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FISCAL PRESSURES ON THE DISTRICT OF COLUMBIA

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HEARING

BEFORE THE

COMMITTEE ON
THE DISTRICT OF COLUMBIA
UNITED STATES SENATE

NINETY-FOURTH CONGRESS

SECOND SESSION

PART 4—APPENDIX

ACCOUNTING AND FINANCIAL MANAGEMENT

JUNE 19, 1976

Printed for the use of the
Committee on the District of Columbia

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VOLUME I
EXECUTIVE SUMMARY

ARTHUR ANDERSEN & Co.

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June 19, 1976

Honorable Thomas F. Eagleton
Chairman, Senate Committee on
the District of Columbia
Washington, D. C. 20510

Dear Mr. Chairman:

We are pleased to submit our report to your Committee regarding our survey of the accounting and financial management practices of the District of Columbia Government. As requested, we began this survey in March 1976 and have utilized some seventy-five professional staff in making the review.

Our conclusion is that the financial information published by the District is not reliable. The District's annual report contains inaccurate and misleading numbers. Internal reporting, which is essential if the District's operations are to be managed on a sound financial basis, is not reliable, timely or consistent among agencies. This lack of reliable financial information results from weaknesses in financial controls which have evolved over a long period of time.

An audit of the District is not practicable at this time. Because of the general absence of financial controls, an audit would be very expensive now. However, adequate financial controls and new and improved systems could be installed so that an audit would be feasible for fiscal 1978. To meet this schedule, it is imperative that sufficient and continuous effort be applied in the coming months to improve the District's financial management practices.

We have summarized the problems of the present financial and accounting systems and have outlined a plan of action to improve or replace these systems. In addition, an illustrative financial reporting package is included in this report. The objective of these improved or new systems and

financial statements is to provide accurate and timely operational and financial information to assist the Mayor and his management team in making operating decisions and exercising control over District funds. This same financial reporting system can be used to provide information to the City Council and the Congress on the District's budgetary and financial results.

We are pleased to report that we received complete cooperation from District officials. We are prepared to discuss this report, or any data which we have collected during our review, with you or others designated by you.

Very truly yours,

ARTHUR ANDERSEN & CO.

VOLUME I

EXECUTIVE SUMMARY

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SECTION I

CRITICAL ACCOUNTING AND REPORTING PROBLEMS

Can the financial data of the District of Columbia be relied upon by the Congress, the City Council, the Mayor and District officials as a basis for making informed fiscal decisions? Are the District operations being conducted on an efficient basis, and is there adequate financial control over the operations? Can the District's financial statements be relied upon by the investing public? These were among the key questions asked last December regarding the District's proposed issuance of $50 million in bonds. The questions remain valid today.

In this section of our report, we identify a number of critical accounting and reporting problems which give rise to concern regarding the ability of the District to respond affirmatively to these questions.

Inadequate Financial Reporting

The District's 1975 annual report is a 125-page book containing an extensive display of financial statistics. It is poorly organized and inadequately summarized for the reader to develop an understanding of the overall financial condition and results of operations of the District. For example, total revenues or cash receipts are reported as

$1,401.8 million on page v, $1,900.1 million on page viii, $1,208.5 million on page 28, $1,463.0 million on page 65 and $1,104.7 on page 124. There is no total for revenues reported on "Statement D" appearing on pages 68 through 72. Although some of these differences are reconcilable, the annual report presentation is confusing at best.

The annual report includes many inaccurate numbers, and there are major omissions of financial data. Certain assets and obligations of some agencies were not reported to District Accounting. There was no reporting of pension liabilities which are in excess of one billion dollars. There was no disclosure of accounting policies followed in the preparation of the statements in the annual report. There were no interpretations, explanatory comments or disclosures which are required by generally accepted accounting principles. Such information is essential to an adequate understanding of the data presented.

Inaccurate Financial Statements

The financial data included in the 1975 annual report contains inaccurate and misleading amounts. These errors were caused primarily by District agencies (1) failing to follow the year-end closing instructions, (2) reporting amounts that were inconsistent with prior years' amounts, or (3) aggregating amounts that should have been

reported separately. For example, twenty-five agencies have not submitted reports of delinquent accounts receivable to District Accounting for periods ranging from six months to nine years. For agencies not reporting, District Accounting either omitted a delinquent receivable amount for the agency or used the same amount that had been reported in prior years.

Amounts submitted by some agencies were so different from the amounts which had been reported by those agencies in prior years that District Accounting should have questioned the reasonableness of the data received. We found no evidence that such a review had been performed. We were not able to find anyone in District Accounting who was knowledgeable of the reasons for variations between years in amounts reported.

The District and many of its separate agencies appear to have placed little, if any, emphasis on providing accurate and reliable financial data to the public. We were informed that District personnel responsible for preparing the 1975 annual report had reason to believe that inaccurate amounts were being included.

Set forth below are several illustrations of questionable amounts included in the District's June 30, 1975, Combined Balance Sheet.

- Accounts receivable - this includes current accounts, delinquent accounts, taxes and bond interest.

  . Current accounts receivable - $8.9 million; many agency receivables are not recorded. For example, approximately $1.5 million of special billings at the Department of Environmental Services for meter repairs and relocations are omitted.

  . Delinquent accounts receivable - $14.9 million; this amount has remained unchanged in the District's financial statements since 1967 and is therefore a questionable asset.

  . Taxes receivable - $19.2 million; this amount actually represents the October 31, 1974, balance since the report for June 30, 1975, was not available. The June 30, 1975, amount eventually reported was $2.4 million higher than the balance in the financial statements.

- Inventories - $5.8 million of the total of $16.9 million represents 1974 amounts repeated in 1975 because many agencies did not report their June 30, 1975, inventories. In addition, the Sanitary Sewage Works Fund and the Metropolitan Area Sanitary Sewage Works Fund inventory balances of $1.0 million and $1.2 million, respectively, have not been changed since the June 30, 1971, financial statements.

- Equipment - 24 agencies failed to report their equipment and thus $37.2 million of the 1975 balance of $96.5 million actually represents the use of 1974 amounts. The equipment balance in the financial statements for the Water Fund of $4.1 million has not been changed since the June 30, 1971, financial statements.

- Land and buildings - this balance of $353 million is unchanged from June 30, 1974, because an updated listing of land and buildings was not available until after the annual report was issued. That report reflected $373 million for land and buildings, but management at the Department of General Services acknowledged that this total also is inaccurate and unreliable.

- Construction-in-process - a detail listing of the District's construction-in-process was not available. Construction expenditures for 1975 were added to the construction-in-process amount in the 1974 financial statements to obtain the amount reported at June 30, 1975. The unreasonableness of the District's property presentation is demonstrated by the fact that of the $854 million total real property at June 30, 1975, approximately 60% was reflected as construction-in-process.

Inadequate Closing Procedures

The District did not have adequate procedures for closing its accounting records to insure that correct amounts were being reported by the agencies and recorded by District Accounting. Every large organization, public or private, must have adequate closing instructions if it is to have reliable financial statements. District management personnel did not follow-up to require and enforce strict compliance with the year-end

closing instructions which were issued. In addition, the closing instructions transmitted to the agencies did not give clear guidelines as to what information was to be submitted and how it was to be compiled. For example, the instructions did not indicate how inventories were to be costed or whether physical inventories were to be taken.

After the agencies' reports were received by District Accounting, the information was processed and prepared by accounting personnel without adequate instructions, supervision or training. District Accounting personnel did not determine the reasonableness of the agency submissions, but simply recorded data and functioned as clerks rather than accountants knowledgeable of the financial reporting requirements. These problems highlight the need for a person qualified to guide and direct the accounting personnel at the level of a controller or financial executive.

Noncompliance With Generally Accepted Accounting Principles

The financial statements in the District's 1975 annual report are not presented in accordance with generally accepted accounting principles as set forth in the National Committee on Governmental Accounting's publication, "Governmental Accounting, Auditing, and Financial Reporting" ("GAAFR") and the American Institute of Certified Public Accountants' Audit Guide, "Audits of State and Local Governmental Units."

These publications present the basic guidelines for current accounting practices which should have been followed.

The District's 1975 annual report contains twelve financial statements and summaries. However, several basic financial statements (i.e., statements of revenues and expenses, changes in fund balance, and changes in financial position) required to present fairly the District's financial position and results of operations are not included.

The report contains no explanatory narrative or footnotes which should be an integral part of the financial statements and are necessary for a fair presentation and understanding of the financial information. Information normally considered necessary for a reader to adequately evaluate financial statements includes, but is not limited to, (1) a summary of significant accounting policies, (2) commitments and contingencies including a description of significant legal actions pending, (3) a description of pension and employee benefit plans, and (4) disclosure of loans (including those in default) and a description of their terms.

The questionable accounting practices of the District include (1) classifying enterprise and intra-governmental funds as general funds, (2) recording pension expenses on a pay-as-you-go basis rather than on an

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actuarial basis, (3) not accruing grant receivables and reimbursements, (4) not accruing other receivables, (5) not recording fixed assets, (6) not recording depreciation in enterprise and intragovernmental funds, and (7) reporting pension withholdings as revenues.

Improper Pension Accounting

The District has funded only nominal amounts in its retirement plans for policemen, firemen, teachers and judges. The unfunded liability for these plans approximates $1.7 billion, which will have to be funded in the future. In addition, the District has recorded its pension expense on the cash basis, which does not properly match expenses with the services rendered. If the District properly calculated its pension expense for policemen, firemen, teachers and judges, pension expense for fiscal 1976 would be approximately $266 million instead of the $56 million reported as the estimated appropriation in the multi-year plan following the unacceptable "pay-as-you-go" method, or an additional $210 million.

Approximately 60% of District employees are included in the Federal government's Civil Service retirement program, for which the employee and the District each contribute 7% of the employee's salary or a total of 14%. However, based on data supplied by the Board of Actuaries of the Civil Service Retirement Commission, we have estimated that the cost of this benefit is approximately

77%, not 14%, of salary costs. The excess over the 14% of salaries contributed by the District and its employees is equivalent to a grant by the Federal government if the Federal government determines that the District is not liable for the actual normal cost plus the costs relating to the unfunded liability. We estimate that, for fiscal 1976, the amount of unrecorded pension expense of the District for this benefit will approximate $242 million or 96% of the Federal payment for that year. The Federal government must decide whether it intends to absorb the cost in excess of the 14% presently paid by the District and whether the Federal government intends to hold the District liable for an estimated $2 billion, which is the District's share of unfunded past service cost of the Civil Service Retirement System.

It should be acknowledged that the District has been following the Federal government's funding requirements regarding its participation in the Federal Civil Service Retirement System. It has been estimated that the entire Federal Civil Service Retirement System's unfunded past service cost was approximately $156 billion at June 30, 1972.

If the District were to report pension expense in accordance with generally accepted accounting principles, additional expense for fiscal 1976 of approximately

$452 million ($210 million for policemen, firemen, teachers and judges, and $242 million for Federal government Civil Service covered employees) would have to be added to the 1976 budget, an increase of approximately 40%.

In addition to not reporting pension costs on an actuarial basis, policemen and firemen's pension withholdings are recorded and reported as general fund revenues. This is improper accounting which appears to have resulted from interpretation of a 1935 Federal law which requires that such pension withholdings be deposited at the U. S. Treasury. The amount reported in 1975 was $13,103,314.

Deficient Water/Sewer Billing System

The Department of Environmental Services has not rendered timely billings to its approximately 120,000 customers. The Department is currently unable to apply cash receipts to customer accounts because all available personnel in the Department are assigned to the preparation of customer bills.

This problem started in May 1975 with the installation of a new computerized customer billing system. Approximately 41,500 of the first computerized bills were prepared and mailed to customers and thereafter determined

to have been in error. These bills were not rebilled on a corrected basis until May 1976, at which time the billing included charges for up to 18 months of water and sewer usage.

This delay in billing has postponed the collection of revenues by the District. The delay in collection ranges from nine months for those who paid the erroneous bills to 18 months for those who did not. Based on water and sewer service revenues from customers of approximately $18 million in 1975 (excluding billings to the Federal government and for special services), we estimate that the cash flow deferral was approximately $6 million, and that the estimated interest lost was approximately $400,000.

The Department must now update both the manual and computerized systems in order to prepare the next series of bills. Duplicate processing of cash receipts is required, since the new computer system was not designed to accommodate the inclusion of outstanding customer balances.

Unless these problems can be solved, the District faces the possibility of losing several million dollars. It is impossible at this time, with the lack of controls, to determine whether all amounts due the District are being billed or collected.

Unrecorded Receivables

The District's 1975 annual financial report included accounts receivable due the Department of Environmental Services totaling $2,378,000. However, the Department informed us that it did not furnish District Accounting with any receivable amounts nor does it maintain any accounts receivable totals in the financial records of the Department.

Revenue for services, including charges for water, sewer, solid waste and special services, is not recorded when the bills are rendered. Some billings have been outstanding for years, and very little collection effort has been made to collect these past due accounts.

Although no actual accounts receivable amount was available, we estimate that the amount of unrecorded revenue in the Department of Environmental Services approximates several million dollars.

Loss of Revenues from Lack of Health Care Billing and Collection Policies

Health care billing and collection policies are not well defined. Systems and procedures are fragmented and outmoded, and the collection effort is undisciplined and understaffed. Some health care charges, particularly those of Neighborhood Health Clinics, are not properly recorded on

patient records to enable billing and collection. Considering that not all patients are billed under the present ineffective practices and procedures, it is impossible to determine the amount of understatement of third-party reimbursements from Medicare, Medicaid and various medical insurance programs.

The computerized hospital billing system contains in excess of $100 million of delinquent accounts receivable. These accounts, primarily for inpatients at D. C. General and Glendale Hospitals, represent health care services which were billed but never collected by the Department of Human Resources (DHR). It is likely that many of these accounts are for eligible Medicaid patients for whom DHR could have collected from the Department of Health, Education and Welfare.

DHR has ignored delinquent accounts to the extent that this item has become uncontrolled. Collection efforts are minimal despite the fact that DHR estimates that $10 to $20 million of these accounts could be collected. Moreover, these receivables are not shown properly in the District's financial statements. Instead, an accounts receivable amount from 1967 has been reported. No delinquent accounts have been written off as bad debts since 1969, and, because of ineffective accounting procedures, the few collections that are received are not consistently applied to the proper patient accounts.

Lack of Control over Federal Grant Programs

There is no central control over the claim submissions for or receipt of Federal grant funds at District Accounting or at the agencies. The District's accounting systems do not allow accurate projection and reporting of Federal grant expenses. As a result, grant program funds may be overspent (causing claims to be disallowed and generally to be charged against unavailable appropriated funds) or underspent (causing funds to be returned to the Federal government). In several agencies, nonaccounting personnel prepare financial reports and funding requests without assistance from or knowledge of the agencies' accounting staffs.

Several examples of the errors that resulted from these conditions within the Public Schools' grant programs follow.

- The Public Schools will have to return $462,000 to the Federal government that was not spent during the first grant period of the Emergency School Aid Act program. While community group action contributed to the underspending of the funds, delays in the procurement process and late identification of excess salary funding prevented the grant funds from being redirected within the ESAA program.

- An unidentified $2.6 million Federal check was received in the Public Schools' Division of Finance because it was addressed to "District of Columbia, Presidential Building" (Public Schools headquarters). This large remittance to the District

went undeposited for over a week while Public Schools accounting personnel attempted to identify the source of the funds. It was finally determined that the remittance was intended for the District's Department of Transportation, also located at the Presidential Building. The interest lost on this item approximated $3,000.

- Each year, the Public Schools' Department of Food Services claims nearly $9 million directly from the U. S. Department of Agriculture. The Public Schools' Division of Finance has no record of these claims or the receipt of funds. One employee within the Department of Food Services prepares the USDA claim, receives the funds, deposits the funds and reconciles the deposit to District Accounting records.

- Because there is no central record of expected grant receipts, a $52,000 receipt from a Federal agency went uncollected for over six months. The Federal agency had lost track of the paperwork so the receipt was never processed. Public Schools' personnel had assumed that the payment was included in one of the many other receipts from the Federal government.

- Within just one $900,000 program at the Public Schools, a Department of Health, Education and Welfare audit disallowed $92,000 of claimed direct program costs. The claim could not be reconciled to the District Accounting system. Program managers were preparing inaccurate monthly claims based on their own accounting records, not the official District records.

- There were delays in determining the available carryover funds for the Vocational Education Amendments program. The Public Schools' Division of Career Development also had difficulty in determining the amount of funding to be set aside in that program for aid to the disadvantaged. As a result, the Public Schools must return $263,000 of the $1,736,000 in Federal grant funds received for the program because those funds were not spent as of June 30, 1975.

Significant Revenues Lost in
Reimbursements for Indirect Costs

The Federal government allows agencies to allocate to projects and grants an appropriate share of administrative overhead costs (indirect costs). The District does not presently have an approved indirect cost allocation plan. Thus, the overall administrative costs of the District are not being allocated to District grant agencies' programs for reimbursement from Federal and private sources. We understand that in prior years such a plan was used and resulted in additional revenue of $400,000 to $500,000 for the Department of Human Resources alone.

The absence of an approved indirect cost allocation plan results in revenues being lost by most District agencies. Moreover, we believe the estimated loss of $500,000 to the Department of Human Resources is conservative and that reimbursements could be significantly greater if an accurate plan were developed.

This problem is not attributable solely to the District. We understand that the Department of Housing and Urban Development, the Federal agency responsible for overhead rate determination, has not acted on the District's formal plan submissions for the past several fiscal years. Further, we understand that HUD and HEW are now disputing which of the two has responsibility for approving the District's submissions.

Erroneous Public Assistance Payments

Department of Human Resources task forces consisting of more than 150 employees are currently conducting a special review of the 40,000 cases receiving financial assistance payments. Preliminary results, based upon their review of about 25% of total cases, indicate that almost two of every three cases are paid erroneous financial assistance amounts (mostly overpayments) or are ineligible to receive assistance.

Department estimates of savings attainable through elimination of errors in the cases reviewed are approximately $8 million per year. These savings are underestimated in that they consider only the payment programs and not the impact of removing ineligible recipients from related benefits such as Medicaid and Food Stamps.

Since the Department of Health, Education and Welfare (HEW) regulations allow only a 3 to 5% error rate in welfare payment programs, the error rate of DHR could have a significant fiscal impact on the District through reduced Federal reimbursements for assistance payments programs and/or an obligation by the District to repay reimbursements already made by the Federal government. Many other cities and states do have error rates in excess of those allowed by HEW regulations. However, the District's error rate is substantially higher than the national average.

Anticipated Significant Audit Problems

At this time, a number of significant problems, many of which have already been mentioned, probably make it impracticable or impossible for an independent public accountant to perform an audit and to render an opinion on the District's financial statements.

The scope of an audit is determined by an independent public accountant's evaluation of the internal controls within an entity's accounting system. These controls must be sufficient to enable reliance on the recordation and summarization of individual transactions. At present, the District does not have adequate control over its financial data to accumulate, record and report the District's assets, liabilities, revenues and expenses. The present system is primarily based on cash transactions and provides an inadequate framework for accrual accounting. Specific areas which illustrate the District's problems follow.

- Failure to reconcile the District's cash account with the U. S. Treasury.
- Incorrect cash balances by fund caused by erroneous payroll account distributions between appropriated and grant funds.
- Lack of control over the billing and collection functions and the failure to maintain receivable listings (bills owed to but not collected by the District) for individuals in such activities as water and sewer, housing, hospitals, neighborhood health clinics, and solid waste.

- Lack of control over grant funds to determine that costs are being properly allocated between grants and appropriated funds and the lack of a system for determining accrued but unbilled grant revenues and receivables.

- Inadequate controls over payroll documents, processing and account distributions, to assure the proper recordation of payroll costs and the detection and/or prevention of defalcations.

- Inadequate procedures for the physical control of inventories and for maintaining unit and dollar control over their value.

- Lack of complete or accurate records of equipment, furniture and fixtures and real property.

- Lack of an accounts payable system (representing money owed by the District).

- Inadequate procedures for identifying and recording other accrued liabilities (financial obligations owed but not yet billed to or paid by the District).

- Failure to account for and report pension costs on an actuarial basis.

- Failure to establish enterprise and intragovernmental funds for business-type services.

- Inadequate revenue systems to assure that the District is receiving all revenues it is entitled to receive.

Need for Management Reports

The Congress, City Council, the Mayor and agency heads operate without adequate monthly financial reports which compare actual results against budgets. Complete and meaningful financial statements for the District as a whole or for individual agencies cannot be prepared from either the District's accounting system or the duplicate financial systems maintained by many agencies.

In Section VI, we have summarized a new financial reporting package that would provide financial information to assist the Mayor and agency management personnel in making operating decisions and exercising control over District funds. A complete set of illustrative reports is contained in Volume VIII.

At the present, there is little management reporting at the agency level to lower levels on a regular basis. Special projects often must be organized and executed to obtain program costs. The accuracy of these reports is doubtful because some cannot be summarized and balanced to any reliable District Accounting control totals or records.

One of the unique needs of internal reporting in the Public Schools is to distribute costs to each school. Efforts to do so on a regular basis were unsuccessful. Without this ability, costs in the Public Schools cannot be summarized on an organizational basis for management analysis and evaluation.

Program reporting, which permits the accumulation of costs across organizational lines for the many services and functions provided by the District, is not possible with the current system. In addition, program reporting across organizational lines within an agency is difficult because of inadequate account codes.

Current Financial Management Systems Problems

The District's current financial management systems impair, and possibly preclude, District officials from satisfying the desired standards of management. The District's financial management systems are generally characterized by the following significant weaknesses.

- Ineffective controls over data prepared, entered and processed.
- Inadequate management information generated.
- Inconsistent and duplicate systems.
- Inadequate budgetary controls.

These weaknesses exist in varying degrees in most of the systems that we reviewed. The cumulative effect of these weaknesses on the financial information has been significant, as was also evident in prior studies. The other volumes of this report detail many deficiencies and recommendations which need to be considered by the District management. The following four sections classify and summarize the deficiencies noted.

Ineffective Controls over Data Prepared, Entered and Processed - Basic systems controls over the preparation of data and the transmission of data to central processing facilities are weak. The lack of a basic system of checks and balances to insure that all information is received and properly processed impairs the reliability of the financial management systems.

The systems are fragmented, and systems controls do not exist to assure reconciliation of the same data processed by more than one system. Controls over the validity of the data entered into the payroll system are not effective.

Inadequate Management Information Generated - The systems do not provide to each level of management timely information relating current month and year-to-date expenditures to budgeted amounts, current budget position or obligations for each operating unit within its area of responsibility. Costs are not reported for service programs that involve more than one agency. Project revenues and expenditures are not provided by the central systems on a current basis to personnel responsible for contracts, grants and other projects. The systems do not report statistical measures of performance correlated with expenditures, nor do they provide significant information relating to fiscal accountability for such areas as retirement liabilities, property accounts and inventory balances.

Inconsistent and Duplicate Systems - Although most accounting transactions originate at the agency level, the present systems do not provide an agency with the flexibility to define its unique reporting requirements that could be met by the central systems.

The central accounting and payroll systems provide such unreliable data that many agencies do not use the District financial reports forwarded to them, but maintain duplicate systems of their own. The duplicate systems were developed by the agencies because the District accounting system was not responsive to the requirements and management needs for financial planning, control and reporting at the agency level. Because of timing differences and errors, there are inconsistencies in the data reported by the multiple systems. An integrated system would permit a transaction to be entered one time and serve multiple accounting and reporting purposes and could reduce costs by eliminating redundant systems.

Inadequate Budgetary Controls - Controls over spending limits are determined by estimating expenditures many months in advance. Present financial systems do not provide the flexibility to control expenditures which should be directly related to revenues and reimbursements in the appropriate funds. The appropriated budget does not reflect all grants, reimbursables or revolving funds. This precludes budgetary control by a central management function.

Not all District employees are included in the present personnel system, and it is not integrated with the payroll system. The lack of completeness and integration prevents effective control over personnel services, the major cost of the District.

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Perhaps the most significant problem relating to budgetary control is the lack of performance and compliance measures. The present financial management systems do not provide the vital communication link to assess actual results compared to the intent of City Council and Congress. This capability is a major criterion of an effective budgetary control system.

Inadequate Payroll Procedures

Personnel expenditures account for approximately $675 million of the District's 1976 budget which is about 60% of the total budget. Since these expenditures are so significant, a well-documented, well-controlled payroll system is essential. The existing system does not meet such criteria.

Controls help to lessen the possibility that a system may be used for improper activities or may produce erroneous results. The payroll procedures in the District are so poor and the internal controls so weak that the potential for fraud and the processing of erroneous data is substantial. Although any payroll system may be vulnerable to fraudulent manipulation, the District's centralized payroll system lacks many basic controls normally associated with payroll systems. It would be relatively easy to add an unauthorized individual to the payroll or to give an

unauthorized pay raise to an employee. The controls over the system are so weak that these improper actions could remain undetected.

The computerized payroll system is more than five years old, consists of over 300 separate computer programs, and does not operate efficiently. As a result of administrative and regulatory changes, many modifications have been made to the system, and these have not been well documented. Consequently, the efficiency of the system has been impaired.

We found a significant number of cases in which an employee's salary was being charged to an erroneous account classification code. For example, in the Public Schools, approximately 3,500 employees of a total of approximately 15,000 employees have erroneous account codes on their payroll master file records. Since the classification code in the payroll master file is the account to which payroll cost is distributed, serious questions must be raised as to the accuracy of financial reports. This situation also affects grant administration since payroll distribution should be the source for grant billings to the Federal government.

Lack of Data Processing Security and Backup

The security surrounding data processing centers is important both in terms of safeguarding the physical assets and in preventing the compromise or destruction of data files, programs and related documentation. Reasonable precautions should be taken to guard the facilities against natural hazards, personnel inefficiencies and maliciousness, all of which can affect the operations of the data centers.

The security surrounding several of the data centers in the District is inadequate. For example, during our review of the data center that is jointly used by SHARE and the Metropolitan Police Department, we tested the security procedures and noted the following problems.

- Unauthorized personnel could enter both the data center and the computer room without being questioned or challenged.
- There is no system (badges, etc.) for identifying if a person is authorized to be in the data center or the computer room.
- The front door of the data center is unlocked and unattended.
- The doors into the computer room itself, which should be locked at all times, usually are left unlocked.
- After normal working hours, people were allowed to enter the facility without identification or without any question as to the nature of their business.

These are serious weaknesses in light of the fact that the two computers located in this facility, Metropolitan Police and SHARE, process highly sensitive law enforcement, accounting and financial information.

Backup of data files, programs, systems software and equipment is important in any data processing environment, but it is even more important to the District because of the poor security surrounding its data centers. Copies of critical data files such as payroll should be maintained offsite, preferably in a fire-proof vault. Backup for computer programs is just as critical as for data files. Without one or the other, the system is incomplete. Backup for data files and programs in the District appears to be poorly organized and documented. Of primary concern with regard to backup are mechanized financial applications. For instance, if the SHARE computer center were destroyed, the District probably would not be able to meet its payroll processing requirements because no documented procedures for offsite backup of the payroll master file exist and contingency plans have not been formulated.

Summary Conclusions

The District has numerous characteristics of a city with serious financial and accounting problems.

- The District has poor budgeting, accounting and reporting procedures that tend to obscure the true financial situation.

- All the retirement systems of District employees are underfunded and not properly reported in its financial statements.

- There is a pattern of current operating disbursements and debt service exceeding operating receipts in four out of the last five fiscal years; $83 million in 1975, $16 million in 1973, $3 million in 1972 and $36 million in 1971. In 1974, receipts did exceed disbursements by $22 million.

- During the last five years, long-term borrowings of $677 million have been used to finance capital expenditures of $656 million. At present, repayment of approximately $63.4 million of long-term debt due on July 1, 1975, has been deferred.

- The total valuation of taxable property has not been increasing at a rate to provide sufficient additional revenues; taxable property increased from $119 billion in 1971 to $138 billion in 1974, but then decreased to $130 billion in 1975. We were informed that the 1976 results to date indicate a further decrease.

Any one of the problems described in this report would be cause for alarm on the part of top management of any organization. In most cases, these serious problems are well known to District personnel, but they remain unresolved. It is important to understand that many of the problems noted in this section are of long duration and

originated prior to Home Rule. An historic view of District financial management has been summarized in Appendix 1 to this Volume.

The accounting and reporting problems cited are indicative of those which the District must address and resolve before an independent public accounting firm can examine its financial statements and render an opinion thereon.

A summary of the 1977 District expense budget is presented in Appendix 2. Appendix 3 is a summary of personnel by major organization.

SECTION II

FINANCIAL MANAGEMENT SYSTEMS APPROACH

System Development Efforts in Process

Our study team reviewed the District's efforts which were underway to correct the weaknesses that have been identified in Section I. We believe these efforts are inadequate to correct the deficiencies which have been identified.

Two systems projects, Financial Management Information System (FMIS), including the Obligating Authority Management Systems (OAMS), and a Position/Payroll System are in various stages of development. There exists a clear and definite need for both major systems. Some of our observations relating to these two projects are set forth below.

- Inadequate resources have been committed to the projects.
- A complete definition of each agency's financial reporting needs has not been done.
- A complete definition of financial information needed to meet generally accepted accounting principles and the needs of the Mayor, the City Council and the Congressional committees has not been accomplished.
- The original design approach for FMIS was to develop the subsystems serially rather than simultaneously.
- There was no evidence of a detailed work program indicating the time and cost required to develop the real-time capability of FMIS. A real-time computer system is extremely complex and costly to develop and maintain.

- Design documents relating to OAMS did not identify an audit trail between that system and the general ledger systems.

- As proposed, the account coding structure provides limited management reporting flexibility.

Most of the current effort to replace the financial systems was initiated approximately four years ago, and there has been little progress to date. Financial management problems of the District appear to be compounding each year, amplifying the urgency to replace the present systems. Our observations relative to the current systems effort have caused us to conclude that the present systems development activities should be redirected.

Plan of Action -- Systems

In considering an approach to redirection, there are two major groupings of systems tasks that must be accomplished by the District. The first grouping consists of improving the accounting controls in the present systems, developing adequate closing schedules and designing and implementing a new uniform accounting system and a new uniform payroll/personnel system. Many of these tasks must be accomplished before an audit of the District's financial statements can be performed.

The second major grouping of systems tasks includes the other individual systems requirements that are important

to the day-to-day operations of the various District departments but are not essential to the central accounting records and preparation of financial statements.

The proposed timetable and the overall plan for accomplishing the first grouping of systems tasks affecting central accounting systems is shown as a bar chart on the next page. The timetable and overall plan for the second grouping of tasks is shown on a second bar chart.

We recommend that the public accounting firm chosen to do the audit be assigned the responsibility of assisting the District in accomplishing the first grouping of tasks and in monitoring the performance of the systems personnel working on the second grouping of tasks. This will allow the Congress, the City Council and the Mayor to look to a single firm to be accountable for providing the overall result of improved financial management systems and procedures that are a prerequisite to an audit. Other public accounting or consulting firms could be selected to assist in the accomplishment of the second grouping.

Details of our recommended approach are contained in Volume II of this report.

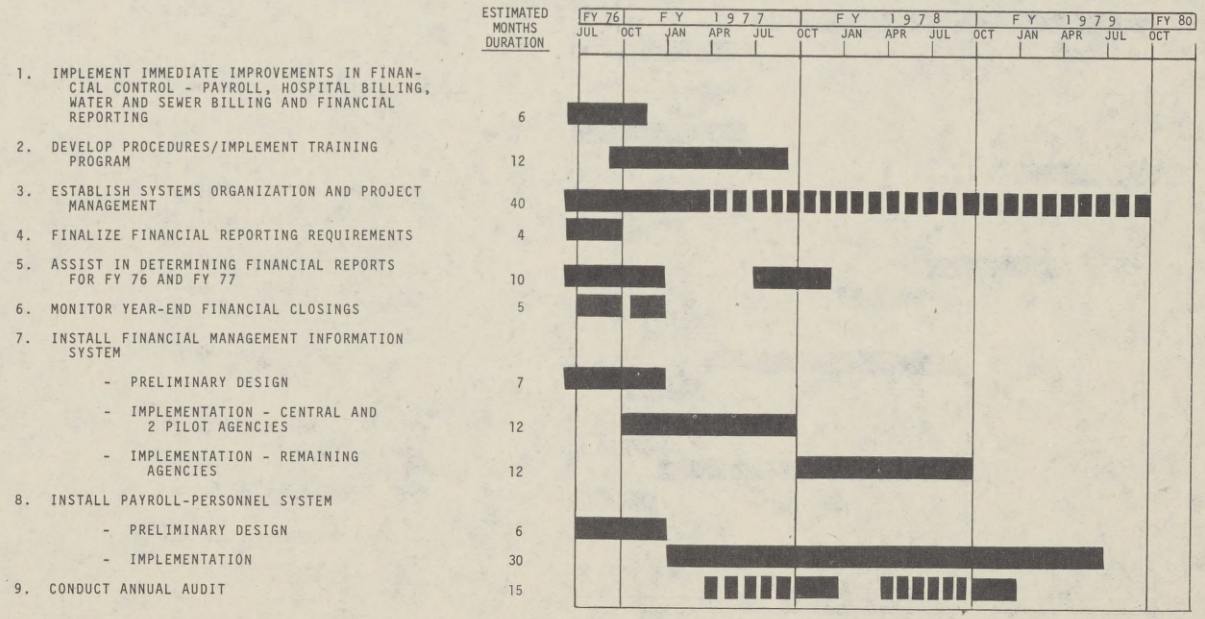
Systems Project Management

In such a large effort as upgrading the financial management systems of the District, effective systems project management techniques must be employed to insure satisfactory

DISTRICT OF COLUMBIA

FINANCIAL MANAGEMENT SYSTEMS AND AUDIT

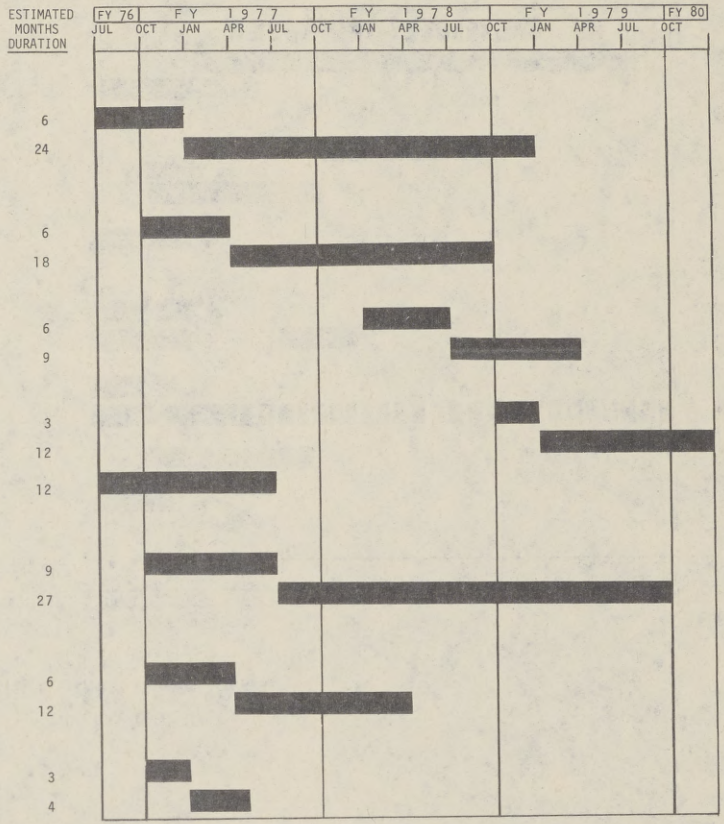
PLAN OF ACTION



DISTRICT OF COLUMBIA

FINANCIAL MANAGEMENT SYSTEMS AND AUDIT

PLAN OF ACTION



		ESTIMATED MONTHS DURATION
10.	INSTALL WATER AND SEWAGE BILLING AND INFORMATION SYSTEM	
	- PRELIMINARY DESIGN	6
	- IMPLEMENTATION	24
11.	INSTALL PURCHASING AND MATERIAL MANAGEMENT SYSTEM	
	– PRELIMINARY DESIGN	6
	– IMPLEMENTATION	18
12.	INSTALL EQUIPMENT INVENTORY SYSTEM	
	– PRELIMINARY DESIGN	6
	– IMPLEMENTATION	9
13.	INSTALL REAL PROPERTY SYSTEM	
	– PRELIMINARY DESIGN	3
	– IMPLEMENTATION	12
14.	IMPROVE WELFARE PAYMENT CONTROLS	12
15.	INSTALL HUMAN RESOURCES ELIGIBILITY, PAYMENT AND REPORTING SYSTEM	
	– PRELIMINARY DESIGN	9
	– IMPLEMENTATION	27
16.	INSTALL HEALTH CARE BILLING AND ACCOUNTS RECEIVABLE SYSTEM	
	– PRELIMINARY DESIGN	6
	– IMPLEMENTATION	12
17.	IMPROVE TRAFFIC TICKET SYSTEM CONTROLS	
	– DESIGN	3
	– IMPLEMENTATION	4

progress in all areas. For example, a delay in the central systems schedule of only a few months might cause the audit to be deferred one full year.

Systems project management is based on a structured approach to systems design and installation projects. This approach provides management with a clear set of milestones at which they may assess accomplishments, determine whether or not the work completed to that point is consistent with the objectives of the project, and appraise whether or not the investment in the next phase of the project is warranted. If the project team follows appropriate procedures in each phase, the operating characteristics of the system can be verified and proven acceptable to the organization's management, and the total costs and benefits can be reliably predicted, before the major costs of implementation are expended. In this way, benefits are maximized and risks are minimized throughout the project.

The District will have to develop systems project management techniques. Since such techniques are applicable to all projects, they should be developed as part of the first grouping of tasks.

SECTION III

AUDIT APPROACH

June 30, 1976

The critical accounting and reporting problems summarized in Section I of this Volume probably preclude an examination of the District's fiscal 1976 financial statements in accordance with generally accepted auditing standards. We believe that an examination of the June 30, 1976, financial statements by an independent public accounting firm would result in the auditor disclaiming an opinion. This conclusion is based on the following considerations.

- The accounting procedures and controls in the District's accounting system have been inadequate during the current fiscal year. Because there is an overall lack of effective procedures, the auditor cannot effectively test transactions.

- Accounting and reporting problems would be encountered in pensions, payroll, grant and contract billings, enterprise funds and inadequate records maintained by the various agencies for receivables, inventory and equipment. We do not believe that sufficient corrections in these areas are possible within a short period of time and that, even if such corrections are possible, it would be impracticable to audit according to generally accepted auditing standards because extensive audit scopes would be required.

- The District has already issued closing instructions for June 30, 1976, and, while improvements can be achieved in 1976, based upon results obtained in fiscal 1975, we have serious reservations as to the ability of the District to prepare accurate fiscal 1976 financial statements.

- District employees have not been involved in a financial audit in the past. Since the organization being audited plays a significant role in preparing the financial records for audit, substantial familiarization and training will be required in order for the necessary supporting schedules and analyses to be prepared.

An audit of the District's June 30 and/or September 30, 1976, balance sheet, while conceivable, would be so inconclusive and would necessitate such a significant commitment of manpower and resources on the part of both the District and the independent public accountants to reconstruct many transactions and prepare adequate records that we recommend against such a course of action at this time. The manpower and financial resources necessary for such an audit could result in an audit fee as high as several million dollars, exclusive of the cost to the District for its personnel and such outside assistance as may be necessary to reconstruct records. Further, this would result in postponing the more important function of correcting the present system of accounting and internal controls and would cause delays in establishing proper internal management reporting.

We do recommend, however, that the District obtain outside accounting assistance to help in preparing the best possible financial reports, on an unaudited basis, for June 30, 1976.

September 30, 1977

Although we believe that major accounting and systems improvements can be achieved prior to and during fiscal 1977, we do not believe there is sufficient time for the District to correct its other deficiencies to permit an orderly and effective audit of operations for fiscal 1977. However, we believe if adequate systems and accounting improvements can be accomplished, an audit of the September 30, 1977, balance sheet should be considered at that time. This would establish a reliable starting point for an audit of fiscal year 1978. In addition, it will enable the District to establish at an early date that progress is being made.

A balance sheet audit would consist of an examination of the statement of financial position of the District at September 30, 1977. This audit would identify the District's assets, liabilities and accumulated surplus or deficit, but would not include an examination of the statements of revenue and expenses and changes in fund balances or statements of changes in financial position for enterprise funds. It should be recognized that the auditor's report probably would be qualified as to property and pension accounting, and possibly also as to grants and related claims.

September 30, 1978

We believe that the District's operations and balance sheet can be audited in fiscal 1978 if the District takes immediate and decisive action to overcome the procedural and control weaknesses outlined in this report. The major items which need immediate attention include those listed below.

