elementary and secondary schools to ensure that principals and school-based SAF responsible staff timely respond to and implement corrective actions designed to resolve procedural compliance issues*

³¹ The full text of DCPS' September 2019 response is in Appendix D.

³² "90-day report issuance may vary depending on the complexity of circumstances identified during an audit."

³³ "One (1) position has been advertised and designated for hire in FY20. Once a hire is in place, the Risk Management department will commence these activities. DCPS will work to augment audit and risk management staffing as resources are identified or become available."

identified during DCPS Compliance's performance audits and OCFO's monthly monitoring activities.

OCFO's September 2019 Response to Recommendation 1.³⁴ OCFO agrees with the recommendation. The Student Activity Fund (SAF) Standard Operating Procedure Manual (the Manual) provided by the Office of the Chief Financial Officer defines and documents DCPS and OCFO employees' roles and responsibilities. The Manual details policies and procedures for use and administration of SAF accounts. The Principal has the ultimate responsibility for all SAF funds received and disbursed within a school. The Principal designates one staff person to act as the SAF Business Manager, one staff person to act as the School Banker, and two staff persons to act as authorized signatories (in addition to the Principal). All school staff involved in the administration of the SAF must complete training before gaining access to the account. It is the responsibility of the Principal to ensure that all staff, including business managers, school bankers and authorized signatories, complete training and read the Manual. As part of the annual SAF account Activation Process, OCFO documents that designated school personnel have received the Manual and training materials that delineate various roles and responsibilities, and relevant documents and forms. Prior to granting access to the account, OCFO requires all designated employees involved with SAF administration and oversight to complete a SAF Manual Receipt and Acknowledgement form (Attachment I). The OCFO does not conduct audits and compliance reviews. DCPS-AFO met with DCPS' Deputy Chief, Compliance on September 12, 2019, and agreed that OCFO will communicate with Principals, DCPS Compliance Office, and DCPS' Office of Labor, Management and Employee Relations (LMER) when it becomes aware of instances of noncompliance with SAF policy. Additionally, OCFO issued a memorandum dated September 12, 2019 (Attachment II) addressed to Instructional Superintendents and Principals, stating that the procedures outlined in the SAF Manual will be consistently applied.

- (2) Identify how OCFO and DCPS Compliance can reduce common recurring deficiencies in SAF account administration (e.g., conduct an annual analysis of OCFO and DCPS Compliance findings and communicate the results of the analysis to all schools), and more consistently and effectively penalize schools according to existing provisions in the OCFO Manual.

Agree X Disagree

DCPS' September 2019 Response to Recommendation 2: DCPS agrees with this recommendation. DCPS believes that regular and recurring training is the key to reducing common errors that occur and reoccur in day to day SAF operations. We have already implemented mandatory training sessions designed to better educate SAF responsible staff and to reduce recurring SAF deficiencies. On July 16 and 17, 2019, DCPS' Compliance audit staff partnered with OCFO to conduct refresher training sessions for school-based staff with SAF responsibilities. Going forward, DCPS will provide mandatory training sessions during the Office of the Chief Operating Officer's

³⁴ The full text of OCFO's September 2019 response is in Appendix E.

(OCOO) bi-annual Institute (OCOOi). OCOOi is a bi-annual training session which serves as a two-day professional development training series for non-instructional/operational staff throughout DCPS. At the July 16 and 17, 2019 sessions, DCPS' Compliance audit staff and OCFO staff held four (4) mandatory training sessions for individuals whose role included SAF related duties, specific to the function of business manager and banker. Staff in attendance included business managers, directors/managers of strategy and logistics, principals and assistant principals.³⁵ The trainings included detailed information regarding what DCPS' Compliance audit staff look for when conducting SAF audits, SAF policy review, other topics directly relevant to the day to day SAF operations, such as allowable and unallowable expenditures, and individual question and answer sessions. DCPS' Compliance audit staff will partner with OCFO to continue these trainings going forward on a bi-annual basis.

DCPS Compliance will also partner with OCFO to conduct an annual analysis of common findings and communicate the results to all schools. By December 31, 2019, DCPS will analyze the results of audit findings identified during SAF performance audits conducted during school year 2018-2019 (SY18-19) and communicate the results to all schools, instructional superintendents and the chiefs of elementary and secondary schools. Going forward, this analysis will be conducted and communicated out by September 30th of each year.

OCFO's September 2019 Response to Recommendation 2: *OCFO agrees with the recommendation. OCFO requires school staff involved in the administration of the SAF to read the Manual and complete training before gaining access to the SAF account. The Manual and training are both designed to educate SAF responsible staff, and to reduce recurring SAF deficiencies. DCPS Compliance has agreed to partner with OCFO to conduct an annual analysis of common findings and communicate the results to all schools. Additionally, OCFO issued a memorandum dated September 12, 2019 (Attachment II) addressed to Instructional Superintendents and Principals, stating that the procedures outlined in the SAF Manual will be consistently applied.*

Based on our findings and observations, we also recommend that the Chancellor, DCPS:

- (3) Implement a DCPS Compliance audit follow-up procedure to increase the likelihood that schools comply timely with audit report recommendations.

Agree _____ X _____ Disagree _____

DCPS' September 2019 Response to Recommendation 3: *DCPS agrees with this recommendation. DCPS agrees that conducting follow-up audits should increase the likelihood that schools comply with audit report recommendations. By August 31, 2020, DCPS' Compliance audit team will institute follow-up reviews of SAF audits into its'*

³⁵ "Some principals and assistant principals were in attendance, but not all. DCPS will hold a refresher SAF training with the support of instructional superintendents during cluster meetings as a mechanism for providing training to school leaders."

SY20-21 audit plan. Follow-up audits will be conducted on a triennial basis, beginning with SAF audits conducted in SY17-18.

- (4) Engage an external accounting firm to audit the SAF program annually, and publish the audit report(s) on DCPS' website.

Agree X Disagree

DCPS' September 2019 Response to Recommendation 4: DCPS agrees with this recommendation. *We propose, however, that an annual audit of SAFs as recommended by the OIG is incorporated into the city's Comprehensive Annual Financial Report (CAFR) audit. Due to existing and projected budgetary constraints, DCPS is unable to finance an annual external audit of its SAFs at this time. DCPS believes that incorporating SAF financial activities with all other aspects of the District's financials will provide a complete picture of the financial position of the District as a whole, that does not currently exist.*

OIG Comment: While the OIG commends DCPS for seeking opportunities to leverage existing oversight mechanisms, the District's CAFR financial audit would not afford the level of granularity required to ensure the SAFs financial reporting (as agreed-to in recommendation 5 on the following page) is presented fairly and in accordance with applicable criteria. Additionally, by solely relying on a financial audit, DCPS may miss opportunities, such as leveraging performance audits, to improve the SAF internal control environment.

GREATER PUBLIC VISIBILITY INTO SAF ACCOUNT BALANCES, DEPOSITS, EXPENDITURES COULD HELP SUPPLEMENT OCFO, DCPS OVERSIGHT ACTIVITIES AND DETER NON-COMPLIANT PRACTICES AT SCHOOLS

Mayor's Order 2014-170, entitled the *Transparency, Open Government and Open Data Directive*, states that the District "is committed to creating an unprecedented level of openness in government." The Order continues: "[t]o increase accountability and transparency, promote informed public participation, and create economic development opportunities, each District agency shall expand access to information by making it proactively available online"

Information about deposits, disbursements, and SAF account balances is not currently shared with the public, though an individual could seek to obtain this information through a Freedom of Information Act (FOIA) request. Given the realistic assumption that DCPS Compliance may thoroughly review a school's SAF only once every 5 years, greater public visibility into routine SAF account activity would be beneficial and consistent with the District's commitment to "an unprecedented level of openness in government."

In addition to being able to review routine SAF account activity, parents and other members of DCPS community would benefit from the findings and recommendations in DCPS Compliance audits. The DCPS Compliance audit reports we reviewed contained detailed, specific findings and pointed criticism we believe would be beneficial if shared routinely with all schools and the

public, whose funds comprise these SAFs. When DCPS identifies “multiple instances where responsible staff engaged in financial management practices that severely compromised the integrity of the SAF,” or “a total disregard for SAF policies and procedures related to depositing funds,” (statements from two reports we reviewed), it is reasonable to conclude that public release of the DCPS Compliance report would help to drive accountability and deter malfeasance in other schools.

With easy public access to online SAF account activity and DCPS Compliance audit findings and recommendations, parents and other members of the DCPS community would be able to better understand and monitor how their schools receive and disburse SAF monies and school employees’ duties and actions with respect to SAF activity. Greater transparency could also help to deter non-compliant SAF practices.

Based on the above observation, we recommend that the Chancellor, DCPS:

- (5) Establish a policy and practice for publishing school-specific SAF deposit, disbursement, and balance information and DCPS Compliance performance audit reports on its website.

Agree X Disagree

DCPS’ September 2019 Response to Recommendation 5: All financial activities within District of Columbia agencies are the responsibility of the OCFO. Accountants within OCFO are charged with monitoring, reviewing and reconciling school SAF accounts on a monthly basis. While DCPS agrees with some elements of this recommendation, DCPS believes that this recommendation should be a joint recommendation to DCPS and OCFO.

By January 31, 2020, DCPS will partner with OCFO to publish the SAF balances that OCFO reconciles as of September 30, 2019, on DCPS' website. After the initial publication of September 30, 2019 balances, DCPS will publish school specific SAF deposit, disbursement and balance information on its website on a quarterly basis, beginning with the balances reconciled as of December 31, 2019. We anticipate having each school's quarterly balance detailed on DCPS' website within 45 days after the end of the quarter.³⁶ By June 30, 2020, DCPS will establish, and post on our website, a policy that outlines our practice for publishing school-specific SAF deposit, disbursement, account balances and DCPS Compliance's internal performance audit process.

OIG Comment: The OIG commends DCPS in coordinating with the OCFO to ensure both parents and students have transparency into their respective schools’ SAF. In addition to preparing and publically-posting SAF financials for each school, DCPS should also coordinate with the OCFO to ensure SAF accounting considers the recent Governmental Accounting Standards Board (GASB) Statements, to include GASB 84.

³⁶ “Note: This information is contingent upon OCFO's completion of its reconciliation of accounts. SAF information will be reported as of March 31, June 30, September 30 and December 31, annually.”

CONCLUSION

Under the current SAF account system of internal controls, it appears that both OCFO and DCPS are effective in identifying issues of non-compliance with SAF policy at individual schools. However, OCFO and DCPS must work together to improve their control activities so deficiencies that have been identified are ultimately corrected and do not recur; individual DCPS employees are held accountable for their actions when necessary; and schools with repeated policy violations are subject to appropriate consequences, such as suspension of SAF disbursements for the remainder of the school year.

The OIG recommends changes to the current internal controls, to include: reconciling which entity is responsible for properly vetting and resolving the various types of procedural issues identified by their two agencies; use of automatic penalties for actions or inactions that violate SAF policy; and greater transparency through more publicly available information about SAF account balances, deposits, and disbursements.