Controls over Data Prepared, Entered and Processed by the Systems.

- The development of control over the District's assets. This includes procedures and controls over cash, inventories, receivables, property and equipment.

- The establishment of strong procedural controls in all areas, especially in the payroll area.

- The establishment of strong cutoff procedures to insure accurate recording of all of the District's liabilities.

Revision to Accounting Policies and Procedures.

- The determination of policies regarding the District's pension plans. This includes the resolution of the Federal government's liability to the District for pre-Home Rule unfunded pension liabilities for the District's pension plans and the determination of any liability that the District may have in regard to the Federal Civil Service System.

- The establishment of accounting policies for certain transactions to bring the District's policies in line with generally accepted accounting principles.

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- The development of a meaningful set of financial statements and establishment of policies to conform to the disclosure guidelines required by the American Institute of Certified Public Accountants and the Municipal Finance Officers Association.

- The establishment of procedures to insure adequate control over grant expenditures and reimbursements.

The District's objective should be that the 1978 auditor's report would be unqualified except for property. It might be several years before the property and equipment records are in sufficient order to be auditable unless the District assigns a high priority to this task.

Although the level of effort required by an independent public accountant will vary with the effectiveness of new procedures implemented prior to October 1, 1977, we believe that the $1.5 million audit fee provided in H. R. 11009, dated December 4, 1975, should be adequate for a fiscal year 1978 audit. However, failure to accomplish the required systems improvements outlined in this report would cause this estimate to escalate.

Need for Annual Audit

We recommend the District be audited on an annual basis. Once the financial systems and controls are upgraded sufficiently to permit an audit, they should not be allowed to deteriorate. An annual audit would provide the discipline to maintain adequate financial management procedures on a continuous basis.

Subsequent audits should result in reduced audit man-hours as the District achieves continuing systems and procedural improvements.

An audit every two or three years does not mean that one-half or two-thirds of the work (and audit fee) will be saved. An accounting firm which is asked to express an opinion on the financial statements of a specific year must be satisfied that the beginning balance sheet, as well as the ending balance sheet, is properly stated, in effect examining two balance sheets if the preceding year has not been audited. Further, the operating statements of each fiscal year must be subjected to audit tests of the same magnitude, whether they are examined annually or together at the end of a period of two or three years.

The potential investors in District securities should be assured that the financial records and statements will be audited on an annual basis by an independent public accounting firm. Audited financial statements on an annual basis should enhance the marketability of District securities and could have a favorable influence on the interest rate.

SECTION IV

SELECTION OF THE INDEPENDENT PUBLIC ACCOUNTING FIRM

The principal consideration in a financial audit of the District must be the timely selection of an independent public accounting firm. It is essential that qualified independent public accountants be engaged as soon as possible so that their expertise can be applied in the immediate months ahead to upgrade and improve the accounting and financial management systems and records of the District.

Single Accounting Firm Concept

The objective of a financial audit of the District would be to express an opinion on the financial position of the District and the results of its operations including all its agencies as a single entity. It is the overall financial condition of the District which should be considered in matters such as the sale of securities to the public. We believe that an audit of the District's financial statements can be accomplished most effectively and most efficiently by employment of a single independent public accounting firm.

For independent public accountants to express an opinion on the District's financial statements, they must be able to rely on the financial information generated by the

accounting system. This can be accomplished only if the auditor obtains thorough knowledge of the District's financial systems and procedures, the related internal accounting controls and the accounting principles on which the financial statements are based. Congress and the GAO have recommended--and we concur--that the District achieve uniform accounting principles, procedures and systems on a District-wide basis. This objective will be difficult to achieve with several different auditors focusing on an agency level.

Based on our experience with large, diversified organizations such as the District, we have concluded that engagement of a number of accounting firms to audit separate organizational units would result in a duplication of effort, increased cost and time requirements and coordination problems for the District.

Qualifications of Auditors

The independent public accounting firm selected to perform an audit of the District's financial statements should be chosen on the basis of its resources, its demonstrated ability and its knowledge of the accounting systems used by governmental units. There are several basic considerations in evaluating the quality of independent public accountants.

- Their approach to audits.
- Their experience in governmental and related fields (hospitals, voluntary health and welfare organizations, utilities, schools and universities, etc.).
- Their positions on financial reporting, accounting principles and policies, and accounting, financial and operating controls.

- Their services available to be rendered in areas other than auditing, such as data processing, design and installation of accounting systems and procedures and financial models.

- Their ability and willingness to assign the necessary number of qualified personnel.

- Their overall reputation.

Type of Audit Contract

The nature of an audit for an entity as large and complex as the District makes fixed price contracting undesirable. Audit costs can vary significantly depending upon the quality of accounting records and the effectiveness of the system of internal controls of the entity to be audited. These are fundamental considerations in determining the scope of audit engagements. It is difficult for independent public accountants to predict accurately the existence of major problems which could result in an expansion of audit scope and a corresponding increase in audit costs. This is especially true in a first-time audit engagement. For these reasons, we believe, as does the American Institute of Certified Public Accountants, that audit engagements should be contracted on a time-and-material basis or on a cost-plus-fixed-fee basis.

Rotation of Auditors

As mentioned previously, auditors must possess thorough knowledge of the District's accounting procedures, policies and systems to perform an effective financial audit. The initial efforts required for the auditors to gain such knowledge will require substantial costs of a "first-time-through" nature. Once this initial foundation of knowledge is established, the independent public accountant has an invaluable audit aid upon which to base subsequent work.

Substantial benefits will accrue to the District by continuing a relationship for a period of several years. As the auditors become more familiar with the District's financial management function, they can perform their work more efficiently and offer increasingly more constructive recommendations for financial improvements. At the same time the District can avoid the high costs experienced during the auditors' learning process, and it can eliminate many of the frustrations involved with issuing annual requests for proposals.

Benefits comparable to rotating auditing firms can be achieved by rotating personnel assigned to an engagement by the independent public accounting firm. We believe this is a preferable approach in most cases, and many auditing firms have adopted this practice. However, it must be recognized that many governmental units rotate auditing firms on some predetermined basis. If the District decides on a plan of rotation,

we recommend that the District consider rotation every four or five years.

Audit Committee

We recommend that consideration be given to establishing an Audit Committee for the District.

The Audit Committee should hold periodic meetings during the year with the independent public accountants. A meeting should be held prior to the commencement of the audit to discuss items such as those listed below.

- The scope of the audit.
- The District's accounting principles, policies and practices.
- Recent developments in accounting principles or reporting practices that may affect the District.
- The status of suggestions and recommendations developed as part of the last audit.

Another meeting should be held with the independent public accountants at the completion of the audit and before the financial statements are released to cover the following items.

- The results of the audit.
- Overall evaluation of the financial statements.
- Suggestions for improvements in accounting, financial and operating controls.

We believe that the Audit Committee should hold other meetings throughout the year to (1) discuss with the internal auditors their activities and findings, (2) meet with key officials to discuss annual budgets, long-range financial plans and interim financial results, particularly areas where expenditures are over budget or revenues are under budget, and (3) meet with top management (the Mayor and agency heads), the GAO, and Congressional Committee representatives to discuss overall financial problems of the District. The Audit Committee might also wish to establish some advisory committees in specialized or technical areas such as systems, pensions, etc. If it operates effectively, the Audit Committee can be a major force in developing the financial credibility of the District. The Audit Committee should submit minutes of its meetings, including the topics covered and conclusions reached, supported by any background materials, to the City Council, the Congressional Committees and the Mayor.

Independence and Objectivity

Throughout our report, we refer to "independent" public accountants. Independence is, of course, the fundamental characteristic that must exist in all auditor/client

relationships. The public accounting firm engaged to audit the District's financial statements must be completely free from influence of the Congress, City Council, Mayor and District management. The auditors must be able to determine the scope of their work without restrictions, must be allowed access to all financial records and must be able to be completely objective in reporting their audit findings.

SECTION V

ORGANIZATION AND PERSONNEL

An entity's basic organization determines, to a considerable extent, its overall effectiveness in accomplishing its assigned responsibilities and objectives. The findings contained in this report indicate that the present organization of the accounting, administrative and financial management of the District is not well defined and does not provide for adequate planning, reporting and control of operations.

There is no effective central administrative position to provide for overall direction and coordination of financial matters. The Office of Budget and Management Systems and the Department of Finance and Revenue have been charged with the principal financial and accounting responsibilities for the District. Although these two agencies provide a considerable degree of centralized control over cash disbursements and tax receipts, numerous other financial and accounting functions are performed throughout various agencies of the District government.

We recognize that a reorganization alone will not solve the financial management problems of the District. However, the current District financial management organization

is so fragmented that a proposed solution which did not include a suggested reorganization would have limited chance of success.

A centralized management structure comprised of competent personnel knowledgeable in the financial and administrative aspects of municipal operations is necessary to promote greater efficiency and economy in the District government. We recommend that a reorganization of the District financial management function be undertaken to provide such a structure.

Proposed Reorganization

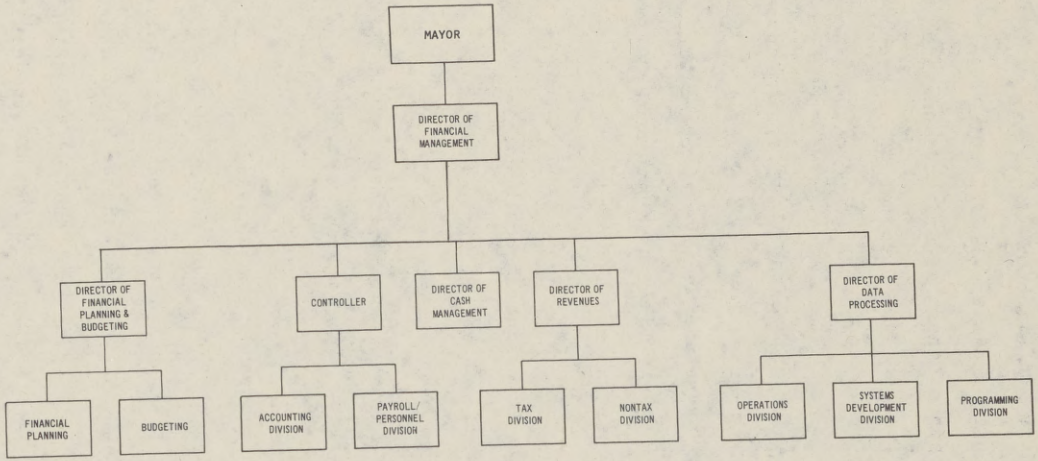
The organization we recommend would be characterized by establishing the financial and administrative functions within one agency under the leadership of a Director of Administration and Financial Management. These functions should include:

- Financial Planning and Budgeting
- Controllership and Accounting
- Treasury and Cash Management
- Revenue Collection and Control
- Data Processing.

This organization structure is summarized on an organization chart which is shown on the following page. Detail descriptions of each of these major functions and the personal qualifications for the Director of each are presented in Volume II.

An organization chart is, of course, only the framework. In order for the financial management of the District to operate effectively, it would be desirable if the District could fill the functional leadership positions with personnel who are educated and experienced in the fields of business administration, finance, management and government. These individuals should display strong leadership and organizational abilities in addition to their technical skills, since each must be capable of motivating and guiding subordinates toward the attainment of the District's financial objectives. In addition, it will be necessary for the District to address and reevaluate its grade structure in order to attract and retain quality personnel and to determine the number of required financial management positions. It is imperative that a top level commitment be made by the Congress, the City Council and the Mayor to work with individuals appointed to these financial management positions to assure that an effective, efficient financial management organization is achieved.

PROPOSED REORGANIZATION
OF THE
FINANCIAL MANAGEMENT FUNCTION



SECTION VI

SUMMARY OF FINANCIAL REPORTING PACKAGE

Each decision-making manager within an organization such as the District of Columbia must rely on financial information in evaluating the entity's performance of day-to-day activities and for planning future activities. Effective planning and control of operations are essential to the efficient utilization of available District resources in providing the desired level of services to the public. In addition, because the District and its agencies are subject to the provisions of various appropriation acts, budget restrictions, administrative regulations, etc., management must receive information to monitor compliance with these provisions.

Considering the magnitude and diversity of services rendered by the District, it is critically important that the Mayor, City Council, agency heads, and other management personnel receive timely and informative data on the performance of their responsible areas of District operations. However, based on our survey of District reporting systems and on discussions with numerous District personnel, it is our understanding that the Mayor and other top officials do not receive meaningful and timely reports on the

operations of the District. Although numerous reporting systems are in operation, none of these regularly provides summary level information to meet the special needs of top management.

In order to satisfy this critical management information need, as well as other objectives outlined below, we recommend that the District develop a more comprehensive and meaningful internal financial reporting system. The objective of this internal financial reporting system would be to provide accurate and timely operational and financial information that will assist the Mayor and agency management personnel in making operating decisions and exercising control over District funds. The reporting should be tailored to the various levels of responsibility within the District--e.g., organization, program, project--so that costs and revenues can be accumulated and reported by these levels and accountability established for variances from pre-defined budgets.

Objectives of District Internal Financial Reporting

More specifically, in addition to providing timely and accurate data, the internal financial reports should be designed to accomplish the following.

- Provide an effective method for monitoring the day-to-day financial operations of the District.

- Provide actual performance data compared to a predefined plan as a basis for monitoring the achievement of objectives.

- Monitor District compliance with the financial provisions of appropriation acts, administrative regulations, grants, etc.

- Provide for a uniform method of recording and reporting financial information throughout the District while maintaining flexibility for the agencies to meet their specific internal reporting requirements. This will improve the understanding of the various reports and provide for their consistent interpretation.

- Eliminate duplication of effort in the agency systems and the District central accounting system.

- Provide historical financial data at the appropriate management level to assist in the preparation of budgets.

Responsibility Reporting

The cornerstone of internal financial reporting is the reporting of performance by levels of responsibility. Recognizing that various levels of management are involved in the organization and program structure of each department or agency, the reports should be tailored for each level of management as a tool for controlling operations. The reports should summarize totals through the organization, program, project and appropriation levels from the cost center level to the Mayor. The summary reports should present information in detail only to the degree necessary for fiscal and operational control at that management level. In addition to current month and year-to-date information, the reports should also

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present remaining budget and outstanding obligations data to facilitate future planning.

Reporting Areas

In order to achieve the objectives outlined above, the internal financial reporting of the District should address the following six major functional reporting areas.

- Organization Reporting - reports expenditures, and revenues where a responsibility is indicated, by cost center/agency according to the organizational structure of the District and its agencies.
- Program Reporting - reports expenditures associated with a program (e.g., drug rehabilitation) undertaken by the District or one of its agencies.
- Project/Grant Reporting - reports receipts and expenditures data for one-time activities such as capital improvement projects, system development projects and Federal grants.
- Appropriation Reporting - shows the status of appropriations authorized by the District and Congress.
- General Ledger/Fund Reporting - reports the status of assets, liabilities, revenues, expenses, obligations and fund balances for each fund.
- Budget Development Reporting - provides automated support to the annual budgeting process both before and after the appropriation process.

Illustrative Reports

Our recommended approach to providing the District with the internal financial reporting for each of the six functional areas above is presented in detail in the

illustrative reports included in Volume VIII of this report. Each report sample includes a narrative description of its purpose. In addition, Volume VIII discusses each of the reporting areas in greater detail and briefly describes the inadequacies in the District's present central accounting systems related to the areas.

The following pages illustrate the concept and format of the management reports to be received by management under the internal financial reporting to organization, program and project/grant management.

Management Reporting by Organization

An example of an expense and revenue report for the Mayor is shown on the next page. This report provides the results of the current month and year-to-date revenues and expenditures in comparison to plan for each agency under his direction, and in summary form by expense and revenue object category. The information on the Mayor's report would be summarized from the individual agency reports.

PERIOD ENDING 03-31-XX
RUN DATE 04-02-XX

DISTRICT OF COLUMBIA
FINANCIAL MANAGEMENT AND CONTROL SYSTEM
ORGANIZATION ACCOUNTABILITY REPORT

REPORT NO. 107
PAGE NO. 2

COST CENTER - MAYOR (10001)

------CURRENT MONTH------ ACTUAL	BETTER(WORSE) PLAN	DESCRIPTION	------YEAR-TO-DATE------ ACTUAL	BETTER(WORSE) PLAN	OBLIGATIONS	ANNUAL BUDGET	REMAINING ANNUAL BUDGET
		********** EXPENDITURES **********					
		BY AREA					
65,118,716	(34,019)	HUMAN RESOURCES	329,167,030	(146,989)	6,416,969	435,000,000	99,416,001
		OFFICE OF THE MAYOR					
		EXECUTIVE OFFICE					
		CONTRI. TO METRO AREA AGEN.					
		INDEP. AGENCIES & OFFICES					
		MISC. CONTRIBUTIONS					
		PUBLIC SAFETY					
		RECREATION DEPT.					
		EDUCATION					
		TRANSPORTATION					
		ENVIRONMENTAL SERVICES					
73,054,067	5,193,482	TOTAL EXPENDITURES	438,324,406	106,354,377	30,900,000	990,058,222	520,833,816
		BY OBJECT					
28,193,731	1,476,974	PERSONNEL COSTS	169,162,388	10,338,820	-0-	353,670,801	184,508,413
		OPERATING EXPENSES					
		EQUIP. TO BE CAPITALIZED					
		OTHER					
73,054,067	5,193,482	TOTAL EXPENDITURES	438,324,406	106,354,377	30,900,000	990,058,222	520,833,816

PERIOD ENDING 03-31-XX
RUN DATE 04-02-XX

DISTRICT OF COLUMBIA
FINANCIAL MANAGEMENT AND CONTROL SYSTEM
ORGANIZATION ACCOUNTABILITY REPORT

REPORT NO. 107
PAGE NO. 1

COST CENTER - MAYOR (10001)

------CURRENT MONTH------ ACTUAL	BETTER(WORSE) PLAN	DESCRIPTION	------YEAR-TO-DATE------ ACTUAL	BETTER(WORSE) PLAN	OBLIGATIONS	ANNUAL BUDGET	REMAINING ANNUAL BUDGET
		********** REVENUES **********					
		BY AREA					
23,565,860	(1,697,792)	HUMAN RESOURCES	127,255,645	(3,849,458)	-0-	230,769,200	103,513,555
		OFFICE OF THE MAYOR					
		EXECUTIVE OFFICE					
		CONTRI. TO METRO AREA AGENCIES					
		INDEP. AGENCIES & OFFICES					
		MISC. CONTRIBUTIONS					
		PUBLIC SAFETY					
		RECREATION DEPT.					
		EDUCATION					
		TRANSPORTATION					
		ENVIRONMENTAL SERVICES					
73,525,075	660,803	TOTAL REVENUES	465,797,948	(11,660,232)	-0-	990,058,222	524,260,274
		BY OBJECT					
11,897,666	6,004	PROPERTY TAXES	108,214,166	237,941	-0-	142,700,000	34,485,834
		SALES & GROSS RECEIPTS					
		INCOME TAXES					
		PARKING TAX					
		MOTOR VEH. REGIST. FEES					
		MOTOR VEH. EXCISE TAX					
		GASOLINE TAX					
		LICENSES					
		PARKING METERS					
		INTEREST ON INVESTMENTS					
		WATER SERVICE CHARGE					
		PAYMENT FROM VIRGINIA					
		PAYMENT FROM MARYLAND					
		SEWER SERVICE CHARGE					
		WATER POLLUTION GRANTS					
		PAYMENT--POTOMAC INTERCEPTOR					
		OTHER TAXES					
		OTHER CHARGES & REVENUE					
		FEDL. PAY. FOR WATER CONS.					
		FEDL. PAY. FOR SEWER SER.					
		FEDL. PAYMENT - D.C. GOVT.					
		FEDL. LOAN (APPROPRIATED)					
		REVENUE SHARING (APPRO.)					
73,525,075	660,803	TOTAL REVENUES	465,797,948	(11,660,232)	-0-	990,058,222	524,260,274

Management Reporting by Organization (continued)

An example depicting three levels of revenue and expense reporting within the Department of Human Resources (DHR) organization is shown on page 61. In addition to the three levels shown here, there are several levels below D. C. General Hospital (down to the individual cost center). This example is related to the DHR organization structure schematic on the next page. These reports are illustrative only and do not necessarily reflect the actual dollars or cost center organization of the Department of Human Resources.

Several notes, pointing out the major reporting characteristics, are listed on the example.

The report characteristics follow.

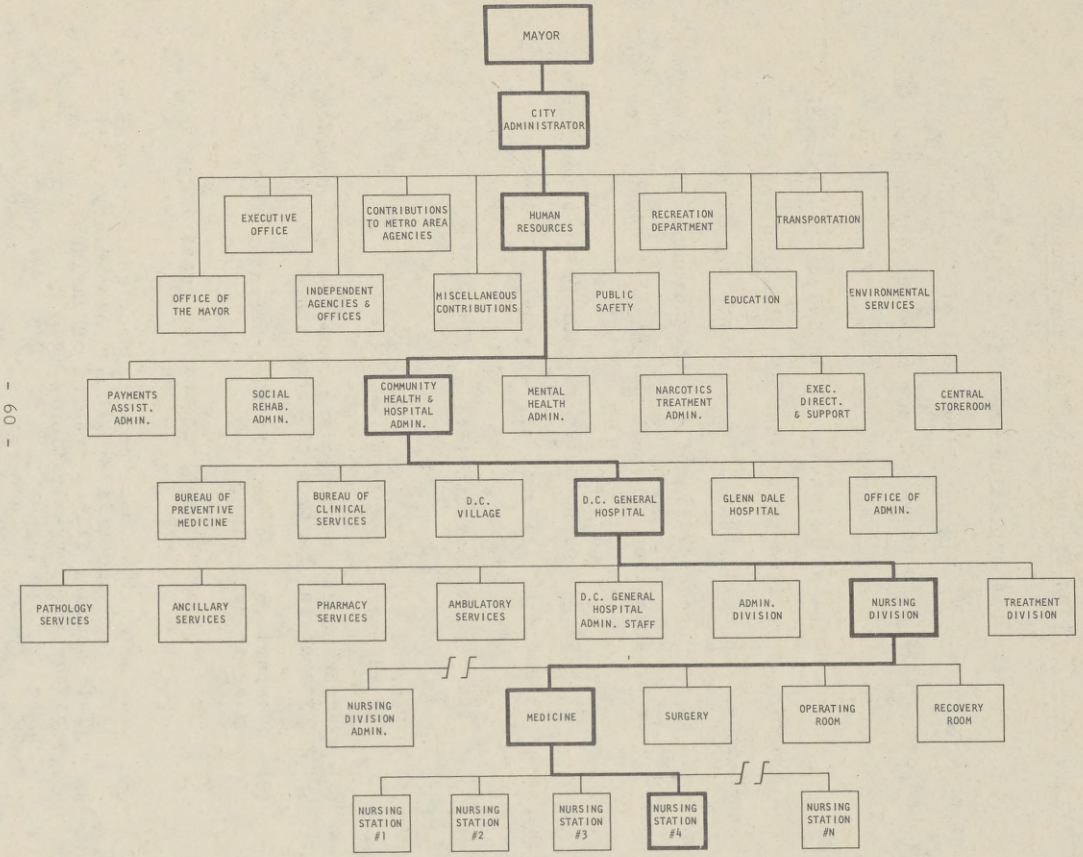
① Name of organizational unit and the next higher level unit it reports to.

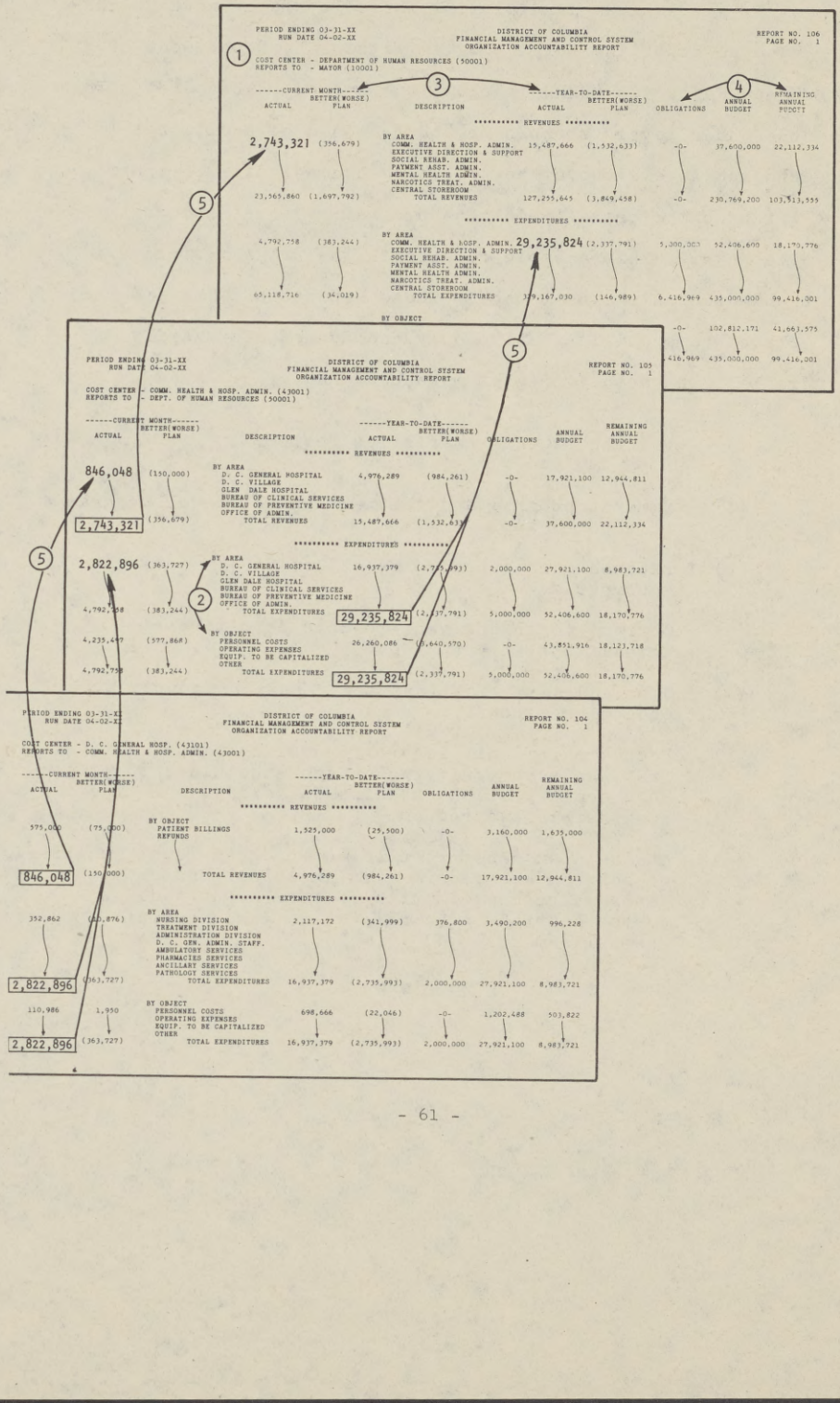
② Expenses and revenues are reported on two bases, by area and by type of expenditure (object).

③ Comparisons are made to the current month and year-to-date plan.

④ Outstanding obligations and the remaining annual budget are shown.

⑤ Each organizational unit is provided with summary data from the units which are subsidiary to it. This summary allows tracing of variances to the responsible organization.


MAYOR
CITY ADMINISTRATOR
EXECUTIVE OFFICE
CONTRIBUTIONS TO METRO AREA AGENCIES
HUMAN RESOURCES
RECREATION DEPARTMENT
TRANSPORTATION
OFFICE OF THE MAYOR
INDEPENDENT AGENCIES & OFFICES
MISCELLANEOUS CONTRIBUTIONS
PUBLIC SAFETY
EDUCATION
ENVIRONMENTAL SERVICES
PAYMENTS ASSIST. ADMIN.
SOCIAL REHAB. ADMIN.
COMMUNITY HEALTH & HOSPITAL ADMIN.
MENTAL HEALTH ADMIN.
NARCOTICS TREATMENT ADMIN.
EXEC. DIRECT. & SUPPORT
CENTRAL STOREROOM
BUREAU OF PREVENTIVE MEDICINE
BUREAU OF CLINICAL SERVICES
D.C. VILLAGE
D.C. GENERAL HOSPITAL
GLENN DALE HOSPITAL
OFFICE OF ADMIN.
PATHOLOGY SERVICES
ANCILLARY SERVICES
PHARMACY SERVICES
AMBULATORY SERVICES
D.C. GENERAL HOSPITAL ADMIN. STAFF
ADMIN. DIVISION
NURSING DIVISION
TREATMENT DIVISION
NURSING DIVISION ADMIN.
MEDICINE
SURGERY
OPERATING ROOM
RECOVERY ROOM
NURSING STATION #1
NURSING STATION #2
NURSING STATION #3
NURSING STATION #4
NURSING STATION #N


PERIOD ENDING 03-31-XX
RUN DATE 04-02-XX
DISTRICT OF COLUMBIA
FINANCIAL MANAGEMENT AND CONTROL SYSTEM
ORGANIZATION ACCOUNTABILITY REPORT
REPORT NO. 106
PAGE NO. 1
1
COST CENTER - DEPARTMENT OF HUMAN RESOURCES (50001)
REPORTS TO - MAYOR (10001)
3
4
CURRENT MONTH
ACTUAL
BETTER(WORSE) PLAN
DESCRIPTION
YEAR-TO-DATE
ACTUAL
BETTER(WORSE) PLAN
OBLIGATIONS
ANNUAL BUDGET
REMAINING ANNUAL BUDGET
REVENUES
2,743,321
(356,679)
BY AREA
COMM. HEALTH & HOSP. ADMIN.
EXECUTIVE DIRECTION & SUPPORT
SOCIAL REHAB. ADMIN.
PAYMENT ASST. ADMIN.
MENTAL HEALTH ADMIN.
NARCOTICS TREAT. ADMIN.
CENTRAL STOREROOM
TOTAL REVENUES
15,487,666
(1,532,633)
-0-
37,600,000
22,112,334
23,565,860
(1,697,792)
127,255,645
(3,849,458)
-0-
230,769,200
103,513,555
EXPENDITURES
4,792,758
(383,244)
BY AREA
COMM. HEALTH & HOSP. ADMIN.
EXECUTIVE DIRECTION & SUPPORT
SOCIAL REHAB. ADMIN.
PAYMENT ASST. ADMIN.
MENTAL HEALTH ADMIN.
NARCOTICS TREAT. ADMIN.
CENTRAL STOREROOM
TOTAL EXPENDITURES
29,235,824
(2,337,791)
5,300,000
52,406,600
18,170,776
65,118,716
(34,019)
179,167,030
(146,989)
6,416,969
435,000,000
99,416,001
BY OBJECT
-0-
102,812,171
41,663,575
416,969
435,000,000
99,416,001
PERIOD ENDING 03-31-XX
RUN DATE 04-02-XX
DISTRICT OF COLUMBIA
FINANCIAL MANAGEMENT AND CONTROL SYSTEM
ORGANIZATION ACCOUNTABILITY REPORT
REPORT NO. 103
PAGE NO. 1
COST CENTER - COMM. HEALTH & HOSP. ADMIN. (43001)
REPORTS TO - DEPT. OF HUMAN RESOURCES (50001)
CURRENT MONTH
ACTUAL
BETTER(WORSE) PLAN
DESCRIPTION
YEAR-TO-DATE
ACTUAL
BETTER(WORSE) PLAN
OBLIGATIONS
ANNUAL BUDGET
REMAINING ANNUAL BUDGET
REVENUES
846,048
(150,000)
BY AREA
D. C. GENERAL HOSPITAL
D. C. VILLAGE
GLEN DALE HOSPITAL
BUREAU OF CLINICAL SERVICES
BUREAU OF PREVENTIVE MEDICINE
OFFICE OF ADMIN.
4,976,289
(984,261)
-0-
17,921,100
12,944,811
2,743,321
(356,679)
TOTAL REVENUES
15,487,666
(1,532,633)
-0-
37,600,000
22,112,334
EXPENDITURES
2,822,896
(363,727)
BY AREA
D. C. GENERAL HOSPITAL
D. C. VILLAGE
GLEN DALE HOSPITAL
BUREAU OF CLINICAL SERVICES
BUREAU OF PREVENTIVE MEDICINE
OFFICE OF ADMIN.
16,937,379
(2,735,993)
2,000,000
27,921,100
8,983,721
4,792,758
(383,244)
TOTAL EXPENDITURES
29,235,824
(2,337,791)
5,000,000
52,406,600
18,170,776
BY OBJECT
4,235,447
(597,868)
PERSONNEL COSTS
OPERATING EXPENSES
EQUIP. TO BE CAPITALIZED
OTHER
26,260,086
(3,640,570)
-0-
43,351,916
18,123,718
4,792,758
(383,244)
TOTAL EXPENDITURES
29,235,824
(2,337,791)
5,000,000
52,406,600
18,170,776
PERIOD ENDING 03-31-XX
RUN DATE 04-02-XX
DISTRICT OF COLUMBIA
FINANCIAL MANAGEMENT AND CONTROL SYSTEM
ORGANIZATION ACCOUNTABILITY REPORT
REPORT NO. 104
PAGE NO. 1
COST CENTER - D. C. GENERAL HOSP. (43101)
REPORTS TO - COMM. HEALTH & HOSP. ADMIN. (43001)
CURRENT MONTH
ACTUAL
BETTER(WORSE) PLAN
DESCRIPTION
YEAR-TO-DATE
ACTUAL
BETTER(WORSE) PLAN
OBLIGATIONS
ANNUAL BUDGET
REMAINING ANNUAL BUDGET
REVENUES
575,000
(75,000)
BY OBJECT
PATIENT BILLINGS
REFUNDS
1,525,000
(25,500)
-0-
3,160,000
1,635,000
846,048
(150,000)
TOTAL REVENUES
4,976,289
(984,261)
-0-
17,921,100
12,944,811
EXPENDITURES
352,862
(12,876)
BY AREA
NURSING DIVISION
TREATMENT DIVISION
ADMINISTRATION DIVISION
D. C. GEN. ADMIN. STAFF.
AMBULATORY SERVICES
PHARMACIES SERVICES
ANCILLARY SERVICES
PATHOLOGY SERVICES
2,117,172
(341,999)
376,800
3,490,200
996,228
2,822,896
(363,727)
TOTAL EXPENDITURES
16,937,379
(2,735,993)
2,000,000
27,921,100
8,983,721
110,986
1,950
BY OBJECT
PERSONNEL COSTS
OPERATING EXPENSES
EQUIP. TO BE CAPITALIZED
OTHER
698,666
(22,046)
-0-
1,202,488
503,822
2,822,896
(363,727)
TOTAL EXPENDITURES
16,937,379
(2,735,993)
2,000,000
27,921,100
8,983,721

Program Reporting

An example depicting three levels of revenue and expense reporting for a program within the Department of Human Resources (DHR) is shown on page 64. In addition to the three levels shown here, there would be additional program levels above the AFDC program including a report which summarizes all District program revenues and costs for the Mayor. This example relates to the program structure schematic on the next page. These reports and the program structure are illustrative only and do not necessarily reflect the actual program makeup of DHR.

The report characteristics follow.

(1) Name of program and the next higher level program it reports to.

(2) Expenses are reported by object and by area/ subprogram.

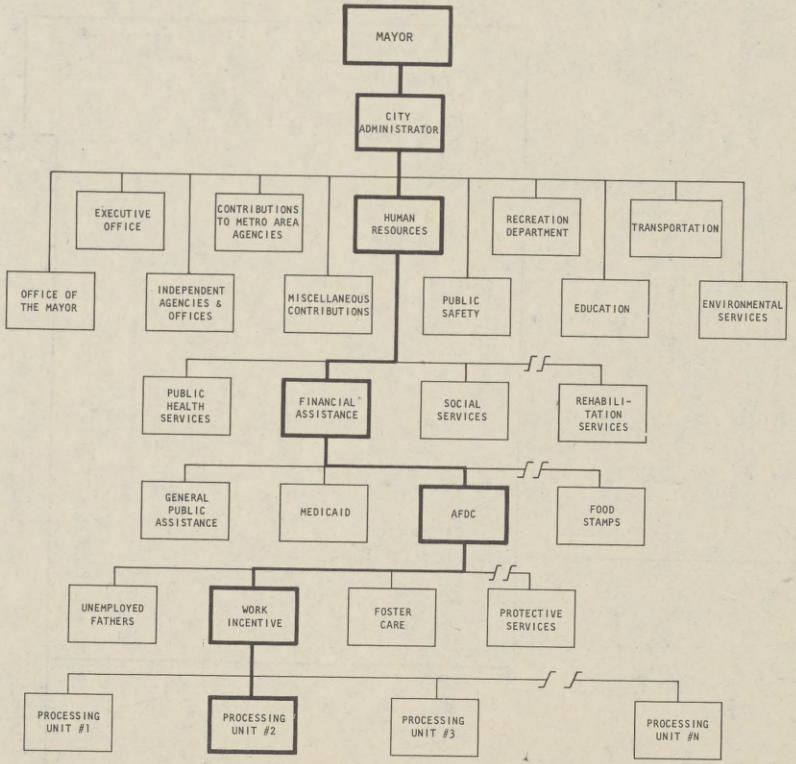
(3) Current month and year-to-date comparisons of actual to plan are made.

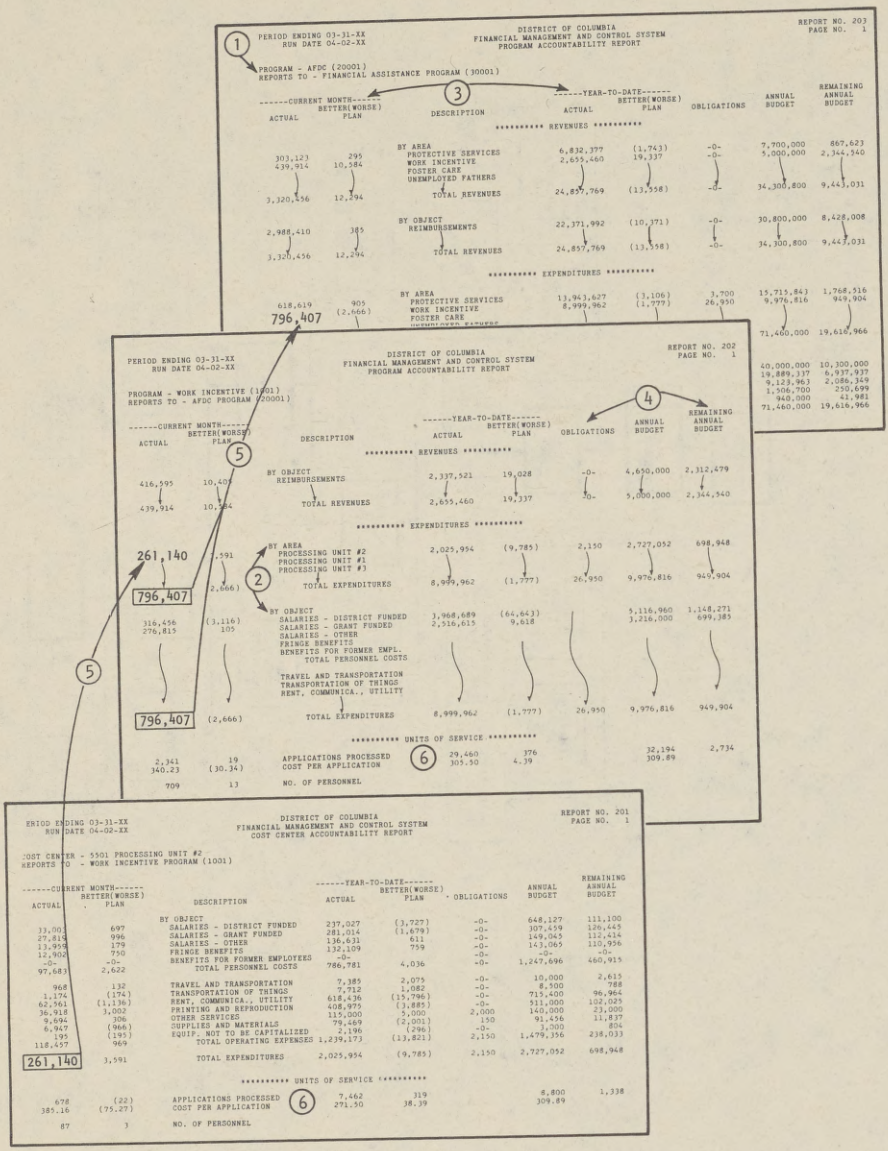
(4) Outstanding obligations and remaining annual budget are shown.

(5) Each program unit is provided with summary data from the subprograms which are subsidiary to it. This summary allows tracing of variances to the responsible subprogram.

(6) At the cost center and lowest program level, units of service are reported on an actual and plan basis. The use of units of service data allow costs incurred to be related to some tangible accomplishment.

DISTRICT OF COLUMBIA
PROGRAM ORGANIZATION
(ILLUSTRATIVE ONLY)




1
PERIOD ENDING 03-31-XX
RUN DATE 04-02-XX
DISTRICT OF COLUMBIA
FINANCIAL MANAGEMENT AND CONTROL SYSTEM
PROGRAM ACCOUNTABILITY REPORT
REPORT NO. 207
PAGE NO. 1
PROGRAM - AFDC (20001)
REPORTS TO - FINANCIAL ASSISTANCE PROGRAM (30001)
3
CURRENT MONTH
YEAR-TO-DATE
ACTUAL
BETTER(WORSE) PLAN
DESCRIPTION
OBLIGATIONS
ANNUAL BUDGET
REMAINING ANNUAL BUDGET
REVENUES
BY AREA
PROTECTIVE SERVICES
WORK INCENTIVE
FOSTER CARE
UNEMPLOYED FATHERS
TOTAL REVENUES
BY OBJECT
REIMBURSEMENTS
TOTAL REVENUES
EXPENDITURES
BY AREA
PROTECTIVE SERVICES
WORK INCENTIVE
FOSTER CARE
303,123
439,914
3,320,456
2,988,410
3,320,456
618,619
796,407
295
10,584
12,294
385
12,294
905
(2,666)
6,832,377
2,655,460
24,857,769
22,371,992
24,857,769
13,943,627
8,999,962
(1,743)
19,337
(13,558)
(10,371)
(13,558)
(3,106)
(1,777)
-0-
-0-
-0-
-0-
-0-
-0-
-0-
-0-
7,700,000
5,000,000
34,300,800
30,800,000
34,300,800
15,715,843
9,976,816
867,623
2,344,340
9,443,031
8,428,008
9,443,031
1,768,516
949,904
71,460,000
19,616,966
REPORT NO. 202
PAGE NO. 1
PERIOD ENDING 03-31-XX
RUN DATE 04-02-XX
DISTRICT OF COLUMBIA
FINANCIAL MANAGEMENT AND CONTROL SYSTEM
PROGRAM ACCOUNTABILITY REPORT
PROGRAM - WORK INCENTIVE (1001)
REPORTS TO - AFDC PROGRAM (20001)
4
5
CURRENT MONTH
YEAR-TO-DATE
ACTUAL
BETTER(WORSE) PLAN
DESCRIPTION
OBLIGATIONS
ANNUAL BUDGET
REMAINING ANNUAL BUDGET
REVENUES
BY OBJECT
REIMBURSEMENTS
TOTAL REVENUES
EXPENDITURES
BY AREA
PROCESSING UNIT #2
PROCESSING UNIT #1
PROCESSING UNIT #3
TOTAL EXPENDITURES
BY OBJECT
SALARIES - DISTRICT FUNDED
SALARIES - GRANT FUNDED
SALARIES - OTHER
FRINGE BENEFITS
BENEFITS FOR FORMER EMPL.
TOTAL PERSONNEL COSTS
TRAVEL AND TRANSPORTATION
TRANSPORTATION OF THINGS
RENT, COMMUNICA., UTILITY
TOTAL EXPENDITURES
UNITS OF SERVICE
APPLICATIONS PROCESSED
COST PER APPLICATION
NO. OF PERSONNEL
416,595
439,914
261,140
796,407
316,456
276,819
796,407
2,341
340.23
709
10,409
10,584
591
2,666)
(3,116)
105
(2,666)
19
(30.34)
13
2,337,521
2,655,460
2,025,954
8,999,962
1,968,689
2,316,615
8,999,962
29,460
305.50
19,028
19,337
(9,785)
(1,777)
(64,643)
9,618
(1,777)
376
4.39
-0-
-0-
2,150
26,950
26,950
4,650,000
5,000,000
2,727,052
9,976,816
5,116,960
3,216,000
9,976,816
32,194
309.89
2,312,479
2,344,340
698,948
949,904
1,148,271
699,385
949,904
2,734
6
PERIOD ENDING 03-31-XX
RUN DATE 04-02-XX
DISTRICT OF COLUMBIA
FINANCIAL MANAGEMENT AND CONTROL SYSTEM
COST CENTER ACCOUNTABILITY REPORT
REPORT NO. 201
PAGE NO. 1
COST CENTER - 5501 PROCESSING UNIT #2
REPORTS TO - WORK INCENTIVE PROGRAM (1001)
CURRENT MONTH
YEAR-TO-DATE
ACTUAL
BETTER(WORSE) PLAN
DESCRIPTION
OBLIGATIONS
ANNUAL BUDGET
REMAINING ANNUAL BUDGET
BY OBJECT
SALARIES - DISTRICT FUNDED
SALARIES - GRANT FUNDED
SALARIES - OTHER
FRINGE BENEFITS
BENEFITS FOR FORMER EMPLOYEES
TOTAL PERSONNEL COSTS
TRAVEL AND TRANSPORTATION
TRANSPORTATION OF THINGS
RENT, COMMUNICA., UTILITY
PRINTING AND REPRODUCTION
OTHER SERVICES
SUPPLIES AND MATERIALS
EQUIP. NOT TO BE CAPITALIZED
TOTAL OPERATING EXPENSES
TOTAL EXPENDITURES
UNITS OF SERVICE
APPLICATIONS PROCESSED
COST PER APPLICATION
NO. OF PERSONNEL
33,902
27,815
13,959
12,902
-0-
97,683
968
1,174
62,561
36,918
9,694
6,947
193
118,457
261,140
678
385.16
87
697
996
179
750
-0-
2,622
132
(174)
(1,136)
1,002
306
(966)
(195)
969
3,591
(22)
(75.27)
3
237,027
281,014
136,631
132,109
-0-
786,781
7,385
7,712
618,436
408,975
115,000
79,469
2,196
1,239,173
2,025,954
7,462
271.50
(3,727)
(1,679)
611
759
-0-
4,036
2,075
1,082
(15,796)
(3,885)
5,000
(2,001)
(296)
(13,821)
(9,785)
319
38.39
-0-
-0-
-0-
-0-
-0-
-0-
-0-
-0-
-0-
-0-
2,000
150
-0-
2,150
2,150
-0-
-0-
-0-
-0-
-0-
-0-
-0-
-0-
-0-
-0-

Project/Grant Reporting

Examples of two reports which would be used to monitor the status of construction projects are illustrated on the next page. The Detail Project Report provides management with information on the status of revenues and expenditures regarding a specific project. The Project Summary Report provides top management with a summary of revenues and expenditures on multiple projects. The Summary Reports would be organized to present the status of similar or associated projects which are the responsibility of one individual and/or agency.

The report characteristics follow.

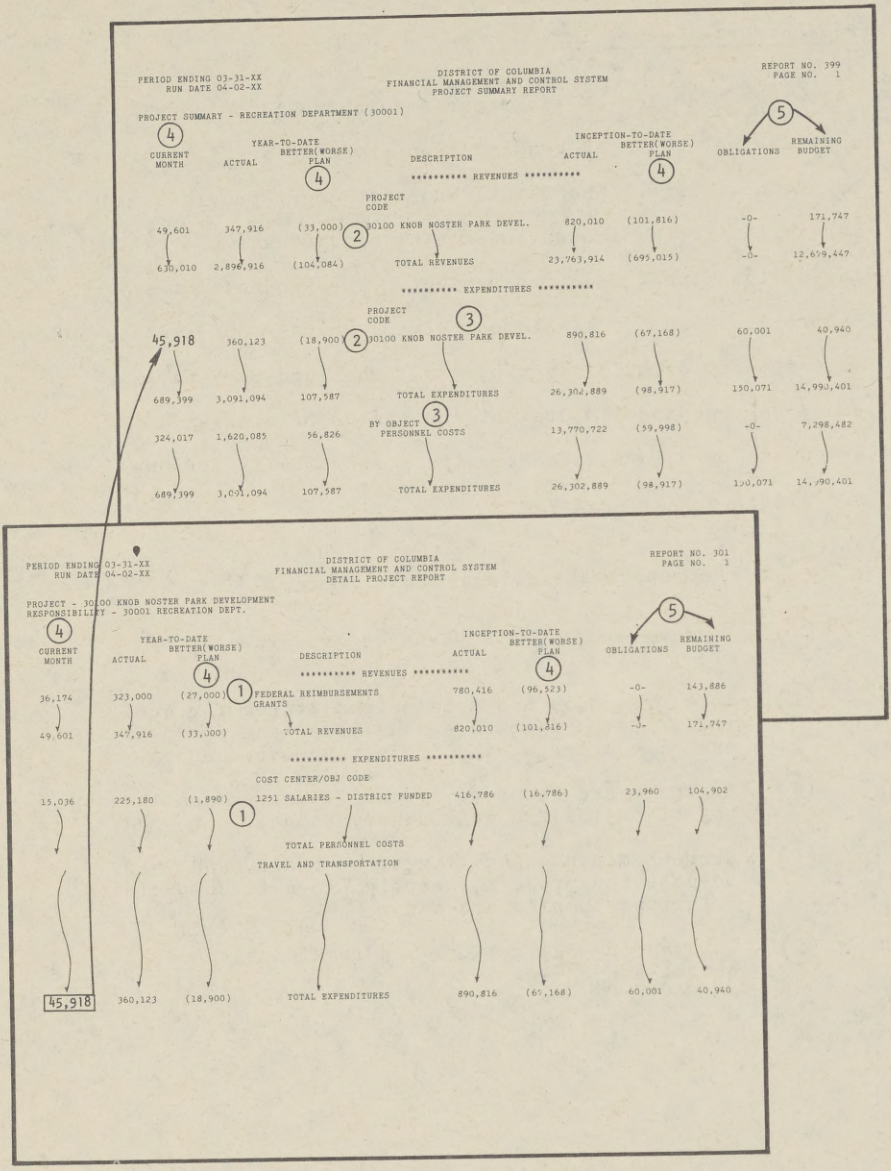
(1) Detail report shows revenues and expenses by object category.

(2) Total revenues and total expenditures for an individual project are summarized and shown as a one line entry on the Project Summary Report.

(3) Expenses are reported by individual project and by object on the Project Summary Report.

(4) Current month expenditures are shown, and year-to-date and project inception-to-date comparisons of actual to plan are made.

(5) Outstanding obligations and remaining annual budget are shown.



PERIOD ENDING 03-31-XX
RUN DATE 04-02-XX

DISTRICT OF COLUMBIA
FINANCIAL MANAGEMENT AND CONTROL SYSTEM
PROJECT SUMMARY REPORT

REPORT NO. 399
PAGE NO. 1

PROJECT SUMMARY - RECREATION DEPARTMENT (30001)

(4) CURRENT MONTH	YEAR-TO-DATE ACTUAL	YEAR-TO-DATE BETTER(WORSE) PLAN (4)	DESCRIPTION	PROJECT CODE	INCEPTION-TO-DATE ACTUAL	INCEPTION-TO-DATE BETTER(WORSE) PLAN (4)	(5) OBLIGATIONS	(5) REMAINING BUDGET
			********** REVENUES **********					
49,601	347,916	(33,000)	(2) 30100 KNOB NOSTER PARK DEVEL.		820,010	(101,816)	-0-	171,747
630,010	2,896,916	(104,084)	TOTAL REVENUES		23,763,914	(695,015)	-0-	12,679,447
			********** EXPENDITURES **********					
45,918	360,123	(18,900)	(2) 30100 KNOB NOSTER PARK DEVEL.	(3)	890,816	(67,168)	60,001	40,940
689,399	3,091,094	107,587	TOTAL EXPENDITURES		26,302,889	(98,917)	150,071	14,990,401
324,017	1,620,085	56,826	BY OBJECT (3) PERSONNEL COSTS		13,770,722	(59,998)	-0-	7,298,482
689,399	3,091,094	107,587	TOTAL EXPENDITURES		26,302,889	(98,917)	150,071	14,990,401

PERIOD ENDING 03-31-XX
RUN DATE 04-02-XX

DISTRICT OF COLUMBIA
FINANCIAL MANAGEMENT AND CONTROL SYSTEM
DETAIL PROJECT REPORT

REPORT NO. 301
PAGE NO. 1

PROJECT - 30100 KNOB NOSTER PARK DEVELOPMENT
RESPONSIBILITY - 30001 RECREATION DEPT.

(4) CURRENT MONTH	YEAR-TO-DATE ACTUAL	YEAR-TO-DATE BETTER(WORSE) PLAN (4)	DESCRIPTION	INCEPTION-TO-DATE ACTUAL	INCEPTION-TO-DATE BETTER(WORSE) PLAN (4)	(5) OBLIGATIONS	(5) REMAINING BUDGET
			********** REVENUES **********				
36,174	323,000	(27,000)	(1) FEDERAL REIMBURSEMENTS GRANTS	780,416	(96,523)	-0-	143,886
49,601	347,916	(33,000)	TOTAL REVENUES	820,010	(101,816)	-0-	171,747
			********** EXPENDITURES **********				
			COST CENTER/OBJ CODE				
15,036	225,180	(1,890)	(1) 1251 SALARIES - DISTRICT FUNDED	416,786	(16,786)	23,960	104,902
			TOTAL PERSONNEL COSTS				
			TRAVEL AND TRANSPORTATION				
45,918	360,123	(18,900)	TOTAL EXPENDITURES	890,816	(67,168)	60,001	40,940

APPENDIX 1

HISTORIC VIEW OF DISTRICT FINANCIAL MANAGEMENT

To understand the development of the financial problems outlined in the preceding section of our report, it is necessary to understand the history of the District government. As a municipality, it is unique in its complexity and in its relationships with the Federal government. Congress functions as a legislative review level over the City Council and the Mayor with the capacity to grant or withhold resources. Also, because of its uniqueness, the District government must exercise what in other jurisdictions are state and county as well as city functions.

Although Congress has emphasized its desire to promote economy, efficiency and improved services for the District government, it would appear that prolonged Federal involvement has also served to impede development of the financial management function. The accounting system and financial management of the District today appear to be holdovers from the period prior to Home Rule (January 1975) where financial practices observed Federal government regulations.

Historical Background

The District was founded in 1800 to provide a home for the nation's capital. Despite the ever-present Federal influence, a local form of government under the leadership of a Mayor was provided for the District during its early years. The Mayor and City Council were initially appointed by the President of the United States, but the District was eventually granted substantial "Home Rule" powers. The practice of holding popular elections originated in 1820 and continued for over 50 years.

In 1874, a Congressional investigation determined that the District was $22 million in debt for extensive capital improvements and faced imminent bankruptcy. As a result, Congress decided that increased participation in the District government was warranted. A major reorganization was undertaken in 1878, converting the District government to a three-member Board of Commissioners appointed by the President and thereby eliminating Home Rule. In addition, a formula was established for annual Federal payments to compensate the District for the increased burden placed on it by the presence of the nation's capital. The District budget, as approved by Congress, was to be funded equally by local taxation and the Federal government.

The annual Federal payment to the District continued despite the various reorganizations. This payment increased from $9 million in 1925, when the practice of basing the amount on a fixed percentage of the District budget was dropped, to $226 million in fiscal 1975.

Under the three-member Commission, a Department of General Administration was responsible for all budgeting, management, personnel, purchasing, computer operations and general accounting matters. This central administration functioned until 1967 when the Board of Commissioners was abolished and a Mayor/Council form of government was adopted to provide a transition to the return to Home Rule. A separate Office of Budget and Program Analysis which reported directly to the Mayor was established in 1971.

Congress has often urged the District government to upgrade its accounting systems in order to provide reliable financial information. On numerous occasions the Congress has expressed its concern over the effectiveness of the District's administration and adequacy of its accounting systems.

As part of its responsibilities to respond to Congressional inquiries, the General Accounting Office has maintained significant manpower dedicated to District matters in recent years. At present, the GAO staff in the District approximates 25 individuals.

The Nelsen Commission

Congressional disappointment in the failure of the District to provide accurate and timely financial information reached a peak in 1970 when Congress established a Commission on the Organization of the Government of the District of Columbia (the Nelsen Commission). The objectives of the Commission as defined by the Act were as follows:

> "...to promote economy, efficiency, and improved service in the transaction of the public business in the departments, bureaus, agencies, boards, commissions, offices, independent establishments, and instrumentalities of the District of Columbia...."

The findings of the Commission's investigations and its recommendations were released on March 22, 1972. The Commission's principal recommendations are categorized into four major areas of consideration and summarized below.

Executive Management

- Place major responsibility for management of the District in the Mayor-Commissioner with increased involvement by the City Council.
- Establish the position of City Administrator to assist the Mayor in maintaining control over the various agencies.
- Establish the Office of Management Systems to develop and administer a comprehensive management information system to provide timely information for control and direction of operations.

Departmental Organization and Management

- Strengthen the capabilities of program managers and other administrative staff.

- Develop mechanisms to ensure continuing evaluation and analysis of departmental structures, programs, procedures and staffing patterns.

Financial Management

- Develop an integrated accounting system in compliance with the District Government Accounting Principles and Standards.

- Establish the Office of the Comptroller to coordinate design, implementation and operation of an integrated accounting system and to set the accounting policies for the District.

Administrative Support Systems

- Consolidate the procurement and supply functions in a materials management system within the Department of General Services.

- Establish a formal workload and productivity measurement program.

The Commission also proposed an implementation plan calling for quarterly progress reports to the Mayor, the Congress, and ultimately to the President. Such reports have not been made.

Congressional Appropriation Bills

At approximately the same time the Nelsen Commission Report was issued, a Senate Appropriations Committee Report (Report No. 92-550) on the District of Columbia Appropriation Bill (1972) was published expressing the Committee's dissatisfaction with the District's system of

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financial accountability. Despite the publication of a District "Accounting Principles and Standards" manual, which was approved by the General Accounting Office in February 1972, little progress had been made in the implementation of adequate accounting systems. The Senate Appropriations Committee directed that the District implement an overall accounting system in line with General Accounting Office requirements, an inventory control system for supplies and equipment and an integrated personnel reporting system by June 30, 1972.

Subsequent Congressional Committee reports and certain studies (primarily GAO) of the District government reiterated a number of the recommendations cited by the Nelsen Commission reemphasizing the lack of progress made by the District in improving its financial accountability.

Sale of D. C. Bonds

In October 1975, the City Council passed a resolution authorizing the issuance of $50 million of general obligation bonds by the District to refund certain loans payable to the U. S. Treasury. After holding hearings, the Senate District Committee concluded that too little was known about the District's financial condition to permit the sale of the bonds.

In connection with the December 1975 bond hearings, Senator Thomas Eagleton, Chairman of the Senate District Committee, expressed his desire for a financial audit of the District's records. On February 24, 1976, the Senate Committee on the District of Columbia engaged Arthur Andersen & Co. to survey the accounting and financial management practices of the District of Columbia government for the following purposes.

- Defining and analyzing existing problems.
- Developing a plan leading to the implementation of generally accepted accounting principles and the eventual statement of an auditor's opinion.
- Reporting the results of the survey to the Senate Committee on the District of Columbia.

GAO Survey

The Comptroller General of the United States indicated in testimony before the House District Committee that the District was most likely unauditable due to the severity of its problems. With due concern, the House District Committee requested the General Accounting Office to perform a survey of the District's financial management systems. On February 27, 1976, the Comptroller General of the United States issued a report to the House District Committee covering the results of the GAO survey. The report stated that most of the recommendations made by the Nelsen Commission had not been implemented, that integration of agency

accounting systems into a central system was far from being achieved and progress had been slow because the District had attempted to accomplish these tasks without sufficient staffing.

The GAO report concluded that the Congress should enact legislation requiring the District to improve its accounting systems within a stated period and see that the money needed for that purpose is made available.

APPENDIX 2

DISTRICT OF COLUMBIA

SUMMARY OF THE 1977 EXPENSE BUDGET BY ORGANIZATION

(Unaudited) (Note 1)

Agency	1977 Budget Request ($ millions) Personnel	Other Operating Costs	Total	Percent of Total
Accounting and Financial Management	$ 22.3	$ 16.2	$ 38.5	3.4%
Public Schools (Note 2)	186.7	28.0	214.7	18.8
Department of Human Resources	124.8	160.0	284.8	24.9
Public Safety Agencies	220.3	31.4	251.7	22.0
Department of Environmental Services	40.4	24.1	64.5	5.6
Other Departments and Agencies	94.4	46.6	141.0	12.4
Total Requested Appropriation	$688.9	$306.3	$ 995.2	87.1%
Contributions-				
Washington Aqueduct			9.1	0.8
Metro Area Agencies			27.2	2.4
Inaugural Ceremonies			1.3	0.1
Miscellaneous			4.0	0.4
Additional Salaries--provision for increases-- Police, Firemen, Teachers			20.0	1.8
Repayment of Loans and Interest			84.8	7.4
			$1,141.6	100.0%
Total Federal Grants			372.3	
Total Budget			$1,513.9	

Notes

(1) Arthur Andersen & Co. did not audit the above information. The source for the above is the District of Columbia booklet, "Justifications for the 1977 District of Columbia Budget."

(2) The above total of $214.7 million does not agree with the budget request summary which requests an overall total of $206.9 million. The difference of $7.8 million is the difference between the Public Schools' request and the Mayor's target for the Schools.

APPENDIX 3

DISTRICT OF COLUMBIA

SUMMARY OF PERSONNEL BY ORGANIZATION

(Unaudited) (Notes 1 and 2)

Agency	Authorized Positions (Note 4)	Estimated Average FY 1977 Employment	Percent of Total
Accounting and Financial Management	1,419	1,416	3.6%
Public Schools	11,744	11,423	29.4
Department of Human Resources	9,251	8,250	21.2
Public Safety Agencies	10,154	9,765	25.2
Department of Environmental Services	2,741	2,487	6.4
Other Departments and Agencies	5,937	5,497	14.2
Total Funded by District Appropriations	41,246	38,838	100.0%
Total Grant Positions (Note 3)		25,977	
Total Employment		64,815	

Notes

(1) Arthur Andersen & Co. did not audit the above information. The source for the above is the District of Columbia booklet, "Justifications for the 1977 District of Columbia Budget."

(2) The above numbers include total full-time, part-time and temporary positions funded through District appropriations and Federal grants and reimbursements.

(3) Grant positions include approximately 16,000 youths employed in the summer by the Office of Youth Opportunity Services.

(4) The number of authorized positions includes 1,010 temporary Public School positions and 780 other Public School positions not included in the "1977 Executive Budget," and excludes 310 positions for the Washington Aqueduct.

VOLUME II

FINANCIAL MANAGEMENT AND REPORTING



FINANCIAL MANAGEMENT AND REPORTING

VOLUME II

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INTRODUCTION

FINANCIAL MANAGEMENT AND REPORTING

The financial management organization in the District has evolved from several major reorganizations since 1967. It presently encompasses three agencies and involves every District agency.

The three agencies are the Office of Budget and Management Systems, the Department of Finance and Revenue, and the Department of General Services. These agencies' organizations include the following.

- Office of Budget and Management Systems
  - . Office of the Director
  - . Program and Budget Operations
  - . Financial Operations - District Accounting
  - . Systems Development and Computer Services (SHARE)
  - . Executive Management
  - . Municipal Audits and Inspections

- Department of Finance and Revenue
  - . Assessment Administration
  - . Tax Administration
  - . District Treasury
  - . Data Systems

- Department of General Services
  - . Bureau of Design and Engineering
  - . Bureau of Materiel Management
  - . Bureau of Construction Management
  - . Bureau of Buildings Management
  - . Bureau of Repairs and Improvements

The proposed operating budget for these three agencies for fiscal 1977 is approximately $47.3 million, while the capital expenditure budget, which is monitored by financial management is $52.7 million for 1977 in addition to prior years construction which may be in progress. Total funding for these agencies has been summarized on Schedule 1.

Schedule 2 summarizes the estimated 1977 employment throughout the central financial organization.

Focus of Review

One of the purposes of our review of the District's central financial management and supporting systems was to determine whether procedures properly provide for the preparation of accurate financial statements in accordance with generally accepted accounting principles. Our survey of the financial management function has been directed at the 1975 published financial statements, the financial compilation process, the effectiveness of underlying systems, the existence and accuracy of supporting records and the organization of management responsibilities and duties.

Organization of Report

In Section I of this report, we discuss the present problems with the District's accounting and financial reporting and conclude that a balance sheet audit is not

practical until September 30, 1977. In Section II, we determined that the present accounting and reporting systems do not produce timely, relevant information essential to sound and responsible financial management. At the end of Section II and in Section III we recommend a specific plan of action and organization changes necessary to overcome present problems and to obtain financial creditability.

SCHEDULE I

ACCOUNTING AND FINANCIAL MANAGEMENT

DISTRIBUTION OF 1977 BUDGET REQUEST BY AGENCY

(Unaudited) (Note 1)

Agency	1977 Budget Request ($ millions) Personnel	Other Operating Cost	Total	Percent of Total
Office of Budget and Management Systems	$ 5.9	$ 3.5	$ 9.4	25.1%
Department of Finance and Revenue	8.7	1.3	10.0	26.7
Department of General Services	7.7	10.4	18.1	48.2
Total Requested Appropriation	$22.3	$15.2	37.5	100.0%
Total Federal Grants			9.8	
Total Budget			$47.3	

Note

(1) Arthur Andersen & Co. did not audit the above information. The source for the above is the District of Columbia booklet "Justifications for the 1977 District of Columbia Budget."

SCHEDULE 2

ACCOUNTING AND FINANCIAL MANAGEMENT

DISTRIBUTION OF PERSONNEL BY AGENCY

(Unaudited) (Notes 1 and 2)

Agency	Authorized Positions	Estimated Average FY 1977 Employment	Percent of Total
Office of Budget and Management Systems	338	284	20.0%
Department of Finance and Revenue	544	542	38.3
Department of General Services (Note 3)	537	590	41.7
Total Requested Appropriations	1,419	1,416	100.0%
Total Grant Positions		1,735	
Total Employment		3,151	

Notes

(1) Arthur Andersen & Co. did not audit the above information. The source for the above is the District of Columbia booklet "Justification for the 1977 District of Columbia Budget."

(2) The above numbers include total full-time equivalent positions funded through District appropriations and Federal grants and reimbursements.

(3) Includes 75 nonpermanent positions in estimated average FY 1977 employment.

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SECTION I

FINANCIAL REPORTING TO THE PUBLIC

Governmental units are organized by the citizenry to manage public affairs and to provide services to the general public. Local governments are an important and, by nature, complex segment of our community. Every government action has a direct impact upon each citizen as a recipient of a particular governmental service and/or a provider of funds for that service. In addition, in today's environment capital improvement requirements are so significant that financing generally must be obtained from the public through the issuance of securities.

Local governments are experiencing increasing pressure to keep the public informed. Condensed and easily understood financial statements are the medium for providing information about the financial condition, costs of operations and cash flow of an entity. Financial information must be reliable and meaningful to maintain the public trust and confidence placed in government officials.

For a number of years, the District has issued an annual financial report to the public which contains information on budgets, capital improvements, taxes, appropriations, expenditures and grants. The District's June 30,

1975, financial report was a 125-page volume containing an extensive amount of financial statistics without interpretative narrative. As part of our survey, we reviewed the District's June 30, 1975, financial report to evaluate prospective audit problems.

The objectives of our work in this area were to answer the following questions.

1. Are the District's financial statements supported by appropriate official books of record?

2. What is the quality of the District's supporting systems, procedures and records?

3. Do the District's financial statements comply with the current accounting and financial reporting standards for state and local governmental units?

4. What are the significant accounting and auditing problems expected in the event an independent public accountant is engaged to examine the District's financial statements?

Our work included (a) reviewing the District's June 30, 1975, combined balance sheet, (b) discussing its preparation with employees, (c) reviewing procedures for closing the records, (d) reviewing work schedules supporting the amounts appearing in the balance sheet, (e) discussing the accumulation of certain critical financial data with agency employees, and (f) comparing the accounting principles to the current authoritative standards for state and local governments. These procedures do not constitute an

audit in accordance with generally accepted auditing standards and do not permit us to render an opinion on the District's 1975 financial statements.

During the 1975 Congressional hearings on the District's request to issue $50 million of debt, a concern was expressed about the District's financial condition. Senator Eagleton stated during the hearings, "... it is my conclusion that not enough is known about the District's financial situation to permit the lending authority to go through at this time." Our findings indicate that the District's financial statements do not provide the information necessary to enable an understanding of the District's financial condition. Further, certain amounts presented in the June 30, 1975, financial statements are inaccurate. These inaccuracies result primarily from inadequate and incomplete accounting records in several areas.

In addition to the inaccurate amounts in the District's financial statements, there are several significant accounting matters which must be addressed before meaningful information can be presented. These issues include the accounting for pensions, policemen and firemen's pension withholdings, appropriations, grant activities and enterprise funds.

We believe the inadequate state of the District's financial reporting is the result of a financial system under which (a) responsibility for billing and collecting a significant part of the District's revenue is not being properly exercised and (b) financial reporting has been limited to current expense budgets and spending controls. In this environment, there is little perspective for proper internal controls or reporting to the public and the preparation of the District's annual financial statements is almost an "afterthought."

We have concluded that the District's accounting control deficiencies will, in all likelihood, prevent an auditor from expressing an opinion on the statement of operations until at least fiscal 1978. However, a balance sheet audit of the District's assets and liabilities may be practical at an earlier date. While the balance sheet audit is possible, the condition of the District's records would make the audit prohibitively expensive since significant asset and liability data would have to be reconstructed. The resultant auditors' report would probably be so qualified, or even disclaimed, that the report would be meaningless. We estimate the audit fee for such a limited audit could exceed several million dollars. This amount would be significantly less if the District delayed a balance sheet audit until September 30, 1977, and improvements were affected in the interim.

While we are auditors, we are also businessmen who believe strongly in the most effective use of resources. Although it is always conceivable that an audit would identify at an early date areas where revenues can be realized or costs reduced, it appears that such a large expenditure for an audit could be better utilized if directed at the serious problems such as (a) rendering correct and prompt billings at the Department of Environmental Services, (b) upgrading the District's financial information systems, (c) completion of the task force review of recipients of public assistance at the Department of Human Resources and correcting the deficiencies leading to the alarming error rate found in the review, (d) reconciling the District's cash account at the U. S. Treasury, (e) establishing controls over D. C. General Hospital and clinic receivables, and (f) correcting basic payroll systems control weaknesses. We believe, based on the District's ultimate need for a financial audit, that the most economical and reasonable approach would be to concentrate on the critical problems now and aim for a balance sheet audit at September 30, 1977, and a full audit (e.g., balance sheet, operations and changes in funds) at September 30, 1978.

We recommend that auditors be appointed in the very near future for consultation to commence an immediate program to correct the District's accounting control problems

and to prepare for the audit schedule as outlined in the preceding paragraph. Although fiscal 1978 may appear to be a long way off, proper accounting procedures and controls must be in place at the beginning of fiscal 1978 (October 1, 1977), which is only 16 months from now.

REVIEW OF THE DISTRICT'S 1975 ANNUAL REPORT

The District's 1975 annual financial report contained twelve individual financial statements which provided data regarding assets, liabilities, cash receipts, cash disbursements, appropriations and obligations.

Fair presentation of financial position and results of operations in conformity with generally accepted accounting principles for state and local governments requires that financial statements for each fund include a balance sheet, statement of revenues and expenditures, statement of changes in fund balance and, in the case of an enterprise fund, a statement of changes in financial position. For fiscal 1975, the District presented only a balance sheet.

The purposes of our review were to determine if the District's financial statements were prepared from appropriate records and to evaluate whether the quality of the District's "closing" procedures was sufficient to assure that accurate and complete data were being recorded.

The amounts appearing in the balance sheet were taken directly from the District's final June 30, 1975, general ledger. While District Accounting accumulates cash receipts and disbursements, each agency is responsible for maintaining separate records for accounts receivable,

inventory of supplies and materials, equipment, real property and accrued annual leave. District Accounting is responsible for maintaining the District's cash account at the U. S. Treasury and its investment and loan records.

Since the District's accounting records for many assets and liabilities are decentralized, each agency submits data for receivables, materials and supplies, equipment and property and earned annual leave to District Accounting at year-end, where it is officially recorded in the general ledger. This procedure is accomplished through a memorandum to each agency requesting the information as part of the annual "closing" procedures.

It was apparent from our review that many agencies placed little, if any, emphasis on providing accurate financial data to District Accounting. As a result, many asset and liability amounts recorded at June 30, 1975, and reported in the District's combined balance sheet in the financial report, were inaccurate. Additionally, it is apparent that District Accounting personnel responsible for preparing the financial report were aware of problems or had reason to believe that inaccurate amounts were being included. Our review of the District's 1975 annual report raises many concerns about the District's financial reporting.

In subsequent paragraphs we discuss our findings with respect to certain amounts in the District's June 30, 1975, combined balance sheet. Our review indicated that there are material deficiencies in the District's procedures in accumulating annual report financial data. The combined balance sheet is set forth in the following two pages.

DISTRICT OF COLUMBIA GOVERNMENT

COMBINED BALANCE SHEET ALL FUNDS

AS OF JUNE 30, 1975

(Unaudited)

Current Assets	
Cash in U. S. Treasury	$ 29,770,572
Cash Advanced to Authorized Officers	231,325
Investments	90,436,892
Receivables:	
Accounts Receivable - Current	8,884,035
Accounts Receivable - Delinquent	14,909,080
Taxes Receivable	19,215,917
Government Contribution on Bond Interest	9,018,960
Interest Receivable - Purchased	9,741
Total Receivables	52,037,733
Inventory:	
Inventory of Materials and Supplies	15,364,268
Revolving Funds Industries Division	441,870
General Services	862,888
Food Service Fund	222,930
Total Inventory	16,891,956
Total - Current Assets	189,368,478
Fixed Assets	
Equipment:	
Equipment (Historical Acquisition Value)	94,778,353
Revolving Funds	665,412
General Services	1,072,515
Total Equipment	96,516,280
Real Property:	
Land Titled in U. S.	7,493,000
Land Titled in D. C.	94,094,990
Structures Titled in U. S.	50,147,000
Structures Titled in D. C.	201,063,000
Total (Historical Acquisition Value)	352,797,990
Work in Process - Construction	501,477,367
Total Real Property	854,275,357
Total - Fixed Assets	950,791,637
Other Assets	
Equity in Unemployment Trust	19,125,279
Amount Provided for Undeliverable Checks	542,217
Total - Other Assets	19,667,496
Total - Assets	1,159,827,611
Budgetary Accounts	
Estimated Reimbursements and Grant Receipts	249,278,756
Federal Loan Authorizations	109,960,500
Total - Budgetary Accounts	359,239,256
Statistical Accounts	
Civil Service Retirement and Disability	126,421,463
Policemen and Firemen's Relief	62,011,914
Teachers' Retirement and Annuity	67,031,914
D. C. Judicial Retirement and Survivors' Annuity Fund	943,539
Total - Statistical Accounts	256,408,830
Total	$1,775,475,697

DISTRICT OF COLUMBIA GOVERNMENT

COMBINED BALANCE SHEET ALL FUNDS

AS OF JUNE 30, 1975

(Unaudited)

Current Liabilities	
Civil Service Retirement	$ 35,874
Employers' Life Insurance Fund	20,236
Employees' Health Benefit Fund	20,067
Federal Withholding Tax	4,397,698
Police and Firemen's Retirement	4,102
D. C. Withholding Tax - District Unemployment Compensation Board	(154)
Bond Deductions	50,063
District Unemployment Compensation Board	824
Withheld State Income Taxes	1,408,603
Income Tax Refunds	1,102,164
Suspense Accounts	330,873
Benefit Payment Account - District Unemployment	1,038,363
Clearing Account - District Unemployment	38,613
Accounts Payable Teachers' Deferred Salary	16,309,228
Accounts Payable Special Administrative Expense Fund	17,276
Accounts Payable Allowance Payment	153,753
Undeliverable Checks	1,366,546
Temporary Advances from U. S.	40,750,000
Accrued Vouchers Payable	51,783,316
Accrued Annual Leave	30,090,372
Accrued Interest Payable	63,812,876
Accrued Interest on Advances	21,024
Accrued Salaries Payable	46,158,836
Accrued Personnel Benefits	7,278,929
Accounts Payable, Revolving Funds	1,291,623
Total - Current Liabilities	267,481,105
Fixed Liabilities	
Loans from U. S. Treasury	971,927,258
Loans from U. S. Treasury - D. C. Stadium	831,600
D. C. Stadium Bonds	19,800,000
Hospital Construction -	
Hospital Center	5,732,715
Cafritz Memorial Hospital	769,500
Casualty Hospital	377,000
Children's Center	169,635
Columbia Hospital	384,025
Georgetown University Hospital	577,800
Providence Hospital	1,126,680
Sibley Memorial Hospital	1,227,941
Administration Expenses	133,817
Total - Hospital Construction	10,499,113
Liability for St. Elizabeth's Hospital Construction Expenditure	14,975,606
Total - Fixed Liabilities	1,018,033,577
Other Credits - Overpaid Taxes	394,502
Total - Liabilities	1,285,909,184
Capital (Deficit)	
Invested Capital	(948,749,563)
Appropriations for Repayment of Temporary Advance	(40,750,000)
Unappropriated Surplus	(470,237,488)
Investment in General Fixed Assets	863,172,535
Total - Capital (Deficit)	(596,564,516)
Budgetary Accounts	
Unapportioned Appropriations	17,811,366
Unobligated Apportionments	345,926,932
Unliquidations	465,983,902
Total - Budgetary Accounts	829,722,200
Statistical Accounts	
Accumulated Civil Service Retirement Deductions	126,421,463
Accumulated Policemen and Firemen's Retirement Deductions	62,011,914
Accumulated Teachers' Retirement Deductions	67,031,863
Accumulated Judicial Retirement Deductions	943,539
Total - Statistical Accounts	256,408,829
Total	$1,775,475,697

Generally, we noted that (1) many agencies did not respond to the year-end closing memorandum and in such cases District Accounting used the agency's 1974 or earlier prior year's amount and (2) District Accounting did not question agency submissions which varied significantly from the previous year. The procedures and data supporting the recording of amounts in the general ledger were inadequate for the following specific items.

Receivables $52,037,733 - There is a strong indication that some agencies did not submit accurate receivables data to District Accounting since three funds had little or no change between years in their current accounts receivable balances. For example, the Motor Vehicle Parking Fund's current accounts receivable balance of $1,503 in 1975 was unchanged from 1974, while the Highway Fund and the Water Fund balances of $572,187 and $455,825, respectively, varied little from the prior year. With respect to the Water Fund, the Department of Environmental Services reported to us that it had not submitted data on receivables to District Accounting for at least the three-year period ended June 30, 1975, and did not know how the $455,825 reported figure was derived; further, there are at least $1,500,000 in unrecorded receivables at the Department of Environmental Services for meter repairs, trap cleaning, correction and relocation services.

When the 1975 financial statements were prepared, the most recent report of taxes receivable from the Department of Finance and Revenue was as of October 1974. The report for June 30, 1975, was not received by District Accounting until January 1976, approximately six months after the date requested. District Accounting used the October 1974 balance which was approximately $2,380,000 less than the actual June 30, 1975, balance reported at the later date.

As a result of the above items, the accuracy of over $35 million of the total receivable balance of $52 million appears questionable. In addition, it appears that receivables may be understated by a significant amount.

Inventories $16,891,956 - Some agencies failed to respond to the written request or, according to District Accounting employees, to repeated follow-up telephone requests for supply and material inventory information. Because current data were not available, District Accounting used the prior year's balances of materials and supplies inventories for these agencies. Approximately $5.8 million or 35% of the $16.9 million inventory of materials and supplies was repeated from the prior year as summarized below.

Agency	1974 Balances Repeated in 1975
Public Schools	$1,730,000
Environmental Services -	
Sanitary Sewage	1,124,000
Water	970,000
General	763,000
Department of General Services	862,000
D. C. Public Schools - Food Service	223,000
Fire Department	101,000
Others, with June 30, 1974, balances less than $100,000	77,000
	$5,850,000

In addition, the following agencies submitted to District Accounting a report giving a single dollar value for inventories and equipment, which was recorded as inventory.

Agency	Balance Reported
Metropolitan Police	$ 978,000
Office of Civil Defense	180,000
Board of Higher Education	21,000
Recorder of Deeds	8,000
	$1,187,000

While some agencies reported amounts which appeared reasonable compared to 1974, the inventory submitted for the following agencies varied so significantly from those agencies' previous year's inventory that District Accounting should have questioned the reasonableness of the data received.

Agency	Inventory Balance Reported 1974	Inventory Balance Reported 1975	Unexplained Increase
Department of Corrections	$ -	$3,370,000	$3,370,000
Highway - Regular	412,000	2,132,000	1,720,000
	$412,000	$5,502,000	$5,090,000

In summary, the reliability of $12,539,000 of the total materials and supplies inventory reported to the public at June 30, 1975, appears questionable.