APPENDIX A. OBJECTIVES, SCOPE, METHODOLOGY

The primary objective of this inspection, which was part of the OIG's *Fiscal Year 2019 Audit and Inspection Plan*,⁴⁰ was to assess schools' compliance with SAF policies and procedures established by DCPS and the Office of the Chief Financial Officer (OCFO). This objective includes DCPS' and OCFO's oversight and monitoring of SAFs. OIG inspections are conducted under standards established by the Council of the Inspectors General on Integrity and Efficiency.

During this inspection, the OIG team assessed how OCFO reviews and analyzes SAF monthly reports and follows-up when anomalies are present or information is not provided by schools; this included a review of OCFO documentation and interviews with OCFO employees. The OIG team also analyzed how DCPS' Division of Compliance and Policy oversees SAF accounts. As part of this process, the OIG team reviewed 30 DCPS performance audit reports from January 2017 to October 2018, and asked what corrective measures were instituted because of audit report findings, and how DCPS verified that identified issues were rectified. The OIG team also conducted interviews with DCPS employees to learn more about oversight of SAF accounts. Finally, the OIG team reviewed email correspondence and documentation from OCFO and DCPS to analyze SAF monitoring processes and compliance with SAF policies.

⁴⁰ Available at <http://oig.dc.gov>.

APPENDIX B. RECOMMENDATIONS

We recommend the Chancellor, DCPS and CFO, OCFO:

1. Define and document DCPS and OCFO employees' roles and responsibilities for prioritizing, investigating and resolving instances of potential SAF policy non-compliance, and distribute the guidance to all employees involved with SAF administration and oversight.
2. Identify how OCFO and DCPS Compliance can reduce common recurring deficiencies in SAF account administration (e.g., conduct an annual analysis of OCFO and DCPS Compliance findings and communicate the results of the analysis to all schools), and, more consistently and effectively penalize schools according to existing provisions in the OCFO Manual.

We recommend the Chancellor, DCPS:

3. Implement a DCPS Compliance audit follow-up procedure to increase the likelihood that schools comply timely with audit report recommendations.
4. Engage an external accounting firm to the SAF program annually, and publish the audit report(s) on DCPS' website.
5. Establish a policy and practice for publishing school-specific SAF deposit, disbursement, and balance information and DCPS Compliance performance audit reports on its website.

APPENDIX C. ACRONYMS AND ABBREVIATIONS

CAFR	Comprehensive Annual Financial Report
CPA	Certified Public Accountant
DCPS	District of Columbia Public Schools
FOIA	Freedom of Information Act
OCFO	Office of the Chief Financial Officer
OIG	Office of the Inspector General
SAF	Student Activity Fund
SOAR	System of Accounting and Reporting

APPENDIX D. DCPS' AND OCFO'S RESPONSES TO DRAFT



BY EMAIL AND FIRST-CLASS MAIL

September 6, 2019

Daniel W. Lucas
Inspector General
717 14th Street, NW
Washington, DC 20005

Dear Inspector General Lucas:

The District of Columbia Public Schools (DCPS) is in receipt of the Office of the Inspector General's (OIG) August 23, 2019 draft report entitled, *District of Columbia Public Schools: Inspection of the Administration and Oversight of Student Activity Funds (OIG Project No. 19-I-05GA)*. Thank you for providing this feedback as well as allowing us the opportunity to respond and provide input.

Findings:

1. Define and document DCPS and OCFO employees' roles and responsibilities for prioritizing, investigating, and resolving instances of potential SAF policy non-compliance, and distribute the guidance to all employees involved with SAF administration and oversight.

DCPS agrees with this recommendation. Staff within DCPS' Office of Compliance serving as internal auditors will work with the Office of the Chief Financial Officer's (OCFO) Accounting Officer and other OCFO designated staff to initiate OCFO requests for compliance audits of Student Activity Fund (SAF) accounts due to instances of procedural non-compliance within 60 days of a request and issue associated reports¹ within 90 days of a request from OCFO. OCFO staff should expeditiously direct instances of non-compliance that clearly suggest potential employee misconduct to DCPS's Office of Labor, Management and Employee Relations (LMER). DCPS' LMER division is charged with timely investigating and administering any required employment action(s) to DCPS employees. By December 31, 2019, DCPS will document this guidance and distribute it to the appropriate staff.

In fiscal year 2020 (FY20), DCPS is committed to dedicating resources to the monitoring and enforcement of SAF compliance by incorporating resolution of procedural non-compliance with SAF policy within its Risk Management² department. In addition to enterprise risk functions, the Risk Management department staff will be charged with working with instructional superintendents and the chiefs of elementary and secondary schools to ensure that principals and school-based SAF responsible staff timely respond to and implement

¹ 90-day report issuance may vary depending on the complexity of circumstances identified during an audit.

² One (1) position has been advertised and designated for hire in FY20. Once a hire is in place, the Risk Management department will commence these activities. DCPS will work to augment audit and risk management staffing as resources are identified or become available.

APPENDIX D. DCPS' AND OCFO'S RESPONSES TO DRAFT



DCPS Response – OIG Inspection of Administration and Oversight of SAF
September 6, 2019
Page 2 of 4

corrective actions designed to resolve procedural compliance issues identified during DCPS Compliance's performance audits and OCFO's monthly monitoring activities.

2. Identify how OCFO and DCPS Compliance can reduce common recurring deficiencies in SAF account administration (e.g., conduct an annual analysis of OCFO and DCPS Compliance findings and communicate the results of the analysis to all schools), and more consistently and effectively penalize schools according to existing provisions in the OCFO Manual.

DCPS agrees with this recommendation. DCPS believes that regular and recurring training is the key to reducing common errors that occur and reoccur in day to day SAF operations. We have already implemented mandatory training sessions designed to better educate SAF responsible staff and to reduce recurring SAF deficiencies. On July 16 and 17, 2019, DCPS' Compliance audit staff partnered with OCFO to conduct refresher training sessions for school-based staff with SAF responsibilities. Going forward, DCPS will provide mandatory training sessions during the Office of the Chief Operating Officer's (OCOO) bi-annual Institute (OCOOi). OCOOi is a bi-annual training session which serves as a two-day professional development training series for non-instructional/operational staff throughout DCPS. At the July 16 and 17, 2019 sessions, DCPS' Compliance audit staff and OCFO staff held four (4) mandatory training sessions for individuals whose role included SAF related duties, specific to the function of business manager and banker. Staff in attendance included business managers, directors/managers of strategy and logistics, principals and assistant principals³. The trainings included detailed information regarding what DCPS' Compliance audit staff look for when conducting SAF audits, SAF policy review, other topics directly relevant to the day to day SAF operations, such as allowable and unallowable expenditures, and individual question and answer sessions. DCPS' Compliance audit staff will partner with OCFO to continue these trainings going forward on a bi-annual basis.

DCPS Compliance will also partner with OCFO to conduct an annual analysis of common findings and communicate the results to all schools. By December 31, 2019, DCPS will analyze the results of audit findings identified during SAF performance audits conducted during school year 2018-2019 (SY18-19) and communicate the results to all schools, instructional superintendents and the chiefs of elementary and secondary schools. Going forward, this analysis will be conducted and communicated out by September 30th of each year.

3. Implement a DCPS Compliance audit follow-up procedure to increase the likelihood that schools comply timely with audit report recommendations.

³ Some principals and assistant principals were in attendance, but not all. DCPS will hold a refresher SAF training with the support of instructional superintendents during cluster meetings as a mechanism for providing training to school leaders.

APPENDIX D. DCPS' AND OCFO'S RESPONSES TO DRAFT



Office of the Chancellor

DCPS Response – OIG Inspection of Administration and Oversight of SAF
September 6, 2019
Page 3 of 4

DCPS agrees with this recommendation. DCPS agrees that conducting follow-up audits should increase the likelihood that schools comply with audit report recommendations. By August 31, 2020, DCPS' Compliance audit team will institute follow-up reviews of SAF audits into its' SY20-21 audit plan. Follow-up audits will be conducted on a triennial basis, beginning with SAF audits conducted in SY17-18.

4. Engage an external accounting firm to audit the SAF program annually and publish the audit report(s) on DCPS' website.

DCPS agrees with this recommendation. We propose, however, that an annual audit of SAFs as recommended by the OIG is incorporated into the city's Comprehensive Annual Financial Report (CAFR) audit. Due to existing and projected budgetary constraints, DCPS is unable to finance an annual external audit of its SAFs at this time. DCPS believes that incorporating SAF financial activities with all other aspects of the District's financials will provide a complete picture of the financial position of the District as a whole, that does not currently exist.

5. Establish a policy and practice for publishing school-specific SAF deposit, disbursement, and balance information and DCPS Compliance performance audit reports on its website.

DCPS partially agrees with this recommendation. All financial activities within District of Columbia agencies are the responsibility of the OCFO. Accountants within OCFO are charged with monitoring, reviewing and reconciling school SAF accounts on a monthly basis. While DCPS agrees with some elements of this recommendation, DCPS believes that this recommendation should be a joint recommendation to DCPS and OCFO.

By January 31, 2020, DCPS will partner with OCFO to publish the SAF balances that OCFO reconciles as of September 30, 2019, on DCPS' website. After the initial publication of September 30, 2019 balances, DCPS will publish school specific SAF deposit, disbursement and balance information on its website on a quarterly basis, beginning with the balances reconciled as of December 31, 2019. We anticipate having each school's quarterly balance detailed on DCPS' website within 45 days after the end of the quarter⁴. By June 30, 2020, DCPS will establish, and post on our website, a policy that outlines our practice for publishing school-specific SAF deposit, disbursement, account balances and DCPS Compliance's internal performance audit process.

⁴ Note: This information is contingent upon OCFO's completion of its reconciliation of accounts. SAF information will be reported as of March 31, June 30, September 30 and December 31, annually.

APPENDIX D. DCPS' AND OCFO'S RESPONSES TO DRAFT



DCPS Response – OIG Inspection of Administration and Oversight of SAF
September 6, 2019
Page 4 of 4

Thank you for conducting this inspection, allowing DCPS to respond, and continuing to partner with us to improve oversight activities in our schools. Please do not hesitate to contact me with any questions.

Sincerely,



Lewis D. Ferebee, Ed.D.
Chancellor
District of Columbia Public Schools

APPENDIX D. DCPS' AND OCFO'S RESPONSES TO DRAFT

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER



September 25, 2019

Mr. Daniel W. Lucas, Inspector General
Office of the Inspector General
717 14th Street, NW
Washington, DC 20005

Dear Inspector General Lucas:

Enclosed you will find a response to the draft report entitled: District of Columbia Public Schools: Inspection of the Administration and Oversight of Student Activity Funds (OIG Project No. 19-I-05GA). The DCPS AFO and Accounting Officer have consulted with DCPS Compliance Office in the formulation of the attached response. The response addresses recommendations (1 and 2) included in Appendix B of the report.

Thank you for bringing these issues to our attention and providing this opportunity to respond.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeffrey S. DeWitt", is written over the printed name.