Equipment $96,516,280 - The same problems noted in the receivable and inventory areas were present in the equipment area. Twenty-four agencies with historical equipment balances did not respond to the request from District Accounting. For these agencies, District Accounting used the agency's June 30, 1974, balance. As a result, approximately $37.2 million or 38% of the $96.5 million equipment balance represents 1974 amounts as detailed below.

Agency	1974 Balances Repeated in 1975
Public Library	$11,294,000
Environmental Services -	
General Fund	11,430,000
Water Fund	4,060,000
Metropolitan Police	7,941,000
Share Fund	968,000
D. C. Teachers College	536,000
Department of Finance and Revenue	419,000
Office of the Corporation Counsel	193,000
Others, with June 30, 1974, balances less than $100,000	393,000
	$37,234,000

The agencies indicated below submitted significantly different amounts from their prior year's equipment balance. Explanations for the variations are not available at District Accounting.

Agency	Equipment Balance Reported 1974	Equipment Balance Reported 1975	Unexplained Increase (Decrease)
Federal City College	$ 5,556,000	$ 6,554,000	$ 998,000
Department of Corrections	3,559,000	5,240,000	1,681,000
Washington Technical Institute	3,892,000	3,315,000	(577,000)
Highway-General	1,268,000	891,000	(377,000)
Youth Opportunity Services	427,000	113,000	(314,000)
	$14,702,000	$16,113,000	$1,411,000

Real Property $352,797,990 - The records pertaining to real property are maintained by the Department of General Services. The balance reported in the 1975 financial statements was identical to the prior year. District Accounting did not receive a real property listing from the Department of General Services until after the annual report was issued. That report reflected a real property balance of $373 million at June 30, 1975, as opposed to the $353 million shown in the District's financial statements, or an apparent error of $20 million.

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Construction-in-Process $501,477,367 - District Accounting did not obtain a construction-in-process listing from the three principal agencies responsible for District construction (i.e., Department of General Services, Department of Transportation and Department of Environmental Services). District Accounting computed an amount for construction-in-process by adding construction expenditures during the year to the balance in the June 30, 1974, financial statements. The amount of construction projects completed during the year was not determined. Of the $854 million total real property at June 30, 1975, $501 million or approximately 60%, was reflected as construction-in-process. This is an unreasonably high percentage of real property.

Accrued Annual Leave $30,090,372 - Accrued annual leave amounts reported by the following agencies deviated significantly from those reported in the prior year as set forth below. Explanations for the variations are not available at District Accounting nor is there information available as to how the agencies determined the reported balances.

Agency	Accrued Annual Leave Balance Reported 1974	1975	Unexplained Increase
Metropolitan Police	$4,355,000	$5,346,000	$ 991,000
Superior Courts	818,000	1,021,000	203,000
Office of Budget and Management Systems	62,000	349,000	287,000
Washington Technical Institute	109,000	245,000	136,000
Youth Opportunity Services	44,000	132,000	88,000
	$5,388,000	$7,093,000	$1,705,000

Other Inaccurate Amounts - While reviewing the District's work schedules and the balance sheet, certain other problems were noted.

1. The District has reflected uncollected grant awards and estimated reimbursements as a "budgetary asset." The balance at June 30, 1975, was $249,278,756. However, this amount represents estimated cumulative reimbursements and grants awarded less cash receipts. This amount does not take into consideration amounts earned or advances in excess of allowable expenditures incurred. Such advances should be reported as a liability.

2. The Water, Sewer and Metropolitan Sanitary Sewage Funds do not have any real property recorded. All property for these funds are included in construction-in-progress. Apparently, upon completion of capital projects in these funds, the real property is removed from the accounts.

3. No attempt was made to quantify a reserve for uncollectible receivables. The account titled "delinquent receivables" implies that the entire balance may not be collectible; this is probably the case since this balance is unchanged from 1967 and included $12,173,281 from D. C. General Hospital and $2,029,649 from Glen Dale Hospital.

4. The collectibility of part of the taxes receivable balance is also questionable. The balance includes $1,278,000 of pre-1975 property tax levies. Under current law, uncollectible amounts could not be written off.

5. No accrued interest income was recorded for the District's $90 million in investments.

6. The intragovernmental service funds at the Department of General Services have approximately $2 million of receivables from other agencies. The related expenditures have never been officially recorded as either receivables of the service funds or expenses of the general fund in the District's financial statements.

We do not believe that sufficient emphasis was placed on the accumulation of accurate amounts by either the agencies or District Accounting during the June 30, 1975, closing. District Accounting did not perform basic review and control functions to ensure the accuracy of amounts recorded. Accordingly, regardless of the accounting principles or disclosures in the District's report, we believe that the amounts reported to the public are highly questionable.

The number of questionable amounts contained in the report represents a basic lack of minimum controllership procedures. From our perspective, this problem results from four basic deficiencies.

1. There was no overall direction from top management requiring agency compliance with closing instructions. However, we noted that some agency personnel tried to obtain information from District Accounting, but were unable to do so.

2. The District's closing instructions were not clear as to what information was required. For example, they did not include how inventories were to be costed or whether physical counts were to be taken. In addition, the instructions were confusing, especially the request to provide the amount of capitalized equipment and materials.

3. The processing of the agency submissions and preparation of the report were apparently handled by staff without adequate supervision.

4. District Accounting did not attempt to determine the reasonableness of agency submissions and, accordingly, functioned only as a conduit in the process and not in a controllership review capacity.

We believe these problems are directly related to the fact that the District does not have definite accounting and closings procedures or a District-wide chief financial executive.

NONCOMPLIANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The accounting and reporting standards for state and local governmental accounting are set forth in two authoritative pronouncements. In 1968, the National Committee on Governmental Accounting issued "Government Accounting, Auditing and Financial Reporting" ("GAAFR"), referred to as the "Blue Book." In 1973, the American Institute of Certified Public Accountants issued an Audit Guide entitled, "Audits of State and Local Governmental Units." Currently, these pronouncements guide governmental units and their independent public accountants in presentation and reporting matters. Financial statements not prepared in accordance with GAAFR and the Audit Guide are not in accordance with generally accepted accounting principles.

District officials have acknowledged that the annual report does not comply with standards established by the National Committee on Governmental Accounting and the American Institute of Certified Public Accountants. However, the reporting and disclosure requirements of the two authoritative pronouncements in the field of municipal accounting do not represent an unreasonable standard for current District reporting. These pronouncements represent basic accounting practices which should have been followed,

regardless of the District's association with the Federal government. When required, separate financial statements prepared in accordance with regulatory requirements should be prepared for compliance with legal requirements, while financial statements for public distribution should be prepared in accordance with generally accepted accounting principles.

A determination of whether financial statements are presented in accordance with generally accepted accounting principles requires an evaluation of (a) the statements presented, (b) disclosures, and (c) the underlying accounting principles. We have identified the significant accounting and reporting practices followed by the District which are not in compliance with generally accepted accounting principles. Our comments are summarized in the following three paragraphs.

Required Statements Not Presented

The District's annual financial report contained twelve financial statements and summaries. Several of these summaries were repetitive and extraordinarily detailed. The basic financial statements required by generally accepted accounting principles were not presented. In addition, GAAFR prescribes additional schedules. The District's statements did not contain many of these schedules. With

the exception of a general fixed assets schedule, all statements and schedules required under GAAFR could presently be prepared from the District's records. The following statements and schedules were not included in the District's 1975 annual report.

- A transmittal letter from the Chief Financial Officer.
- A schedule of delinquent taxes receivable by years.
- A schedule of investments with related market value information.
- A statement of revenue (budgeted and actual).
- A statement of revenues, expenditures and encumbrances (obligations) compared to budgeted amounts for general funds.
- A comparative statement of income and expense for all enterprise funds.
- A schedule of general fixed assets by equity source.

Disclosures Are Inadequate

The District's 1975 annual report consisted entirely of tables of statistics without narrative disclosures. Information given on the face of a financial statement is restricted to that which can be represented by a number described by a very few words. Normally, information of this type requires amplification to make it useful. Both the financial statements and explanatory notes are necessary for adequate disclosure. We believe the following areas

must be presented for a reader to adequately understand the District's operations.

1. A summary of significant accounting policies including methods of revenue and expense recognition, depreciation policies, inventory pricing and funds consolidation principles.

2. Commitments and contingencies, including significant legal actions and significant construction commitments.

3. Details of the District's pension and employee benefit plans including funding policy, vested benefits and unfunded amounts.

4. Grants and reimbursements including any significant disallowances being questioned in grant audits and the amount of unused funds available in future periods.

5. At June 30, 1975, the District had loans from the U. S. Treasury which were due, but unpaid. Deferred principal and interest payments were $3,556,275 for the Sanitary Sewer Works Fund and $6,947,093 for the Metro Area Sanitary Works Fund. Some principal and interest payments have been deferred each year since 1965 for the Sanitary Sewer Works Fund and 1963 for the Metropolitan Area Sanitary Works Fund. In addition, the District deferred paying to the U. S. Treasury $63,400,000, in principal and interest payments due on July 1, 1975 because Congress had not passed the 1976 budget by that date. The budget would have authorized the District to repay that borrowing. The District is not accruing interest on these deferrals. This situation should have been disclosed in the financial statements.

6. Terms of payment for the District's share of hospital construction in accordance with the Hospital Center and Aid to Private Hospitals Act of August 7, 1946, and the St. Elizabeth's Hospital Construction Act of July 2, 1954.

7. Terms of the temporary advances from the U. S. Treasury and the U. S. Loan Authorizations.

8. An explanation of agencies with separately constituted governing bodies (Public Schools, higher education institutions) and semi-autonomous agencies (e.g., Courts).

9. A description of intergovernmental activities and services which are provided by the Federal government to the District without charge and vice versa.

10. The nature and probability of collection of the District's $9,000,000 receivable for interest payments made under its guarantee of the Robert F. Kennedy stadium debt.

Unacceptable Accounting Practices Are Used

The significant accounting practices currently used by the District which are unacceptable are detailed below and discussed in subsequent paragraphs.

- Appropriation periods are not limited.
- Outstanding obligations should be liquidated.
- Police and firemen's pension withholdings are improperly recorded as revenue.
- Pension expense is improperly recorded.
- Depreciation expense for enterprise and intragovernmental service funds is not recorded.
- Classifications of enterprise funds are improper.
- Interest income is not accrued.
- Grant revenues are not properly recorded.

Appropriation Periods Should Be Limited - In the Federal government system, annual appropriations are open for three years. Even though an appropriation is "closed"

after the third year, the District may "reopen" unused prior year appropriations with U. S. Treasury permission. During 1975, the District obligated and disbursed $3,778,573 which was charged to prior years' appropriations. While admittedly not significant, included in this amount was a $508 charge to the District's 1964 appropriation. It is very difficult to maintain budgetary control when expenditures can be charged to prior year appropriations and the budget is not closed out each year. Continuing appropriations complicate financial administration, diminish effective planning and control of expenditures, and severely restrict the District in closing a particular fiscal year and preparing financial statements.

Outstanding Obligations Should Be Liquidated - Under generally accepted accounting principles, general fund obligations for contracts and purchase commitments are generally required to be liquidated prior to the end of the succeeding year. Generally, any unliquidated obligations which cannot be identified with outstanding commitments are written off to miscellaneous expense or revenue. The District does not have a policy for reviewing and disposing of unliquidated obligations.

Pension Withholdings Are Not Revenue - The policemen's and firemen's pension payroll withholdings are included as general fund revenues. The amount included in 1975 was $13,103,314 and the cumulative balance was $62,011,914. These withholdings do not represent revenues to the District under generally accepted accounting principles, although a 1935 law requires the District to deposit such funds in the Treasury as revenues. Since employees are fully vested with respect to their pension contributions, at a minimum, any amounts withheld from payrolls and not paid to a trustee should be recorded as a liability to the pension funds. The District's general fund cash balance at June 30, 1975, was only $609,386 or only 1% of the liability for cumulative withholdings for policemen's and firemen's pensions.

Pension Expense Is Improperly Recorded - The District has funded only nominal amounts of its pension plans for policemen, firemen, teachers and judges. Accordingly, the District has reported pension expense on the "pay-as-you-go" method instead of the accrual method required under Accounting Principles Board (APB) Opinion No. 8. The Audit Guide for State and Local Governmental Units requires that all APB Opinions, which are applicable, are to be followed in state and local governmental accounting. Consequently, the District's current reporting of pension

expense is not acceptable. If the District properly calculated its pension expense for policemen, firemen, teachers and judges, in accordance with prescribed accounting methods of APB Opinion No. 8, pension expense for fiscal year 1976 would be approximately $266 million instead of the $56 million reported by the unacceptable "pay-as-you-go" method, or an additional $210 million.

In addition, approximately 60% of the District employees are included in the Federal government's Civil Service retirement program for which the employee and the District each contribute 7% of the employee's compensation. However, based on data supplied by the Board of Actuaries of the Civil Service Retirement Commission, we have estimated that the actuarily determined annual cost of the Civil Service retirement program is approximately 77% of covered compensation. This is based upon one estimate that the District may be liable for approximately $2 billion of the approximately $156 billion unfunded liability of the Civil Service Retirement System determined as of June 30, 1972. The excess of the 14% contributed by the District and its employees is equivalent to a Federal grant if the Federal government determines that the District is not liable for the excess. We have estimated that the understatement of pension expense for fiscal year 1976, will be approximately $243 million. In addition, there is the question as to

whether the Federal government intends to absorb this cost or hold the District liable for future normal cost plus interest and amortization of the approximately $2 billion of unfunded prior service costs.

We also believe the foregoing pension problems are so material that, in the absence of all other accounting and reporting problems, continuation of present pension accounting policies would result in a qualified or disclaimed opinion from an independent public accountant. Further details are included in Volume IX of our report, "District of Columbia Retirement Systems."

Depreciation Expense Is Not Recorded - Enterprise and intragovernmental service funds are established to perform services similar to those performed by commercial businesses. As such, the accounting principles for these activities are identical to their counterparts in the commercial sector. The most significant deficiency in the District's accounting for these funds is its failure to record fixed assets and depreciation. Only by capitalizing property and systematically depreciating the property costs to the periods benefited can the total costs of providing services be determined.

Classifications of Accounting Funds Are Improper - The District's classifications of funds are not in conformity with acceptable standards. The District's hospital and health care facilities should be considered enterprise funds and accounted for accordingly. These activities are currently reflected in the general fund of the District.

The construction services fund (properly a fixed asset fund) has been included in revolving funds (intragovernmental service funds). To cover administrative overhead of the District's building construction program, the Department of General Services is appropriated a fee equivalent to approximately 10% of construction costs. There are two problems with the District's accounting for this fund. First, revenues and expenses are not properly matched because the fee is recorded in the year when construction funds are appropriated, even though such funds will be spent over several years. This accounting appears to be related to the District's interpretation of the appropriation legislation. This fund incorrectly has a fund balance of $14,719,494 at June 30, 1975. Secondly, the construction services expenditures should be accounted for separately as a part of the District's fixed assets.

We believe that the District SHARE computer activity and the Department of General Services overhead

fund should not be accounted for as trust and deposit funds, but as intragovernmental service funds within general fund operations.

Interest Income Is Not Accrued - Under the accrual method of accounting, interest income earned but not received should be recorded. The District did not record accrued interest income on its $90,436,892 of investments at June 30, 1975.

Grant Revenues Are Not Properly Recorded - The District does not properly account for grant and reimbursement revenues since revenues are recorded on the cash basis of accounting. Revenues on cost reimbursable grants should be recorded to the extent allowable costs have been incurred. Cash receipts in excess of revenues earned should be recorded as a liability and revenues recorded in excess of cash receipts should be recorded as grants receivable.

CURRENT REEXAMINATION OF FINANCIAL REPORTING FOR STATE AND LOCAL GOVERNMENTAL UNITS

Throughout this report, we have referred to generally accepted accounting principles for state and local governments. These accounting principles have been developed through the work of the National Committee on Governmental Accounting and the American Institute of Certified Public Accountants. However, financial presentations and accounting principles in the public sector are currently being reexamined in the wake of the recent prominent municipal financial crises. Accordingly, the accounting and reporting standards of governmental units can be expected to change in the future as a result of the current reexaminations.

We have initiated a review of present financial reporting by state and local governments. We have commissioned the Center for the Management of Public and Nonprofit Enterprise at the Graduate School of Business of the University of Chicago to conduct a study of the standards of accounting and financial reporting for state and local governmental units. This research is to be concluded by October 1, 1976, and will cover not only current practices, but also recommendations as to what the practices can and should be. The study incorporates the expertise of persons experienced in accounting, law, finance and public administration.

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We believe the major issues which should be reexamined are the following.

Generally Accepted Accounting Principles Versus Legal Compliance

Accrual Accounting

Pension Accounting

Accounting for Fixed Assets Including Depreciation

Consolidated Financial Statements

Summarized below are our current thoughts in these issues.

Generally Accepted Accounting Principles Versus Legal Compliance

Historically, financial reporting by state and local governments has been directed at reporting legal compliance as opposed to the presentation of financial position and the results of operations in accordance with generally accepted accounting principles. Financial statements prepared solely on the basis of legal compliance often do not satisfy the requirements of all users of those statements. Accounting and financial reporting for state and local governmental units may be improved if the financial statements presented for investors, investment bankers and the public were prepared in conformity with generally accepted accounting principles. Where special financial statements are required to comply with legal requirements, such special purpose statements can, of course, be prepared.

Accrual Accounting

Accounting in the public sector has generally followed the cash or "modified accrual" basis. The cash or "modified accrual" basis of accounting has been rejected by commercial enterprises because it does not properly present financial position and results of operations. Serious financial difficulties could remain undetected.

The objective of the accrual basis of accounting is to report revenue in the statement of operations for the period when it is earned (regardless of when it is collected) and to report expense in the period when it is incurred (regardless of when the cash disbursement is made). Accrual accounting is in contrast to the cash basis of accounting, under which revenue is reported when the related cash collection is made and expenses are reported in the period when the cash disbursements are made. The fundamental difference between the cash and accrual bases is in the matter of timing. The matching of revenue and expense by periods is achieved only by accrual basis accounting.

We believe general purpose financial statements of governmental entities should be prepared on the accrual basis of accounting because that basis more clearly reflects the economic costs and revenues of the governmental unit.

Pension Accounting

The District, as well as many other state and local governments, has followed the policy of reporting pension expenses on the "pay-as-you-go" method. Under this method, pension expense is recorded when cash payments are made to pension recipients. Generally accepted accounting principles require that pension costs should be reported on an accrual basis as presently required for the commercial sector. This method requires that the cost of a pension plan be recorded on a reasonable basis over the employment period of the participant. A secondary benefit of this policy is that the impact of pension revisions are reflected immediately during the period when revisions are implemented instead of going unnoticed well into the future.

Accounting for Fixed Assets Including Depreciation

State and local governmental units record their fixed assets at cost in a "General Fixed Asset Group of Accounts." Depreciation of fixed assets is usually not recorded. The proper reflection of financial position requires an accounting of all significant assets of an entity, including fixed assets. Significant benefits are gained from providing depreciation expense in the financial statements of governmental units. Use of assets should be recorded in operations to reflect the cost of services

provided the public. This concept is especially critical in enterprise fund activities (hospitals, water and sewer, etc.) or where licenses and fees are related to a governmental unit's costs of providing services or where costs are recovered under grant funding.

Generally accepted accounting principles require depreciation to be charged to operations of enterprise funds.

Consolidated Financial Statements

Current reporting standards require the separate reporting of each fund. This practice is based on the assumption that common elements between funds are of no significance and, accordingly, there is no advantage in preparing consolidated financial statements. This practice differs from the reporting normally followed in the commercial sector where a diversified company with several subsidiaries reports as a single economic entity through consolidated financial statements. Governments with multiple funds can be compared to a commercial enterprise with many subsidiaries. Consolidated financial statements, which eliminate the effect of interfund transactions, are more easily readable and understandable and may more fairly present the financial position and results of operations of a governmental entity.

We believe that governmental units should present, in addition to the individual fund financial statements, a consolidated financial statement so that investors, the taxpayers, and political leadership can view the overall financial position of all the government operations as one entity.

An illustrative set of consolidated financial statements, taken from the District's 1975 financial report, together with suggested footnotes, is presented in Appendix 1 to this Volume of our report.

SIGNIFICANT AUDITING PROBLEMS

There are a number of significant problems which could prevent an independent public accountant from rendering an unqualified opinion on the District's financial statements. This section will address the objectives of a financial audit and the problems that can be expected during an independent public accountant's examination.

Objectives of a Financial Audit

The District maintains a municipal audit staff of approximately 30 people, which reports to the Director of Office of Budget and Management Systems, and a 3-member City Auditor Office, which reports to the Mayor and City Council. The District is also under continuous audit surveillance by a team of approximately 25 auditors from the General Accounting Office. These groups have performed extensive reviews and audits of the District's operations. The scope of their assignments are usually limited to examining a particular area or agency for a specific purpose (e.g., inventory controls at an agency). Incomplete or inadequate procedures noted during their reviews are properly reported. Unfortunately, little effective follow-up on agency management has been made of findings by these groups to correct the problems identified.

The purpose of a financial audit performed by an independent public accountant is to render an opinion as to whether the financial statements present fairly the financial position and results of operations in accordance with generally accepted accounting principles, and such principles were applied on a consistent basis with prior periods. Its scope is different from the operational audits to which the District is accustomed. The end-product of the independent public accountant's examination is the expression of his opinion.

Accounting and Auditing Concerns

With the overall concept of a financial audit in mind, we noted several problems of major concern. The previous parts of this section have discussed several issues. These items, together with other issues, can be categorized into three areas: accounting issues, accounting records and accounting systems. The problems in each of these categories are discussed in the following paragraphs.

Accounting Issues - The major accounting issues facing the District are the accounting for pension plans, termination of appropriations, policemen and firemen's pension withholdings, grants and reimbursable contracts, and enterprise funds. These issues were discussed previously and represent significant issues the District must resolve.

Accounting Records - We found the District has very little control over the assets and revenues for which its agencies have responsibility. A reason for the failure of many agencies to respond to the 1975 "closing" memorandum was that the records did not contain adequate information. These problems, as they relate to individual agencies, are discussed in detail in other volumes of this report and are summarized in this section.

1. Cash - The District has one cash account which is maintained by the U. S. Treasury. Problems relating to this account include the following.

- The District has not received sufficient information to perform a reconciliation of its account with the U. S. Treasury. Accordingly, so far as District Accounting personnel could recall, the District's cash account has never been properly reconciled.

- The District has never received a detail listing of outstanding checks from the U. S. Treasury. The latest report from the U. S. Treasury (June 30, 1975) showed total outstanding checks of $119,824,575. Since the District does not have a detail of these outstanding checks, it is unable to determine whether the total is accurate or if there are long outstanding checks that should be restored to cash.

2. Accounts Receivable - Accounts receivable records are maintained by the individual agencies. Adequate receivable records are not always maintained. Some agencies do not have satisfactory controls over cash receipts and/or

billings. Problems associated with accounts receivable are summarized as follows.

- The Department of Environmental Services has only recently rendered bills to one-third of its customers for the first time in 18 months. Receivables are generally not controlled.

- D. C. General Hospital and the District's health clinics have generally not even attempted to bill for services rendered.

- The Redevelopment Land Agency has an incomplete listing of all rental property; therefore, it is impossible to accurately determine rental income or the related receivable balance.

- The Superior Courts do not maintain dollar records for unpaid traffic tickets.

- Public Schools do not maintain trial balances for miscellaneous receivables.

3. Grant Receivables - Costs incurred under grants and cost reimbursable contracts for the entire District have been misstated as a result of improper payroll distributions. At some agencies, such as the Public Schools, grant reimbursement requests are prepared by program personnel without the assistance of accounting personnel. Accounting personnel generally are not informed of reimbursements billed or how reimbursement requests are prepared. In many cases, reimbursement requests and grant financial reports are not prepared from the official records of the District.

4. Inventories and Supplies - Inventories are maintained by each major agency and the Department of General Services. There are no District-wide accounting policies and procedures with respect to inventories. Agency records are concerned with maintaining unit control and are usually not priced to obtain an inventory value.

5. Property and Equipment - Property records in the District are incomplete, inaccurate and generally do not support financial reports. A physical inventory of equipment was taken by the Public Schools in 1973 but the result of this inventory has not been posted to the equipment inventory file.

The Department of General Services is currently reconstructing the District's land and building records. While it appears ownership of properties has been adequately determined, no policy has been established for valuing individual properties. We understand from discussions with Department of General Services employees that property costs are not being compared to expenditure records, which would be the most accurate source for property cost. In addition, construction overhead and architectural costs paid from the Department of General Services construction services fund are not being included in the costs of buildings. Accordingly, a significant amount of work is required before the District has accurate real property records.

6. Accounts Payable - We were informed of instances where invoices, which would cause an agency's budget to be exceeded, were recorded in the subsequent year. Apparently, this practice has been followed for several years since the GAO reported on March 8, 1973, that Public Schools charged approximately $700,000 to incorrect fiscal years during the period 1969 through 1971. Accounts payable procedures need to be developed and enforced and employees properly trained in the recording of accounts payable at year-end.

7. Other Liabilities - We have identified the following problems related to the District's liabilities.

- Accrued annual leave records are not automated, but are manually maintained by the approximately 3,000 timekeepers in the District. There is little control or review of these records.

- The Department of Human Resources is making welfare payments which could be substantially in error. Since the Federal government reimburses the District for a portion of these payments, an unrecognized liability may exist to the Federal government for unallowable costs.

- Welfare records documenting purchases from private organizations and reimbursements to health institutions are inadequate to determine proper liabilities.

8. Enterprise Funds - Government enterprise operations are established to finance and account for governmental facilities and services which are predominantly self-supporting by user charges. As such, enterprise funds

should be operated and accounted for as if they were commercial concerns. The District's enterprise operations include water, sewer, solid waste, hospitals and other health care facilities. Those should be accounted for as enterprise funds.

The District's policy has been to include enterprise activities within general appropriations. However, enterprise activities should be separately accounted for. When activities are included in the general operations of the District, the primary managerial emphasis is directed toward meeting budgetary expense limitations as opposed to the total operations of the facility, including maintenance, control of assets and liabilities, and aggressive billing and collection policies. This has resulted in lack of control over billings, receivables, inventories and fixed assets as detailed below.

- The Department of Environmental Services exercises little, if any, control over water meters, billings or receivables. The Department has been attempting to render complete and accurate water and sewer billings to customers for several months. However, the billing system has so many problems that it will take a continuous major effort in order to post cash receipts and render new bills. This problem is illustrated by the drop in water and sewer receipts of approximately $800,000 in 1975.

- There is no trial balance for solid waste receivables. The Department of Environmental Services' billing system lacks controls to assure that a trash hauler receives a truck scale card upon discharge of the truck's contents at the disposal site; the scale card is the initiation point for billing.

- The Department of Environmental Services' records for contractors' deposits, estimated at $1,000,000, lack adequate controls to ensure completeness and accuracy.

- The Department of Human Resources lacks adequate controls over most of its receivables which include emergency room, outpatient, paternity reimbursements and private patient care at the D. C. General Hospital. Previous reviews have estimated that private patient receivables at D. C. General Hospital are in excess of $100 million. Collection efforts are minimal despite the fact that management estimates that $10 to $20 million of these accounts could be collected. During the recent rapid inflation, D. C. General's private pay patient receipts have fallen from $1.7 million in 1971 to $1.4 million in 1975. These accounts have not been recorded in the District's financial statements.

- Neighborhood Health Clinics do not have complete billing systems; therefore, billings are usually not sent to patients.

- D. C. General Hospital's reimbursements for Medicaid hospital patients are based on an all-inclusive rate method. This billing technique has been questioned in other hospitals resulting in disallowance of reimbursements.

- There are no current records at the Department of Environmental Services of property and equipment in use.

Historically, there has been no attempt to properly match revenue and cost in the District's enterprise activities. Enterprise activities are established by governments with the anticipation that they will at least "break even." Users should expect to pay their fair share for the services provided. The proper amount cannot be determined unless all assets used to generate services are recorded and

depreciated in accordance with standard accounting practices. We believe the District's hospitals have a greater priority in this regard in order to permit recovery of depreciation expenses from third-party payers.

Accounting Systems - The three principal types of transactions processed by the District are payroll expenditures, nonpayroll expenditures and revenue. Since financial statements are summaries of thousands of individual transactions, an independent public accountant relies upon the organization's internal controls to properly record, classify and summarize transactions.

1. Payroll - As discussed further in Section II of this volume, we believe the District's controls over payroll are inadequate. Lack of adequate controls over documents and an absence of internal checks and reviews provide an environment whereby unauthorized individuals can be included on the District's payroll. In addition, unauthorized changes can be made to employees' earnings and rates. Irregularities could continue undetected for significant periods. We believe the most significant deficiencies can be corrected, but this will require a substantial effort by District Accounting and each agency to retrain personnel performing key parts of the control mechanism.

The District has serious problems with the payroll distributions, especially in the grant area. Our review of the Public Schools' payroll distribution revealed approximately 3,500 employees (of a total of 15,000) being incorrectly charged. Our findings reinforce previous reports on this problem at Public Schools; in February 1972 a Public Schools task force found a 20% error rate in payroll charges and an October 31, 1972, GAO report found a 9% error rate. It appears that the problem has worsened, rather than improved, in the interim.

Federal cost-reimbursable grants account for approximately 25% of the District's operations. It is imperative that time is accurately charged to grants. We found excessive lags in transferring employees among funding sources, thus, resulting in employees continuing to be charged incorrectly.

2. Nonpayroll Transactions - The District took a significant step toward improving its internal controls on January 1, 1976, when District Accounting began requiring original vendor's invoices before processing payments. There still are areas subject to potential defalcations since agency payment authorizations require only one signature and documents from the agencies to District Accounting are not controlled. This problem is especially critical in

the areas of miscellaneous payments (e.g., refunds, stipends, etc.) because, in many cases, no supporting documentation is included in the payment request package. This problem can be easily corrected by requiring a second authorized person to approve all vouchers in excess of preestablished minimums and requiring supporting documentation for the disbursement. We understand District Accounting will begin to require two signatures on miscellaneous payments on June 1, 1976.

An examination of the District's operations covering the period before January 1, 1976, would encounter significant problems locating vendor invoices since there was no definitive policy regarding document retention.

3. Revenue - The District's revenue system administered by the Department of Finance and Revenue appears adequate to properly record cash receipts. District revenue from taxes, licenses and the Federal payment can be effectively audited. Our primary concerns are whether (1) grant revenues are fairly stated because of the payroll distribution problems and (2) the ability of enterprise operations to render correct bills.

We were informed that an independent public accounting firm would be denied access to District tax returns and related tax administration files. We also understand that the General Accounting Office is denied

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access to tax returns. If an independent audit is to be performed, access to tax returns will be required. Many other governmental units have resolved this problem through legislative revisions to tax regulations, designation of auditors' representatives as deputy tax collectors, or removal of taxpayer identification numbers and/or names from the tax returns prior to independent auditors' reviews. Existing tax policies and regulations must be carefully investigated since resolution of this matter must precede an independent audit.

Accounting systems include the District's general ledger, the processing and summarization of transactions therein, and the District's employees' knowledge and use of the general ledger. The general ledger is not integrated with the revenue system or with any system used by agencies to record receivables, revenues, inventories, property or equipment. With no program controls which are inherent in an integrated general ledger system the auditors' examination would place significant emphasis on the general ledger accumulation of information.

Our observation is that the District's primary use of the general ledger is to record year-end balances reported by agencies in the annual report. The Budget and Accounting Procedures Act of 1950 required the District to maintain accounting records to properly reflect the District's

financial position and results of operations. The general ledger was designed for this purpose and is the only place where both revenues (accounted for by the Department of Finance and Revenue) and expenses (accounted for District Accounting) are reflected. Trial balances for funds under the control of individual agencies are not distributed to those agencies. Accordingly, most District agencies' accounting personnel are not aware of the general ledger capabilities. During our survey we found only one employee who completely understood the general ledger accounting process. The lack of knowledge of the District's general ledger procedures represents a significant control weakness in that there is no comprehensive management review. The District's accounting manual has not been updated in several years and contains so many superseded items that in practice it is not used by District employees, thereby adding to the general lack of understanding.

AUDIT APPROACH AND TIMETABLE

June 30, 1976

As a result of the critical financial problems and the significant procedural and control weaknesses which are summarized in this Section, it would be very difficult at present to perform an examination of the District's fiscal 1976 financial statements under generally accepted auditing standards. We believe that the report of an independent public accountant on the June 30, 1976, financial statements would, in all probability, result in the auditor's inability to express an opinion. This conclusion is based on the following.

- The accounting procedures and controls in the District's accounting system have been inadequate during the current fiscal year. There is an overall lack of effective procedures. As a result, it would be difficult to test procedures.

- There are substantial control weaknesses in the payroll process, which would make it difficult to determine that individuals were paid for work performed and that costs were properly distributed to the accounts.

- Accounting problems would be encountered in pensions, payroll, grant and contract billings, enterprise funds and inadequate records maintained by the various agencies for receivables, inventory and equipment. We do not believe that corrections in these areas are possible within a short period of time and that, even if such corrections are possible, it would be impractical to audit according to generally accepted auditing procedures because of the extensive audit scopes which would be required.

- The Federal government and the District must resolve who has the liability for (1) pre-Home Rule unfunded liabilities of the police/fire, teachers and judges pension plans and (2) Federal Civil Service's unfunded liability for District employees.

- Based upon results obtained in fiscal 1975 to the District's closing instructions, although significant improvements are anticipated, we have serious reservations as to the ability of the District to prepare accurate fiscal 1976 financial statements.

- District employees have not been involved in a financial audit in the past. Since the organization being audited plays a significant role in preparing the financial records for audit, substantial familiarization and training will be required in order for the necessary supporting schedules and analyses to be prepared.

It may be possible to audit the District's June 30 and/or September 30, 1976, balance sheet. However, this would necessitate such a commitment of manpower and resources on the part of both the District and the outside accountants to prepare adequate records that we cannot recommend such a course of action at this time. The manpower and financial resources necessary for such an audit could result in an audit fee as high as several million dollars, exclusive of the cost to the District for its personnel and such outside assistance as may be necessary to reconstruct the records.

We do recommend, however, that the District obtain outside accounting assistance to help in preparing the best possible financial reports, on an unaudited basis, for June 30, 1976.

September 30, 1977

Although we believe that major accounting and systems improvements can be achieved prior to and during fiscal 1977, we do not believe there is sufficient time for the District to correct its major deficiencies to permit an orderly and effective audit of operations for fiscal 1977. However, we believe that adequate systems and accounting improvements can be accomplished to permit a balance sheet audit as of September 30, 1977. This would establish a starting point for an audit of fiscal year 1978.

A balance sheet audit would consist of an examination of the statement of financial position of the District at September 30, 1977. This audit would identify the District's assets, liabilities and accumulated surplus or deficit, but would not include an examination of the Statements of Revenue and Expenses and Changes in Fund Balances or Statements of Changes in Financial Position for Enterprise Funds.

Several practical objectives would result from such a balance sheet audit. It will insure a "cut-off" of pre-1978 transactions and insure a starting point for the fiscal 1978 audit. In addition, it will enable the District to establish that the program is being made to resolve the problems identified in this report prior to the approval of the District's 1979 budget by the Congress.

September 30, 1978

We believe that the District's operations and balance sheet can be audited in fiscal year 1978 if the District takes immediate and decisive action to overcome the procedural and control weaknesses outlined in this report. The major items which need immediate action include the following.

- The development of control over the District's assets. This includes procedures and controls over inventories, receivables, property and equipment.

- The establishment of strong procedural controls in all areas, especially in the payroll area.

- The establishment of strong cutoff procedures to ensure accurate recording of all of the District's liabilities.

- The determination of policies regarding the District's pension plans. This includes the resolution of the Federal government's liability to the District for pre-Home Rule unfunded pension liabilities for the District's pension plans and the determination of any liability that the District may have in regard to the Federal Civil Service System.

- The establishment of accounting policies for certain transactions to bring the District's policies in line with generally accepted accounting principles.

- The establishment of policies to determine that the disclosure guidelines required by the American Institute of Certified Public Accountants and the Municipal Finance Officers Association are being met.

- The establishment of procedures to ensure adequate control over grant expenditures and reimbursements.

The District's objective should be that the 1978 auditor's report would be unqualified except for property. It might be several years before the property and equipment records are in sufficient order to permit their audit, and expression of opinion thereon by the auditors, unless the District assigned a high priority to this task.

While the level of effort required by an independent public accountant will vary with the effectiveness of new procedures implemented prior to October 1, 1977, we believe that the $1.5 million audit fee provided in H. R. 11009 should be adequate for a fiscal year 1978 audit. However, failure to accomplish the improvements referred to above could cause this estimate to escalate.

Subsequent audits should result in reduced audit fees as the District achieves continuing systems and procedural improvements.

Need for Annual Audit

We recommend the District be audited on an annual basis. Once the financial systems and controls are upgraded sufficiently to permit an audit, they should not be allowed to deteriorate. An annual audit would provide the discipline to maintain the financial management procedures of the

District on a current basis. Since periodic audits, such as every three or five years, would necessarily require audits of the intervening periods, little practical savings are achieved as compared to a regular annual audit.

Furthermore, the potential investors in District securities should be assured that the financial records and statements will be audited on an annual basis by an outside independent auditing firm. Audited financial statements on an annual basis should enhance the marketability of District securities, and possibly have a favorable influence on the interest rate.

SECTION II

FINANCIAL MANAGEMENT OF THE DISTRICT

One of the primary objectives of this survey was to evaluate the effectiveness of the present financial and budget reporting systems and to recommend changes for improvement. The intent of this section of the report is to present our findings and conclusions relative to the internal accounting and reporting which support the financial management of the District.

In formulating our conclusions and recommendations, we compared our results with the Report to the House Committee on the District of Columbia by the Comptroller General of the United States dated February 27, 1976. Our findings are in basic agreement with that report, although our recommendations herein are different.

Our major conclusion is that the present accounting and reporting systems do not produce the timely, relevant information essential to sound and responsible financial management. A major contributing factor to the present situation is the lack of enforcement of procedures. Present accounting and reporting procedures have evolved primarily to meet statutory requirements. As a result, the accounting systems are fragmented and do not serve management's need to meet other than legal responsibilities.

In this section, we have provided a definition of required financial management systems and a plan for implementation of needed financial reporting systems.

The plan of presentation for this section is to:

- Present an overview of each major functional area relating to District-wide financial planning and control. In conjunction with the overview will be a summary of our major findings and recommendations.
- Describe the data processing resources and present the major problems and recommendations.
- Assess the current systems development activities relating to a new financial management information system and to the position control system.
- Propose an action plan for implementing the recommendations developed as a result of this survey.

ACCOUNTING AND REPORTING FUNCTIONS

The District's accounting systems are primarily used to maintain the general ledger, process payroll, vendor disbursements, tax collections and process cash receipts.

Agencies perform certain accounting functions in addition to preparing the transactions to record systems expenditures, revenue collections, and obligations. These functions include maintaining records relating to accounts receivable, inventory, fixed assets, and deposits. Certain agencies also maintain accounting systems necessary for providing operational information to agency or program management and preparing grant and reimbursement request reports.

The basic requirements of the District's accounting systems are outlined in the Budget and Accounting Procedures Act of 1950, as amended, and the District's "Accounting Principles and Standards" manual issued February 1972. These documents require that the accounting systems provide.

- Full disclosure of the financial results of activities.
- Adequate financial information needed for management purposes.

- Effective accountability control of all funds, property and other assets.
- Reliable accounting results to serve as the basis for preparation and support of budget requests and for controlling the execution of the budget.
- Suitable integration of District Accounting with the U. S. Treasury Department.

One of the objectives of the survey was to evaluate the effectiveness of the various accounting systems in meeting these requirements. This section of the report assesses the District Accounting Systems and their relationship to the agency accounting systems. Included in subsequent sections of this report are our findings and recommendations relative to the central payroll, revenue and other administrative systems supporting financial management.

Several major findings relating to financial planning, control and reporting are presented in the following four groups.

- Management Information
- Integrated Systems
- Budgetary Controls
- Systems Controls

Management Information

The Management Reporting Is Not Effective for District and Agency Management Control and Evaluation

Management reporting should encompass adequate financial summaries for programs, projects and level-by-level reporting. Our survey has verified that, in these areas, present reporting is ineffective. The reporting provided by the District's Accounting System is inadequate and certain information is not included.

- Accounting statements eminating from District Accounting are not completely satisfactory for agency use due to limited reporting within the agency. Over 400 cost centers have been established by OBMS for which complete financial reporting is provided. However, there is a need of many agencies for more detailed reporting. For example, District Accounting reports are organized to provide complete reporting to D. C. General Hospital as one cost center. However, hospital management has determined approximately 90 separate cost centers within D. C. General Hospital which they believe require cost accumulation and budget evaluation reports. There is very little reporting from the central system to these "low level" cost centers. Further, it appears that many agencies are unaware of special report capabilities of the central system. What reporting is provided at these levels is in many cases inaccurate. District Accounting does not verify and validate account codings below the 400 authorized cost centers which allows coding errors at this level to be processed.

- The monthly financial plan reports present obligations and data for current fiscal year operating accounts only. The absence of other accounts for capital outlays and grants, and revenues and reimbursements requires management to use other

reports in conjunction with the limited information of the monthly District Accounting financial reports to monitor and control the fiscal status of their responsibility centers.

- Status reporting for contracts is not provided. Some agencies are using manual and automated systems that have the same input as District Accounting to provide contract status information.

Some agencies are using computer tapes and producing their own financial reports for the purpose of obtaining multilevel roll-up reporting. These reports are not accurate because the tape from the District does not contain valid agency cost centers. As a result, the Public Schools have discontinued its processing for preparing level-by-level reports.

The Management Reporting Is Not Timely

District Accounting requires an excessive amount of processing time. Validation of input data through sight verification, multiple input validation computer runs, separate disbursement and check writing processes cause a minimum four-to-five-day processing time for most documents.

Duplicate parallel financial systems at the agencies and the District create timing and control inconsistencies and thus confusion among agencies and District Accounting who are looking at different numbers. This also makes budget review of agency activities difficult since an agency is generally controlling its activities by its own financial

system while the OBMS staff is using the allotment system and financial plan. Reports are often inaccurate because of these timing problems. Reconciliation of the reports generated by the various financial systems can be extremely difficult and time consuming.

The procedures for entering quarterly budget data into the allotment system are cumbersome, time consuming, complex and do not provide for appropriate reporting to budget officials. Quarterly and yearly budget data are forwarded to District Accounting personnel on an apportionment schedule signed by the agency head and the Director of the Budget. District Accounting personnel must convert this data into journal entries which are keypunched and entered into the Allotment System. The Allotment System will accept only quarterly budget amounts for the current quarter. This requires that District Accounting personnel enter this allotment data up to four times a year. No separate report of file updating is given to either the agency or the Budget Office for their verification of correct data input.

There Are Many Reporting Limitations Associated With the Current Account Code

The Account Code is used to sort and classify individual financial transactions for reporting purposes. The account code used by the District creates severe problems in the preparation and processing of documents and the

reporting of information. The size of the code (22 characters) and its use of both alphabetical and numeric characters makes it difficult to code source documents and to interpret for reporting purposes.

Account codes can be reported to the District Accounting System which are internally inconsistent and invalid. However, the present District Accounting System may accept invalid combinations because computer validity checks are not effective.

Many of the District Accounting reports do not contain a written explanation of the account code elements. The absence of a written description reduces the usefulness of reports to managers who are not familiar with the code. This problem is aggravated by duplication of account code elements, inconsistent definitions for certain of the code elements among various agencies.

Integrated Systems

The Systems Which Provide Source Information for the District Accounting System Are Not Integrated

Except for cash, investments and notes payable, there is no integration of the District Accounting System with the other financial systems within the District. These include revenue, receivable, inventory and property systems. These systems, if any, are maintained at the agencies and

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are either manual or automated. Data from these systems are sent to District Accounting where they are entered into the District Accounting System. Without adequate intersystem controls, there is no assurance that amounts submitted by agencies are properly entered into the District Accounting System (e.g., that the property capitalized during the year by the agencies agrees with the allotment ledger's property purchased accounts).

The District Does Not Maintain Accrual Accounting Records During the Year

While the District's accounting policies require accrual basis accounting, the District's general ledger is actually on the cash basis. General ledger transactions come from the allotment ledger where obligations and disbursements are recorded. Therefore, expenses are not recorded on the accrual basis.

District Accounting does not have a monthly closing schedule. As a result, agencies usually do not report all of their data (e.g., invoices received) for entry into the general ledger. Therefore, while the general ledger is capable of accrual accounting, it is essentially maintained on the cash basis during the year.

The Lack of Integral Systems Increases the Complexity of Processing Day-to-Day Activity

Because the agencies, District Accounting and various operational systems are not integrated, the District has serious control weaknesses, inefficiencies, and error detection problems.

- Monthly and quarterly budget data are maintained on two separate computer files with no balancing of data between the two files. Thus, the monthly financial plan amounts and the quarterly apportionment-to-date amounts may not agree.

- From our conversations with employees at various agencies and a review of procedures at District Accounting, there appears to be an excessive amount of paperwork in the processing of documents. Purchase orders and original vendor's invoices are received by the agency and are checked for clerical accuracy and propriety. In addition, the same tests are performed when those documents are received by District Accounting.

Budgetary Controls

Budgetary Control System Is Inaccurate, Provides an Insufficient Level of Detail and Control Procedures Can Be Circumvented

Control over the use of funds is maintained at the District through the District Accounting System. Several weaknesses exist in this system which preclude adequate control of revenues and expenses.

- Federal regulations allow appropriations to remain open for three years. Therefore, after the conclusion of the fiscal year agencies can still obligate unused funds over the following two years, if it can be shown that the amount is applicable to the year being charged. This excessively long period inhibits management control over operations.

- Apportionments (quarterly budgets) are made in the allotment ledger only to the agency level. Therefore, the allotment ledger does not allow obligations to be controlled at the budget structure or account level.

- Personnel services and related benefits are budgeted in the financial plan on a monthly basis. However, financial plan reports present only year-to-date information, thereby precluding management review of current month actual, planned and variance data.

- Nonpersonnel expenses are budgeted on a quarterly basis in the financial plan by allocating the entire quarterly amount to the first month of the quarter. This process overstates the budget values for the first two months of a quarter making the reports misleading and difficult to use as a management tool.

- The special payment procedures allow checks to be printed and released to vendors before the antideficiency or the exception tests have been completed. In cases where a quick check disbursement would violate the antideficiency law, the District Accounting contacts the agency to determine if there is an unliquidated obligation that can be de-obligated so that the check already released will not violate the law. The District would have better control if all checks were required to be held until the antideficiency check is performed.

- Agencies are permitted to process transfer vouchers to transfer amounts between cost centers and accounts without submitting supporting documentation to District Accounting. This procedure provides an opportunity for agencies to revise the accounting distribution with a minimum of control by District Accounting.

Systems Controls

Desirable systems controls result from a combination of properly documented, efficient and effective systems, which are run by adequately trained personnel. The District has serious weaknesses in system design, documentation, and training.

District Employees Are Not Trained to Maintain a General Ledger

Many District employees are unfamiliar with the general ledger. We found only one employee who completely understood how the general ledger functioned and how the balances are determined.

Because of the training deficiencies and the lack of emphasis on the general ledger, account activity is not reviewed by individuals knowledgeable about general ledger transactions. This fundamental principle of accounting controls is missing from the District's general ledger accounting procedures. Personnel in the Funds Management Section, while given responsibility for the maintenance of the general ledger, do not have the knowledge to determine if individual general ledger account balances are correct.

The Compilation of the Financial Plan Is Ineffective and Time Consuming

Input from the agencies is not received in a consistent format so that the input must be transcribed to specialized forms prior to keypunching. This is time consuming and error prone. In addition, the system does not provide assurance that the budget file data is current and correct. Agency budget offices are not provided transaction listings with which to ensure that all requested changes to the plan were processed. Furthermore, only a portion of the account coding block is checked for validity by the computer. The remaining portion must be sight verified by District personnel resulting in undetected errors. A check is made that the sum of the monthly values equals the yearly total. Any differences are noted on the proof-listing of exceptions. However, the plan is posted with the erroneous data and there is no procedure to ensure that the erroneous data is removed from the file and correct data re-entered.

Data Entry Requires Excessive Clerical Activity

Excessive paper flow and clerical activity is required for entering data to the computer system. Check writing cards are not created at the same time disbursements are entered into the system. This requires an additional cycle of input and data verification. Control balancing of

input data is cumbersome and time-consuming because computer calculated control totals are balanced to the original batch totals manually.

Erroneous Checks Could Be Printed and not Posted to the District Accounting System

Check writing cards for invoice payments are generated prior to the disbursements being checked for antideficiency or exceptions (e.g., invoice greater than previous obligation). Check writing cards are held at District Accounting until the invoice data has been processed by the computer and the central allotment system master file updated. If an invoice does not pass the antideficiency or exception test it is not posted to the master file. District Accounting personnel must destroy the check writing card and revise the batch total to agree with the altered card deck. Failure to perform this manual function could lead to erroneous checks being printed and these disbursements not being posted to the Central Accounting System.

Agencies forward all documents to District Accounting in unbatched groups not ready for data processing. Because documents are not batched, any losses in transmittal are not recognized until the agency realizes that the transactions have not appeared on the daily statement of obligations and disbursements. Thus, significant time can

elapse before the absence of a document is detected. Adequate batch control procedures would assure that all transactions are processed.

Recommendation

These weaknesses in financial reporting, systems integration, budgetary and systems controls must be eliminated. Extensive experience in the design and installation of financial accounting systems for governmental bodies is necessary for adequate solutions to be developed in a reasonable period of time. Appendix 2 to this volume describes the general financial planning and control systems concepts in detail which we believe would serve the fiscal and management reporting requirements of the District and its agencies.

The system should integrate financial accounting, reporting, and budgetary control into one system designed to meet the financial accounting and reporting requirements of the District. The system's reporting should provide all levels of management with timely, accurate and relevant information to control operations and to comply with Federal regulations.

Scope and Objectives

The scope of the system should include those aspects of the financial operations of the District which are common among all agencies. It should provide uniform accounting and reporting to facilitate decentralized management and centralized administration of the District operations.

Within this scope, the design of the system should address six fundamental objectives.

- Account coding of source documents must be simple and straightforward.
- Reporting on the results of operations must be timely.
- All reporting must be based on the same facts.
- Reporting flexibility must be maximized to allow each user to tailor the concepts to fit their management style.
- Reporting must support the concept of financial accountability at all levels of management.
- The system must be flexible to handle changes in regulations, organization or programs.

Applications

The system should be one integrated system. Financial and nonfinancial activity (e.g., productivity indicators) should be entered only once. Depending on the type of input, appropriate computer files are posted for the following applications.

- Fund General Ledger
- Appropriation Control
- Organizational Responsibility Reporting
- Functional (Program) Cost Reporting
- Grant/Project Reporting
- Contract Reporting
- Obligation/Accounts Payable/Cash Disbursement Control
- Accounts Receivable
- Indirect Cost Allocation
- Statistical Reporting
- Budget Development
- Purchasing and Inventory Control
- Property Accounting
- Cash Management
- Payroll/Personnel/Retirement/Productivity Reporting
- Revenue Collection and Control
- Financial Planning

The system should serve the users' needs and provide the flexibility to change reporting requirements with little or no affect on computer programs. System characteristics should include:

- User maintained tables to minimize program maintenance as changes occur.
- All reports, routine and exception, produced either automatically or on request.
- Each user can select the number of copies they want for each report.
- Each user can define the distribution of reports.

BUDGETING PROCESS

The budget process for the District was established by the "Home Rule Charter" of 1973. The Home Rule Charter requires that in connection with the annual budget the District submit to Congress a supporting multi-year projection of revenues and expenditures for general operations and a six-year capital improvements program.

The preparation of the District's annual and long-range budgets is the responsibility of the Office of Budget and Management Systems (OBMS).

The budgeting process begins with the review of the previous five years' plan for the District. Trend analysis is performed by OBMS to determine budget priorities. Based upon this review and in conjunction with guidelines established by the Mayor, OBMS prepares a preliminary expenditure budget for all agencies. The preliminary budget provides a maximum amount which the agency can include in the current year's budget. It is the responsibility of the agencies to develop their individual budgets and allocate their resources within the restrictions of the maximum authorization.

After the agency has prepared its detail budget, it is submitted to OBMS for review. OBMS has agency budget analysts who are responsible for the initial review of the budget request for completeness of the budget package and compliance with OBMS instructions. OBMS reviews the agency's request and prepares a schedule of adjustments to the agency's budget. This schedule is sent to the agency for its comments and review. The tentative budget is then developed from the interaction and negotiation between the Mayor, OBMS and the agency. The final budget is developed after agreement by the City Council, both Houses of Congress and the President. The final appropriation is apportioned on a quarterly basis by the individual agencies and submitted to District Accounting.

Summary of Major Findings

The following is a brief description of problems noted during our survey of the budget preparation system in the District.

The Budget Approval Process Does Not Include One-Fourth of the District's Operations

The budget which is approved by the Mayor, Council and Congress does not include a significant portion of the revenue and expenditures of the District. Legal approval is only given to those expenditures for which the funding

sources are: (a) District sources, (b) Federal revenue sharing, and (c) the Federal payment. These are commonly referred to as appropriated monies. There is no approval for expenditures of Federal grants or non-District reimbursables. This means that approximately 350 million dollars and several thousand District employees are not included in the budget approval process of the District.

Revolving Funds Are Not Included in the Budget Approval Process

The budgets for the revolving funds within the District also do not receive a specific approval by any legislative or executive body at the District or Federal level. The current procedure is to approve the expenditures by the various agencies to the revolving funds, but not the revolving fund itself. For example, an expenditure by an agency to pay for printing would be included in the agency budget but there is no approval of the total print shop revolving fund budget. This means that there is no determination as to whether or not revolving funds are operating at a deficit level or with an unreasonably high budget surplus.

The Structure of the Budget is Cumbersome

The District's current budget is not prepared in accordance with strict organizational or program lines but is a combination of the two with a predominance towards organization. The current budget preparation system is not flexible enough to allow all budgets to be prepared along both organizational and program lines within the same system so that budget reviewers can have a view of budget increases and decreases from both an organizational and program point of view. The District does prepare a program budget as part of the multi-year financial plan but it is a separate system from the annual budget preparation system.

The Budget Preparation and Approval Cycle Is Extremely Long

The budget cycle of the District is constantly being lengthened to the point where for fiscal 1978 the budget preparation cycle must begin approximately a year and a half before the start of the fiscal year. This long budget preparation cycle is due in large part to the fact that the District will present its budget to Congress approximately eight months before the beginning of the fiscal year. Having to begin the budget cycle and make budget estimates this far in advance makes it extremely difficult to estimate with any degree of precision the level

and composition of revenues and expenditures which will be required to attain the District's objectives.

The Antideficiency Control Point Is Not Clear

There is apparently an absence of mutual understanding as to the level that the antideficiency act takes effect at the District. This lack of definition makes it very difficult for people who are charged with monitoring revenues and expenditures and legal compliance to effectively perform their duties.

Pay Increases Are Not Budgeted

The original District budget does not include such items as anticipated pay increases (except for step and grade, etc.) for District employees which will be incurred during the fiscal year. These items are handled with a supplemental appropriation during the fiscal year. This means that the District must find some additional revenue sources, cut back on some of the services being provided or have expenditures exceed revenue, i.e., incur a deficit. Excluding a reasonable estimate for these types of items makes it very difficult to have a full view of the revenue and expenditure needs of the District.

The Budget Request Documents Are Not Usable by the Agencies

The central budget preparation forms and procedures are not set up so that they can be used by the agencies to build their budget requests from the cost center level up to the budget structure. Most large agencies must have their own budget systems to prepare budgets from the cost centers up to the budget structure level and then manually transfer the information onto the District-wide forms. This procedure causes an excessive amount of extra work both because multiple budget systems must be maintained and because there is an enormous amount of clerical effort to transfer the information from the separate agency systems to the District-wide budget preparation forms. This inhibits agencies from evaluating alternative programs as each alternative requires the same clerical compilation effort.

The Budget Preparation System Is Manual

The current central budget preparation system is entirely manual. In addition to clerical effort noted above this type of system also has a potential for errors. An example of this type of error is portrayed in the fiscal 1977 budget book in the Public Schools section of Volume III. The detail supporting Schedule 2, page GA-2-1, does not agree with the summary by several million dollars.

While budget personnel were aware of the problem, there was no reconciliation of the detail with the summary provided in the budget document.

Personal Services Support Data Is Not Available

The District's current payroll system is not able to provide personnel information to aid in budget preparation. Normal budget preparation aids for personnel would include such things as (a) listing of all authorized positions by lowest level budget structure or cost center, (b) listing of persons currently occupying those positions, and (c) anticipated turnover rates.

The Cost of Positions Authorized Is Not Balanced to the Personnel Dollars Requested

There is no attempt made to balance the number of approved positions with the approved amount of personnel dollars. It is difficult to effectively monitor either positions or personnel dollars without balancing the cost of authorized positions less anticipated turnover with the total approved personnel dollars.

The Present Budget Monitoring Procedures Will Not Preclude Overspending

It is our understanding that the central allotment system control is set up in such a manner that agencies

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could spend past the antideficiency level. After the budget approval appropriation cycle is completed, the District sets up on its mechanized central allotment control system the total appropriated and non-District reimbursable monies by agency. Agencies are then allowed to spend up to this combined level. If an agency does not receive the amount of the estimated non-District reimbursables, the agency would have overspent its budget and would be in violation of the Antideficiency Act. To further explain this, we have included a specific example concerning the Department of Human Resources (DHR). The information below was taken from the District's Central Allotment System reports as of March 31, 1976, and deals with fiscal 1975.

DEPARTMENT OF HUMAN RESOURCES

FISCAL YEAR 1975

Amounts Set on Central Allotment System

$227,063,800	Appropriated
70,591,250	Estimated non-District reimbursables
$297,655,050	Total recorded in the central allotment system

Revenues Actually Received

$227,063,800	Appropriated
67,100,122	Non-District reimbursables
$294,163,922	Total revenue received

Financial Position

$294,163,922	Total revenue received
295,653,252	Obligations and disbursements
$ (1,489,330)	Potential antideficiency violation

Recommendations

We believe that the following recommendations should be considered in upgrading the budget practices and policies within the District.

- All revenues and expenditures regardless of the source should be included in both the budget preparation and approval cycles of the District. Specifically, such things as Federal grants, non-District reimbursables, revolving funds and anticipated pay increases during the fiscal year should be included in the budget process of the District. Budget revisions should be permitted for new grant programs.

- Because the total fiscal scope of the District would now be included in the budget preparation cycle, the District must also have the flexibility to easily change or adjust the approved budget amounts to react to changing conditions during the fiscal year. For example, this means that if a Federal grant becomes available half way through the fiscal year, the District must be able to immediately approve an increase to the total expected

revenues and expenditures. That is, the District should be able to take advantage of this Federal grant and not spend an inordinately long period of time going through a complicated supplemental budget approval process to be able to take advantage of the funds.

- Specific attention should be given to trying to establish a procedure which would shorten the budget preparation cycle of the District.

- The District is currently operating on a base period budget philosophy (budget request equals last year's budget plus changes). We believe that the District should consider setting up a review cycle where every budget entity has to completely re-justify itself periodically. It would probably be impractical to try to do every budget entity every year. This would mean that every year a certain portion of the budget entities within the District would have to go through a rejustification of its entire budget, including the prior year budgeted amounts.

- The District should establish a computerized budget preparation system which would start the budget preparation at the lowest level within the District (cost centers) and mechanically add up the budgets along both organization and program lines. The type of computerized budget assistance and reporting is more fully described in the internal reporting system recommended in Volume VIII. This type of system would allow the agencies to code the information only once and not have to manually recode budget information onto separate District-wide forms.

- The budget preparation system should be intricately tied to the payroll personnel and position control system of the District. Position control reports should be sent out with the mechanized budget preparation reports showing the total authorized positions currently established for each cost center and the personnel who currently occupy those positions. Both during and after the budget preparation cycle, the total authorized positions of the District should be reconciled with the total approved personnel dollars. This basically means that a position should not be allowed to be set up on the District's system unless there are sufficient funds to pay for this position.

- The District currently includes some volume statistics and program measures in its budget documents. We believe that this effort should be increased. Units of services should be included in the preparation of the low level budgets (cost centers). These units of service should be specifically measurable (e.g., conduct 50 traffic safety seminars). The planned and actual units of service should be included on the responsibility reports which go to operating management.

- The number and the explanation of the budget documents included in the budget approval process could be simplified so that they are more easily understood by the personnel who are charged with budget preparation within the District. The basic emphasis of our recommendation is to involve all levels of supervisory personnel within the District in the budget process. This corresponds with the philosophy which we recommended in Volume VIII of this report which states that the District should move towards responsibility accounting which means that the District should be holding low level supervisors responsible for planning and controlling their expenditures. In order to make these supervisors responsible for their expenditures they must also have some input into the budget preparation cycle of the District.

PAYROLL AND PERSONNEL MANAGEMENT SYSTEMS

The District of Columbia pays approximately 56,000 employees through the central payroll system. An additional 20,000 employees are paid during the summer months under the youth hiring programs. Approximately $675 million, or 60%, of the District's 1975 expenditures is for personnel services.

The payroll is processed on a computer under the responsibility of the Office of Budget and Management Systems. All employees are paid on a biweekly basis except for public school teachers and some higher education employees, who are paid semimonthly. The payroll system requires the most stringent financial controls because a large portion of expenditures are processed directly by the system.

Information on the centralized payroll activities of the District was primarily developed through interviews with the individuals responsible for specific payroll activities. These interviews were supplemented by direct observation of many of the payroll activities and by the analysis of relevant source documents and reports.

A specialized computer software package was used to extract information used in reviewing the payroll master files. The payroll master file which we analyzed contained the calendar year 1975 payroll records for all District employees.

Organizational Responsibilities

The organizational responsibilities for the Payroll System are shared by three separate units. The Office of Budget and Management Systems is responsible for the design and operation of the payroll system for the District including the establishment of proper controls over the system. The Office of Personnel is responsible for establishing District personnel policies related to positions, classifications, employment and changes in grade. Many of the personnel responsibilities are delegated to the larger agencies of the District. Agencies are responsible for initiating documents for personnel actions, such as employment, promotions, step increases, etc., and for preparing time and attendance documents which report employee attendance.

Summary of Major Findings

Payroll Control Problems

There are weaknesses in the controls over the payroll system. In addition, improvements could be made to the system to strengthen controls and significantly reduce the present manual effort required to maintain the functions of payroll and related fringe benefit processing. The following paragraphs outline our findings and recommendations for improvements.

The System Has an Exposure to Fraudulent Use

Many controls (balancing procedures, verification, etc.) normally associated with payroll systems are not present. Controls help to lessen the possibility that a system may be used for improper activities. Because of the lack of certain controls, there is potential for fraudulent manipulation of the District's Payroll System. The most significant of these control problems are listed below.

- There are inadequate controls exercised over the transmission of documents from the agency to the District Payroll Section.

  . We found cases where Time and Attendance forms and other payroll documents became lost or misplaced during the processing cycle.

  . It is possible for unauthorized documents to be added to documents waiting to be processed. Altered Time and Attendance forms or unauthorized pay raises could be submitted and remain undetected for long periods of time.

- There are several weaknesses in the authorization and approval process for payroll documents. The timekeeper who prepares Time and Attendance forms also signs or initials them, and this serves as proper authorization and approval. In many of the agencies reviewed, there was no evidence that the supervisors reviewed time and attendance data before submission to the agency payroll section.

- There are control weaknesses in the handling of the Personnel Action form. The primary use of the Personnel Action form is to add new employees to the payroll, to report promotions with new pay rates, and to report terminating employees. We found several of these forms which either had no signature or the signature block contained a name that was placed on the form by a rubber stamp.

The submission of these forms without proper approval could result in the addition of unauthorized persons on the payroll or fraudulent granting of employee promotions or pay raises.

- The Authorization for Miscellaneous Changes form has limited authorization control and can change most payroll data on the employee master file. We understand that this form was not designed for adjusting salary rates, but is to be used for changes such as correcting an improperly spelled name. During our review, however, we found a copy of this form which was used to make a change to an employee's salary.

- Physical control over payroll documents is weak. In most cases, Time and Attendance forms and other payroll documents are delivered from the agencies to the District Payroll Section by messengers, who leave them in an outer office of the Payroll Section. It would be quite easy to place unauthorized payroll documents in or to remove payroll documents from this area.

- Programmers can use the official payroll files for testing purposes. Consequently, they could also use them for the fraudulent manipulation of data.

- Payroll checks of District employees are not reconciled in a prompt and consistent manner. The District is required to rely upon the U. S. Treasury Department not only to produce payroll checks, but to perform the reconciliation process. We were told by representatives of the Treasury that reconciliation by individual check takes place six months after date of issue.

Erroneous Data Can Enter the System

While some review of data is made prior to and during computer processing, the controls are not sufficient to detect the entry of erroneous data into the system. We found numerous errors in accounting code classifications, in organization codes, and, in certain cases, errors in employee

grade and step classifications. These types of errors affect the accuracy of financial reporting and, in some cases, affect the calculation of an employee's pay. The most significant of these control problems are listed below.

- There are only limited controls to insure that data errors are corrected and re-entered into the computer system. Once an error has been detected, batch integrity is lost and there is no confirmation that all errors have been corrected and the corrected data re-entered into the system.

- Step increases for employees are not always compared to the personnel records maintained in the Payroll Section to insure that the correct step increases have been authorized.

- Payroll data of new hires is not always reviewed to determine that a new employee does not already have a record on the payroll file.

- Salary rates of new hires are not always reviewed for reasonableness in relation to the employee's position.

- Time and Attendance forms are not always reviewed to determine that hours reported are reasonable and leave data is properly accrued.

- It is our understanding that the existing payroll procedures manual does not contain all procedures and is not widely used. The duties and responsibilities of the payroll technicians are complex. All payroll technicians should perform their job in the same manner and utilize the same procedures to provide for the consistent processing of data. However, without written procedures they cannot be expected to perform their duties consistently and uniformly.

- There are numerous errors in the pay distribution account associated with many employees. In the Public Schools, for example, there are approximately 3,500 employees out of a total of 15,000 whose pay is being distributed to the improper account. These errors are primarily the result

of changing accounting requirements, employee transfers, and improper data entry. Since the system validates only the agency designation, as long as the agency actually exists, the computer will process the data.

- The processing of employee leave data requires greater validation. When an employee terminates, he is paid for all unused annual leave. Under the current Payroll System, an active employee will be paid leave whenever a leave payment request is submitted. Validation of leave data should be sufficient to preclude leave payment to an employee who is not actually terminating. Also leave payments are often delayed for several months after termination.

- There is very little validation to insure that an employee's salary is properly correlated to his job classification. During our review of the payroll files, we found 23 cases where the employee's job classification did not match the salary listed for that employee on the payroll file.

- Limited formal training is provided new employees. New employees are assigned to experienced employees to observe how they perform their job. However, staffing requirements usually dictate that new employees become productive before all procedures have been observed and explained. Therefore, most new employees do not receive enough training to thoroughly understand their duties and responsibilities.

- Listings of all transactions entered into the system are not sent to the originating agencies for review to determine the appropriateness and accuracy of each transaction. While some agencies receive listings of employee salaries and other payroll data (the "payroll register"), they do not receive transaction listings of changes made to an individual's payroll record. Review by the agencies of changes is an important step because the other controls over the current Payroll System are not sufficient either to determine if all transactions have been successfully completed or if unauthorized transactions have been made.

- There are poor controls over employee terminations. Currently, checks could be prepared for an employee long after the employee has terminated. There have been instances where payroll section technicians have forgotten to enter the termination code for a terminated employee. If the termination code is not entered, a Time and Attendance form will be generated for that individual and sent to the employee's previous agency of employment. It would then be possible for that Time and Attendance form to be completed and submitted and a paycheck produced for the terminated employee.

The System Does Not Produce Accurate Financial Reports

We found a significant number of cases where an employee's salary was being charged to an erroneous accounting classification code. As previously mentioned, in the District Public Schools, approximately 3,500 employees of a total of approximately 15,000 employees have erroneous accounting codes on their payroll master file records. Since the classification code on the payroll master file is the account to which payroll cost is distributed, serious questions must be raised as to the accuracy of financial reports. This problem principally relates to distributions within agencies, however, and not among different agencies. The most significant weaknesses found in this area are listed below.

- The Payroll System does not provide adequate financial reporting to allow the agencies to properly control District funds. At best, the reports generated by the Payroll System allow an agency to determine its overall personnel expenditures. Only through a significant amount of data manipulation can an agency determine personnel expenditures for various departments or groups.

- The system does not readily provide a means of measuring actual versus budgeted expenditures at the level of detail necessary to provide financial control.

The Computer System Design Is Outdated

The computerized Payroll System is approximately five years old. It now consists of over 300 separate computer programs, of which about 100 are used for processing employee pay and routine changes to employee records. The system is inefficient in its use of computer facilities and cannot be considered a modern system in terms of its design. Business and regulatory changes occurring over the last five years have forced the payroll systems staff to make continual changes to the system. These changes have reduced the system's efficiency (we believe the Payroll System could operate with approximately 20 programs). In addition, the changes have not been well documented and, as a result, the overall system documentation is poor. The most significant of these weaknesses are listed below.

- Computer instructions to control the processing of payroll are weak. Computer processing controls are those controls designed as an integral part of a system to help determine that data are processed accurately and consistently through all the computer programs in the Payroll System. Processing controls are particularly important for the District's Payroll System because of its unusually large number of computer programs. The major types of computer processing controls are run-to-run and master file controls. Run-to-run controls are processing controls which monitor data as they

are passed from one processing segment to another. Failure to provide such controls can mean that transaction processing errors may not be promptly detected and resolved.

- The computer programs which calculate the gross pay of employees have not been reviewed for several years. Due to the constant changes made to the Payroll System, it is important to periodically review the computer programs which calculate employee pay.

Modifications to the Payroll System Will Become Increasingly More Difficult

Due to the structure and inefficiencies of the Payroll System, any major system modifications required by new legislation or changing business conditions will be increasingly difficult and costly, and will further degrade the efficiency of the processing system. Because of the "patch-work" nature of the current system, substantial modifications are needed in the near future. The major problems which we found in this area are listed below.

- The procedures used by the District to test changes to the Payroll System are inadequate. Many changes to the Payroll System are not properly tested prior to their inclusion in the processing system. Proper control over system testing procedures dictates that all changes made to a system be properly tested before actual transactions can be processed by the revised system. During our review, we were told that on several occasions the Payroll System has developed problems because changes to the processing system were not tested prior to processing actual payroll data. Without adequate testing of system changes there is no means of verifying that the changes produced the expected results.

- Changes to the Payroll System are not always authorized. There are informal procedures for the authorization and review of most modifications to the processing system. While all changes to the system requested by the Payroll Section require authorization, in some cases technical modifications have been made without prior knowledge of the Payroll Section.

- The documentation of the Payroll System is inadequate as it consists almost entirely of listings of computer instructions. Lack of adequate documentation normally results in increased maintenance costs and can pose serious problems if a major processing error occurs. In many cases, the time and effort it takes to correct system-related problems is directly related to the quality of the documentation. Because of the important function it fulfills, payroll systems require extensive documentation to insure that problems can be quickly remedied before the ability to pay employees is impaired. The quality of documentation also affects the effort needed to perform an audit.

Operational Problems

We found several practices which do not affect operational control, but do impact operational effectiveness and efficiency.

Employees Can Have More Than One Record on the Payroll Master File

Under current District rules, employees are allowed to hold two or more jobs at District agencies. Due to the design of the Payroll System, an employee has a separate and distinct payroll record for each job. Our review of the payroll files found approximately 145 employees with more than one payroll record with five employees having five separate payroll records.

Multiple employee payroll records can create operational problems. The payroll records of all employees holding multiple jobs must be manually reviewed each quarter to ensure FICA deductions are correct. Changes in employee payroll records could be made to the incorrect record and not be detected.

Annual and Sick Leave Balances Are Manually Maintained

Annual and sick leave balances for employees are manually maintained by timekeepers on each employee's Time and Attendance form. This requires substantial clerical effort and can lead to the introduction of many data errors. While the agencies review each Time and Attendance form for correct addition, an adequate effort is not made to review leave balances from one pay period to another. Chronological review of Time and Attendance forms is conducted only when an employee terminates. This review is time consuming since Time and Attendance forms for three years must be manually checked to insure that correct leave balances have been brought forward from one pay period to the next. In addition, all mathematical operations on each Time and Attendance form affecting leave balances must be audited. We were also told by several timekeepers that the maintenance of employee leave balances requires more effort than any other timekeeping duty.

Recommendations

The following recommendations are made to improve the short-term and long-term efficiency and effectiveness of the Payroll and Personnel Management Systems. The short-term recommendations are designed to increase control over the current Payroll System. The long-term recommendations are made to improve the ability of the District to monitor and control personal service expenditures.

Short-Term Recommendations

The short-term recommendations listed below should be implemented as soon as possible. Any future District payroll system should incorporate these recommendations. The implementation of these recommendations will not only increase control, but will also make an audit of payroll costs more practical.

- Timekeepers should establish control totals for Time and Attendance forms prior to submission to the agency's Payroll Section. Each agency Payroll Section should verify the control totals established by the timekeepers, consolidate the totals, and submit them to the District Payroll Section. During computer processing, the agency control totals should be verified.

- The number of payroll documents submitted to the District Payroll Section should be counted and controlled (batch balanced). Counts of preprinted Time and Attendance forms sent to the agencies and received back from agencies could be maintained by the Payroll System. All other documents sent to

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the District Payroll Section should be counted by the originating agency and the count compared to the number of documents received by the Payroll Section.

- Controls should be established to help provide evidence that all error conditions are corrected and re-entered into the system. Once a batch is entered for processing, the integrity of that batch should be maintained until the manually established control totals are in balance with the computer processed totals. In this manner, there would be greater assurance that all out of balance conditions have been corrected, and that the data processed by the computer has been edited and validated.

- More extensive validation checks should be performed by the Payroll System to provide for the correct accounting classification of employee payroll. In order to strengthen the physical control over payroll documents, they should be delivered to designated individuals in the Payroll Section.

- The District should require supervisory review of Time and Attendance forms. While this task will require additional supervisory effort, it would add an important element of control over the present system.

- The Authorization for Miscellaneous Changes form should not be used to make salary changes. In addition, it should not be used for any transactions that may change an employee's pay status, such as changes to the pay classification or changes to the grade and step of the employee. We also recommend that this form be redesigned to include space for the signature of a Payroll Section supervisor authorizing the transaction.

- The delegation of personnel action authority has been extended to too many people. The number of individuals designated to authorize Personnel Action forms should be reduced on a city-wide basis.

- The District should periodically review employee gross pay calculations, and make any necessary corrections. Much of this review could be done by the computer itself, e.g., detection of gross pay in excess of pay rate authorized for the employee's grade and step.

- The system modification process should be more formally structured. The District's Payroll Section should authorize, in writing, all system modifications before they are made. In addition, the Payroll Section should review documented evidence that the modifications are operating properly in a test environment before they are put into production. Sound internal control requires accountability for all changes made to the Payroll System.

- In order to better control the testing process, a system test model should be developed. A system test model is a standard set of simulated transactions and files which are processed by the computer system to ensure that changes to the system produce only the desired results and do not affect any other part of the processing system. All testing of changes should be done using simulated data. At no time should testing be done using actual transactions.

- Controls should be developed to prevent programmers from being able to access the official payroll files of the District. Use of these files should be restricted to actual payroll processing.

- Run-to-run processing controls should be added to the Payroll System to verify that all data which were originally entered into the system have been processed.

- The quality of the Payroll System documentation should be improved. Such documentation as system flowcharts, processing logic narratives and program change logs should be established as soon as possible. While this effort will require significant resources, it is essential if system maintenance is to be performed promptly and accurately.

- A termination code should be entered into the Payroll System as soon as an employee gives termination notice. The code would state the last pay period and date for which the employee would be paid and would prohibit any payroll payment being made to that individual after that date.

- District agencies should be instructed that the processing of all termination data for an employee should receive high priority.

- Termination leave should not be paid until all termination actions have been processed by the system.

- The procedures manual should be updated to reflect all current Payroll Section procedures. It should then be distributed to all payroll technicians and supervisors for their review and use. All employees should understand that the procedures detailed in the manual must be followed unless proper authorization is received to perform alternate procedures.

- A formal training program for payroll technicians should be instituted. While we understand the District has begun to develop such a program, it should be assigned a higher priority. The training program should be designed for new employees, and should also aid in the maintenance of skill levels for experienced employees. While the development of a training program will require a significant manpower effort, we believe it is necessary to help ensure the consistent and accurate processing of data.

- Transaction listings of all changes to an agency's employee group master files should be prepared and sent to each agency. In essence, this report shows all changes (new hires, terminations, salary increases, deduction changes, etc.) to the master file since the previous pay date.

- Checks not deposited directly to an employee's bank account should be sent to the agency's Payroll Section, not the timekeeper, for distribution.

Long-Term Recommendations

While the previously described short-term recommendations will aid in establishing greater control over the existing payroll process, the short-term recommendations will not improve operating efficiency nor will they improve the financial reporting capabilities of the present system. During the past five years the Payroll System has undergone such significant modification and change that it has reached a point where the development of a new payroll personnel system is required. While we realize the development of a new Payroll System would require a significant dedication of resources, we believe that this is the only approach which will enable the District to adequately respond to the processing needs of the agencies.

The development of a new Payroll System should proceed concurrently with the development of Personnel and Position Control Systems. In order to provide adequate control over personnel service expenditures, it is essential that the Payroll System exchange data with the Position Control and Personnel Systems. By integrating these systems, the District would be able to:

- Anticipate deficits and surplus funds.
- Provide multiple payroll distributions for employees.

- Eliminate clerical inefficiencies and reduce errors by including information such as sick and annual leave accruals and balances in the system.

The District needs a fully-integrated Payroll, Personnel, Position Control System. Such a system would permit positions to be filled and staff personnel based upon available funds; insure that all positions are properly authorized; assign employees to positions and provide accurate financial distribution of payroll expenditures.

REVENUE COLLECTION AND CONTROL

The Department of Finance and Revenue ("DFR") is responsible for depositing and accounting for the District's revenues which approximate $1.23 billion annually. This Department includes Assessment Administration, Tax Administration and the District Treasury. Tax revenue administration and collection is provided by DFR while the same functions for other revenues are delegated to the agency responsible for the respective program.

In fiscal 1975, the District collected the following operating revenue.

	Amount ($000 omitted)
Taxes (administered by DFR) -	
Property	$ 142,709
Sales and gross receipts	179,677
Income	172,655
Other	38,394
	533,435
Other revenues (administered by individual agencies) -	
Charges for services and other income	80,365
Federal grants	297,557
Federal payment	231,800
Revenue sharing	26,925
Investment income	2,427
Trust fund receipts	58,393
	697,467
Total Revenues	$1,230,902

Key Findings and Recommendations

Our findings and recommendations regarding the District's revenue collection and control systems are discussed in two groupings: tax revenues and Federal, enterprise and other revenues.

While the present tax revenue processing systems are capable of processing tax receipts, significant improvements could be made to the internal controls and the amounts of tax revenues collected. There are two major problems concerning the present tax revenue systems.

- Several tax revenue and receipt systems are manual and do not provide adequate cross referencing to each other.
- Delinquent tax receivables are not adequately reported and controlled.

The billing and accounts receivable functions for Federal, enterprise and other revenues are performed by each agency. Two key problems emerged during our review.

- Agencies are not held responsible for planning, budgeting and controlling revenue collection. As a result, agency managers may not feel any pressure to collect the revenue due to the District.
- There are no standard billing and accounts receivable policies or procedures. As a result, there are significant control weaknesses in the billing and accounts receivable systems throughout the District.

Detail Findings and Recommendations

Tax Revenue Systems

During our survey of the tax revenue systems, which are administered by the DFR, we observed the following.

- Numerous revenue and receipt systems are manual and lack appropriate cross referencing to each other.
- Certain delinquent taxes are not reported in a manner which supports timely followup.

DFR acknowledges that there are potential tax compliance aids and discovery techniques which are not being used, but DFR believes its present resources are more productive in other endeavors, such as follow-up on the Federal Match Program. This program identifies individuals with a District address who filed a Federal tax return, but who did not file a District tax return.

Voluntary public compliance with existing tax statutes is directly related to an aggressive follow-up program. Accordingly, we believe the District should evaluate the potential of including additional tax compliance procedures. If obvious compliance areas are not pursued through an active program which utilizes the best information and data available, the District's current revenue base may be reduced.

Several Tax Revenue and Receipt Systems Are Manual and Not Interrelated

The District has a significant amount of information in various data systems might be reviewed and analyzed to determine taxpayer compliance with the appropriate tax laws.

- Information contained in business sales and use tax returns is being compared manually with that included in franchise tax returns.
- The information contained in the motor vehicle and voter registration files is not being compared to a listing of names for those individuals which have filed District income tax returns.

We understand that even though such data is available, the respective computer systems are not able to access the data. The inability to systematically correlate such data means that the District is not able to realize revenue from those businesses and individuals which have not filed applicable returns.