Jeffrey S. DeWitt
Chief Financial Officer

APPENDIX D. DCPS' AND OCFO'S RESPONSES TO DRAFT

OCFO Response to OIG Project No. 19-I-05GA

Inspection of the Administration and Oversight of Student Activity Funds

RECOMMENDATIONS

We recommend the Chancellor, DCPS and CFO, OCFO work together to:

1. Define and document DCPS and OCFO employees' roles and responsibilities for prioritizing, investigating and resolving instances of potential SAF policy noncompliance, and distribute the guidance to all employees involved with SAF administration and oversight.

OCFO Response

OCFO agrees with the recommendation. The Student Activity Fund (SAF) Standard Operating Procedure Manual (the Manual) provided by the Office of the Chief Financial Officer defines and documents DCPS and OCFO employees' roles and responsibilities. The Manual details policies and procedures for use and administration of SAF accounts. The Principal has the ultimate responsibility for all SAF funds received and disbursed within a school. The Principal designates one staff person to act as the SAF Business Manager, one staff person to act as the School Banker, and two staff persons to act as authorized signatories (in addition to the Principal). All school staff involved in the administration of the SAF must complete training before gaining access to the account. It is the responsibility of the Principal to ensure that all staff, including business managers, school bankers and authorized signatories, complete training and read the Manual. As part of the annual SAF account Activation Process, OCFO documents that designated school personnel have received the Manual and training materials that delineate various roles and responsibilities, and relevant documents and forms. Prior to granting access to the account, OCFO requires all designated employees involved with SAF administration and oversight to complete a SAF Manual Receipt and Acknowledgement form (Attachment I). The OCFO does not conduct audits and compliance reviews. DCPS-AFO met with DCPS' Deputy Chief, Compliance on September 12, 2019, and agreed that OCFO will communicate with Principals, DCPS Compliance Office, and DCPS' Office of Labor, Management and Employee Relations (LMER) when it becomes aware of instances of noncompliance with SAF policy. Additionally, OCFO issued a memorandum dated September 12, 2019 (Attachment II) addressed to Instructional Superintendents and Principals, stating that the procedures outlined in the SAF Manual will be consistently applied.

2. Identify how OCFO and DCPS Compliance can reduce common recurring deficiencies in SAF account administration (e.g., conduct an annual analysis of OCFO and DCPS Compliance findings and communicate the results of the analysis to all schools), and, more consistently and effectively penalize schools according to existing provisions in the OCFO Manual.

OCFO Response

OCFO agrees with the recommendation. OCFO requires school staff involved in the administration of the SAF to read the Manual and complete training before gaining access to the SAF account. The Manual and training are both designed to educate SAF responsible staff, and to reduce recurring SAF deficiencies. DCPS Compliance has agreed to partner with OCFO to conduct an annual analysis of common findings and communicate the results to all schools. Additionally, OCFO issued a memorandum dated September 12, 2019 (Attachment II) addressed to Instructional Superintendents and Principals, stating that the procedures outlined in the SAF Manual will be consistently applied.

APPENDIX D. DCPS' AND OCFO'S RESPONSES TO DRAFT

ATTACHMENT I

APPENDIX D. DCPS' AND OCFO'S RESPONSES TO DRAFT



DISTRICT OF COLUMBIA
PUBLIC SCHOOLS
Office of the Chief Financial Officer

MEMORANDUM

Date: August 28, 2019
To: Principals
District of Columbia Public Schools
From: [REDACTED]
Accounting Officer, District of Columbia Public Schools
Subject: School Year 2019-2020 Instructions and Requirements for Student Activity Fund (SAF) Activation

As a result of the changes in personnel at the schools and the requirement to maintain current documentation on staff assigned to manage the SAF, all schools must complete the following in order to gain access to the SAF account for SY19-20:

- i. Identify the five individuals who will be responsible for the SAF account
- ii. These individuals complete the required training, and
- iii. An updated bank signature card is submitted and filed with the Office of Finance and Treasury (OFT) – this is only if there has been a change in the authorized signatories from SY18-19

Please follow the steps below to ensure that the SAF account is ready and available to you for its intended purpose. The steps below must be complete no later than Thursday, September 26, 2019. If the requirements are not met by September 26, 2019 the next window for SAF account activation will be January 2020.

Forms and Training:

1. Please read the Student Activity Fund (SAF) Policy Manual, revised August 2019
2. Please complete the Designated Personnel Worksheet (DPW) – this form identifies the five individuals assigned to manage the SAF. Please use a discernible signature on this form.
3. Please have each person listed on the Designated Personnel Worksheet (DPW) complete a SAF Manual Receipt and Acknowledgement Form
4. Please have each person listed on the Designated Personnel Worksheet (DPW) view the PowerPoint policy and procedure training presentation appropriate for their role and provide the unique confirmation code on the DPW

1200 First Street, NE | Washington, DC 20002 | T 202.442.5300 | F 202.442-5305

APPENDIX D. DCPS' AND OCFO'S RESPONSES TO DRAFT



DISTRICT OF COLUMBIA
PUBLIC SCHOOLS
Office of the Chief Financial Officer

Please send the completed forms electronically to DCPS.SAF@dc.gov

The package must include:

- 1 Designated Personnel Worksheet (DPW) complete with 5 signatures and 5 accurate confirmation codes
- 5 SAF Manual Receipt and Acknowledgment Forms – 1 receipt for each person listed on the DPW

Once this package is submitted, we will forward a new Wells Fargo bank signature form if necessary; this form is only necessary if there has been change in the authorized signatories from SY18-19. Also, we will offer hands on training sessions for the School Funds Online (SFO) software for new and existing users. SAF Business Managers can register for this training via Quick base.

SY18-19 Outstanding Issues

Any school that has negative activity account balances in SFO or is delinquent with any monthly report packages (this includes uploading documentation in SFO) from SY18-19 will not gain access to the SAF for SY19-20 until all reporting requirements are current and complete.

Please send an email to [REDACTED] for any school specific questions or concerns about your SAF account. Please put the name of your school in the subject field and include your full name and title in the electronic email signature.

Accounting Department Staff

[REDACTED]
[REDACTED]
[REDACTED]

1200 First Street, NE | Washington, DC 20002 | T 202.442.5300 | F 202-442-5305

APPENDIX D. DCPS' AND OCFO'S RESPONSES TO DRAFT

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER**



**DISTRICT OF COLUMBIA PUBLIC SCHOOLS
STANDARD OPERATING PROCEDURE MANUAL
STUDENT ACTIVITY FUND (SAF)**

Purpose

The purpose of this Manual is to document the procedures for use and administration of Student Activity Fund (SAF) accounts within the District of Columbia Public School system. The policies and procedures set forth in this Manual with an effective date of August 26, 2019 supersede any previous versions of this Manual.

Policy

Recognizing the responsibility placed upon the School Principal in the management of Student Activity Fund (sometimes referred to as Non-Appropriated General Fund), the Chancellor has directed the Office of the Chief Financial Officer (OCFO) to establish policies for administering the Student Activity Funds (SAFs) within the District of Columbia Public Schools (DCPS).

Any entity, be it a government agency, a for-profit business or a non-profit organization, exists to achieve its' mission and purpose. It is the role of the Principal to provide the leadership needed for the schools to realize their purpose. The Principal is not free simply to act in any way to achieve the SAF goals. Rather, the Principals' options and actions are circumscribed by constraints and expectations. Principals, Business Managers, Activity Sponsors, and Central Office Personnel responsible for the monitoring of SAFs must be familiar with the provisions of this manual. Principals and/or their designees may be held personally and financially responsible for misuse of the SAF.

SAF accounts are not required by any DCPS policy or regulation. Rather, they are provided as a means to finance and manage the extra-curricular activities that enhance the students' overall educational experience. Use of the SAF for reasons other than those expressly stated herein is strictly prohibited. All SAFs in DCPS must be maintained in the manner prescribed in this Manual. **FAILURE TO DO SO MAY RESULT IN DISCIPLINARY ACTION UP TO AND INCLUDING TERMINATION.**

APPENDIX D. DCPS' AND OCFO'S RESPONSES TO DRAFT

1) Purpose of the Student Activity Fund (SAF)

- a) To finance the recognized extra-curricular activities of the student body, as authorized by the Principal, for which there is no allocation of funding from the annual appropriated budget.
- b) The SAF must not be used to support or supplement the appropriated budget for normal school operations. All collections for and disbursements from the SAF account must be in accordance with supporting the recognized extra-curricular activities, as listed in this Manual, of the school.

2) General Principles Governing the Use of the Student Activity Fund (SAF)

- a) The SAF of the school belongs to the student body which is comprised of the pupils currently in that school.
- b) Staff owned funds may be included in the SAF, but they must be clearly segregated from student owned funds.
- c) School staff and organizations must not use such devices as gambling, including raffles, lotteries, pinball machines, pool, bingo and other games of chance, as a means of raising funds.
- d) Funds derived from the student body as a whole must be used to benefit the student body as a whole. This includes school wide fundraising activities and ticket sales from school sponsored activities.
- e) The management of SAFs must be in accordance with sound business practices, sound accounting procedures and adequate internal controls.
- f) PTA, PTO, and HSA funds must be handled by those organizations and must not be mixed with the funds of the school. The SAF must never be co-mingled with PTA, PTO, HSA or any other auxiliary group funds.
- g) Private grant funds cannot be deposited in the SAF. All private grants must be set up in the financial system of record, SOAR, and processed under existing policies & procedures for private grant administration.
- h) Unsolicited donations greater than \$500 cannot be deposited in the SAF. All solicited donations must be set up in the financial system of record, SOAR, and processed under the existing city-wide process for solicitation and acceptance of private donations. Unsolicited or "Drop Off" donations less than \$500 may be deposited into the SAF account and credited to Unsolicited Donations. See Appendix for complete Donations Handbook.
- i) All school staff involved in the administration of the SAF must complete training before gaining access to the SAF. It is the responsibility of the Principal to ensure that all staff, including business managers, school bankers and authorized signatories, complete training and read the SAF Policy and Procedure Manual provided by the Office of the Chief Financial Officer.

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3) Responsibilities for the Management of Student Activity Fund

- a) The Principal has the ultimate responsibility for all SAF funds received and disbursed within the school.
- b) Neither a school nor school activity fund shall be held responsible for an expenditure made by a pupil, teacher, or any other school staff member who has not received prior written authorization from the Principal.
- c) Principals must not use the SAF account as a supplement to the schools' operating budget. The SAF account is provided to make small dollar purchases in support of the students' extra-curricular activities i.e. payment to a bus company for field trips; refreshments for an honor roll assembly, etc. Classroom supplies, professional development, repair of leased equipment, office supplies, materials for CTE programs, Enrollment Fair expenses, PAARC testing expenses and all other expenditures associated with normal school operations cannot be paid from the SAF. Also, fees for classroom activities/supplies i.e. science lab fees cannot be collected from the students and deposited in the SAF. This is equivalent to supplementing the schools' operating budget. Principals are encouraged to work with the Budget Office to identify all funding sources available in the operating budget to finance school operations.
- d) Principals are required to seek prior approval from the Chief of Schools before making a commitment for purchases more than \$10,000.00.
- e) The Principal must investigate the cause of any negative balance in the SAF account and take corrective action to eliminate the negative balance. All negative balances must be resolved monthly.

4) Control of Student Activity Funds

Principles of Internal Control: The Principal is primarily responsible for the effectiveness of the internal controls for the SAF. The SAF is accounted for, by DCPS, as a trust fund, and it operates in a similar manner. The SAF makes the same presumptions as a trust fund: the beneficiaries (i) do not have financial or legal capacity to carry out the operations of the SAF, and (ii) do not have training and ability to preserve the SAFs assets and resources for the current and future use and needs of the students. These presumptions place the Principal, SAF Business Manager, and School Banker in a position similar to the trustees of a trust fund, in this case the SAF. A complete accounting of all funds received and disbursed through the SAF is required. The purpose of this accounting is to document that the funds have been properly expended and the assets and resources have been preserved.

Basic principles of good management and internal controls assure the following:

- a) **Authorization.** All transactions must be properly authorized by the Principal in accordance with SAF policies. No school personnel are permitted to make obligations for the SAF of the school without the prior, written approval of the Principal.
- b) **Properly designed records.** All deposits and disbursements must be supported by sequential pre-numbered receipts and checks respectively. The School Funds Online software is the Book of Record (ledger) for the SAF. This software must be used by all schools. The SAF ledger must be maintained on an "as you go basis" meaning all transactions must be recorded in School Funds Online as they occur. Failure to record all transactions in School Funds Online may be construed as misuse or fraud and prompt revocation of the SAF. All checks must be printed from the School Funds Online software to ensure timely and accurate recording on the ledger. **Manual or hand-written checks are strictly prohibited.**

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- c) **Security of assets and records.** The only individuals to have access to assets or records are those that are required based on the specific needs of their job. All cash, checks, receipt books, bank statements and other SAF records must be protected against the danger of loss or theft. A functional safe or locked file cabinet must be used to safeguard the assets and records of the SAF.
- d) **Segregation of Incompatible Duties.** An "incompatible" duty is one that would put a single individual in the position of being able to commit an irregularity and then to conceal it. For all transactions, (2) or more persons must be involved in each transaction. This enhances the integrity of the accounting process and encourages accuracy. To achieve this separation of duties, the Principal shall designate one staff person to act as the SAF Business Manager, one staff person to act as the School Banker and two staff members to act as authorized signatories.
 - **School Banker:** This person is responsible for collecting all cash and checks from faculty, students and parents; issuing pre-numbered receipts; maintaining the SAF source documentation (i.e. completed SAF-22 Deposit Forms and SAF Deposit Total Forms with supporting documentation); and making deposits at the bank. All SAF source documentation must be maintained in one central location in an organized fashion so that the documentation is readily available for review by internal or external auditors.
 - **SAF Business Manager:** This person is responsible for entering the deposit information into the School Funds Online software, preparing checks for signature, maintaining the SAF source documentation (i.e. completed SAF-22 & SAF-23 Forms, Deposit Control Form, Student Remittance Report, invoices, receipts, etc.) and completing the monthly reporting package. The SAF Business Manager is also responsible for ensuring the accuracy and completeness of all SAF source documentation and resolving any outstanding issues related to the SAF.
 - The SAF Business Manager and School Banker cannot be the same person.
 - **Authorized Signatories:** In addition to the Principal, two staff members will be designated as authorized signatories.
- e) **Two signatures are required on all checks.** Schools must have at least three persons as signatories for the bank account. Any person who acts as a signatory on the SAF will be held responsible for fraud or misuse of the account. At the discretion of the Principal, signatories may be designated or removed from the account. Authorized personnel shall sign all checks by hand. The use of a signature stamp is strictly prohibited. The SAF Business Manager and the School Banker cannot act as signatories on the account and cannot be listed on the signature form. All changes to the authorized bank signatories must be processed through the Office of the Chief Financial Officer.
- f) **Pre-numbered receipts must be issued whenever cash is received for deposit in the SAF.** All schools must use a pre-numbered receipt book with at least three (3) parts software. These receipts must accompany the SAF-22 Deposit Form. All checks received for deposit must be photocopied and attached to the SAF-22 Deposit Form.
- g) **Monthly bank statements must be given to the Principal unopened.** The Principal will review the bank statement for any irregularities. After this review, the bank statement must be signed and dated by the Principal and given to the SAF Business Manager who is responsible for preparing the monthly reporting package.

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- h) Issuing an ATM or debit card is strictly forbidden. Cash withdrawals are strictly forbidden. All disbursements from the SAF must be made by check generated from the School Funds Online (SFO) software.

5) Bank Accounts

Checking Accounts

- a) All Student Activity Fund (SAF) bank accounts are held at Wells Fargo Bank. One checking account is permitted per school for use as the SAF bank account. Every SAF bank account is under the control of and subject to oversight and monitoring by the Office of the Chief Financial Officer. Failure to comply with the policies and procedures established by the Office of the Chief Financial Officer will result in revocation of the SAF.
- b) All bank accounts must be in the name of the school, and not in the name of a school employee, school club, booster group or any individual. Any bank accounts for PTAs, Home School Associations, school employees, or booster groups must be set up using that organizations' name and tax identification number. These groups are strictly forbidden from using the District of Columbia Governments tax identification number and the name of the school on the account.
- c) Bank statements are delivered directly to the individual schools monthly. Only one checking account shall be maintained for all SAF transactions for each school.
- d) When a school has a change in personnel, signature cards at Wells Fargo must be updated. Signature cards are available from the OCFO. Contact the OCFO for new signature cards any time there is a need to change the authorized signatories.
- e) All schools must use voucher style, laser checks which are compatible with the School Funds Online (SFO) Software.
- f) All check stock must contain: (1) District of Columbia Public Schools in line 1 of the account name; (2) the name of the school on line 2 of the account name; (3) at least two signature lines; and (4) must contain the phrase, "Not Valid After 90 Days" on the face of the check.
- g) Individual schools CAN NOT set up bank accounts. This can only be done through the Office of the Chief Financial Officer.

Savings Accounts, Certificates of Deposits and Money Market Accounts

- a) Schools are permitted to have a savings account, certificate of deposit, or money market account. Historically, these types of accounts have been established to fund scholarships for post-secondary education.
- b) Individual schools cannot establish these accounts independently; these accounts must be opened through the Office of the Chief Financial Officer.

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- c) Any school which has one of the accounts listed above must include the account statements with the monthly report packages.
- d) Disbursements cannot be made directly from the savings, CD's or money market accounts. Any withdrawal from these accounts must be deposited in the checking account. All disbursements must be made via check disbursement from the checking account.

6) Receipt and Deposit of Funds

- a) Cash receipts must be deposited intact; this means that all cash collected must be deposited in the SAF bank account. **Disbursements must never be made from cash receipts.** All disbursements must be made by check generated from the School Funds Online (SFO) software. **Failure to comply will result in immediate suspension of the SAF account.**
- b) All checks received for deposit must be made payable to the school. Checks made payable to the School PTA, HSA or PTO should never be deposited into the SAF. Checks and money orders received for deposit must be immediately protected with a restrictive endorsement containing the words "For Deposit Only".
- c) All monies collected, cash or check, must be confirmed by issuing a pre-numbered receipt to each person remitting the monies. Pre-numbered receipts must be issued in numerical sequence. Each school must use pre-numbered receipt books that must be at a minimum in three parts:
 - original receipt – given to the person submitting the money
 - copy 1 – attach to SAF-22 Deposit Form
 - copy 2 - will remain in the receipt book
- d) All funds collected by teachers from students or collections by other employees must be remitted daily to the School Banker. Teachers and other faculty are not permitted to keep money collected from students in the classroom; all monies collected must be turned over to the School Banker daily. The teacher will receive a receipt for the total amount of the money deposited into the school bank.
- e) Funds that are raised via a crowdfunding or fundraising website cannot be deposited into the SAF. Examples would include but are not limited to Go Fund Me, Permission Click and Kickstarter.
- f) Personal checks must not be cashed for DCPS employees or other persons from cash receipts or other school funds.
- g) To provide proper accounting control, cash receipts must be deposited initially in the schools' checking account. Deposits in a savings account must be made by check drawn on the schools' checking account. Withdrawals from savings accounts must be deposited in the school's checking account before being used to make disbursements.
- h) All monies collected from the sale of items in the school store must be supported by cash register receipts.
- i) Timelines for Depositing Funds

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For all schools, bank deposits must be made, at a minimum, on every Wednesday and Friday of the week. Bank deposits can be made as often as is necessary to prevent accumulation of cash on the school premises.

7) Disbursement of Funds

- a) Disbursements from the SAF shall be made in a manner consistent with the principles and purposes of student body funds as stated in Section 1 and 2 of this Manual.
- b) All personnel requesting disbursements from the Student Activity Funds must prepare a SAF-23 Request for Check Disbursement Form. Section I of the form must be completed by the requestor and submitted to the Principal for review and authorization. Section II will be completed by the Principal and the SAF Business Manager. All requests require the Principals' approval prior to preparation of the check disbursement.
- c) All disbursements from the SAF account must have proper supporting documentation attached to each request. The SAF-23 Form must be completed in its' entirety by the requestor. The "purpose section" of the SAF-23 Form must be completed with details that clearly tie the purpose of the disbursement to an authorized extra-curricular activity or event of the school. Reimbursements to staff or faculty for miscellaneous out of pocket classroom expenses are prohibited. School supplies are to be purchased through the operating budget established for each school. Invoices for items that should have been purchased through the operating budget cannot be paid from the SAF. **In short, the SAF cannot be used to circumvent the standard procurement process or supplement the schools' operating budget.**
- d) All SAF-23 Disbursement Requests must be supported with the original documentation. All request forms must have supporting documentation. No check shall be issued from the SAF without the Principal's approval and supporting documentation. Any disbursement made that does not have the corresponding supporting documentation (i.e. authorized SAF-23 form, itemized receipt or invoice, etc.) may be subject to having to be repaid to the SAF account by the Principal before the next reporting period. Receipts and Invoices must be dated within the last 90 days. Expenditures that are more than 90 days old cannot be reimbursed or paid from the SAF. Disbursements which are primarily for the benefit of the school staff or other DCPS employees, such as gifts, social events, cook outs, meals, retirement functions or other staff social activities must be made entirely from available faculty funds. Disbursements related to faculty can never be charged to the General Fund or any other student owned funds.
- e) A written warning will be issued to the Principal on the first occurrence of a disbursement from the SAF that is not allowable per this Manual. A second occurrence of a disbursement from the SAF that is not allowable per this Manual may result in revocation of the SAF account for the remainder of the school year.
- f) All disbursements from the SAF must be for allowable expenditures.
- g) Payments for Personal Services from SAF:

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Students

- It is permissible to pay students small sums of monies for services provided in connection with SAFs.
- All students are exempt from FICA taxes and most are exempt from state and federal income taxes.
- The principal must approve of such requests, and the student must sign beneath the principal's approval signature, to acknowledge receipt of funds.