Recommendations

The District should develop procedures and practices which will assist in strengthening the tax compliance activity and increase tax revenues. Improved practices will help the District to maximize its tax revenue collection within existing regulations and statutes. We recommend that the District consider the following.

- The use of the Federal Match Program should be revised to improve usefulness of the collection staff to focus less on those individuals who have moved from the District and concentrate more on those individuals who still reside within the District.

- In addition to the Federal Match Program, the District should develop a common information base in order to identify those individuals who are subject to District tax and who have not filed Federal income tax returns. Potential sources of information include estimated tax filings, sales and use tax returns, franchise tax returns, motor vehicle registrations, voter registrations, real estate tax returns and other general disbursement information including payments made to welfare recipients.

Several Manual Systems Could Be Mechanized

Our survey of the various tax revenue systems revealed several functions which use manual systems and which we believe should be considered for computerization. These manual systems are summarized below.

- At the present time, the Treasurer's revenue account distribution process is completely manual and requires a significant amount of clerical time.

Furthermore, large daily reports and monthly analyses are prepared manually. Many of these procedures could be computerized.

- The personal property tax billing and accounting controls are not computerized and lack integration. Present procedures call for balancing the detail records to the control ledger only on an annual basis. A properly designed system would provide timely billing, appropriate exception reporting and proper accounting for taxes and penalties.

- Under the present system, payments of estimated franchise taxes are manually matched to franchise returns after filing. This match could be done using the computer and thereby free personnel to follow up on exceptions.

- The inheritance and estate tax billing and collection process is completely manual. Because of the small number of accounts, this system may not need to be computerized. However, less sophisticated forms of automation would be beneficial to establish billing and accounts receivable control.

Recommendation

Each tax system which includes the billing, accounts receivable processing and the accounting distribution processing should be reviewed to determine if improved manual or computer procedures would significantly impact the effectiveness of the revenue collection activities.

The Business Tax System Is Not Providing Users With Required Information

We understand that the DFR would like to expand the business tax system by making more tax oriented information about each business entity available. The objective

of this expansion would be to improve compliance and collection. However, it is our understanding that, due to restricted resources, DFR is not in a position to undertake this expansion project.

Recommendation

We support DFR's plans to upgrade the business tax system in order to summarize and relate all of the various taxes for a business. Such a system would significantly improve the District's ability to evaluate delinquent taxes, and should help to increase revenue collections.

Revenue Collection Is Not Adequately Integrated With the General Accounting System

The District Treasurer reports revenues collected for the month. This report is prepared manually at the District Treasurer's office and is keypunched for entry into the financial accounting system by District Accounting. Certain items are reported by general accounting as an offset (deduction) to an expense account, while these same items are reported as cash receipts (income) by the Treasurer. Revisions made by District Accounting are not communicated back to the District Treasurer.

Recommendation

The present revenue accounting and reporting system should be revised to prepare accounting transactions which can be entered directly into the general accounting system. Offset accounting is improper and all revenues should be reported.

Delinquent Tax Receivables Are Not Adequately Reported and Controlled

The current system used by the DFR for controlling delinquent tax receivables does not provide adequate reports to facilitate delinquent receivable follow-up. The following points illustrate some of the problems which we discovered during our review.

- Computer billings for late payment penalties of personal property and real estate taxes include taxes due along with assessed penalties. However, the system does not maintain control over total accounts receivable for penalties.

- When interest and/or penalties are assessed on individual income or business taxes, the amounts are recorded separately in the accounts receivable system. However, when payments are received, they are not applied separately to the interest and the penalty receivables.

- Real estate tax receivables currently include certain taxes assessed in the 19th century. Since these taxes are certainly uncollectible, they should be written off. The write-off has been delayed because the procedures to be followed have not been finalized.

- Inheritance and real estate tax receivables are reviewed semiannually for delinquencies, but are not analyzed daily or monthly according to days past due to support frequent evaluation of delinquencies.

- Checks returned to the District Treasurer due to insufficient funds are offset against current year revenues and are then returned to the applicable agency for follow-up. There is no overall control by the District Treasurer over these checks.

- As a result of an agreement with D. C. Transit System, Inc. the District was to receive payments totaling $3,290,000 with interest at 6% as a settlement for removal of trackage and repaving roadways. As of our survey, the total receivable has not been recorded on the general ledger, interest has not been accrued and payments have been delinquent for periods up to 7 months with no apparent follow-up.

Recommendation

The systems which currently provide billings of taxes and penalties should be revised so that:

- Cash receipts can be applied against the item being collected.

- Aged accounts receivable trial balances can be prepared and reconciled to the general ledger.

- Accounting entries can be made directly into the financial accounting system.

- Central accounts receivable control can be established over checks returned due to insufficient funds.

Federal, Enterprise, and Other Revenues

Control over Federal, enterprise and other revenues is decentralized, i.e., billing and collection of nontax revenues are handled by the agencies. All agency cash receipts are forwarded to the District Treasurer where revenue account distributions are manually posted. The District has approximately 600 sources of Federal, enterprise and other revenues.

Agencies Are Not Held Responsible for Revenue Collection

DFR is responsible for Federal, enterprise and other revenues at the point cash is deposited with the District Treasurer. However, DFR has no control or authority over the receipts prior to deposit. Consequently, the control over nontax revenue is left to the discretion of the respective agencies and, based on our review, there is inadequate supervision and control over the accounting and reporting of nontax revenues.

Recommendations

The District should establish a District-wide responsibility for functions such as independent verification of revenues, determining the reasonableness of revenues, procedures to assure that all fees due are billed, collected

and reported, and establishing uniform recordkeeping and internal control procedures. These responsibilities and duties are normally associated with the controllership function. These, and other responsibilities and organizational recommendations concerning the controllership function are discussed in Section III of this Volume entitled "Organization and Personnel Requirements."

The District should hold each agency director primarily responsible for the planning, budgeting and controlling of revenues.

There Are No Standard Accounting Policies and Procedures for Revenues

Deficient policies, procedures and practices resulting from the lack of internal control and an inadequate controllership function presently include the following.

- Certain agencies are not maintaining adequate records over amounts billed and collected (e.g., District hospitals, Neighborhood Health Clinics and the Department of Environmental Services).
- Numerous agencies are not depositing cash receipts on a timely basis since the deposit frequency is left to the discretion of each agency.
- Most agencies are not reconciling their cash receipt records to the monthly Treasury reports.

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- Overall policies and procedures which prescribe how to account for a particular fee or revenue are inadequate or lacking.

- The reporting of month and year-end receivables by individual agencies to District Accounting is inadequate (e.g., R.L.A. billings, Federal City College, D. C. General Hospital and Department of Environmental Services). As a result, numerous errors appear in the financial statement presentation.

Recommendation

The District should establish and maintain accounting policies and procedures to be followed by each agency. The internal control weaknesses and inefficiencies noted above will continue to exist until overall financial management policies are defined. These policies should be translated into current operating procedures for billing accounts receivable, cash receipts and collection, etc.

DISBURSEMENTS

Key Findings and Recommendations

District Accounting is responsible for processing all payments for goods and services (disbursements) for the entire District. This activity requires approximately 35 personnel under the present systems and procedures. Currently, approximately 6,500 obligating documents (e.g., purchase orders, contracts, etc.) and 10,000 payments are processed each month.

The present disbursement system does not recognize accounts payable as liabilities (bills received by the District which have not been paid). The District's policy concerning nonpayroll expenditures is to essentially account for these transactions on the cash basis until year-end. The payment process has two basic functions.

- To assure that all purchases of goods and services were properly authorized, that the goods or services were received, that vendor's invoice is accurate and that payment should be made.
- To properly record liabilities, expenditures and disbursements in the accounting records.

The current systems and procedures are cumbersome, inadequately integrated and redundant, and there are several serious control weaknesses. The entire payment approval

and check writing process can take three weeks to complete the cycle due to problems in transmitting information from the agency to District Accounting. Some of the key problems are:

- All invoices are audited by both the individual agencies and District Accounting.
- Purchase orders and other supporting documents are matched manually.
- Invoices are manually verified for clerical accuracy.
- Multiple computer edit runs are prepared for use by at least three agencies.
- The disbursement and check-writing routines are separated.

Delays in the processing system have caused vendors and agencies to resubmit invoices resulting in duplicate processing and payment. In addition to delays, the District's system fails to recognize unpaid invoices as liabilities. As a result, the District's interim financial reports do not properly reflect all current liabilities. Cash management of short-term investments could be facilitated by scheduling the payables.

Detail Findings and Recommendations

The Present Disbursement System Is Cumbersome

From our interviews of employees at agencies and a review of procedures at District Accounting, there is an excessive amount of paperwork in the processing of documents.

- Purchase orders and original vendor's invoices are received by the agency and are checked for clerical accuracy and propriety there. In addition, the same tests are performed when those documents are received by District Accounting.
- Duplicate clerical activity is required for entering data to the computer system.
- Check writing cards are not created at the same time disbursements are entered in the system necessitating an extra cycle of input and data verification.
- Controls for input data are cumbersome and time-consuming because all errors in a batch must be corrected before the batch can be processed.

Controls Over Miscellaneous Payments

In addition to vendor purchase order items, District Accounting processes "miscellaneous payments." These payments are for those items, where a vendor's invoice would not normally be applicable, such as income tax refunds and stipends or scholarships to students. In many cases the miscellaneous payment voucher is submitted by an agency to District Accounting with no supporting documents in which case there is very little for the Payment Audit

Section to "audit." In addition, these vouchers are processed by District Accounting with only one authorized payment signature. As a result of these procedures there is an opportunity for District funds to be misused. District Accounting has taken steps to correct this problem and will require two signatures on all miscellaneous payments in the future.

Vendor Checks Can Be Delivered to Employees

District procedures allow agency employees to pick up checks rather than require that all checks be mailed. Requiring all checks to be mailed would improve controls by reducing the possibility of unauthorized vendor disbursements. This point is especially critical when considering the previous comment regarding miscellaneous payments.

Vendor Invoices Are Mailed to the Agency

Original vendor invoices are received at the agency and then transmitted to District Accounting. District Accounting has no control over and is unaware of invoices (liabilities of the District) which may be retained in the agency. There have been reported examples of vendor invoices being "lost" at the agency. This procedure lengthens the time that it takes to process the disbursement and pay

the vendor. Since obligating documents generally have already been reviewed by District Accounting, we suggest purchase orders specify submission of invoices to District Accounting citing the purchase order number.

Vendors Cannot Determine Payment Status

Vendors with delinquent payment problems generally contact the agencies for which services were provided rather than District Accounting. However, the agency does not have adequate information regarding payment status. As a result there is a communications breakdown between the vendor, the agency and District Accounting. We were informed of several cases where an agency resubmitted to District Accounting a new voucher for payment which resulted in duplicate payments as a result of vendor inquiries.

Payment Audit Procedures Are Not Reviewed

The Payment Audit Section is responsible for the checking of vendor invoices and payment vouchers to see that the amounts match, payment authorization is correct and that the bill is accurate. However, there is no procedure requiring that the work of individual accounting clerks be reviewed and approved by their supervisors on large invoices or on a random sample basis. Regular review (testing) of clerical procedures would help to assure that established policies and procedures are being followed.

Purchase Order Authorization Review Is Weak

Obligation procedures at District Accounting do not include a review for the propriety of purchase order signatures. The check at District Accounting to determine if a purchase order is valid is not made until the disbursement process is performed. As a result, if any purchase is unauthorized it would not be detected at District Accounting until the District had already incurred a liability to the vendor.

Vendor Credit Memos Cannot Be Processed

As currently organized, the District Accounting System is unable to process vendor credit memos (refunds to the District). When a credit memo is received, the agency retains the credit memo until a subsequent vendor bill is received in order that the credit can be applied against that bill.

Documents Sent to District Accounting Are Not Controlled

Documents are forwarded to District Accounting in unbatched groups not ready for data processing. While transmittal slips are used, we were informed by agency personnel that acknowledgement copies of transmittals are not received from District Accounting on a current basis. This appears to be a result of poor interagency mail service.

Because of these problems, any losses in transit are not recognized unless the agency realizes that the transactions have not appeared on the daily statement of obligations and disbursements, or in the case of an invoice, the vendor complains.

Check-Writing Cards Are Prepared Prematurely

Check-writing cards for invoice payments are generated prior to the disbursements being checked for antideficiency or exceptions (invoice greater than previous obligation). Check-writing cards are then held at District Accounting until the invoice data has been processed by the computer and the central allotment system master file updated. If an invoice does not pass the antideficiency and exception test it is not posted to the master file. District Accounting personnel must then destroy the check-writing card and revise the batch totals to agree with the altered card deck. This procedure is inefficient.

Recommendations

The District should undertake a project immediately to strengthen existing procedures on an interim basis as follows.

- Establish pre-audit procedures at agency level or centrally. This would involve matching the purchase order, receiving report, vouching the expenditure and authorizing payment.

- Require that all checks be mailed directly to the payee.

- Implement a Payment Audit Section procedure whereby all invoices over a certain amount (e.g., $1,000) are reviewed by two people, and all others are reviewed on a sampling basis.

- Check all purchase orders for valid signatures before mailing to vendors.

- Establish batch controls in the agency over documents sent to District Accounting.

We also recommend that the District initiate a project to design and install a centralized, comprehensive accounts payable and disbursement system. Features which should be included in this system are:

- Integration with the obligating and general accounting system which is described in the Accounting and Reporting discussion of this section.

- Identification of accounts payable and the recording of expenses as incurred.

- Cash management reporting using payment due dates and priority scheduling.

- Reports with adequate information for operating department and complete audit trails.

- Inquiry capabilities for purchase orders, receiving documents and vendors' invoices status.

- Use of "one-time" computer data entry and verification procedures.

CASH MANAGEMENT

Because of the District's historical use of the U. S. Treasury as the District's "banker," traditional cash management activities and techniques used by municipalities are largely absent in the District. It is doubtful that any one individual in the District government at present has at his disposal the data typically used by a municipal treasurer. Such information should include the following.

- Balance in the cash accounts on a daily basis by fund, typically called a "daily cash report."
- Cash demands for each day in the following week and by week thereafter for three to six months.
- Expected revenues by source to be received for the same time periods.
- Instantaneous contact with a commercial or investment banker for investment of expected cash surpluses for as little as one to three days.

Our survey disclosed that the present District Treasurer, who is located in the Department of Finance and Revenue, serves principally as a check signer. Investment of excess cash should be the responsibility of the Director of cash management under the reorganization proposed in Section III of this Volume.

Objectives of Cash Management Function

Timely and reliable financial information is essential to cash management decision-making. In addition, unified cash management policies are necessary to enable an organization to make the most of its cash resources.

The District should constantly strive to achieve an effective cash flow to provide sufficient funds for daily working capital needs, debt service, and capital expenditures. Recommended methods of improving cash flow include the following.

- Centralizing responsibility for cash functions.
- Improving revenue collection efforts.
- Accelerating bank deposit processes.
- Reducing uninvested cash balances.
- Timing disbursements properly.
- Maximizing return on investments of excess funds.

Under Home Rule, the District may withdraw from the U. S. Treasury and perform its normal cash receipts and disbursements activities through commercial banking channels. U. S. Treasury and District officials are currently working to effect a withdrawal from the Treasury.

Elements of Cash Management for the District

The District must devote substantial effort in order to plan for the transition as well as operate an

appropriate treasury and cash management function independent of the U. S. Treasury. We believe that the following steps will be necessary for the District to appropriately manage its cash management function.

- The annual operating and capital budgets will have to be projected as to planned outlays on a monthly basis.
- The Department of Finance and Revenue, together with agencies generating other revenues and grant revenues, will be required to project cash inflows on a monthly basis.
- Loan repayments, lease payments, retirement fund payments and similar fixed charges will have to be projected.
- The Federal payment and revenue sharing receipts will have to be included in the District's cash projection.
- Investment policies for temporary investments of excess cash will have to be formulated. For example, what types and grades of securities will be purchased, which dealers will be used, etc.
- Depository banks will have to be selected and service arrangements developed. For example, most commercial banks will provide a list of outstanding checks at the close of any banking day if the customer will provide the bank, in the proper format, a list of checks issued. Banks can also provide reconciliations of checking accounts.
- Staff will have to be selected and trained.
- Accounting and information systems will have to be flexible enough to develop data such as planned date of payment for each vendor or other obligation so that this information is available for the Treasurer.

In the past, sophisticated cash management has not been required in the District since the District could, in effect, simply borrow funds from the U. S. Treasury on an "as required" basis. Accordingly, since it is likely that the District, like any municipality or business, will have periods where cash outflows exceed cash inflows, the District must take steps well in advance of the date of withdrawal from the U. S. Treasury to establish lines of credit to cover such periods.

Impact of Cash Management on Other Areas of Government

In the course of developing an appropriate cash flow analysis, the District will have to make some major management decisions. These decisions will necessarily impact other areas of government.

- In the purchasing function, the District may determine that, in order to appropriately control the level of disbursements, vendor payments would only be made during certain days of the week or certain days in the month.
- Dates of payment of payroll and retirement benefits might have to be rearranged.
- Payment dates for rental and lease agreements, retirement fund contributions and similar fixed charges might have to be standardized on one or more days of the month.
- Billing dates for services and grants will have to be closely monitored in order to insure that the related receivables are converted to cash within the timeframe contemplated by the cash projection.

- Due dates for payment of certain licenses, fees and revenues will have to be closely monitored and subject to probably a higher degree of discipline than in the past, again to insure that the cash is available to the District when contemplated in the cash flow projection. For example, water and sewer billings might be made four times per year versus two times at present.

- Consolidation of the revenue collection function within the Treasury function may serve to reduce cash handling, prevent possible misappropriations of funds, accelerate bank deposits, and increase the District's liquidity position. Thus, no agency charged with generating revenues for the District should also collect such revenue.

- Improvement of the District's cash receipt procedures could be accomplished by utilization of lockbox services offered by many large commercial banks. In addition to providing central depositories for all District cash receipts and minimizing the cash handling responsibilities of the Department of Finance and Revenue and the independent agencies, the lockbox bank service could provide detailed listings of remittances by revenue source for accounting distribution purposes. Photostatic copies of payment checks could be made available to the District upon request if no other remittance data was included with the payment.

- The District may be able to achieve substantial cash management advantages by using drafts rather than checks. Drafts would require cash when presented at the bank and not when issued.

- Because of the critical nature of the cash management function, substantial additional controls will have to be implemented, including internal audit tests of the effectiveness of such controls.

Our recommendations regarding the implementation of integrated accounts payable system and centralization of the purchasing and inventory control functions could also help to expedite the availability of funds for investment.

Sound investment policies must be developed in consideration of government regulations, time preferences for cash flow, and relative safety and yields of investments.

Substantial coordination with both the financial planning and budgeting functions will be required of the District Treasurer to enable the financial administration to make prudent cash management decisions and obtain the best return on the District's assets.

The proper planning and execution of the cash management program for the District will be a major responsbility for the Treasurer of the District. Our recommendations as to the organization of the entire financial management function of the District, including the duties of the Treasurer, are described in Section III of this volume.

RETIREMENT SYSTEM

The District has a Retirement Section which consists of 17 persons. The District has four retirement programs: Civil Service, Policemen and Firemen, Teachers and Judges. The purpose of the Retirement Section is to:

- Process additions and deletions to the police, fire, teachers and judges pension rolls.
- Maintain control over employee contributions.
- Maintain the salary and service history of approximately 35,000 employees.
- Process the necessary paperwork for employees covered under the U. S. Civil Service Retirement System.
- Respond to inquiries from employees regarding the retirement system.
- Calculate the amount of retirees annuities.

Civil Service

Approximately 60% of all District employees participate in and contribute to the Federal Civil Service Retirement System. When a Civil Service employee is hired, the Retirement Section receives an appointment affidavit along with a copy of the Personnel Action form. An individual retirement record card is prepared from the personnel action form. The retirement card will be used to record a detailed service history for that employee in addition to a

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cumulative balance of retirement withholdings. When an employee has any change in status, a new Personnel Action form is completed and the service record of that employee is updated.

At calendar year-end, the Department of Finance and Revenue forwards to the Retirement Section a computerized listing of the amount of withholdings by employee for the year. This information is then posted to the individual retirement record card and balanced to the total of the computer run. The Retirement Section is behind schedule in this effort. As of March 1976, the withholdings for 1974 were being posted.

If an individual terminates employment prior to retirement, he can request a refund of his retirement deductions by filling out the appropriate application. The amount on the individual retirement record card is then verified to insure that it is properly updated to the most current status. The amount is certified by the Retirement Section and sent along with the application for refund to the Civil Service Commission which administers the disbursements. When an employee retires, his individual retirement record is also sent to the Civil Service Commission for administration of the annuity payments.

Policemen and Firemen, Teachers and Judges

A file similar to that maintained for each Civil Service employee is kept for each policeman, fireman, teacher and judge. An individual retirement record is also included in each file. For disability retirements, a letter is received from the Chairman of the Retirement and Relief Board certifying the disability of the employee. The Retirement Section then computes the amount of disability annuity and this amount is verified by another individual. An annuitant change slip is then completed and at month-end all slips for the month are forwarded for keypunching. The keypunched information is then verified by the Retirement Section. At the end of each month, the amounts to be paid to annuitants are summarized and a payroll certification and summary form is completed indicating the proper accounting codes to be charged.

When policemen and firemen receive raises, the amounts of the annuities increase proportionally. In the case where there is an across-the-board percentage increase, the annuity increase is calculated automatically on the computer system. However, when a salary increase varies between steps and grades, the increased amount of the annuity must be calculated manually.

In the case of a disability retirement, an annuitant will lose his payments if he earns over 80% of the amount of his annuity in any two consecutive years. The Retirement Section sends out a form each year requesting the amount of income earned by that individual. If any individual exceeds this minimum, he is referred to the Retirement and Relief Board which determines whether to terminate the annuity. If a decision is made to discontinue the annuity, payments will be continued for one-year prior to termination.

If an employee is separated prior to retirement, he may receive a refund of his contribution by filling out an application that must be signed by his personnel officer. The Retirement Section will then calculate the amount of refund due and complete a voucher for payment.

Annuitants are removed from the retirement rolls when the Retirement Section receives notification of death from relatives or banks. In addition, employees review the obituary sections of local newspapers for notification of deaths of former District employees.

Recommendation

The District, as an integral part of its payroll system, should computerize many of the functions now being performed by the Retirement Section. The functions that could easily be mechanized include the posting and balancing of employees' pension contributions, the calculation of the retirees' annuities and the maintenance of the employees' service histories. The data necessary to perform these functions is available through the payroll system. Such an integrated system would result in more timely updating of information and should prove to be more accurate. In addition, this system should allow for the Retirement Section to function more efficiently.

GENERAL SERVICES

The Department of General Services (DGS) performs several service functions on a District-wide basis related to purchasing and inventory control, fixed asset accounting and control, and property management. These functions are discussed herein although many District agencies share responsibilities with DGS.

Purchasing and Inventory Control

Purchasing - Overview of Procedures

Various District agencies have been granted procurement authority by action of the Mayor and City Council. Independent procurement authority, which falls into the three categories of general supplies and services, negotiated contracts, and construction and renovation has been granted to the following agencies.

General Supplies and Services

- Department of Housing and Community Development
- Public Schools
- Higher Education
- Department of Human Resources
- Youth Opportunity Services (limited to $25,000)
- Armory Board

Negotiated Services Contracts

- Department of Housing and Community Development
- Department of Human Resources
- Youth Opportunity Services
- Public Schools

- Higher Education
- Courts
- Armory Board

Construction and Renovation

- Department of Housing and Community Development
- Department of Human Resources
- Department of Transportation
- Department of Environmental Services
- Public Schools
- Higher Education
- Courts
- Armory Board

Presently, several of the above agencies have not elected to exercise their procurement authority. These agencies are following the central procurement procedures of the District which fall into two basic classifications. First, there is delegated procurement authority under which agency heads or their designees can enter into contracts for the procurement of goods and services within certain dollar limitations. All other procurements are handled by the Bureau of Materiel Management of DGS. These purchases are made in accordance with expenditure procedures established by the Materiel Management Manual of the Bureau of Materiel Management.

In effect, procurement responsibilities in the District are both centralized and decentralized. The procurement system lacks the following basic features.

- There is a duplication of effort since several agencies are establishing and writing procurement regulations and maintaining procurement staffs.
- There is no overall determination of District-wide procurement needs by individual item.

- Purchase orders are located at every agency, are not prenumbered and in some cases are not adequately controlled, making it possible for unauthorized purchase orders to be issued.

- An individual agency can surpass its delegated procurement authority dollar limitation by "splitting up" purchase orders into smaller amounts, each within its authority. DGS is required to monitor this problem.

- Current procedures do not prevent an agency from sending a purchase order directly to a vendor, thus bypassing the funds availability tests at District Accounting required of all obligations before a legal commitment is made by the District.

- The agencies exempted from using DGS limit the effectiveness of central purchasing and procurement planning.

- The District has no "vendor file" as a by-product of disbursements which would report aggregate purchases to a particular vendor by all agencies.

Inventory Control - Overview of Procedures

The District has several locations for inventories of materials, supplies, repair parts and food supplies, the control over which is the responsibility of the respective agency where inventories are located. Each agency has implemented its own systems and procedures for monitoring and controlling its inventories.

The District's June 30, 1975, balance sheet reflected total inventories of approximately $16.9 million. However, due to the lack of adequate inventory reporting by some agencies to District Accounting, this amount could be substantially different than the actual inventory balance.

Of the recorded inventory balance, less than $1 million (6%) is maintained at the DGS central warehouse. Our survey found agency inventory records to vary significantly from agency to agency. Some agencies had inadequate records with no standard reorder procedures. Other agencies had no physical inventory procedures. There were agencies, for example DGS, which maintained adequate inventory controls, but there was a general lack of adequate pricing and cutoff procedures. No agency maintained complete inventory controls and accounting procedures normally found in business enterprises. In summary, attempts have been made by District personnel at inventory management, reporting and physical inventory-taking. However, many of these efforts have been inconsistent among agencies and largely ineffective.

The District's inventory management lacks overall communication and planning. It is possible that there can be an item surplus at one location while another agency is purchasing that particular item.

Inventory management is not promoted by the current central accounting procedures which are primarily concerned with the purchase of inventory items as opposed to minimizing an agency's inventory level.

Sound inventory control procedures include the following.

- Segregation of the ordering, receiving, shipping and payment functions.

- Prenumbered and properly controlled purchase orders, receiving reports and issue documents.

- Written policies and procedures for taking and pricing physical inventories at least annually.

- Requirements that inventory shrinkages be identified, investigated, explained, documented and approved for write off.

- Physical control and security, especially over high value, pilferable, or otherwise desirable items.

- Reorder/excess stock reports prepared as a byproduct of the computerized inventory record system, which are then used for purchasing/inventory management.

Recommendation

We believe the major difficulties with the current procurement and inventory system relate to decentralization, lack of adequate, consistent purchasing and inventory management policies and procedures, lack of adequate control to insure compliance with procedures, and lack of a comprehensive inventory control system. The District should design and install a common procurement system combined with a comprehensive inventory control system which would meet the inventory management needs of agencies and the financial management and control needs of the District. In addition. we believe such a system would reduce the coordination control effort required under the current system.

Such a system should be the responsibility of a supply management, which would have responsibility for preparation of all purchasing and inventory reports, and the coordination of those reports with District Accounting.

In addition, the District should conduct a regular review to assure that inventoried items are stored in the fewest practical number of locations necessary to meet the desired service levels of the using agencies.

The purchasing component of the system should provide a systematic, District-wide approach to obtaining materials, supplies and services at the best price for the quality required. The purchasing system should be closely tied to the inventory control system, which would provide an organized approach to managing and controlling materials and supplies.

The specific objectives of an integrated and centralized purchasing and inventory control system would include the following.

- Provide guidelines for the determination of which items should be included in the system and where they should be stored.
- Define the quality and quantity of the item required given the availability of funds for, and the requirements of, a specific project.
- Provide a systematic approach to ordering stock and issuing inventory items. The ordering and issuing functions must be integrated into the purchasing and accounting systems.
- Consider the available inventory of like or similar items prior to entering into a procurement arrangement.
- Procure the defined items at the best price and delivery terms obtainable, whether the procurement be from a supply contract, a competitive contract, or a negotiated contract.

- Maintain quantity and dollar value information for items on order and on hand to minimize the investment in inventories, given usage requirements.

- Provide for historical usage reporting, reorder reporting, exception reporting (for purchase orders overdue and excess on-hand quantities), and for back-order capability for requisitions of out-of-stock items.

- Provide for periodic physical inventories and for the means to make inventory adjustments. The physical inventories should be taken using good shipping and receiving cut-off procedures and should be priced in accordance with generally accepted accounting principles.

- Provide accounting entries directly into the obligating and general accounting system in order to eliminate unnecessary computer processing time, paperwork and to increase accuracy.

- Minimize business with particular vendors which have failed to honor commitments to the District.

Purchasing Personnel Are Not Formally Trained

The Bureau of Materiel Management (BMM) has the responsibility within DGS for purchasing goods and services. The procurement and monitoring procedures are complex and require amplification to work effectively. However, BMM is not conducting training sessions for its personnel or for agency procurement personnel with delegated procurement authority.

Recommendation

Training sessions should be held for the personnel within BMM and the agency personnel to assure that procurement procedures are being followed consistently.

Federal GSA Invoices Are Paid Without Support

DGS is responsible for purchasing goods from the General Services Administration (GSA) of the Federal government for District agencies. When DGS instructs District Accounting to pay GSA, DGS does not know if the goods have actually been delivered to the agencies by GSA. However, the agencies have 30 days to reject the transaction once it has been charged to their account. This procedure was adopted in order to reduce the time between purchase from the GSA by agencies and payment by the District.

Recommendation

A procedure should be developed whereby GSA receipts are acknowledged to DGS immediately by the receiving agency. DGS should then reconcile the GSA billing to the agency receiving reports. This procedure would prevent payment for goods that were not received and reduce the subsequent negotiations with the GSA over erroneous billings.

Fixed Asset Accounting and Control

Fixed asset accounting for the District is divided into the two major areas of equipment and real property. Different recordkeeping practices are used for each of these two areas as explained in the following paragraphs.

Equipment - Overview of Procedures

Each agency is responsible for maintaining its own record of equipment (furniture and fixtures, vehicles, etc.) and annually reporting its equipment to District Accounting for inclusion in the District's general ledger. Each agency has a designated "Accountable Property Officer" who is responsible for this function. Our work at various agencies indicates that many agencies do not have adequate control of their equipment. In addition, physical inventories, where taken, are not always compared to the agency's records. There appears to be a general lack of emphasis on the part of District agencies on the maintenance of accurate and complete equipment records.

Real Property - Overview of Procedures

The accounting for real property (land and buildings) is more centralized than the accounting for equipment. Except for public rights of way (streets and sidewalks), and properties owned by the former Redevelopment Land Agency and the District of Columbia Housing Authority, records for which are maintained by those agencies, DGS is responsible for the records of land and buildings owned or occupied by the District.

Our review of real property accounting indicates that adequate information is not being recorded and reported.

- DGS maintains its land and buildings records using a computer system and has the original documents (contracts, invoices, etc.) for more recent acquisitions and construction. However, original costs, appraisal value, expected life and other key accounting information are not kept in this system.

- The responsibility for transferring construction-in-progress to the real property accounts is not clear.

Recommendations

The following actions should be considered to improve the District's management of equipment, land and buildings.

- Although DGS has sufficient records to identify land and buildings owned by the District, cost data on these properties is generally not adequate. An adequate and accurate detail cost record of all land and buildings will have to be reconstructed. In 1975, the District had capitalized on its Balance Sheet only $102 million of land and $251 million of buildings. This seems unrealistic when compared to the District's operations.

- Construction-in-progress should be reconciled to District Accounting records and all completed projects transferred to the proper real property accounts.

- The policy and responsibility for transferring construction-in-progress to real property should be established.

- Construction-in-progress, for financial statement presentation, should be recorded on the accrual basis of accounting rather than by cash or obligation accounting. This involves recording as property construction payment retentions and similar future payments to be made to contractors.

- A project director must be designated to accumulate fixed asset data from all agencies which have equipment.

- Each agency's inventory of accountable property should be checked or verified by a responsible District official independent of that agency.

The District should implement a comprehensive fixed asset accounting system to meet the physical control and accounting needs of the District. This system should provide management with information regarding the location and valuation of furniture, fixtures, equipment, land and buildings. A comprehensive fixed asset control system should provide management with the following capabilities.

- Classify assets.

- Record purchased and leased asset values.

- Define asset life.

- Record physical asset transfers and retirements.

- Control the physical location of assets, including annual inventory/verification of fixed assets.

In addition, the system should prepare depreciation computations for the following purposes.

- Costing of services provided for revenue generating requirements (enterprise funds).

- Capturing the total expense of cost center operations (grants and similar projects).

- Maintaining net value of property investment for financial reporting purposes.

- Establishing and justifying overhead cost rates for reimbursement requests.

While the problems with fixed assets are significant and will require a substantial effort to correct, we do not believe this problem is of highest priority because it is not uncommon for an auditor's opinion not to cover fixed assets of a governmental unit.

Property Management

The property management functions include construction management, repairs and improvements, and leasing and space management.

General Overview

Three bureaus in DGS are directly involved with the construction of buildings, and their operating costs are disbursed out of the "Construction Services" fund. The Office of Program Management is responsible for liaison with other agencies which require capital construction, acquiring the necessary property for capital construction, and monitoring the architect-engineer contract for the design of a building (if plans are not drawn up by the Bureau of Design and Engineering).

The Bureau of Design and Engineering is responsible for the preliminary design study and reviewing the designs and plans drawn up by the architect-engineer firm.

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The Bureau of Construction Management is responsible for monitoring the actual construction work of the general contractor. On-site and roving construction inspectors inspect the contractor's progress and certify to his request for progress payments.

The Bureau of Repairs and Improvements performs most repairs, alterations and improvements to buildings occupied by agencies of the District government. Large projects or emergency projects for which time or manpower to complete are not available are contracted to outside firms.

The Bureau of Building Management is responsible for the negotiation of space leases for the District. In addition, this Bureau is responsible for space planning and utilization, minor repairs and improvements on District-owned buildings, the centralized mail service of the District, the District of Columbia Special Police Force, and for elevator operators in District buildings which do not have automatic elevators.

Construction-in-Progress Accounting Procedures Are Not Adequately Defined

Although DGS has adequate construction management control over the construction projects under its direction, there is a breakdown in the proper accounting for construction projects between DGS, District Accounting and eventually in

the District's financial statements. The accounting division of DGS maintains construction in progress ledgers, on which are recorded disbursements relating to capital outlay projects. Disbursements may be for the site, construction, or construction services. These records do not indicate payables, nor are these ledgers reconciled to the amount of construction-in-progress maintained by District Accounting. In addition, we were unable to determine the procedure for transferring the total cost of a completed project from construction-in-progress to real property. Personnel at District Accounting stated that DGS made this determination, while DGS personnel said it was being made at District Accounting.

Recommendation

Construction-in-progress represents a substantial asset on the District's balance sheet. A comprehensive project must be undertaken to identify all construction-in-progress, to determine all costs which should be reported as construction in progress (such as site costs, construction costs and construction services) and, finally, this total must be reconciled to the amount presently recorded at District Accounting.

The Bureau of Repairs and Improvements
Estimating and Pricing Procedures Should Be Improved

The Bureau of Repairs and Improvements ("BRI") is responsible for most repairs, alterations, and improvements to buildings occupied by agencies of the District. BRI bills its repairmen at a flat rate ($11.43/hour) regardless of the craft involved, and the actual costs charged for repairs may exceed the BRI estimate. This is partially due to the fact that BRI frequently makes estimates without actually visiting the site.

Recommendation

A revised billing structure should be established, giving adequate consideration to the various skill classifications, cost of services, and the rates charged by outside contractors. While we realize that BRI has a limited staff of cost estimators, we recommend that, at the minimum, BRI develop procedures to identify those repair projects susceptible to large cost overruns so that those projects can be monitored more closely.

Intragovernmental Services

In addition to the fixed asset management services performed by DGS, several other services including printing and motor fleet analysis are performed for other agencies. These services are generally reimbursed by the user agencies.

General Overview

The Bureau of Materiel Management, in addition to being responsible for procurement as discussed previously, is responsible for operating the District's print shop and providing a monitoring service for the District's motor fleet (except police and school vehicles). The print shop provides a broad range of services, such as typesetting, graphics art work, offset typemaking and camera work, offset printing and multilith quick copy reproduction, and soft (i.e., paper cover) binding services. Except for quick copy, which is charged out on a "rate chart" basis, all work done in the print shop is job-costed.

The motor fleet function gathers source data and provides analyses of operating (gas and oil) and maintenance costs of such vehicles. From this information, low usage/ high cost vehicles can be identified for appropriate action by the agency. Police and school vehicles are not monitored by the DGS system.

The Accounting for Intragovernmental Service Activities Should Be Improved

Although DGS services are reimbursed by user charges to the agencies receiving the services, accounting records from District Accounting do not provide complete accrual basis financial statements for the evaluation and

monitoring of DGS' service activities. In an attempt to determine how these intragovernmental service funds are performing, DGS has prepared memorandum financial statements including a balance sheet and income statement. Since available data is incomplete, these memorandum statements are inaccurate and inadequate.

Recommendation

The printing, and repairs and improvements funds should be accounted for in accordance with intragovernmental revolving fund accounting which should be provided through the District's central accounting system. This should include accrual basis financial statements including balance sheets and income statements.

Interagency Billings Are Not Well Controlled

Payment for DGS services is accomplished via interagency transfer vouchers. However, we understand that, if a user agency does not have funds available, the transfer voucher is returned by District Accounting to the user agency. DGS is often not notified that a transfer voucher was not processed and is only alerted to a particular problem through reviewing District Accounting printouts for a period of time and noting that the transfer has not been recorded.

In addition, when a user agency knows funds are not available, it appears to be a common procedure to refuse to process the transfer voucher received from DGS.

Billing for such services is also troublesome in other areas, e.g., SHARE computer. The difficulties experienced by DGS are also experienced by other service agencies.

Recommendation

This is a significant problem to the District because costs actually incurred are not being charged against the appropriations where those costs were originally budgeted. We recommend the Mayor appoint an arbitrator who would resolve any disputes about transfer vouchers outstanding beyond a certain period. In addition, all transfer vouchers processed by both the billing and user agency should be recorded by District Accounting regardless of funds status.

Agency Leasehold Payments Frequently Are Not Funded

DGS has the responsibility of negotiating leases for space for agencies of the District except the Department of Human Resources. DGS is primarily liable for these leases and makes the lease payments. The user agency reimburses DGS monthly via transfer vouchers. There are instances when the agency does not have funds and will not reimburse DGS, thus DGS has the added burden of collecting past due receivables from other agencies.

Recommendation

DGS should consider having each renting agency transfer the total lease payments for a fiscal year at the consummation of the lease or the beginning of the fiscal year. This should minimize the problem of trying to collect past due receivables. It also would eliminate excessive paperwork on the part of DGS, the agency, and District Accounting in processing monthly transfer vouchers.

Outside Computer Services Are Used in Processing Motor Fleet Monitoring Data

DGS has a motor fleet monitoring system to monitor the operating (e.g., gas and oil), repairs and maintenance costs of District-owned vehicles (except public schools and the police department, which have their own systems). This data is processed through an outside computer service bureau which charges $1.49 per vehicle per month. The system can provide an agency, with information regarding the economics of continuing to operate a vehicle, and how to prevent major repairs. There are approximately 3,000 vehicles on the system, which costs approximately $54,000 a year.

Recommendation

Consideration should be given to consolidating the motor fleet monitoring function for the entire District, and acquiring or developing a program similar to that currently

used by DGS. This system should be processed on the District's computer so that the expenditure for outside computer processing could be eliminated.

In addition, the current system does not provide a report which lists the acquisition cost of each vehicle. If such a report were produced as part of the motor fleet monitor computer program, it could serve as a complete listing of all the District-owned vehicles and would have several uses.

- Determination of the number of all District-owned vehicles from one source.
- As the subsidiary ledger to support the cost and value reflected in the financial statements.

DATA PROCESSING

The data processing function is an integral element of the District organization. Practically all agencies of the District government rely on data processing services in conducting their daily operations. Approximately $13 million was spent in fiscal 1976 by the District to operate computer systems and to provide related service activities.

Due to the extensive utilization of data processing services and the significance of annual data processing costs, we conducted a survey of the District's major data centers to determine the following.

- The organization of the data centers.
- Security and operating procedures.
- Backup for equipment, programs and data files.
- Systems development and computer program documentation procedures.

We reviewed the following ten data centers.