Independent Contractors

- Persons receiving payments for personal services who are neither DCPS employees nor students shall be assumed to be independent contractors. No deduction for taxes is necessary and no reporting is required unless the aggregate payments to one person in one calendar year exceed \$600.
- If the payment(s) to one person exceed \$600 in one calendar year, a separate file must be kept with the following information: Name, current address, social security number, and total amount paid. This information must be provided to the Office of the Chief Financial Officer by December 31st.

h) Signature on Checks

- In addition to the Principal, at least two employees must be authorized to sign checks.
- All checks must contain two authorized signatures.
- The Principal shall designate via the SAF Designated Personnel Worksheet those school employees who are authorized to sign checks.
- The last spaces to be completed on a check must be the signature spaces. Neither the Principal nor any other school employee should sign a check until both the payee and amount spaces have been completed. In short, checks must never be pre-signed at any time.
- Checks that remain outstanding for more than 90 days must be voided. A stop payment must be placed on any check that is \$100.00 or more. SAF Business Managers must actively review the list of outstanding checks to ensure compliance with this rule.

Allowable and Unallowable Expenditures from SAF: Most disbursements from the SAF may be made without approval or review by the Office of the Chief Financial Officer.

Criminal Background, Traffic Records Checks, and Mandated Reporter Training for Contractors That Provide Direct Services to Children or Youth (includes all DCPS students)

- a) All vendors providing services to DCPS (including independent contractors) shall ensure the following:
 - i. That their employees, contractors, volunteers and other personnel (Contractor Personnel) submit to all background checks required by DCPS, which may include, but is not limited to, a tuberculosis screening and a criminal background check pursuant to the Criminal Background Checks for the Protection of Children Act of 2004 (D.C. Code § 4-1501.01, et seq. (2011)) and any rules promulgated thereunder, including D.C. Mun. Regs. Subt. 6-B, § 412, et seq. (2011). Contractor shall also ensure that all Contractor Personnel who have not submitted to any DCPS-required background check are restricted

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from serving in positions affording such individuals unsupervised direct access to DCPS students while providing service and that such persons at all times avoid unsupervised direct contact with such students.

- ii. That any Contractor Personnel having direct contact with students while providing services to DCPS annually take the mandated reporter training offered by the DC Child and Family Services Agency (Mandated Reporter Training), which is provided for ANY person or employee (private or public) at no cost. This training can be found using the following website: <https://dc.mandatedreporter.org/Registration/Registration.action>. Additional information regarding the Mandated Reporter Training can be found by calling (202) 442-6000 or by visiting <http://cfsa.dc.gov/>. Contractor will ensure that Contractor Personnel report suspected instances of child abuse and neglect according to the requirements of District law and the means prescribed in the Mandated Reporter Training. Contractor must also ensure that its representative responsible for managing this purchase order takes the Mandated Reporter Training annually. Copies of all Mandated Reporter Training certificates verifying Contractor Personnel have completed training must be provided to DCPS (including the school or central office program receiving services) for record keeping. Contractor must also maintain copies of such certificates for its internal records. At any time, DCPS reserves the right to request a copy of a Mandated Reporter Training completion certificate for ANY Contractor Personnel working in direct contact with DCPS students.
- b) Principals are responsible for ensuring the provisions outlined in item "a" of this section are communicated to and adhered to by vendors providing services to DCPS utilizing SAF funds. Questions regarding these provisions should be directed to the Office of Contracting and Acquisitions (OCA).

Allowable Expenditures

- a) Student awards
- b) Costs for field trips with an educational purpose and athletic events approved in accordance with DCPS field trip and athletic policies (excludes transportation costs – see items c & d).
- c) Public transportation costs for approved field trips and athletic events (see item b).
- d) Private chartered bus transportation for approved field trips and athletic events (see item b). All transportation vendors must hold an active Washington Metropolitan Area Transit Commission (WMATC) Certificate of Authority and be listed as active on the WMATC Active Carrier List found at <http://www.wmatc.gov/index.php/carrier-information> (excludes the Washington Metropolitan Area Transit Commission (WMATA)).
 - i. Local Bus Travel (travel within 50 miles of the District of Columbia): Only vendors pre-approved by the DCPS Contracts & Acquisitions Division may be utilized to provide bus transportation to DCPS students. A list of pre-approved vendors is published by the DCPS Contracts & Acquisitions Division and is entitled "Vendors Approved to Provide Transportation Services to DCPS Students."
- e) Purchase of athletic supplies, equipment and uniforms
- f) Student newspapers and publications
- g) General assemblies and student programs (i.e. Honor Roll Assembly)

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- h) Purchase of supplies, materials, membership dues for authorized school clubs & organizations
- i) Event or contest registration fees (i.e. The Spelling Bee, Robotics Competition entry fee)
- j) Payment of student membership dues in organizations
- k) Graduation venues and supplies
- l) Promotional exercises
- m) Graduating Class activities
- n) End of the school year community gatherings (Fun Day)
- o) Purchase of merchandise for sale in school store. Items purchased must be in compliance with the D.C. Healthy Schools Act. Schools must maintain an inventory of all items purchased for sale in the school store. The inventory list must be updated regularly to reflect the purchase of additional inventory and for items sold.

Expenditures Requiring Prior Approval from the Central Office: Any disbursement over \$10,000 or any contract, agreement, or order form with anticipated aggregate expense over \$10,000.

Expenditures Requiring Prior Approval from the Office of the Chief Financial Officer:

- a) Building bulletin boards or other structures, including alterations and attachments thereto
- b) Purchase or lease of equipment which is to be attached to a school building
- c) Purchases made from any DCPS employee
- d) Purchases made for any employee of the DCPS
- e) Purchases made from a partnership or corporation owned by a DCPS employee
- f) Any capital improvement projects including "green roof" projects

Unallowable Expenditures

- a) Non-educational trips of any kind
- b) Gift cards of any value (applies to students and faculty)
- c) Computers, Tablets, MP3 players, iPads
- d) Testing supplies and materials including scantron sheets, calculators, snacks – this includes snacks/incentives for PARCC testing
- e) Cellular phones and internet service (applies to students and faculty)
- f) Rental fees for cars and vans, rideshare fees (Uber, Lyft)
- g) Gas, toll fees, and mileage for travel to student activities and events
- h) Costs for hotel rooms within a 50-mile radius of the school

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- i) Games of chance or raffles
- j) Disbursements which are primarily for the benefit of the school staff or other DCPS employees, such as gifts, socials, BBQ's, meals, retirement functions, faculty/staff meetings, conferences or other staff social activities (unless made from Faculty owned accounts)
- k) Payment for individual membership dues
- l) Repair or maintenance of equipment purchased with DCPS appropriated funds
- m) Payments for security equipment i.e. radios, walkie-talkies
- n) Payments to security officers or custodians for special events held at a DCPS facility
- o) Replacement for items confiscated from students or lost items. Cell Phones that are confiscated by staff members and subsequently misplaced, must be paid for by the staff member that misplaced the cell phone.
- p) Merchandising accommodations, extensions of credit or loans to DCPS employees or to any person other than a pupil; however, small emergency loans for carfare, lunches, and similar items may be made to pupils at the discretion of the principal.
- q) Any disbursement which is prohibited by Federal or District of Columbia Law, or by DCPS policy or regulation
- r) Contributions to charitable organizations, unless funds have been contributed by students for that specific charity
- s) Salaries for services that are a responsibility of the school system or are for school system assignments; all compensation for DCPS employees must be processed through the Office of Payroll
- t) Any expenditure which should be paid from the annual appropriated budget. Examples include computers and accessories, textbooks, recurring contracts, postage, materials for the annual enrollment fair and testing supplies
- u) Alcoholic Beverages of any kind (applies to students and faculty)
- v) Travel and training expenses for DCPS employees including ROTC instructors and Athletic Coaches. This includes but is not limited to hotel costs, transportation costs, conference registration fees, professional development, food and per diem.
- w) Third Party reimbursements and reimbursements to non DCPS Staff members; Staff or Faculty cannot be reimbursed for expenses that were incurred by another employee, parent, or student. Non- DCPS employees cannot be reimbursed for goods/services that they paid for on the behalf of the school.
- x) Stipends for DCPS employees or non DCPS employees
- y) Medical treatments for students and/or staff members including physicals for students participating in Athletic Programs unless provided by the DCPS Athletic Department
- z) Disbursements related to Teacher Appreciation Week i.e. gifts, meals, entertainment, etc.

8) Accounting & Reporting

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Accounting: Book of Record

- a) Accounting records for SAFs must be maintained using the School Funds Online (SFO) software.
- b) School Funds Online GL Accounts: All transactions, checks and deposits, must be recorded in the appropriate GL account in School Funds Online (SFO).
- c) The School Funds Online (SFO) ledger must be current through the fiscal year to provide Principals and activity sponsors with accurate information on any given GL account. Financial reports must be prepared cumulatively to provide the accurate GL account balance as of a certain point in time.

Broad Categories of GL Accounts in School Funds Online

There are four (4) broad categories GL accounts in School Funds Online. These are:

- a) **General Fund Accounts** - Consists of unrestricted funds owned by the student body. Some of the sources of the general fund are:
 - Unsolicited donations of \$500 or less
 - Profits from the operation of vending machines in areas accessible to students
 - Money earned from student body fund-raising activities
 - Profits from the school store, ticket sales from athletic events and other approved school activities
 - These Unrestricted General Funds will be disbursed at the discretion of the Principal.
- b) **Class, Club and Organization Accounts** - This would include accounts such as the National Honor Society, Future Business Leaders of America, Student Government, concert choir, Class of 2019 and others. The following principles shall govern the maintenance of class, club and organization accounts:
 - Any balance remaining in the account of a graduating class after the class has graduated and has had an opportunity to determine the disposition of the balance, must be closed out to the General Fund at the beginning of the next school year.
 - Any balance remaining in the account of an inactive club after the club has had an opportunity to determine the disposition of the balance must be closed out to the General Fund at the beginning of the next school year.
- c) **School Activities Accounts** - This would include accounts such as school store, homecoming dances, etc.
- d) **Athletic Accounts** – This would include accounts such as cheerleading, football, girls' basketball, lacrosse, etc.

9) Reporting

Monthly bank statements must be delivered unopened directly to the Principal. The Principal must review the bank statement, the cancelled checks (if received with the bank statement), and other bank documents and thereafter arrange for the SAF Business Manager to submit the proper accounting forms. It is imperative that the Principal review the bank statement and corresponding forms for accuracy and irregularities. The required documentation must be uploaded into School Funds Online by the 15th day following the close of the month. All monthly reports are reviewed by personnel of the OCFO. Principals and SAF Business Managers will receive notification of any errors or

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policy violations upon review of the reports. Failure to submit the report packages timely and accurately for 2 consecutive months will result in immediate revocation of the SAF for the remainder of the school year.

Schools with no activity during the month are still required to submit a monthly report by the 15th of the following month.

Monthly Reporting Requirements: No later than the 15th day of each month, the Principal must ensure that the following items are submitted electronically to the OCFO:

- SAF Monthly Report Package Cover Sheet signed by the Principal
- Monthly Wells Fargo bank statement signed by the Principal
- Most recent statement available for CD, Money Market or Savings Accounts if applicable
- Completed SAF-23 Check Disbursement Forms with Supporting Documentation must be uploaded to School Funds Online (SFO)
- Completed SAF-22 Deposit Forms, Student Remittance Reports and Deposit Control Forms with Supporting Documentation must be uploaded to School Funds Online (SFO)
- Completed Donation Drop Off Form signed by the Donor and a member of the school staff (this form should be included in the Deposit Forms)
- Year to Date Report generated from School Funds Online (SFO) signed by the Principal and SAF Business Manager – this report provides the year to date balances and activity of the various activity accounts

10) Protection of Funds

- a) Funds stored overnight at the school must be kept in a locked safe.
- b) Blank checks, pre-numbered receipt books, cash equivalents and other important documents must be maintained in a locked cabinet or safe.
- c) The combination to the safe shall be limited to only those persons with a continuous need for free access to the safe.
- d) The safe combination must be changed whenever a person who has the combination leaves the school or is transferred to a position where she or he no longer has a continuous need for free access to the safe.
- e) DCPS employees and students must be instructed never to attempt to thwart a robbery in the school.
- f) In event of a theft or break-in, the following persons/agencies must be notified immediately: (a) the Metropolitan Police Department; (b) the Security Division; and (c) the Office of the Chief Financial Officer. Failure to do so may result in the suspension or termination of the SAF.

APPENDIX D. DCPS' AND OCFO'S RESPONSES TO DRAFT

1.1) Residual Student Activity Funds of Closed Schools

- a) SAFs will be transferred between schools only when a school is closed. The gain or loss of a grade, or the gain or loss of students due to boundary changes, will not result in the transfer of SAFs between schools unless a school closing is also involved.
- b) The policy for allocating the funds (other than trust funds) of closed schools is based on duplicating, so far as possible, the situation which would have prevailed if the school had not closed. The funds will be allocated to the new receiving schools in proportion to the number of students to be newly assigned to each, in the school year following the closing, who would have attended the school had it remained open.
- c) Only those schools which receive students from within the boundaries of a closed school shall be entitled to any portion of the closed school's funds. The fact that, at the time of closing, some of the receiving school's students are reassigned to a third school, does not entitle the third school, to any portion of funds of the closed school.

Record Retention Schedule

<u>Record Description</u>	<u>Retention Period</u>
1. End of the Year Financial Statements	7 years
2. Journals	7 years
3. Ledgers	7 years
4. Audit Reports and Correspondence	7 years
5. Records of Investigations	7 years
6. Bank Statements and Reconciliations	7 years
7. Cancelled Checks & Deposit Slips	7 years
8. Saving Account Passbooks	7 years
9. Expense Vouchers with documentation	7 years
10. Invoices from vendors with documentation	7 years


Audit of SAFs

1. Student Activity funds may be audited annually by a firm of independent certified public accountants. This type of audit is conducted annually in connection with the yearly preparation of the Comprehensive Annual Financial Report (CAFR).
2. Unscheduled audits or reviews shall be performed by the Compliance & Policy- Audits & Risk Management Team and the Office of the Chief Financial Officer.
3. These audits shall be performed in accordance with generally accepted auditing standards, including such tests of the accounting records and such other auditor's procedures as considered necessary under the circumstances.
4. At the time of the audit or review, the following records must be made available to the auditor(s):
 - a. Check stock
 - b. Cash receipts book(s)

APPENDIX D. DCPS' AND OCFO'S RESPONSES TO DRAFT

- c. SAF-23 forms with supporting documentation
 - d. Monthly Bank Reconciliation Reports
 - e. Bank statements and cancelled checks for each month for the period being audited.
 - f. Supporting records of cash receipts (including receipt books, SAF Deposit Forms)
 - g. Unpaid invoices and obligations; and
 - h. Any other documents requested by the auditors
5. Audited SAF transactions shall be consolidated and reported as an Agency Fund in the Comprehensive Annual Financial Report (CAFR) of the DCPS.
6. Upon entering a new assignment, the Principal should study the financial reports and audit reports to become aware of the financial condition of the SAF.

APPENDIX D. DCPS' AND OCFO'S RESPONSES TO DRAFT



**DISTRICT OF COLUMBIA
PUBLIC SCHOOLS**
Office of the Chief Financial Officer

Receipt and Acknowledgement

SY 2019-2020 Instructions for Administering District of Columbia Public Schools Student Activity Fund (SAF) Account

I hereby certify that I have received and read the documents listed below:

1. Student Activity Fund Manual, effective date August 2019; This Manual provides the policies & procedures that govern all DCPS Student Activity Fund accounts.
2. Office of the Mayor, Office of Partnerships & Grants Donations Handbook: This Handbook provides the guidelines and processes for solicitation and acceptance of private donations for all agencies of the Government of the District of Columbia.

School Name _____

Printed Name _____

Signature _____

Printed Title _____

Date _____

Date _____

The original signed receipt should be sent to:

**Office of the Chief Financial Officer
District of Columbia Public Schools
Attention: Accounting Department – Student Activity Funds
1200 1st St. NE – 11th Floor
Washington, DC 20002**

APPENDIX D. DCPS' AND OCFO'S RESPONSES TO DRAFT

ATTACHMENT II

APPENDIX D. DCPS' AND OCFO'S RESPONSES TO DRAFT

<p>GOVERNMENT OF THE DISTRICT OF COLUMBIA OFFICE OF THE CHIEF FINANCIAL OFFICER EDUCATION CLUSTER</p> <p style="text-align: center;">★ ★ ★ [Redacted]</p>	
<p>MEMORANDUM</p>	
<p>TO:</p>	<p>Instructional Superintendents DCPS Principals District of Columbia Public Schools</p>
<p>THROUGH:</p>	<p>[Redacted]</p>
<p>FROM:</p>	<p>[Redacted]</p>
<p>DATE:</p>	<p>September 12, 2019</p>
<p>SUBJECT:</p>	<p>Adherence to SY 2019-2020 Student Activity Fund (SAF) Policy & Procedure</p>
<p>On August 28, 2019 DCPS Principals received the annual Student Activity Fund (SAF) activation procedures and requirements. Each school year DCPS Principals are required to complete the activation procedures in order to gain access to the SAF account for the new school year. Please be advised that, for the 2019-2020 school year, the Office of the Chief Financial Officer (OCFO) will strictly enforce the procedures, guidelines, and penalties contained in the Student Activity Fund (SAF) Standard Operating Procedure Manual (the Manual), as revised August 2019. The SAF Manual documents the policies and procedures for use and administration of the SAF account, and strictly prohibits use of the SAF account for any other reason.</p>	
<p>The SAF Manual requires that:</p>	
<ol style="list-style-type: none">1. All school staff involved in the administration of the SAF to read the Manual and complete training before gaining access to the SAF account.2. The SAF Business Manager to submit the monthly reporting package by the 15th day of the month which includes:<ol style="list-style-type: none">a. The bank statement signed by the Principal,b. the Year-to-Date Report generated from School Funds Online (SFO) software signed by the Principal, and	
<hr/> <p>1200 First Street, N.E., 11th Floor, Washington, D.C. 20002 Phone: (202) 442-5860 Fax: (202) 442-5305</p>	

APPENDIX D. DCPS' AND OCFO'S RESPONSES TO DRAFT

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER
EDUCATION CLUSTER



- c. the Monthly Report Cover Sheet with the Statement of Declaration certifying that all activity has been reviewed and is in full compliance with all SAF requirements, signed by the Principal.

Failure to submit the monthly report package timely and accurately for 2 consecutive months will result in immediate revocation of the SAF for the remainder of the school year.

3. A written warning be sent to the Principal on the first occurrence of a disbursement from the SAF that is not allowable per the Manual. A second occurrence of a disbursement from the SAF that is not allowable per the Manual may result in revocation of the SAF account for the remainder of the school year.
4. Prior written approval by the Principal and supporting documentation is required for all disbursements from the SAF. Any disbursement that does not have supporting documentation may be subject to having to be repaid by the Principal before the next reporting period.
5. The Principal to investigate the cause of any negative balance in the SAF account and take corrective action to eliminate the negative balance. All negative balances must be resolved monthly.

Per the activation memo dated August 28, 2019, any school that has negative activity account balances in School Funds Online (SFO), or is delinquent with any monthly report packages from SY2018-2019, will not gain access to the SAF for SY2019-2020 until all reporting requirements are current and complete.

If you have questions, please contact Accounting Officer Tanya Francis at tanya.francis@dc.gov or at (202) 442-5244.

Attachments:

- Student Activity Fund (SAF) Standard Operating Procedure Manual, revised August 2019
- SY2019-2020 Student Activity Fund (SAF) Activation Memo

cc: Lewis D. Ferebee, Chancellor
Amy Maisterra, Deputy Chancellor

[Redacted]
[Redacted]
[Redacted]

1200 First Street, N.E., 11th Floor, Washington, D.C. 20002
Phone: (202) 442-5300 Fax: (202) 442-5305

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APPENDIX D. DCPS' AND OCFO'S RESPONSES TO DRAFT

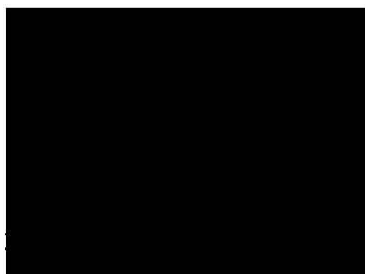
Attachments:

2019.pdf; Donations Handbook.pdf; SY19-20 SAF Training Presentation Principal.ppt; SY19-20 SAF Training Presentation SAF BM.ppt; SY19-20 SAF Training Presentation School Banker.ppt; SY19-20 SAF Training Presentation Signatory 1.ppt; SY19-20 SAF Training Presentation Signatory 2.ppt; SAF 22 Deposit Form.pdf; SAF 23 Request for Check Disbursement.pdf; SAF Deposit Control Form.pdf; SAF FORM SRR Student Remittance Report revised 8-21-17.pdf; SAF Monthly Report Package Cover Sheet- SY19-20.pdf

Good Afternoon,

Please see the attached documents regarding the activation of the Student Activity Fund for SY 19-20.

Respectfully,



APPENDIX E. MAR AND DCPS' RESPONSE



March 11, 2019

Lewis D. Ferebee
Chancellor
District of Columbia Public Schools
1200 First Street, N.E.
Washington, D.C. 20002

Dear Chancellor Ferebee:

I am sending this Management Alert Report (MAR 19-I-001) to inform you of a matter discovered during an inspection of the District of Columbia Public Schools' (DCPS) oversight and monitoring of Student Activity Funds (SAF). The OIG found that revenue from renting Woodrow Wilson High School's (Wilson) building and grounds is deposited into its SAF account, in violation of the D.C. Code and potentially the federal Anti-Deficiency Act (ADA). This rental revenue is deposited with other SAF-related revenue and spent on both allowable extracurricular activities and school expenses in violation of the Office of the Chief Financial Officer's (OCFO) District of Columbia Public Schools Standard Operating Procedure Manual for SAFs (OCFO Manual). This MAR provides three recommendations to address the current rental revenue practice at Wilson. Rather than communicating this information in the final report of inspection, I am sending this MAR because I believe the matter requires immediate attention.