- SHARE Computer Center (the District's principal data center)
- Metropolitan Police Computer Center
- Office of Economic Development
- Department of Corrections
- Federal City College

- Washington Technical Institute
- District of Columbia Public Schools
- Department of Human Resources
- District of Columbia Superior Court
- Department of Housing and Community Development

In addition to the detail recommendations which follow, we have included two exhibits at the end of this section which summarize estimated (1) annual data processing costs and (2) data processing personnel and related fringe benefit costs. We were unable to include in our report certain data processing costs for areas where we did not perform reviews.

Summary of Major Problems

The major problems noted during our survey centered around the following areas.

- Planning - There is no District-wide planning function for controlling the purchasing or leasing of new equipment, software, or systems.
- Security - The overall security of the data centers is inadequate. This is especially true of the Data Center which is used jointly by SHARE and the Metropolitan Police.
- Backup - The various data processing centers do not have adequate procedures to back up the data files and programs at an off-site location. This is especially critical in view of the weak physical security at many of the data centers. If the SHARE data center were to suffer a catastrope, we do not believe the District could process the payrolls for District employees because of insufficient backup procedures for the payroll programs and related data files.

We believe that, with proper cooperation, the District has sufficient data processing equipment and personnel to meet the District's foreseeable management needs. Accordingly, we recommend that the District put an immediate freeze on any new equipment acquisitions until proper procedures and controls have been developed to evaluate new equipment proposals.

Planning

Management of Data Processing Functions Is Not Coordinated

Executive management within the District has not exercised direct administrative control over the data processing function and has relied heavily on data center supervisory personnel to assign priorities to new application development efforts, to make equipment decisions and to develop their own internal organizations. We believe that one method for encouraging greater management involvement in District ADP is through the creation of an Information Systems Policy Board consisting of key District operating (not data processing) personnel at the agency head level (or their delegates) who are responsible for the operation of each major area of the District. This Committee would report directly to the Mayor and would perform the following major functions.

- Review and approve the five-year ADP plan.
- Review and approve all major hardware acquisitions.
- Review and approve all major software acquisitions.
- Review and approve all major systems projects and assign priorities in accordance with the overall goals of the District.

A group made up of data processing personnel could serve in an advisory capacity to the overall Information Systems Policy Board. Further, it is incumbent upon data processing personnel to put their ideas into a form which can be easily understood by operating management personnel of the District in order to cost justify expenditures.

We believe that it is the responsibility of the users to make the final decisions concerning major acquisitions or development steps in the District. District operating management should insist on, and actively participate in, the establishment of both immediate and long-range goals and objectives for data processing. The goals and objectives of the data processing function must be coordinated with the overall goals and objectives of the District.

The District Does Not Have Comprehensive Procedures to Evaluate New Equipment Acquisitions

The District has established a function to approve the acquisition of new data processing equipment. However,

during our survey, we noted that no standard policies or procedures were available to guide agency data processing personnel in justifying the acquisition of data processing equipment. In addition, the District has not set up any criteria for evaluating data processing vendor proposals. It is essential that formal written policies and procedures be implemented in order that informed, prudent and economical decisions concerning expenditures for data processing equipment can be made.

An example of the District's inadequate policies and procedures was noted in our review of a proposal submitted to the District by the District of Columbia Public Schools. The data center management at Public Schools is proposing to purchase data processing equipment valued at approximately $2.5 million. As of the writing of this report, Public Schools has received tentative approval from the District to acquire this additional equipment. While Public Schools has provided the District with all of the information the District requested concerning this proposed acquisition, District management did not have sufficient information to make an informed and objective decision. The following facts were researched, documented and evaluated by the Public Schools but were not requested by the District.

- The projection of the computer time requirements of the systems to be developed over the next 3-5 years.

- A complete analysis of the one-time conversion costs including personnel, hardware and other miscellaneous costs.

- The analysis of the incremental ongoing cost increases or decreases for personnel and equipment.

- The analysis of lease vs. purchase economics. It should be noted that the above information was contained in a detailed feasibility study prepared by Public Schools.

- Requests for proposals had not been sent to multiple vendors stating the requirements of the District Public Schools and asking the vendors to respond with a bid.

Based on discussions with District personnel, we noted that a significant amount of current manpower and equipment is being utilized to process systems which have the potential for being centralized (e.g., budgeting, labor distribution, appropriations).

Recommendation

The District should move immediately to set up standard procedures and controls to evaluate any new equipment acquisition proposals. The final decision for new equipment purchases should be one of the primary functions of the Information Systems Policy Board.

The District Does Not Have A Standard Approach to Evaluating New Application Proposals

There are no District-wide policies or procedures to justify or to initiate the development of new applications.

This is an important problem in light of the fact that many of the manual duties performed in the District by clerical and management personnel could be performed on existing computer facilities. In addition, many of the computerized accounting systems are highly inefficient, do not meet users' needs, and are poorly documented both from a user's and a data processing standpoint.

For example, the District Accounting System which includes revenue distribution, payroll and disbursements processing, and maintenance of the general ledger is a combination of manual and mechanized functions which are poorly interrelated. Many of the activities performed manually could be done on existing data processing equipment.

Recommendation

The District should establish policies and procedures to justify development of major applications. Such policies and procedures would call for an evaluation of each proposal application to:

- Show the estimated cost of:
  - . Systems development
  - . Ongoing operation of the new system
- Show the estimated benefits of the new system, both tangible (financial) and intangible.

- Project the manpower and equipment needs to develop and install the new system.

- Set up a timetable for the installation of the new system with benchmarks to measure progress.

- Survey other data processing centers within the District, as well as other governmental entities, to see if a similar application is available or is being developed.

In our opinion, this type of analysis will allow the Information Systems Policy Board to establish systems priorities on a District-wide basis and to allocate the resources of District ADP accordingly.

The Future of the District Data Centers Is Not Thoroughly Planned

The District has not effectively planned the requirements for the various data centers. We believe that the Information Systems Policy Board should consider the future disposition of the data centers throughout the District. While we do not advocate complete centralization of all data processing functions into either one data center or one programming and analysis group, we do believe that there is substantial potential for combining data centers and data processing personnel who perform like functions.

There Is Little Cooperation Between Some Data Centers

There is an obvious undercurrent and apparent lack of cooperation between several of the data centers and data

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processing personnel. This situation potentially can be very costly through the duplication of effort and misutilization of personnel and equipment. Administrators of the various data processing areas of the District must cooperate to minimize data processing costs.

Monitoring cooperation and coordination among data centers would be another major function of the Information Systems Policy Board discussed earlier in this section.

There Is No Formal Training and Development Program for Data Processing Personnel

No District-wide program for the training and development of data processing personnel exists. While each agency probably cannot afford or does not have sufficient training capability, we believe that the District as a whole could provide this facility. The District should set up a central training function for all data processing personnel throughout the District. This training should include the following disciplines.

- Systems development
- Programmer training
- Operator training
- Software utilization

The development of a District-wide training and development program will support the use of programmers and analysts throughout the District to meet the priorities set forth by the Information Systems Policy Board.

Reporting and Evaluation

This section addresses the feedback mechanisms necessary to analyze the current operation of the data processing center--providing data to judge performance in the areas of budget reporting and equipment performance.

Budget Reporting Is Weak

Budget reporting should provide a means for the various data centers to evaluate future plans from the standpoint of current fiscal status. In most instances, we noted the lack of feedback to data processing management comparing actual against budgeted revenues and expenditures. Some data centers were not informed as to the status of their budget requests for the year, the budget amounts which have been obligated, and the amounts still available.

We recommend that a monthly budget report be provided for each data center providing current budget status. This report should show the expenditures and revenue, if appropriate, against a preestablished plan. The report would provide a foundation to the data centers for planning

future expenditures on a more sound basis than is currently being followed.

Equipment Utilization Is Not Planned or Monitored

Equipment utilization, planning and reporting (comparing available capacity to actual utilization) should provide each data center with information needed to evaluate current workloads, production scheduling and cost allocations, if appropriate.

We noted a number of instances in which data processing management is either not receiving adequate reporting of equipment utilization, or, if they do receive the reports, they are not using them effectively. These reports can be very useful in making decisions in the following areas.

- Planning and scheduling equipment acquisition or the release of seldom-used equipment.
- Production scheduling and shift requirements.
- Cost allocations.

In several District data centers there are utilization and performance measuring programs available which could improve the operating efficiency of current applications through better utilization of equipment capabilities in the data centers. Generally, we found that the system

support groups within the data centers were not using these reporting tools in trying to improve the efficiency of the data processing systems.

We recommend that the District develop a system to plan, control and evaluate equipment utilization in the District and develop an ongoing reporting system designed to analyze and allocate equipment usage.

Data Processing Controls

This section discusses measures that provide for the physical control of the data center and insure that proper standards are in effect to provide useful program and operation documentation. The areas of security, backup, documentation standards, run-to-run program controls, master file balancing and separation of duties will be addressed.

The Security of the Data Centers Is Extremely Weak

Security of data centers is important both in terms of safeguarding the physical assets and in preventing the compromise or destruction of data files, programs and related documentation. Reasonable precautions should be taken to guard the facilities against natural hazards, personnel inefficiencies and maliciousness, all of which can affect the operations of the data center. Security is one

of the many internal control factors that must be considered. While certain security control features are applicable to all installations, others must be tailored to fit the circumstances of the particular case in recognition of the type of processing being done and of the economic consequences involved. The level of security that is to be applied in any given installation is a decision that must be made by top management.

We believe that the security surrounding several data centers is inadequate in view of the sensitive nature of the data being processed at those centers. For example, during our review of the data center that is jointly used by SHARE and the Metropolitan Police Department, we tested the security procedures and noted the following facts.

- Unauthorized personnel could enter both the data center and the computer room without being questioned or challenged.
- There is no system (badges, etc.) for identifying if a person is authorized to be in either the data center or the computer room.
- The front door to the data center is unlocked and unattended.
- The supply area for the SHARE data center which contains many of the forms used by data processing is easily accessible to unauthorized personnel.
- The doors into the computer room itself, which should be locked at all times, were left unlocked almost constantly.

- After normal working hours, people were allowed to enter the facility without identification or without any determination as to the nature of their business.

- Computer tapes could be removed from the tape library (some of these are critical master files) by anyone entering the data center without approval or authorization.

These are extremely serious weaknesses in light of the fact that the two computers located in this facility, Metropolitan Police and SHARE, process highly sensitive law enforcement, accounting and financial information of the District. Also, the building housing this facility is in a high foot traffic area. Computer facilities have become popular targets of intentional damage and destruction in recent years.

The need for comprehensive security practices and procedures should be of immediate concern to District management. Short-term measures that can be instituted immediately to improve security at the entrance to the data centers without additional investment include:

- Establishing a sign-in log at the entrance to the data center--no one should be allowed beyond the entrance to the data center without proper authorization.

- Locking the entrance to the data center when there is no attendant at the entrance to insure that unauthorized personnel are not allowed to enter.

- Establishing a means, such as badges, for identifying personnel who are authorized to enter the data center.

Short-term measures to improve security within the data center without additional investment include:

- Locking the entrance to the computer room at all times.
- Limiting entrance and possession of keys into the computer room itself, to only those personnel who must be in the room to carry out assigned duties.

Longer term measures to improve security would include:

- Using key badges for identification and entry to the facility.
- Replacing glass walls in computer rooms, such as in the SHARE/Metropolitan Police Computer Center, with a more solid type of construction to prevent forced access and eliminate the possibility of destructive material being thrown into the computer room.

Another important aspect of security for a data processing facility pertains to the precautions which should be taken against fire hazards. The investment in fire prevention equipment requires a decision that balances the following factors to the satisfaction of management.

- The degree of risk of the occurrence of fire.
- The cost of fire prevention equipment.
- The cost to reconstruct data and documentation and to replace data processing equipment should they actually be damaged or destroyed by fire.

None of the data centers reviewed had adequate fire protection devices. Many of the centers had water or chemical extinguishers but most had not been inspected recently.

Recommendation

We recommend that the following steps be taken to further improve the security of the center. These suggestions can be instituted with minimal effort.

- Fire protection devices such as extinguishers should be installed and inspected on a monthly basis.
- A heat and smoke sensitive automatic fire prevention system should be installed within the computer and tape file areas.
- Fire and disaster procedures should be documented and distributed to all data processing personnel. These procedures should be discussed during new employee orientation and reviewed on an annual basis.

Computer security should be an area for concern in all ADP installations, regardless of size. Periodic reviews of security should be conducted by the District's internal audit group and a written report issued detailing the review results and recommendations. Management should also consider documenting a security policy for the District and establishing a budget for security costs.

The District's Backup Procedures Are Extremely Weak

Backup of data files, programs, systems software and equipment is important in any data processing environment, but is even more important to District data processing due to the poor security surrounding its data centers. Copies of critical data files, such as payroll, should be maintained off site, preferably in a fireproof vault. Backup for computer programs is just as critical as for data files. Without one or the other, the system is incomplete. This backup should not only contain the programs as they exist on cards, tapes, or disk, but also the documentation of those programs. Recent versions of systems software and the operating system should also be maintained off site.

Backup for data files, programs, systems software and equipment in the District appears to be poorly organized and documented procedures do not exist. Of primary concern with regard to backup is the computerized financial applications. For instance, if the SHARE Computer Center were destroyed, the District probably would not be able to meet its payroll processing requirements because no documented off-site backup procedures for the payroll master file exist and formal contingency plans have not been formulated.

Recommendation

Although certain backup files are maintained in a vault in the District Building, we recommend that immediate steps be taken to back up all critical data files, computer programs and systems software. This backup should be prepared on a regular basis and stored in a secure off-site location.

We further recommend that formal procedures be written concerning backup for data files, programs, systems software, and equipment. This should include a formal written contingency plan documenting the necessary measures required to enable the District to operate effectively in case of a disaster. All employees should be thoroughly trained in the performance of this plan.

The District Does Not Have Standard System Documentation Practices

Documentation for a computer system ranges from input preparation procedures to computer operating instructions and technical descriptions of detail processing functions. Due to the turnover of data processing personnel, documentation of systems is important so that someone unfamiliar with those programs may assume responsibility for a system by using the documentation as a training tool. Good documentation decreases the dependence placed on

an individual's knowledge of a system. Data processing management can exercise control over personnel more easily if documentation standards exist and are enforced. Management is able to keep apprised of the status of all systems and any changes made to those systems by referring to the appropriate documentation. Good documentation also allows both internal and external auditors not only to understand how the systems work, but to monitor any program changes or system enhancements.

In many instances throughout the District data centers, we noted that documentation was either nonexistent or incomplete. Specifically, we observed the following deficiencies.

- Program run books, where available, did not in all instances, contain:
  - . Descriptions of processing including descriptions of input, output, and any detail calculations performed.
  - . Copies of the most recent program listings.
  - . Logs of changes made to the programs.
  - . File description sheets.
  - . Report layouts.
  - . Record layouts.
- System flowcharts are not always kept up-to-date.
- System documentation for users is in most instances either out of date or nonexistent.

Recommendation

We believe that critical existing systems as well as any developed from this time forward should be adequately documented to include the points listed above. Standard documentation procedures, if used consistently, will help to protect the District against major interruptions due to employee turnover, systems maintenance and systems revisions.

The District's Systems Run-to-Run and Master File Control Procedures Are Weak

In order to be certain that all records are processed, whether on cards, tape or disk, "run-to-run" program controls should be used to determine that the number of data records in the file being processed and the record counts accumulated by each program are in agreement. When a difference exists, which may have been brought about by equipment malfunction or by program or operator error, there must be some positive feedback to the operator or data control indicating the difference. Master file controls are designed to assure that all transactions were posted to a master file properly and that the file is in balance (e.g., Beginning Balance + Adds - Deletes = New Balance).

We noted that "run-to-run" program controls typically are not used by District data centers. We also found that master file activity was being monitored manually by

user departments in a cumbersome manner. We recommend that "run-to-run" program controls be made a part of all new systems and that master file activity and balances be monitored not only by user agencies but also by data control groups within the data centers.

Some Data Centers Have Inadequate Separation of Duties

Appropriate separation of duties is a vital element of strong internal control in an ADP environment. Ideally, systems analysts and programmers should not have ready access to the computer or the active data files and computer operations personnel should not develop or have access to detail program documentation. With this separation of duties, the normal functioning of each group provides significant control over the activities of the other group.

While we noted that separation of duties was generally adequate, in most data processing facilities there were a few cases where operators are allowed access to detail program documentation. Also, programmers are allowed to operate the computer thus allowing them access to live data files.

We recommend that each data center review its procedures concerning this point and where possible, enforce strict separation of duties.

See "Financial Management Plan of Action" and Section III," Organization and Personnel Requirements," where our recommendations to correct these problems are discussed.

DISTRICT OF COLUMBIA

SUMMARY OF ESTIMATED ANNUAL

DATA PROCESSING COSTS(1)

FISCAL YEAR 1976

EXHIBIT I

	Type of Cost					
	Personnel	Rent	Lease/ Purchase(2)	Supplies	Other(3)	Total
SHARE Computer Center	$ 883,000	$ 251,000	$ 611,000	$238,000	$28,000	$ 2,011,000
Office of Budget and Management Systems	883,000	231,000	-	10,000	51,000	1,158,000
Department of Finance and Revenue	817,000	58,000	-	46,000	14,000	935,000
Metropolitan Police Department	1,228,000	357,000	599,000	65,000	-	2,249,000
Department of Economic Development	106,000	13,000	-	2,000	-	121,000
Department of Corrections	337,000	107,000	-	5,000	1,000	450,000
Federal City College	355,000	141,000	344,000	40,000	10,000	890,000
Washington Technical Institute	255,000	505,000	-	20,000	-	780,000
D. C. Public Schools	741,000	120,000	240,000	47,000	30,000	1,178,000
Department of Human Resources	1,104,000	231,000	504,000	55,000	25,000	1,919,000
District of Columbia Superior Court	525,000	319,000	176,000	11,000	17,000	1,048,000
Department of Housing and Community Development	107,000	108,000	2,000	29,000	-	246,000
TOTAL	$ 7,324,000	$2,441,000	$2,476,000	$568,000	$176,000	$12,985,000

(1) The costs are actuals to date for fiscal 1976 where available. These costs have been extended to cover the full fiscal year. Where actuals were not available estimates based on information provided by the budget and data processing management were used.

(2) Computed based on total aggregate costs spread over a five year period.

(3) Other costs include training, travel, facilities rent, etc.

EXHIBIT II

DISTRICT OF COLUMBIA

SUMMARY OF ESTIMATED DATA PROCESSING PERSONNEL AND ASSOCIATED PERSONNEL COSTS (1)

FISCAL YEAR 1976

	DATA CENTER PERSONNEL							
	Administrative		Operations		Programmer/Analyst			
	No. of Personnel	Cost	No. of Personnel	Cost	No. of Personnel	Cost	Total Personnel	Total Cost
SHARE Computer Center	6	$ 92,000	56	$ 639,000	7	$ 152,000	69	$ 883,000
Office of Budget and Management Systems	8	100,000	2	16,000	31	750,000	41	866,000
Department of Finance and Revenue	4	85,000	27	246,000	22	486,000	53	817,000
Metropolitan Police Department	18	314,000	46	445,000	22	469,000	86	1,228,000
Department of Economic Development	2	17,000	7	68,000	1	21,000	10	106,000
Department of Corrections	4	69,000	14	126,000	8	142,000	26	337,000
Federal City College	6	92,000	15	140,000	9	123,000	30	355,000
Washington Technical Institute	3	58,000	8	78,000	8	119,000	19	255,000
D. C. Public Schools	10	134,000	20	220,000	23	387,000	53	741,000
Department of Human Resources	3	65,000	57	537,000	24	502,000	84	1,104,000
District of Columbia Superior Court	3	64,000	45	397,000	5	64,000	53	525,000
Department of Housing and Community Development	2	48,000	6	59,000	-	-	8	107,000
Total ADP Personnel	69	$1,138,000	303	$2,971,000	160	$3,215,000	532	$7,324,000 (2)

(1) The number of personnel are actuals as of the time of our review. The costs are actuals extended to cover the full fiscal year.

(2) The personnel cost totals do not include fringe benefit costs. These costs including unfunded pension benefits represent a significant additional cost.

CURRENT SYSTEMS DEVELOPMENT

Two major accounting and financial systems development projects are currently being designed by District personnel.

- Financial Management Information System ("FMIS")
- Position/Payroll System

This section of our report describes the functions which will be performed by the new systems, an analysis of these systems and our recommendations concerning these systems.

Financial Management Information System ("FMIS")

We briefly reviewed the Obligating Authority Management System ("OAMS") which is a subsystem of an overall Financial Management Information System. The Financial Management Information System is composed of the following eleven subsystems.

- Obligating Authority Management System
- Federal Grant System
- Cash Receipts System
- General Ledger System
- Capital Projects System
- Long-Term Debt System

- Capitalized Personal Property System
- Labor Distribution System
- Material and Supplies System
- Accrual System
- Cost Accounting System

Development of the FMIS was initiated after a review of the needs of various user departments performed several years ago. After the review was completed, detail and summary design manuals were published by the review committee. The decision was made to install various portions of FMIS. It was the original intent to install the eleven phases over a nine-year period. Because of the increasing needs for a new system, the District now intends to install all of the subsystems within the next two years if funding becomes available.

Obligating Authority Management System

The following is a general description of the Obligating Authority Management System as described in information provided to us and through interviews with District personnel.

- The OAMS system is intended to process and control obligations against the budget appropriation and determine whether or not an agency has exceeded its authorized budget. The OAMS system is not intended to be a general ledger system. Disbursements will continue to be handled as they are currently.

- The OAMS system will be processed on the District's SHARE computer.

- The OAMS system will be on-line, real-time (with update-in-place logic). The agencies will enter data directly into the system through terminals.

- The budgets will be entered into the system after they are approved. The system will have the flexibility of withholding or reserving a certain portion of the budget until the District is able to determine whether or not the anticipated revenues are going to be collected. While budgets can be broken down by months, this system will operate essentially on a quarterly allotment basis. Budget allotments will be released each quarter. Any obligation requests which exceed the remaining quarterly allotment will be rejected from the system.

- Terminals will be established in all the major user agencies. Some smaller agencies will share terminals. Authorized personnel in each of the agencies will approve requests to obligate funds (e.g., purchase orders, etc.). After approval the documents will be entered into the OAMS system via the terminals. The computer system will be programmed to validate the account coding and check the availability of funds for this document. If funds are not available, an error notice will appear on the agency's terminal. Only obligations for which adequate funds are available will be allowed into the system.

- After an obligation has been accepted into the system, the original obligating document goes to the vendor and a copy will be sent to District Accounting for further validation checks.

- After the goods or services are received, the agencies will enter into the terminal a change in status from an obligation to a receipt. The receiving data will then be sent to District Accounting where the receiving and ordering documents will be reviewed. After the bill has been approved, District Accounting will enter a code into the system changing the status to a disbursement status. The system will then produce a check.

During our review of the OAMS system, we noted the following general problems with development of the system.

- We were not able to identify a proper audit trail between the OAMS system and the general ledger. The current central allotment and general ledger systems do not provide an auditor with the means to easily trace entries from the general ledger back through central allotment system to the original source of entry. The design of the OAMS system must provide the capability to trace entries from the OAMS system to the fund general ledgers.

- The new account coding structure for the OAMS system will provide only limited organization, program and project reporting. Based upon discussions between the survey team and the OAMS project personnel, the District will probably change the coding structure to a more flexible format.

- The proposed OAMS System is planned to be an on-line, real-time (with update-in-place logic) system. Real-time data processing systems are probably the most complex to develop and most difficult to maintain. Representatives of the project team informed us that a real-time system was being developed so that the system users could determine instantaneously the status of funds availability. They stated further that the biggest criticism of the current central allotment system is that the system is not timely enough to give the user agency the required information concerning the availability of funds.

We believe that there are two basic problems with the process that the District has executed in developing a real-time system.

- No detailed analysis has been performed to determine the amount of time and effort required to develop and maintain a real-time accounting and reporting system. A substantial amount of programmer and analyst time will be required to develop a real-time system. This time could be more beneficially utilized in developing items which are more user-oriented such as management reports.

- We understand that one of the reasons for developing a real-time system is to reduce the length of time required to process a purchasing document through the District system and forward it to the vendor. We believe that the development of a real-time system will not resolve this problem. We have found in other accounting systems that the primary reason for delays in processing documents on a timely basis is the lack of good procedures or the lack of enforcement of these procedures. The charge to the systems development team should be expanded to identify specifically why it takes so long to get a purchasing document through the District's system and to design and implement procedures which will significantly shorten this length of time. This project may include suggestions for improving mail delivery service and purchasing procedures within the District.

The following comments, although specifically related to the OAMS subsystem, have applicability to all subsystems within the Financial Management Information System.

- The reports which are being developed as part of this system are not directed toward operating management of the District. The majority of the reports are very accounting oriented. We found very few reports in the design booklet which would help nonaccounting-oriented personnel conduct their activities. If the OAMS system does not generate constructive operating management reports, the current duplicate financial systems in the various agencies will continue to operate and will not be replaced by one strong central accounting and reporting system.

- Personnel costs compose over 60% of the total District expenditures. An improved labor distribution system is required in order for operating management to obtain accurate reporting on how the personnel services dollars of the District are being spent. This system would also replace several separate agency systems currently in operation because the central payroll system is not able to provide the detail labor distribution needed.

Summary

The District of Columbia definitely needs a new Financial Management Information System. The system which is currently being developed does address several key problems, but will not solve many of the District's major accounting and reporting problems. One of the primary shortcomings of the present systems effort is that its primary emphasis is in the appropriation/allotment control without proper emphasis on the general ledger control.

Prior to the design and implementation of any new major systems, a review of the current systems and requirements of the agencies should be performed. We believe that a review of the current procedures and requirements of the major operating agencies could be performed within a few months and the new systems design would more closely meet the management reporting needs of District operating personnel.

Recommendations

We recommend that the District develop an integrated accounting and financial reporting system. This system should be developed using the guidelines set forth in the planning charts which are depicted later in this report. The system should include all reporting system concepts which we have discussed above, as well as the normal transaction systems of cash receipts, disbursement and journal entry accounting. Based upon our analysis of the current situation we believe that the system could be scheduled for conversion as of September 30, 1977. As of this conversion date the following would occur.

- A completely designed and programmed financial accountability and reporting system would be in place.
- All agencies within the District would commence using the new, revised coding block for recording all financial transactions of the District.
- The system would be installed in all of the central functions of the District, plus two major agencies. This installation would include:
  - . Installation of new financial operating procedures.
  - . Replacement of those reporting systems which can logically be performed by the new financial accountability system.
  - . Identification and assignment of personnel required both centrally and at the pilot departments to operate the new system.
  - . Training in the use of the reporting output of the new system for central and pilot department personnel.

Between October 1, 1977, and September 30, 1978, the system should be installed in all other agencies within the District. In order to meet a September 30, 1977, conversion date, the system development effort should commence early during the summer of 1976. The first phase of the systems development would include a brief, in-depth review of the current procedures and reporting requirements of the central system and several of the major user agencies. After this phase is completed, the reporting system would be designed. The design would be approved by key District management and agency operating personnel and other appropriate personnel prior to proceeding with the implementation of the system.

Direct user involvement in the development and installation of the system is essential. We recommend that user department people be included on the project development and installation team. This would benefit the District as follows:

- User department people would have an intimate knowledge of the system from the inception to installation.
- User department people would be in a position to train other users in the capabilities of the system.
- The system would be more responsive to the needs of the users in the performance of their jobs.

Position/Payroll System

We also performed a brief review of the new position/payroll system being developed by the Office of Budget and Management Systems. The following is a general description of the functions which will be performed by the new system as described to us by District personnel.

Proposed System

The proposed system will be District-wide and will cover all the employees of the District. This system will utilize a District-wide position control number rather than the current procedure of having each of the various current systems utilizing their own unique numbers. The proposed system will get its information from the payroll forms, thus ensuring that all personnel actions that are entered on the payroll system are also on the position control system. All position openings, staffings and related changes would be processed by this system. The system would automatically check the position master file and if a requested position is not authorized (or authorized but already filled), the payroll set-up would be rejected and sent back to the agency. The position control data would be entered through a central control center which is to be established within OBMS. This center, which will be staffed by approximately six to seven people, will do the checking described above and follow up on any rejects with the agencies or other appropriate District office.

Concurrent with the development of the position/payroll system, the current District-wide payroll system will be making the following changes.

- Expand the current payroll file to add the personnel information from the current District-supported position management personnel reporting (PMPR) system.
- Change the payroll master file from tape to disk.
- Change the payroll system so that it will use a data base management system.

Based on the project team's current estimates, the position/payroll system's development will require 25 man-years of effort which will be spread over a 12-month period of time. This manpower estimate does not include any of the work to change the payroll system as noted above.

Analysis of the Project

During our review of the position/payroll system, we noted the following general problems with the development.

- The system does not address the problem of enhancing the payroll distribution problems of the current payroll or position reporting systems. As stated earlier in this section, the District is concurrently developing a new financial management information system. For any financial accounting and reporting system to work effectively and provide the level of reporting required, a comprehensive payroll distribution system is required.

- The proposed system's development will be integrated with an antiquated, poorly documented and inadequate payroll system. However, the proposed design does not provide for systems controls to balance with the payroll systems.

- The concept of the central control center appears to be just adding another procedural and approval layer to an already cumbersome process. This procedure adds one more group to handle and work with the payroll documents rather than streamlining the procedures.

The project is currently in an early stage of design. No documentation was available for review other than a general list of objectives and a general conceptual design.

Recommendations

While we concur with the District's need to establish a strong, centralized position control system, we do not believe that the project as described to us will install a system which will successfully address the District's major problems in the payroll, personnel, and position control areas. The project team is currently somewhat inactive concerning the project and awaiting funding in order to proceed with the project.

The proposed system does not help provide the financial control over District expenditures in the areas of providing multiple payroll distribution for District employees,

and eliminating clerical inefficiencies and reducing errors. The District needs a fully integrated position control /personnel/payroll system. Such a system would open new positions based on available funds, ensure that all positions are properly authorized, assign employees to positions, provide for the type of system which we outlined in the payroll and personnel management systems section of this volume, and will more reasonably address the reporting and control needs of the District.

FINANCIAL MANAGEMENT PLAN OF ACTION

Brief Description of Each Project

The following pages outline our recommended approach to address the short and long term systems needs identified in this review. These descriptions are supported by a time phased Plan of Action with dates which illustrate the time frame in which these activities should occur.

These projects are major efforts which will require significant outside assistance to District operating, systems and data processing personnel. Major attention must be given to the proper planning, administration and control of these projects so that they can be implemented in a controlled manner over a reasonably short time frame (three to four years).

Implement Immediate Improvements in Financial Control (Project 1)

This activity will concentrate on strengthening controls over critical financial areas that were identified during our review. The tasks in this activity include:

- Establishing key general ledger balances for each fund.
- Implement stronger controls over changes to the payroll master file, time sheets and over the addition of new employees.

- Document and institute cash receipt procedures including daily deposits, segregation of duties and prompt recording of cash receipt entries in the financial records on a controlled basis.

- Establish interim billing and accounts receivable procedures for the Department of Environmental Services and the Department of Human Resources.

- Establish sound procedures for recording all obligations in the financial records and verifying the adequacy of appropriated funds for all outstanding obligations.

- Institute basic financial management and cash management reports which can be prepared from the present financial systems with short-term improvements in the financial records.

This activity will require an extensive amount of work in several areas of the District government. One team of personnel should be assigned immediately in the procedure writing and training areas and one team of personnel should be assigned to institute immediate controls and improvements in the financial data processing programs. It is estimated that significant improvements in the above financial activities could be completed in approximately four to six months' elapsed time.

Develop and Implement an Ongoing Training Program (Project 2)

Associated with the short-term improvements of financial procedures and systems, we recommend the development of a training program for the operating personnel charged with the day-to-day affairs of the District. During

our review, we found very limited accounting policies and procedures for first-line personnel to follow. Likewise, we believe that there is a significant need to develop training programs and to conduct training sessions for first-line personnel in order to strengthen the accounting expertise of the District and to help assure that these personnel are able to make the immediate improvements (Project 1) work. This training program would also help set the stage for the more massive changes that will occur throughout the District over the next three to four years. This activity will be ongoing for approximately one year.

Establish Systems Organization and Project Management (Project 3)

Other sections of this report include recommendations that significant improvements be made in the financial systems of the District during the next three to four years. Each of these systems must meet the needs of executive and management personnel charged with financial responsibilities of the District's affairs. In order to insure proper communication between project personnel assigned to develop these systems, and the key management and operating personnel, a strong structured approach to project direction, management and reporting must be established. This approach must provide the project team with the direction to be taken on key issues that will surface during the design and

installation of these major systems, as well as a method for management to monitor system development progress. The project management system should be developed in conjunction with project 7 below and should be used to monitor that project. Subsequently, the same project management system should be used to monitor the performance of the systems personnel assigned to all subsequent systems projects. The District should establish a management unit which would develop an understanding of the project management system in order to assure that progress is in accord with the predetermined time schedules. Approximately two months would be required to design and install the techniques to be used to monitor the progress of the overall systems effort. In addition, systems consultants may be required throughout the three-to-four-year systems development period to assist management in evaluation and the overall effectiveness and progress of the systems effort.

In addition, we believe that this commitment will require a major realignment and expansion of the technical and management capabilities of the District's systems design and programming personnel who are currently dedicated to financial systems. An organization structure must be established to plan, develop, implement, and maintain the required systems. This will include an identification and description of the type and number of management and technical personnel by specialized area required to staff the organization.

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Finalize Financial Management Reporting Requirements (Project 4)

Complete definition of all financial reporting requirements and development of a uniform account coding structure are prerequisite to successful installation of an improved financial management system. The District has reviewed certain financial management reporting requirements and prepared drafts of revised reports as an initial step in developing an improved financial system. Using these reports as a starting point, the District should further define all other fund, appropriation, program, grant/project, responsibility and cash management reporting requirements. Samples of the type of reports that should be prepared are included in Volume VIII. The account classification coding structure should then be developed to provide for uniform accounting and accumulation of data for reporting purposes. To the extent that certain reports can be implemented from available financial data, procedures should be developed for their implementation.

Assist in Determining Financial Reports for Fiscal Year 1976 and 1977 (Project 5)

As the District begins to implement sound financial management and reporting practices, extensive revisions will be required in the format and presentation of the District's annual financial report. We recommend that a

major effort be directed at defining the content and format of the annual financial report for fiscal years 1976 and 1977.

Monitor Year-End Financial Closings (Project 6)

The District has made efforts to define a year-end closing schedule for the activities required to close the financial affairs of one fiscal year and start a new fiscal year. We recommend that this effort be refined and closely monitored this fiscal year to determine what modifications will be required in the closing schedule for future years. We estimate this effort will require approximately three elapsed months starting in July 1976.

Install a District Financial Management Information System (Project 7)

Once the short-term improvements in procedures and controls have been completed, the District should begin the design and implementation of a new integrated financial management information system. This will be a major effort for the District and should be divided into three phases.

The first phase of this project will be to determine the District's specific needs and develop the preliminary systems design including reports, files, source documents, controls and coding structure. The results of this phase must be documented in a report, presented to the District financial management for approval and revised as appropriate.

The second phase will be to implement the financial management information system. This implementation will include the conversion to a new account coding structure on a District-wide basis. It will also include the selection of two pilot agencies to fully utilize the financial system for meeting the detail financial reporting of the agencies.

The third phase will include the extension of the detail financial reporting capabilities to the remaining agencies of the District. Associated with this extension will be the elimination of as many of the agency reporting systems as possible.

The first phase of the project will require approximately six months to complete. If the project begins in July 1976, this phase could be completed by January 1977.

The second phase of the project could be operational by October 1977 assuming the District needs are precisely defined and the District is able to take advantage of other governments' experiences by transferring and modifying selected segments of computer software, procedures and training programs.

The third phase of the project should be completed by October 1978.

Install a District Payroll-Personnel System (Project 8)

The second major project which the District should undertake is the design and installation of a District-wide payroll-personnel system. The payroll-personnel system processes and controls over 60% of the District expenditures. This system must be designed to relate positions and personal service budgets directly with appropriated amounts. This requires a direct link between the payroll-personnel system and the financial management information system.

The payroll-personnel system should include all personnel management functions that are routinely applicable to all employees. These include:

- Step increases based on time-in-grade.
- Sick and annual leave accruals and balances.
- Seniority lists for reduction in force and call-back privileges.
- Employee history data including skill levels achieved.
- Employment preferences of active employees.

The system should be designed and installed in two phases. The first phase of the project would be the preliminary systems design. This would include performing an in-depth analysis of the District's needs which would be used to develop the reports, files, source documents, controls and processing flow of the system. A report would be

prepared of the preliminary design. The District management would approve the design prior to proceeding with the detail design and installation.

The second phase would be the detail design and installation of the payroll-personnel system. The implementation would be phased (e.g., by payroll group or agency) to insure that the system is converted in a controlled manner.

The first phase will require a project team approximately six months to complete. We have scheduled this activity to begin in July 1976. The second phase will require approximately two years to complete with an additional six months to convert all the agencies of the District to the new system. Accordingly, this phase would start in January 1977 and be completed approximately July 1979.

Conduct Annual Audit (Project 9)

Auditors should be appointed in the near future for consultation on the District's accounting control problems and to prepare for the September 30, 1977, balance sheet audit and the September 30, 1978, fiscal year audit.

Install a Customer Billing and Information System (Project 10)

The next major system to be designed and implemented is a customer billing and information system for the water and sewage services provided by the District. This system would include the following.

- A detailed record of all water meters owned by the District and information as to whether they are in service or in stock.
- A record of every customer utilizing water and sewer services including consumption history, accounts receivables including past due arrearages, and payment history.
- Customer service inquiry information to reduce the time to respond to a customer's inquiry.
- A mechanized method of preparing meter read books, collecting consumption from the books and collecting cash payments received.

Due to the billing problems experienced by the Department of Environmental Services we recommend that this project be initiated immediately. Therefore, we have scheduled this project to begin in July 1976.

The first phase of the project would include a definition of the total needs of the users of the system and the development of a preliminary systems design. The preliminary systems design would include a definition of the management reports, the customer and meter files, the source documents including meter books and cash payment stubs, the

system processing flow and the controls to be incorporated into the system. The report would be submitted to management for approval. This first phase is scheduled to take four to six months to complete.

The second phase of the project would be the detail design and implementation of the system and would include a conversion from the present manual systems and computer systems. The conversion of the meter data and consumption history data is a major task and will require the commitment of a significant amount of temporary clerical resources to complete. This second phase should begin about January 1977 and would require approximately 18 to 24 months to complete.

Install a Purchasing and Material Management System (Project 11)

The District needs to implement a common system to support all agencies which are responsible for procurement and for managing inventories. Implementation of a common system which supports District-wide Material Management policies should significantly improve the District's management of resources used for materials. This system should have the following characteristics.

- Support the purchasing activity.

- Promote effective cash management through efficient purchasing and maintenance of low inventory levels.
- Provide good service levels (e.g., maintain a reasonable rate of stock-outs).
- Support proper inventory and usage accounting practices.

We estimate that the design of this system will require six months and that the implementation phase could be completed in 18 months.

Install a Property Control and Accounting System (Project 12)

Each agency currently has some manual or computerized system to maintain physical control over its property (furniture and fixtures, equipment, automobile, etc.) and annually each agency reports its property inventories to District Accounting. This approach is totally inadequate. The District needs to implement a property control and accounting system which has the following features.

- Records and controls all property of a like kind or above a dollar limit.
- Maintains descriptive accounting and location information about each item.
- Maintains the property control tag number.
- Calculates and accumulates the monthly depreciation amounts for the general accounting system for depreciable property.

- Provides computer readable input into the general accounting system for depreciation.
- Provides appropriate reporting to support the accounting and control functions of property management.

We estimate that the design of this system will require six months, and the implementation twelve months. It may be possible to use precoded software packages and thereby reduce the design and implementation time frame.

Install a Real Property System (Project 13)

Currently, the District has a significant amount of real property, buildings, and leasehold improvements. The accounting and descriptive information maintained by the Department of General Services is not adequate for the District to maintain control over their properties or to provide the necessary accounting information to support generally accepted accounting principles. The District needs to reconstruct an accurate record of its real properties and must install a computer system to keep this vital information current.

The design and implementation of this system should require approximately three and twelve months, respectively.

Improve Welfare Payment Controls (Project 14)

As noted in Volume IV, Department of Human Resources, ("DHR") controls over assurance that welfare payments are proper and appropriate are extremely weak and immediate steps should be taken to strengthen these controls. This activity will concentrate on reducing the error rate that exists in financial assistance payments made to families and individuals. The tasks comprising this activity include:

- Completing a special task force review of cases receiving financial assistance in order to verify eligibility and accuracy of payments.
- Implementing improved procedures for determination of initial and continuing eligibility for public assistance, medicaid, food stamps, and D. C. medical care program.
- Developing a common eligibility control file and related client information for all financial assistance programs.
- Improving medicaid vendor payments system to control duplicate and/or erroneous payments.
- Improving reconciliation control procedures for food stamp authorized-to-purchase cards and eliminate backlog of unreconciled cards.