Background

Superintendent's Directive 623, dated September 14, 1992, authorizes SAFs to "finance the recognized extra-curricular activities of student bodies of the District of Columbia Schools Public Schools (DCPS)." OCFO's Manual provides requirements for SAFs and states that the school principal is responsible for the effectiveness of the SAF's internal controls at the school-level and has ultimate responsibility for SAF accounts.

Both OCFO and DCPS play a role regarding SAF oversight. School business managers (BM) must submit monthly reports to the OCFO. The monthly reports include deposits, disbursements, supporting documentation, a signed cover sheet, a year-to-date report noting account balances, and a bank statement. OCFO accountants review these monthly reports to verify whether all SAF activity was allowable according to the OCFO Manual, and follow up with the school regarding questions or potentially unallowable disbursements or deposits. Additionally, OCFO accountants compare bank statements to school records each month and perform reconciliation. In tandem with OCFO's oversight, the DCPS Compliance Office conducts audits of SAF accounts that include interviews with DCPS school staff and documentation reviews. DCPS publishes its findings and recommendations in audit reports and

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transmits them to the schools. The schools provide written responses wherein they can agree or disagree with audit report findings and recommendations.

Historical Record of Wilson Facility Rental Practices

In November 2005, the DCPS Superintendent and Wilson executed an MOU that provided Wilson, "as a model for other DCPS high-achieving high schools, may receive greater fiscal and other resources, authorities, and autonomy within DCPS . . . to more effectively carry out its vital educational goals to the betterment of our City's students." It noted that the "New Relationship may entail the creation of a not-for-profit entity to assist in carrying out certain WHHS [Wilson] authorities and obligations."¹ Wilson Management Corporation (WMC), a 501(c) (3), was formed in 2008. The OIG reviewed WMC's 2008 Field Use Manual and its revised Field Use Manual from 2009; these manuals appear to be the documents that governed the relationship between WMC and Wilson (and included provisions regarding use agreements, conflicts of interest, how to spend rental revenues, etc.). From 2008 to 2012, WMC's tax returns show it received upwards of \$700,000 in revenue, presumably from rentals of Wilson facilities. Around 2012,² WMC stopped managing the rental process for Wilson's facilities. This appears to be when Wilson began to deposit rental revenues in its SAF account.

WILSON'S ESTABLISHED PRACTICE OF DEPOSITING RENTAL REVENUE INTO ITS SAF IS IN VIOLATION OF THE D.C. CODE AND POTENTIALLY THE FEDERAL ANTI-DEFICIENCY ACT, AND EXPOSES THE DISTRICT TO RISK AND LEGAL LIABILITY

The federal Anti-Deficiency Act (ADA) comprises multiple U.S. Code provisions, in particular 31 U.S.C. §§ 1341-1342 and 1349-1351, which, according to D.C. Code § 47-105, are "extended and . . . applicable in all respects" to District appropriations.³ Under principles of federal appropriations law, 31 U.S.C. § 3302(b), known as the Miscellaneous Receipts Statute, requires that any money a federal agency receives from any source outside of its Congressional appropriations be deposited in the general fund of the Treasury unless otherwise provided. The Mayor controls District of Columbia Public Schools⁴ and D.C. Code § 38-172(b) grants the Mayor discretion to delegate authority for "efficient and sound administration" of DCPS,

¹ This MOU expired after 12 months if no new agreement was entered. The OIG does not know whether a new agreement was executed. During the pendency of this agreement, further formal pursuits of a charter school feasibility study for Wilson were deferred.

² Around 2012, OCFO was working out the logistics of setting up an O-type fund for Wilson for ticket sales and rental agreements. In furtherance of this O-type account, in July 2012, the D.C. Council passed emergency legislation that could authorize a new, broader agreement with WMC. This vehicle does not appear to have been used because it was emergency legislation (and only in effect for 90 days) and its authority lapsed, but it provided a fund that allowed DCPS to collect funds from ticket sales at school events and from the rental of school facilities by outside groups and deposit them in the "Public Schools Revenue Generation Fund".

³ See also D.C. Code § 1-206.03(e) (District of Columbia Home Rule Act noting that nothing contained in the chapter affects the applicability of the above-listed U.S.C. provisions to the District). In addition to the federal ADA, the District has its own Anti-Deficiency provisions that also govern District appropriations. See D.C. Code §§ 47-355.01 – 355.08.

⁴ The Mayor controls DCPS in accordance with authority granted in D.C. Code § 38-172(a), to include authorities previously granted to the Board of Education as set forth in D.C. Code § 38-101, such as control of school buildings.

APPENDIX E. MAR AND DCPS' RESPONSE

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including leasing school buildings and executing use agreements. DCPS' website *Use of School Facilities and Grounds*, states the Mayor delegated authority to DGS to execute use agreements for DCPS facilities to generate rental income. D.C. Code §§ 38-401(c)-(c-1) direct that:

[a]ll fees and proceeds derived from licenses or use agreements entered [for the use of public school buildings, etc.] shall be paid to the [District] Treasury ... and accounted for in the General Fund as a separate revenue source allocable to provide authority for the [Mayor] to expend for the custody, cleaning, heating, air-conditioning, lighting, maintenance, security, and improvement of public school buildings and grounds, and the management of these licenses and use agreements All proceeds received ... for leasing school buildings shall be deposited into the unrestricted fund balance of the General Fund of the District of Columbia.⁵

As D.C. Code § 38-401 grants the District specific statutory authority to augment a Congressional appropriation for the District of Columbia government, a failure to deposit rental revenue in the General Fund for its intended use may arguably constitute an unlawful augmentation of DCPS and Wilson's budget.⁶ If there is a violation of the ADA, it can cause administrative sanctions, including employee suspension from duty without pay or removal from office, and even criminal penalties.⁷

Although proceeds from rental revenues are required by the D.C. Code to be deposited into the Treasury of the District of Columbia and accounted for as a separate revenue source for school maintenance and grounds, this money is instead deposited into Wilson's SAF account.⁸ Our fieldwork determined these totals for Wilson's rental revenue for the last 2 school years. See Table 1.

⁵ We note that D.C. Code § 38-401(c) is the current codification of the District of Columbia Board of Education Leasing Authority Act of 1982, Law 4-158, effective Sept. 29, 1982. However, in accordance with the Fiscal Year 2012 Budget Support Act of 2011, D.C. Code § 38-401(c-1) is effective as of Oct. 1, 2011. When these D.C. Code sections are read in tandem with D.C. Code § 1-204.50 (the Home Rule Act), DCPS is required to deposit rental revenues where statutorily provided. D.C. Code § 1-204.50 states, "All money received by any agency, officer, or employee of the District in its or his official capacity shall belong to the District government and shall be paid promptly to the Mayor for deposit in the appropriate fund"

⁶ Title 31 U.S.C. § 1341 and D.C. Code § 47-355.02 prohibit District government employees from making or obligating expenditures in excess of what has been authorized. Title 31 U.S.C. § 3302(b), along with other federal statutes, forms the basis for the prohibition on augmenting funds. Whether it, the federal ADA, and the District's ADA provisions have been violated must be determined by the Board of Review for Anti-Deficiency Violations (BRADV). See D.C. Code § 47-355.07.

⁷ See 31 U.S.C. §§ 1518, 1519, 1349 & 1350 (including a fine of not more than \$5,000, imprisonment for not more than 2 years, or both). Title 31 U.S.C. § 1517(b) also states that if a District employee violates the federal ADA, a report must be made to the President and Congress of all relevant facts and actions taken.

⁸ The team also notes that the rental revenue issue may extend beyond Wilson. During the course of fieldwork, the OIG encountered allegations of rental revenue being deposited into the SAF at other schools.

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Table 1: Wilson Rental Revenue

School Year	Rental Revenue
2016-2017	\$165,363.58
2017-2018	\$172,251.00

This practice exposes the District to legal liability. Further, Wilson is using money meant to be spent on maintaining and securing all public school buildings and grounds, and instead depositing it into its SAF account, denying the District funds that can be used for all DCPS facilities.

WILSON RENTAL PRACTICES WERE LARGELY CREATED BASED ON “BEST JUDGMENT” AND WERE NOT THOROUGHLY VETTED NOR CONSISTENTLY APPLIED; THESE PRACTICES MAY EXPOSE THE DISTRICT TO SIGNIFICANT RISK

Current criteria establishes that DGS should manage the DCPS rental processes. D.C. Code § 10-551.01 establishes DGS as a subordinate agency within the executive branch of the District government, and includes in its functions to “[m]anage space in buildings and adjacent areas operated and leased by the District government [.]” Likewise, DGS’ website states it manages space in District buildings and adjacent areas.¹⁰

DCPS’ *Use of School Facilities and Grounds* webpage details the rental process for DCPS school facilities and grounds. This webpage informs applicants to fill out an application and submit it to DGS’s Realty Office. DGS employees review these agreements for completeness and send them to DCPS for a security assessment. DGS requires renters to sign a use agreement,¹¹ which contains provisions governing the use of DCPS facilities. For example, the agreement states: “The User is responsible for the removal of all equipment and supplies immediately after each daily usage” The fee schedule, requirements for use (e.g., insurance, security), and prohibited uses (e.g., gambling) are listed on DCPS’ website. Wilson’s rental practices vary from this requirement and are described in more detail below.

Wilson Use Agreement

The OIG was advised that Wilson developed its own use agreement (separate from DGS’s use agreement) for rentals “to provide consistency and accountability within the business office, but no input was received when creating the document.” No evidence suggests this use agreement underwent a legal sufficiency review. The resulting use agreements appear unauthorized and may not have the power to bind the District. Further, the contractual provisions present in the use agreement may not protect the District if an accident or other event that results in injury or damage to school property occurs during the course of a rental. The OIG also reviewed draft

¹⁰ See DGS website, <https://dgs.dc.gov/dgs-properties> (last visited Jan. 4, 2019).

¹¹ Title 5B DCMR § 3504 requires a use agreement for school facility rentals.

APPENDIX E. MAR AND DCPS' RESPONSE

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DCPS Compliance audit documentation showing potential instances when Wilson did not require renters to sign this agreement, and therefore renters may not have been bound by its provisions.¹²

DGS Approval of Some Wilson Rentals

The OIG learned that some Wilson rentals are sent to DGS for approval after Wilson charges its own in-house rental fees, while others are not. Renters subject to both DGS and Wilson rental processes sign both Wilson and DGS use agreements and must pay fees to both DGS and Wilson.¹³ The rationale for which rentals are submitted to DGS seems based on the employee's "best judgment."¹⁴ One individual informed the OIG that field rentals are not submitted to DGS for approval. Another Wilson employee indicated that in the past neither field rentals nor recurring rentals were sent to DGS for approval. When rentals are not submitted to DGS, a use agreement is not signed. Rentals not sent to DGS may lack adequate security and custodial services. Although Wilson employees noted that they make sure renters have insurance and indemnification forms, this practice is still outside of legal and regulatory requirements.¹⁵

WILSON'S SAF ACCOUNT, BOLSTERED BY RENTAL REVENUES, WAS USED TO FUND IMPERMISSIBLE PURCHASES, INCLUDING COACHING STIPENDS AND SCHOOL OPERATIONAL EXPENSES

The OCFO's *District of Columbia Public Schools Standard Operating Procedure Manual Student Activity Fund* states that SAF accounts "are provided as a means to finance and manage the extra-curricular activities that enhance the students' overall educational experience." Appropriated local funds are used for regular school functions (salaries, educational supplies, maintenance supplies, etc.), while SAF accounts are a means to finance only extracurricular activities. SAF training documents, signed by school principals and others responsible for SAF-related duties at the school level, indicate that school staff read and reviewed the OCFO Manual and agreed to "[m]onitor[] all activity to ensure compliance with the SAF Policy Manual"

Interviewees informed the OIG that because of Wilson's rental revenue practice, Wilson can offer additional club sports and activities. For example, the SAF was used to pay coaching stipends at Wilson through school year 2017-2018.¹⁶ The OIG was informed that in school year 2017-2018, eight check requests for club coach stipends were paid out of the SAF totaling

¹² It remains unclear whether all renters currently sign Wilson's use agreements (the current BM stated that they do, but draft Wilson audit reports noted that documentation of use agreements was not maintained for 38% of renters).

¹³ The Wilson fee schedule is higher than the DGS fee schedule and appears based on market rent. For example, Wilson charges \$250 to rent its auditorium while DGS charges \$70 or \$137 (depending on whether the rental is for an adult or children's event).

¹⁴ For school year 2017-2018, DGS reported that Wilson sent 14 use agreements/rentals to DGS for approval, and the renters were charged \$3,032 in total for rental fees (not including other fees, e.g., the security fee) by DGS during this time period. The rental fees Wilson collected for that same time period totaled \$172,251.

¹⁵ Draft Wilson audit reports noted that insurance documentation was not maintained for approximately 78% of renters at Wilson.

¹⁶ Currently, the SAF is not used to pay stipends because OCFO will not approve these check issuances. Wilson has limited access to write checks out of its SAF; interviewees noted that because of repeated SAF-related violations every Wilson SAF disbursement must be approved by OCFO.

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\$12,900.¹⁷ Besides coaching stipends, Wilson also used rental revenue money for regular school operations. For example, in 2014-2015, DCPS compliance auditors identified \$14,947.07 in operating costs for the school paid from the SAF (e.g., pest services, fire protection).¹⁸ These payments were in violation of the OCFO Manual. Because the SAF was used to pay for operational costs at Wilson, the true cost of operating Wilson was not captured by its appropriated budget, but augmented with the SAF account.

WILSON'S LONG-STANDING RENTAL REVENUE PRACTICE CONTINUED DESPITE DCPS AND OCFO AWARENESS

Both OCFO and DCPS have a role regarding SAF oversight. According to an interviewee, although general "monitoring" of SAFs is conducted on the OCFO-side because OCFO "owns the process," DCPS manages the people in charge of SAF processes at the school-level. Both DCPS and OCFO should identify and cure SAF-related deficiencies.

OCFO and DCPS knew the rental revenue practice at Wilson. For example, a September 2015 email shows Wilson sought clarification from OCFO regarding how to deposit facility rental money to avoid a litigious situation. Further, an email from November 2015 shows DCPS' knowledge of Wilson's rental revenue practice. Additionally, DCPS conducted a 2016 compliance audit at Wilson that identified problems with its rental revenue practice, but the report was never published.

The OIG reviewed DCPS' draft Wilson audit reports from 2016 and noted that they were detailed and, according to interviewees, resulted from months of fieldwork but never published. The OIG was advised that the audit findings were not communicated to Wilson in writing, despite the serious nature of what was found, including findings related to the rental revenue practice as well as other SAF-related deficiencies. The OIG reviewed three draft audit reports dated August 2016 and one dated October 2016. The October 2016 draft omitted the rental revenue issue. As this report is later in time, this information may have been purposefully removed from the report. There was also a management letter dated April 2017 that discussed the rental revenue issue; however, interviewees informed the OIG that the school never received it. Wilson has not been re-audited since 2016.

It is not clear to the OIG why DCPS identified the rental revenue process at Wilson as problematic but never published its findings or required Wilson to stop this practice. The OIG received conflicting information about why this report was not published, and questioned the veracity of some of the purported reasons provided (e.g., the report was not up to standards; there was a change in management and sick leave taken at the time that caused the report not to be published).

¹⁷ A DCPS policy entitled *Additional Compensation Procedures for the 2018-2019 School Year* provides protocols for stipends. It allows extra-duty pay and stipend pay for some individuals for coaching activities at DCPS schools (both DCPS and non-DCPS employees). The policy provides a table showing the amount coaches may be paid. The policy notes, "No other activities and/or amounts will be compensated."

¹⁸ NOTE: Although this figure is from a draft report and may not be a final figure, it shows that the audit determined SAF funds were used for regular school operational functions.

APPENDIX E. MAR AND DCPS' RESPONSE

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Audit reports cannot effect change if they are not published and remediation and follow-up do not occur. Ultimately, the Wilson DCPS audit report was not published despite the serious nature of the rental revenue finding (and other findings addressing SAF-related deficiencies). As a result, Wilson could not address the findings and recommendations. In addition, OCFO and DCPS awareness of Wilson's rental revenue practice, coupled with the lack of action to correct it, may have served as an indirect endorsement of this practice.

Based on the above observations and findings, we recommend that the Chancellor, DCPS:

- (1) Direct Wilson to forward all requests for buildings and grounds to DGS, and for DGS to deposit the money into the proper fund, as required by the D.C. Code.

Agree _____ Disagree _____

- (2) Implement a process at Wilson to ensure all disbursements and deposits conform to SAF policies and procedures.

Agree _____ Disagree _____

- (3) Assess rental revenue practices at all DCPS schools to determine compliance with the D.C. Code and SAF requirements.

Agree _____ Disagree _____

CONCLUSION

In renting out its building and grounds, Wilson did not comply with applicable D.C. Code, DCMR, DCPS, and OCFO requirements. By depositing rental revenue into its SAF account, Wilson may have improperly augmented its appropriation. As a result, the OIG will refer this issue to the District's Board of Review for Anti-Deficiency Violations (BRAD-V) for review. There is also a potential liability issue with these rentals, as Wilson and the District may not be protected if there is an injury, accident, or other incident during the course of a rental and there is inadequate insurance or no binding contractual provisions in place. The OIG also recognizes that Wilson's rental arrangements may carry with them a risk of fraud, as the rental process is conducted internally with little external oversight.


Please provide your comments to this MAR by March 22, 2019. Your response should include: (1) actions taken or planned; (2) dates for completion of planned activities; and (3) reasons for any disagreement with the issue and recommendations presented. Please distribute this MAR only to those who will be directly involved in preparing your response.

APPENDIX E. MAR AND DCPS' RESPONSE

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If you have questions prior to preparing your response, please contact me or Edward Farley, Assistant Inspector General for Inspections and Evaluations at (202) 727-2540 or Edward.Farley@dc.gov.

Sincerely,


Daniel W. Lucas
Inspector General

DWL/al

DISTRIBUTION:

The Honorable Muriel Bowser, Mayor, District of Columbia, Attention: Betsy Cavendish (via email)
Mr. Rashad M. Young, City Administrator, District of Columbia (via email)
Mr. Jeffrey S. DeWitt, Chief Financial Officer, Office of the Chief Financial Officer (via email)
Ms. Angell Jacobs, Chairperson, Board of Review for Anti-Deficiency Violations, District of Columbia (via email)
Mr. Keith A. Anderson, Director, D.C. Department of General Services (via email)
Mr. Jed Ross, Chief Risk Officer, Office of Risk Management (via email)

APPENDIX E. MAR AND DCPS' RESPONSE



April 2, 2019

Daniel W. Lucas
Inspector General
Government of the District of Columbia
717 14th Street, NW
Washington, DC 20005

Dear Mr. Lucas:

This letter responds to your March 11, 2019 Management Alert Report (MAR 19-I-001) regarding the Student Activity Fund (SAF) at Woodrow Wilson High School (Wilson). The MAR finds that revenue from renting Wilson's building and grounds is being deposited improperly into its SAF account and, along with other SAF-related revenue, is being spent on both allowable extracurricular activities and unallowable school expenses in violation of the Office of the Chief Financial Officer's (OCFO) procedures for SAFs.

The MAR provides three recommendations to address these rental revenue practices at Wilson and requests a response from DCPS that includes whether DCPS agrees with the recommendation, any actions taken or planned to address the findings in the MAR and dates for completion of any actions taken or planned, or the basis for any disagreement with the issue and recommendations presented. We understand that there will be a final report of inspection and DCPS may address certain conclusions at that time. This letter focuses on the recommendations in the MAR and DCPS' planned actions to address those recommendations.

The first recommendation is that DCPS "[d]irect Wilson to forward all requests for buildings and grounds to DGS, and for DGS to deposit the money into the proper fund, as required by the D.C. Code." DCPS agrees with this recommendation and has already taken steps to address the issue. On March 25, 2019, the Wilson Principal sent a letter to all entities with current or recent facility rental agreements informing them that, effective immediately, all future facility rentals must be submitted to the Department of General Services (DGS). Going forward, persons or entities seeking to rent Wilson facilities will be directed to follow the DGS process. We look forward to working with our DGS partners to continue to maximize use of Wilson facilities by members of the public. There are, however, 12 facility rental agreements currently in place, all of which with one exception are scheduled to expire in May or June 2019. (One agreement, for \$2500, is scheduled to expire in August 2019.) Although DCPS recognizes the seriousness of the matters identified in the MAR, abruptly terminating existing agreements, some of which reflect multi-year relationships, would be extremely disruptive to community members and groups who have relied in good faith on that process.

The second recommendation is that DCPS "[i]mplement a process at Wilson to ensure all disbursements and deposits conform to SAF policies and procedures." DCPS agrees with this recommendation. The Wilson Principal has already reiterated the importance of complying with SAF policies and procedures

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to her business staff. DCPS Central Office will provide additional retraining to Wilson staff no later than April 30, 2019 to ensure that disbursements and deposits conform to SAF requirements.

The third recommendation is that DCPS “[a]ssess rental revenue practices at all DCPS schools to determine compliance with the D.C. Code and SAF requirements.” DCPS agrees with this recommendation. DCPS will assess rental revenue practices at its schools before the September 30, 2019 end of Fiscal Year 2019.

Thank you for the opportunity to address these matters.

Sincerely,



Lewis D. Ferebee
Chancellor
District of Columbia Public Schools

cc: Betsy Cavendish, General Counsel to the Mayor (via email)
Rashad M. Young, City Administrator, District of Columbia (via email)
Jeffrey S. DeWitt, Chief Financial Officer, Office of the Chief Financial Officer (via email)
Keith A. Anderson, Director, D.C. Department of General Services (via email)
Jed Ross, Chief Risk Officer, Office of Risk Management (via email)