Timely completion of this project will require several teams and we believe the project could be accomplished within 12 months.

Install Comprehensive Human Resources Eligibility, Payment and Reporting Subsystems (Project 15)

This activity will concentrate on providing DHR with a viable approach to developing an automated system that will serve the needs of the public assistance, food stamp and medicaid programs. It is not practical to design and implement this major system as one effort. Instead, functions such as certifying eligibility, producing payment checks, issuing food stamp authorizations and providing more timely information for management planning and control of this major program need to be subdivided into separate functional subsystems which will be integrated with one another, but which can be developed and implemented independently.

This activity will require substantial DHR personnel resources and extensive overall management coordination. The design phase of these subsystems will require up to nine months and the implementation phases will each exceed a year. The total effort will cover approximately three to four years.

Install a Health Care Billing and Accounts Receivable System (Project 16)

As noted in Volume VI, the D. C. General Hospital and the Glendale Hospital and the Neighborhood Health Clinics do not have adequate billing and accounts receivable

systems. These are badly needed if the District expects to recover its costs from third parties such as Medicare and Medicaid and from private pay patients. This project should be approached in two basic steps, preliminary design and implementation in which the following key steps are completed.

- Define health care billing policies.
- Evaluate basic charge structure.
- Design a centralized health care billing and accounts receivable system.
- Implement the centralized billing and accounts receivable system.
- Establish trial balance of accounts due from health care patients at September 30, 1976, and implement appropriate collection and follow-up procedures.

Another key part of this effort will be to install procedures aimed at improving the data accuracy of the patient admission system. The design of this system will require approximately six months and the installation 12 to 18 months.

Improve the Traffic Ticket System Controls (Project 17)

As noted in Volume V, Public Safety, the traffic ticket systems controls are weak. Cash received is not reconciled to the ticket value removed from the file and the system does not currently produce a trial balance. These

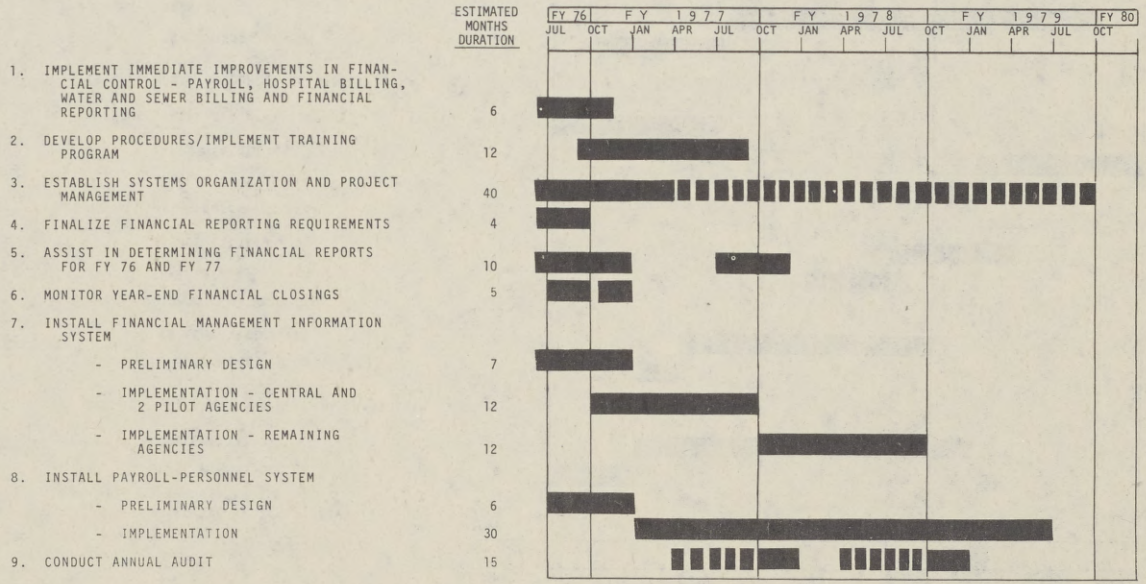
changes should be implemented to strengthen the controls over this key and visible system.

The system should be reviewed to determine what program and file changes must be made to define the reports and to document the program changes. Once these are approved they should be coded, tested, system tested and implemented. We estimate that the design of the changes would require approximately three months, and that the installation of the changes would take approximately three to four months.

DISTRICT OF COLUMBIA

FINANCIAL MANAGEMENT SYSTEMS AND AUDIT

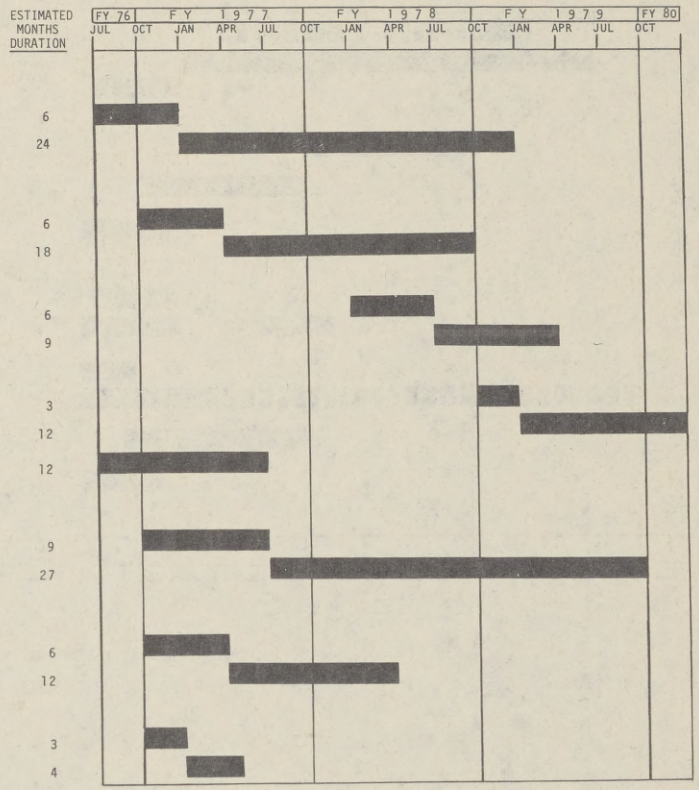
PLAN OF ACTION



DISTRICT OF COLUMBIA

FINANCIAL MANAGEMENT SYSTEMS AND AUDIT

PLAN OF ACTION



OTHER SUPPORTING SYSTEMS

Performance Monitoring System

The District has begun to implement a productivity planning and reporting system. While the present system does not yet include all aspects of the District's operations, we believe, based on our experience with performance monitoring systems and on the material presented to us, that the approach taken and work done to date is well conceived.

The purpose of this performance monitoring system is to provide program managers with the tool and information to improve the productivity of their program units and to help them meet their program and service level objectives. If the system is maintained and expanded, the District should achieve cost reductions and/or improvements in the level of service it is able to provide. The District's system, as it was discussed with us, has several important elements which are as follows:

- Attempts have been made to measure efficiency. This involves various types of statistics which indicate the volume of activity and, where feasible, have been related to direct labor hour input to express a ratio of output per manhour (e.g. miles patroled/manpower).

- Attempts have been made to measure program effectiveness. This involves developing measures which describe such qualitative factors as waiting time and service levels.

- Where feasible, targets or goals have been established against which to measure actual performance.

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- Performance reports are to be prepared monthly, quarterly and annually.

- Where improvement opportunities are identified, projects to implement changes are undertaken.

Recommendations

We believe very strongly that the District should expand the implementation of its productivity management systems, and that if this effort is effective it will have a positive impact on the District by increasing service levels and reducing costs. The following key points outline our short and long range recommendations in this important area.

Short Term

- The coverage of the system should be expanded to additional programs and functions as departmental managers become adapted to the disciplines required for reporting.

- Standards and goals should be refined as better data is collected and as analyst resources are available to upgrade the measures.

- The accuracy and timeliness of the distribution of payroll hours should be improved to assure meaningful productivity ratios at the activity or service level.

Long Term

- Productivity measures should be integrated into the budget planning process to assure that the benefits of productivity gains are actually achieved.

- Productivity indices at a macro (departmental) level should be developed. This would facilitate trend measurement over time. All indirect or support-type personnel should be included in the calculation of these indices in order to assure a more realistic measurement and a method for linking the measures to the activity measures currently developed.

Overview of a Productivity Measurement and Management System

In its simplest sense, productivity is defined as the ratio of units of output (people treated) to units of input (manhours). Changes in the real output per unit of input represents a change in productivity. An analysis of the continuing trend of the ratio of output to input reflects the efficiency with which resources are utilized.

The ideal productivity equation should include labor, capital and material. This is called "total factor" productivity. However, because of the difficulty of measuring the effect of capital, output per manhour or output per man-year statistic is generally regarded as the most practical indicator of overall productivity.

The primary task of government is mission accomplishment, and while some services provided by government have many of the characteristics of the manufacturing sector where discrete measurable outputs are produced, many have unique requirements which must be considered when defining performance measures.

Consequently, in most government agencies, productivity must be viewed broadly to consider the "effectiveness" as well as the "efficiency" of activities.

- Effectiveness means the extent to which actual results meet the specified objectives of programs and services.
- Efficiency means the extent to which the organization uses its resources to carry out programs and functions at minimal cost.

However, it is apparent that for difficult to measure areas, such as law enforcement and security, single measures combining both qualities are not practical. For example, efficiency might relate to the resources necessary to make an arrest or process a criminal case, while effectiveness relates to crime prevention.

Productivity System Elements

The objectives of a productivity management program should include the ability to:

- Provide productivity data for planners, economists and financial analysts.
- Provide top government managers with displays of overall productivity trends.
- Provide the public with the basis for greater confidence in government management.

Having the above objectives in mind, the measurement system should develop a separate "micro" productivity measurement

index for each output and a "macro" or overall productivity index for each department. These indices are developed by dividing the ratio of output to input for the current period by the same ratio for a selected base period.

Dissimilar outputs, representing the diverse products or activities of most government agencies can be aggregated in the system by weighting the actual reported outputs to convert them to "equivalent units." A factor, equal to the ratio of the actual labor input to actual unit output during a selected base year, is then used. This base-year-weight is kept constant during the productivity measurement time interval. This allows for subsequent combinations of unlike outputs. This is an important capability of any system since legislative changes and mission modifications, as well as true productivity improvements, may frequently contribute to variations in the types and level of outputs.

In dealing with output per man year, the occupational mix of labor can be critical in explaining the behavior of productivity measurement indices. For example, the real productivity of direct labor may remain constant, but the index will decline due to increased allocation of indirect labor. The measurement system can cope with the problem of input mix through two procedures.

- A three-tier division of input labor--direct measured, indirect nonmeasured and administrative support.

- A secondary productivity index--output per deflated dollar of compensation.

The use of a three-tier input classification scheme will focus attention on the impact of the direct-indirect labor mix on productivity.

The use of compensation on a deflated basis will reflect the relative contribution of different types of inputs to the value of the output. If, for example, total man years worked does not change but there is a shift in the distribution of man years toward higher paying occupations, the average cost associated with the activity would rise. A shift toward higher paying jobs, given constant output and constant man-year input, would result in a decline in the secondary productivity index since the cost per output would be greater.

Other key elements which should be included in an effective productivity management program are:

- Comparison of actual to planned productivity levels as a basis for measuring performance.

- An effective cost accounting system which facilitates assessment of the extent to which labor productivity is being improved.

- Qualitative and quantitative evaluations of program effectiveness and mission accomplishment.

- Analyses of the efficiency of support or other indirect activities such as research, maintenance, auditing or personnel.

- Control procedures to help monitor both ongoing operations and one-time major projects.

Mission accomplishment is not generally capable of precise quantification. However, more precise delineation of the scope, anticipated results and costs of individual programs can enhance management's control in these "hard to measure" areas.

Financial Projections

Governmental planning and budgeting efforts are complex and frequently need to be performed in short time periods. This is especially true during the budget approval process where there is concern about the changing characteristics of a funding source, or when major costs are going to change, for example.

- What is the impact of reducing an appropriation by 5%?
- What would the impact of a 10% decrease in AFDC payments be?
- What would the impact of a 10% salary increase for a particular group of employees be?

The District has a limited computer assisted financial projection or modeling capability for its multi-year plan. We believe that an orderly and planned movement into this area and greater use of this capability will provide the best long term results.

- First, the District should develop a computer assisted capability to evaluate the impact of changes which may occur in the appropriation process.
- Second, the system should be expanded to forecast, based on relatively simple parameters, the impact which changes in expenditure patterns or revenue sources would have on the District's operating revenues and expenses over a near term horizon (2-3 years).

- Third, the District should develop a financial model which, given economic and demographic variables, could present a complete financial picture of the operating revenues and expenses as well as the balance sheet for a five to ten year horizon.

With these kinds of tools, the Congress, City Council, Mayor and District Management can begin to direct current actions considering anticipated future events.

Recommendation

We believe the proposal of the Department of Finance and Revenue should be expanded to include a complete financial modeling capability, not only revenue projection and expense projection. While we recognize that this is a substantial undertaking, we know of few organizations with revenues over $1 billion and/or 50,000 employees which do not use such sophisticated models.

SECTION III

ORGANIZATION AND PERSONNEL REQUIREMENTS

An entity's basic organizational structure determines, to a considerable extent, its overall effectiveness in accomplishing its objectives. Our comments in the preceding sections indicate that the present organization of the accounting, administrative and financial management of the District is not well-defined and does not provide for adequate planning, reporting and control of operations. There is a need for strong authority at the central financial administration level. This central group should have the responsibility and the authority to enforce the necessary discipline for adherence to accounting policies, procedures and controls.

The Office of Budget and Management Systems and the Department of Finance and Revenue have been charged with the principal financial and accounting responsibilities for the District. Although these two agencies provide a considerable degree of centralized control over cash disbursements and tax revenues, numerous financial and accounting functions are performed throughout other various independent agencies of the District. There is no effective central administrative position to provide for overall direction and coordination of financial matters.

A centralized management structure comprised of competent personnel experienced in the financial, technical and administrative aspects of municipal operations is necessary to promote greater efficiency and economy in the District government. To accomplish these objectives and to improve the reliability of financial information, we recommend that a reorganization of the District's financial management function, as illustrated on the next page, be undertaken.

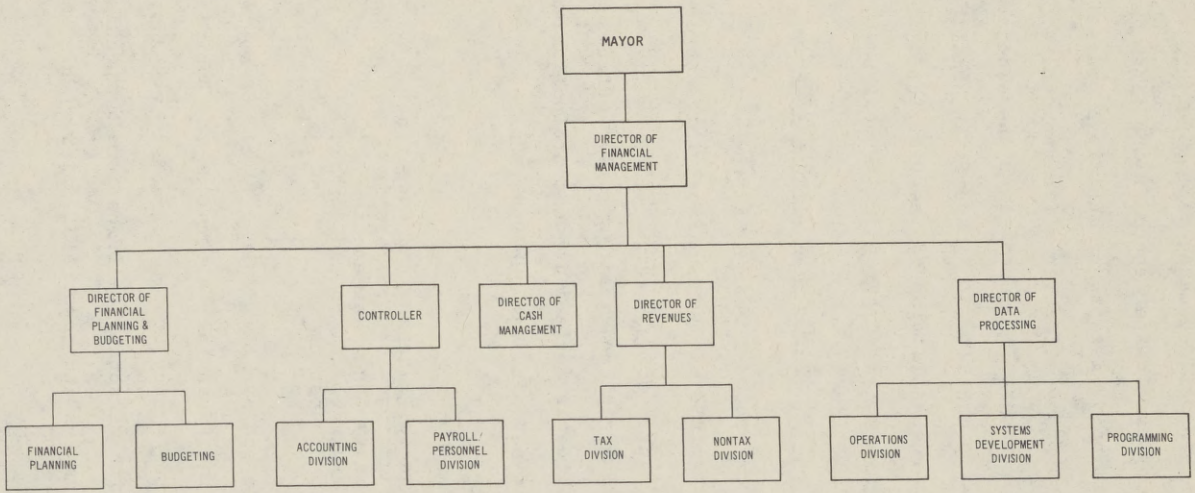
PROPOSED REORGANIZATION

Our proposed reorganization calls for establishment of an administrative and financial management branch of the District government. This agency should consist of a number of financial and administrative offices organized on a functional basis to facilitate coordination of all financial activities. The various functions handled by this agency should include:

- Financial Planning And Budgeting
- Accounting - Controllership
- Treasury Cash Management
- Revenue Collection And Control
- Data Processing

To achieve the desired levels of management efficiency and financial integration, each office of this administrative agency must be directed by a competent executive with personal qualifications responsive to the individual duties and responsibilities of his assigned

PROPOSED REORGANIZATION
OF THE
FINANCIAL MANAGEMENT FUNCTION



position. These duties, responsibilities and related personal qualifications are discussed in further detail below.

Director of Financial Management

Vesting of overall accountability for financial management functions of the District in a capable director will help to provide better information essential for effective decision-making by top management, greater management incentive toward attainment of objectives and plans, clearer channels of communication and more accurate information for performance evaluations.

The individual designated as the Director of Financial Management should be assigned primary responsibility for:

- Coordinating, organizing, staffing, directing and monitoring the following financial operations -
  - . Financial planning and budgeting
  - . District accounting
  - . Payroll processing and personnel management
  - . Retirement administration
  - . Revenue generation
  - . Cash management
  - . Inventory control
  - . Fixed asset management
  - . Data processing operations
  - . Systems development
- Developing and recommending operations objectives and long-range plans through the Office of Financial Planning and Budgeting.

- Developing, recommending, and implementing the operating policies, organization and communication necessary to attain the desired objectives.

- Evaluating and advising the Mayor of the financial implications of the District's objectives, plans and proposed capital expenditures.

- Reviewing the progress of the various departments and agencies in attaining their stated objectives on a continual basis.

- Insuring that financial control systems and procedures are the most efficient and effective possible.

- Monitoring the various operational activities to maintain the proper balance between services provided, benefits obtained and costs incurred.

- Coordinating the efforts of Corporation Counsel, bond counsel, independent public accountants, underwriters and District personnel in preparation of prospectuses required for new bond issues, including compliance with disclosure standards which may be promulgated by the Securities and Exchange Commission or other regulatory agencies.

A broad knowledge of financial controls, accounting procedures and personnel management is fundamental to sound financial management. The Director of Financial Management should be educated and experienced in the fields of business administration, finance, management and governmental operations. The Director must also display strong leadership and organizational abilities in addition to technical skills since he must be able to motivate and guide subordinates toward attainment of total financial objectives. Overall responsibilities and capabilities would be analogous to the Vice President of Finance and Administration of a billion dollar corporation.

Director of Financial Planning and Budgeting

Budgeting responsibilities are currently handled by the Office of Budget and Management Systems with the Department of Finance and Revenue providing revenue estimates. The direct participation of operating agencies in the budget development and control process is cumbersome, lines of responsibility are not clear, and evaluations of budget variances are not well-coordinated with these agencies.

It is not reasonable to isolate the financial planning and budgeting functions from other financial and administrative functions of the District. By inclusion of these planning and budgeting functions within the financial management agency, a proper integration of all financial considerations can be achieved. To accomplish the required financial integration and assure proper allocation of resources, we recommend that a separate office be established under the Director of Financial Management for coordination of financial planning and budgeting matters.

In addition, close coordination is required for long-term financial planning with the present Municipal Planning Office which conducts analytical studies related to social, economic and environmental matters and formulates master plans for the District.

The Director of Financial Planning and Budgeting should be responsible for the following activities.

- Projecting cash flow requirements in connection with the Director of Cash Management.
- Preparing revenue and expense forecasts.
- Determining the short and long-range financial impacts of proposed plans and programs.
- Establishing the current and long-range objectives and priorities of each program in light of available resources.
- Determining all organization and executive responsibilities and relationships for program budgeting.
- Coordinating a comprehensive management reporting system to formally communicate and document agency policies, objectives and programs.
- Coordinating financial planning and budgeting considerations of all District agencies and assuring that capable budget managers are assigned to all major agencies.
- Developing a budget status reporting system for uses by the various offices and agencies.
- Developing special budgets for grants and capital projects.
- Preparing the annual budget submission for the Mayor's review, and ultimately for the City Council, Office of Management and Budget and the Congress.
- Evaluating financial and social benefits derived from implementation of new plans and programs.
- Investigating significant variations of actual costs from budget allotments.
- Developing statistical and economic data relevant to District activities for management evaluation.

- Producing program budget performance reports for review by top management and the Mayor.
- Performing special studies of a statistical or economic nature.
- Developing new or improved planning and budgeting methods or techniques.

The above objectives can be accomplished only by a Director thoroughly familiar with sound planning and budgeting techniques and possessing an overall knowledge of social, economic, environmental and financial aspects of municipal operations. He must determine that his staff is comprised of technically competent statisticians, economists, analysts and researchers at both the District-wide and major agency levels to insure well-founded planning and budgeting decisions.

Controller

The present organization of District Accounting within the Office of Budget and Management Systems does not provide a controllership function to oversee the preparation of timely and meaningful financial reporting to top management and to the public. In addition, many accounting functions are decentralized and handled by the various agencies.

In connection with the development of new District-wide financial management information systems for recording, integrating and reporting financial data, an overall District

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controllership position should be established. The Controller should report directly to the Director of Financial Management and should be held accountable for overall coordination of all District accounting and payroll/personnel position control functions.

Effective coordination of accounting functions can be accomplished only by the establishment of a structured chain of command. Agency controllers and adequate supporting staffs are required for each of the major District agencies. These controllers should report directly to the agency directors and should coordinate accounting activities with the District Controller in a liaison capacity. Small independent agencies should be organized into functional groups with an accountant in the District Controller's office responsible for maintaining their accounting records and acting in a liaison capacity between the agency and the District Controller. Accounting responsibilities are discussed further in Section II of this volume regarding the District's general accounting systems.

The District Controller's office should administer the following responsibilities.

- Developing, recommending and enforcing accounting policies, procedures, internal controls, charts of accounts, etc., to maintain uniform and effective reporting in accordance with generally accepted accounting principles for municipalities and Federal and District regulations.

- Determining that accounting procedures and systems are operating effectively.

- Reviewing individual agency financial statements and reports to determine that they are in compliance with generally accepted accounting principles and Federal and District regulations.

- Providing for consolidation of individual financial statements and preparation of internal reports to agency management, top management and the public.

- Overseeing the disbursements processing function.

- Providing for maintenance of various management records including payroll and retirement data, personnel files, and detailed fixed asset listings.

- Recommending applications for further utilization of data processing services to facilitate accounting efforts and eliminate work of a routine nature.

- Administering District-wide policies and controls over capital expenditures.

The more significant responsibilities assigned to agency controllers and accountants should include the following.

- Providing for and supervising the maintenance of agency accounting records and financial ledgers.

- Preparing individual agency financial statements and internal responsibility reports.

- Maintaining uniform and effective reporting in accordance with generally accepted accounting principles and Federal and District regulations.

- Assuring the reliability of financial information reported to the District Controller.

- Maintaining agency payroll and personnel records and related payroll tax information.

At present there are not enough qualified individuals in the Office of Budget and Management Systems with the qualifications to adequately fulfill the responsibilities of controllership or accountant positions. We suggest that individuals with education and previous experience in accounting fields be recruited for such positions. In many instances, holders of MBA or other advanced degrees or Certified Public Accountants with public or governmental experience will be necessary for these positions.

Director of Cash Management

The District Treasury is now organized as a major subdivision of the Department of Finance and Revenue and serves as the offical depository for all cash receipts of the District before they are transferred to the U. S. Treasury.

The cash management function should be segregated from revenue generation and recordkeeping functions and be organized as an independent office reporting to the Director of Financial Management. The Director of Cash Management should administer the following responsibilities.

- Formulating basic cash and investment management policies in compliance with Home Rule specifications for submission to the Mayor and City Council.

- Investing temporary funds in interest-bearing deposits and investments.

- Obtaining the best interest rates available in consideration of relative investment yields and safety.

- Projecting short-term cash flow and determining long-term requirements in connection with the Director of Financial Planning and Budgeting.

- Controlling registration and reporting of indebtedness and initiating principal and interest payments.

- Serving as custodian for special purpose trust funds.

- Developing and administering the District's risk management program.

With the proposed discontinuance of depository services provided by the U. S. Treasury, it will be absolutely essential that the District cash management function be strengthened to achieve sound cash and investment management.

Director of Revenues

The District's tax revenue policies and procedures are well defined and administered by the Department of Finance and Revenue. As explained previously in Section II of this volume, receipt of nontax revenues is decentralized at the agency level where there is little physical control. In Section I, we have outlined our concerns with respect to the revenue systems and potential failure of the District to maximize its revenues to the fullest extent.

In order to place greater emphasis on revenue maximization and to facilitate central control over all revenue collection systems, we recommend that a Revenue Office (presently called the Department of Finance and Revenue) be established under the Director of Financial Management to coordinate both tax and nontax revenues. Duties and responsibilities of the Director of Revenues should include the following.

- Identifying and monitoring all existing and potential revenue sources.
- Developing standard revenue collection procedures.
- Implementing measures to insure maximization of revenue.
- Insuring compliance with tax regulations.
- Coordinating the accumulation and deposit of daily cash receipts generated by all agencies.
- Supplying the District Controller and Treasurer with information regarding cash receipts and revenue distributions for accounting purposes.

An individual with substantial financial experience, understanding of revenue generation techniques and knowledge of Federal and District tax regulations is required to manage this office.

Director of Data Processing

Major problems relating to inadequate planning, security and backup were noted during our reviews of the

District data processing centers. The development of these problems is attributed primarily to decentralization and the lack of direct administrative control over the data processing function.

Since data processing is a significant operation in terms of effort and expenditures and practically all operating agencies require data processing services, our proposed reorganization recommends that all data processing control operations, systems development and programming functions be coordinated by the Director of Financial Management. It will be necessary to supplement the central data processing function with qualified management at each of the various District data centers, who should report directly to the respective agency directors.

Major duties and responsibilities of the Director of Data Processing should include the following.

- Establishing and maintaining computer operating schedules.
- Supervising daily data processing, input and output operatins and any other supporting activities.
- Controlling distribution of output.
- Maintaining system control procedures to assure that all data processing errors are detected and corrected.
- Insuring that data processing equipment is in proper working condition.
- Maintaining tape libraries and status files.

- Investigating, evaluating, designing and recommending new data processing applications to provide management information.

- Preparing systems flowcharts and procedural write-ups for all applications.

- Supervising the programming and debugging functions for new systems applications.

- Keeping informed on new developments with computer hardware and software.

- Assisting in development of long-range plans on a continuing basis to meet anticipated operating and information needs of the District.

General knowledge of accounting procedures and internal controls in addition to a high degree of technical competence in the fields of computer programming and systems development are recommended qualifications for the Director of Data Processing.

EXPAND THE INTERNAL AUDIT FUNCTION

The internal audit function has the responsibility of providing management with information as to whether the District is:

- Properly controlling and interpreting accounting information.
- Complying with established financial, accounting and operating policies and procedures.
- Seeking new procedures to produce greater efficiency and effectiveness.
- Adequately controlling and safeguarding assets.

The internal auditor is not, and cannot be, a substitute for competent financial management.

The present organization of the District includes an internal audit function, the Office of Municipal Audit and Inspection, which is part of OBMS, and a City Auditor, who reports to both the Mayor and the City Council. In addition, the General Accounting Office conducts detailed audits throughout the year.

The District's Office of Municipal Audit and Inspection has historically placed significant emphasis on legality of expenditures, compliance with grant requirements and compliance with governmental regulations. We understand that increased consideration has been given to financial and management audits in the previous year and we encourage

continuation of this emphasis. Additional audits of an operational and financial nature would further the overall objectives of the audit function and help to improve the accuracy of reported financial information.

In today's environment of mechanized information processing, the complexity and the sophistication of financial reporting systems make it more difficult for the internal auditor to perform detailed transactions reviews. During our survey of the District's data centers, we noted that the internal auditors provide little assistance in the areas of systems design and implementation and do not utilize audit software packages to facilitate their reviews of mechanized systems. Only by proper participation in the development of new financial systems and by utilization of audit software aids can the internal audit function be assured of clear audit trails and sound rationale in financial reporting. We recommend that a concerted effort be made to provide more in-depth internal audit involvement in development and maintenance of mechanized systems.

Qualified personnel are essential to the development of a strong internal audit function. Individuals with previous experience in public accounting and general knowledge of government operations are highly recommended. Advanced degrees in finance or management and CPA's are also beneficial. Continuing education and organized

training programs are necessary to structure the development of internal audit capabilities and keep auditors informed of new accounting pronouncements.

We believe that a well staffed internal audit function is a prerequisite to an audit by independent public accountants. The internal audit responsibilities outlined above are an important and, for an organization the size and complexity of the District, essential part of the District's overall system of internal control.

ESTABLISH AN AUDIT COMMITTEE

We recommend that consideration be given to establishing an Audit Committee for the District.

The Audit Committee should hold periodic meetings during the year with the independent public accountants. A meeting should be held prior to the commencement of the audit to discuss:

- The scope of the audit.
- The District's accounting principles, policies and practices.
- Recent developments in accounting principles or reporting practices that may affect the District.
- Status of suggestions and recommendations developed as part of the last audit.

Another meeting should be held with the independent public accountants at the completion of the audit and before the financial statements are released to discuss:

- The results of the audit.
- Overall evaluation of the financial statements.
- Suggestions for improvements in accounting, financial and operating controls.
- Management's overall evaluation of the financial statements.

The Audit Committee should submit minutes of its meetings, the topics covered and conclusions reached, supported by

any background materials, to the City Council, the Congressional Committees and the Mayor.

We believe that the Audit Committee should hold other meetings throughout the year to (1) discuss with the internal auditors their activities and findings, (2) meet with key officials to discuss annual budgets, long-range financial plans and interim financial results, particularly areas where expenditures are over budget or revenues are under budget; and (3) meet with top management (the Mayor and agency heads), GAO, and Congressional Committee representatives to discuss overall financial problems of the District. The Audit Committee might also wish to establish some advisory committees in specialized or technical areas such as systems, pensions, etc. If operated effectively, the Audit Committee can be a major force in developing the financial credibility of the District.

APPENDIX 1

CONSOLIDATED FINANCIAL STATEMENTS

The District of Columbia publishes an annual financial report which, like the financial reports of most municipalities, contains numerous detailed schedules but no financial statements which would enable the reader to obtain readily an overall view of the financial position of the District or the results of its operations. Although such reports present financial detail in many different ways, there are no meaningful summary reports or explanatory notes which are necessary to enable a reader not intimately involved with the District's organization and its accounting policies to understand and interpret the data.

Consolidated financial statements, prepared in accordance with generally accepted accounting principles, would provide meaningful information with respect to the financial position and operating results of a municipality. We were unable to prepare such statements for the District of Columbia as of and for the year ended June 30, 1975, because sufficient information to adjust the reported data to reflect generally accepted accounting principles was not available. However, we have prepared the accompanying illustrative statements, using the unaudited and unadjusted combined financial data reported by the District, to present an illustrative reporting format for consideration.

The consolidated financial statements summarize and highlight the key financial information of the District on an overall basis. Separate financial statements for each fund and certain

detailed schedules should be continued in an annual report as supporting information.

The amounts in the accompanying financial statements have not been audited and do not purport to reflect the financial position or results of operations of the District of Columbia as or for any date.

DISTRICT OF COLUMBIA

UNAUDITED ILLUSTRATIVE CONSOLIDATED STATEMENT

OF REVENUES AND EXPENDITURES

FOR THE YEARS ENDING JUNE 30, 1975 AND 1974*

	1975	1974
	(In Thousands)	
REVENUES:		
Taxes -		
Property	$ 142,709	$ 151,529
Sales and gross receipts	179,677	170,092
Income	172,655	164,159
Other	38,394	33,396
	533,435	519,176
Charges for services and other income	80,365	74,416
Federal grants	297,557	260,545
Federal payment	231,800	191,533
Revenue sharing	26,925	57,707
Investment income	2,427	344
Trust fund receipts	58,393	72,405
Total revenues	1,230,902	1,176,126
EXPENDITURES:		
Operating expenditures (Note 7) -		
General operations	230,774	122,931
Public safety	234,691	217,134
Education	265,113	241,776
Recreation	15,315	14,539
Human resources	375,281	354,528
Highway and traffic	25,287	23,799
Environmental services	71,337	58,278
Miscellaneous	13,463	(211)
	1,231,261	1,032,774
Depreciation (Note 3)	**	**
Interest expense	89,614	40,931
Trust fund disbursements	63,496	108,511
Total expenses	1,384,371	1,182,216
EXPENDITURES IN EXCESS OF REVENUES	$ (153,469)	$ (6,090)

*The amounts included herein have been summarized without adjustment from the Annual Financial Reports of the District of Columbia and reflect significant inaccuracies and omissions.

**The District does not provide for depreciation.

The accompanying notes are an integral part of this statement.

DISTRICT OF COLUMBIA

UNAUDITED ILLUSTRATIVE CONSOLIDATED BALANCE SHEET

AS OF JUNE 30, 1975 AND 1974*

ASSETS

	1975	1974
	(In Thousands)	
CASH	$ 30,002	$ 67,015
INVESTMENTS, at cost (Note 2):		
U. S. Treasury obligations	81,846	105,641
Other marketable securities	6,964	6,614
Other	1,627	1,925
	90,437	114,180
RECEIVABLES:		
Taxes	19,216	21,596
Accounts	23,793	23,068
Grants	**	**
Accrued interest	9,029	8,172
	52,038	52,836
Less- Allowance for uncollectibles	**	**
	52,038	52,836
INVENTORIES (Note 1)	16,892	10,846
PROPERTY AND EQUIPMENT, at cost (Note 3):		
Land	101,588	101,588
Structures	251,210	251,210
Equipment	96,516	93,571
Construction in progress	501,478	324,637
	950,792	771,006
Less- Accumulated depreciation	**	**
	950,792	771,006
OTHER ASSETS	19,667	43,837
Total assets	$1,159,828	$1,059,720

LIABILITIES

	1975	1974
	(In Thousands)	
ACCOUNTS PAYABLE	$ 60,415	$ 25,398
ACCRUED EXPENSES:		
Salaries	46,159	53,311
Vacation and other personnel benefits	37,369	33,762
Interest	63,834	50,019
Other	2,394	1,401
	149,756	138,493
DEFERRED TEACHER SALARIES	16,309	-
ADVANCES FROM U. S. GOVERNMENT (Note 5)	40,750	25,750
LOANS PAYABLE (Note 5)	1,018,034	835,972
RETIREMENT AND DISABILITY BENEFITS (Note 4):		
Federal civil service	**	**
Teachers	**	**
Police and fire	**	**
Other	**	**
	**	**
OTHER LIABILITIES	647	437
Total liabilities	1,285,911	1,026,050
COMMITMENTS AND CONTINGENCIES (Note 6)		
ASSETS IN EXCESS OF (LESS THAN) LIABILITIES	(126,083)	33,670
	$1,159,828	$1,059,720

*The amounts included herein have been summarized from the Annual Financial Reports of the District of Columbia and include significant inaccuracies and omissions for which the necessary adjustments are not presently determinable.

**Information is not included in the District's Financial Report.

The accompanying notes are an integral part of this balance sheet.

DISTRICT OF COLUMBIA

UNAUDITED ILLUSTRATIVE CONSOLIDATED

STATEMENT OF CASH USES AND SOURCES

FOR THE YEARS ENDED JUNE 30, 1975 AND 1974*

	1975	1974
	(In Thousands)	
USES OF CASH:		
Expenditures in excess of revenues	$153,469	$ 6,090
Depreciation expense	**	**
Noncash provision for retirement and disability benefits	**	**
Cash used in operations	153,469	6,090
Capital outlays	166,756	146,115
Repayment of loans and advances	***	***
Total uses	320,225	152,205
SOURCES OF CASH:		
Loans from U. S. Treasury	192,106	151,961
Advances from U. S. Treasury	40,000	750
Net redemption (purchase) of investments	23,743	(17,250)
Deposit fund receipts in excess of (less than) disbursements	3,326	(216)
Other sources	24,037	20,591
Total sources	283,212	155,836
DECREASE (INCREASE) IN CASH	$ 37,013	$ (3,631)

*The amounts included herein have been summarized without adjustment from the annual Financial Report of the District of Columbia and reflect significant inaccurancies and omissions.

**The District does not provide for these items.

***Repayment of loan principal is included in interest expense in the accompanying statement of revenues and expenditures.

DISTRICT OF COLUMBIA

NOTES TO UNAUDITED ILLUSTRATIVE FINANCIAL STATEMENTS*

JUNE 30, 1975

(1) SUMMARY OF ACCOUNTING POLICIES

Financial Reporting

(This section would specify which funds of the District of Columbia have been included in the accompanying financial statements and which, if any, have been excluded, together with the reasons for such exclusions. It would also state the basis of accounting followed, which should be the full accrual basis, exceptions to such basis, if any, and would explain any departures from generally accepted accounting principles.)

Principles of Consolidation

(This section should explain the basis for significant reclassifications and eliminations applied to combined totals to obtain consolidated amounts. For example, receivables/payables between funds would be offset against one another.)

*Wording herein in regular type is based on facts and/or on actual reports of the District of Columbia; blanks have been included when specific information is lacking. Wording in parentheses indicates desired general footnote content.

Relationship with Federal Government

(The District has a unique relationship with the Federal Government, in that the Federal Government pays the District for certain services it receives from the District and also provides without charge to the District certain services for which the District would otherwise have to pay. In many cases, the reverse situation exists. This section would describe the basis for the Federal payment and the nature of the services received and provided, as well as any unique accounting practices in connection therewith.)

Investments

(This would cover general investment policies, including legal restrictions and accounting policies related to investments, such as the treatment of discounts and purchased interest.)

Inventories

(This section would state the basis on which inventories are carried. Also covered would be a general description of the kinds of items inventoried and, unless one category is predominant, a table summarizing the dollars in each significant category.)

Other

(Other significant accounting policies and general information relevant to a proper understanding of the financial statements should be included in this footnote under separate subheadings.)

(2) INVESTMENTS

Investments in U. S. Treasury obligations at June 30, 1975, consist of the following.

	Cost	Value at Maturity
	(In Thousands)	
U. S. Treasury bills, maturing between July 1975 and May 1976, with a weighted average interest rate of 5.0%	$22,858	$23,325
U. S. Treasury notes, maturing between July 1975 and May 1976, with a weighted average interest rate of __%	370	374
U. S. Treasury bonds, maturing between November 1976 and November 1998 with interest rates between 2.75% and 8.00% and a weighted average interest rate of 4.2%	58,618	60,046
	$81,846	$83,745

Marketable securities other than U. S. Treasury obligations consist primarily of debt instruments of U. S. corporations. These mature between 1980 and 2005, have a weighted average interest rate of __% and an aggregate market value at June 30, 1975, of $_____.

(3) PROPERTY AND EQUIPMENT

(This section would cover what kinds of assets are capitalized, referring to nature, ownership, expected useful lives and dollar amounts capitalized. Depreciation policy should be set forth. Since this is the most significant asset category, it would be meaningful to detail the significant components of each category of property and equipment in this footnote. In addition to disclosure by nature of the asset, a summary by using agency might be meaningful. Especially important would be the status of major items in construction in process, such as estimated cost to complete by year. There undoubtedly are major asset categories where it is impractical to identify costs; these may include streets and sidewalks, bridges and tunnels, water and sewer lines, etc. Disclosure should be made for any excluded assets.)

(4) RETIREMENT AND DISABILITY BENEFITS

Substantially all full-time employees of the District are covered by a pension plan which provides retirement income and disability benefits. The plans are generally contributory and participation is mandatory. The plans are summarized below.

	Federal Civil Service	School Teachers	Police and Fire	Judges	College Faculty and Staff
Approximate number of covered employees					
Employee contributions (percentage of salary)					
Cost to District, exclusive of employee contributions:					
Per actuary	$	$	$	$	$
Paid to plan trustee by District					
Increase in liability to plan	$	$	$	$	$
Unfunded past service costs:					
Period of amortization					
Total amount per actuary	$	$	$	$	$
Plan assets	$	$	$	$	$

Each of the foregoing major pension plans is summarized below.

Federal Civil Service - This plan is administered by the Federal Civil Service Commission. District employees not covered by one of the plans below are covered by this plan. Participating employees contribute 7% of their salaries and the District matches this contribution. Since the actuarially computed cost of this plan is __% of salaries, the __% in excess of the employee and District costs is accounted for as a Federal grant to the District. This amount totals $_____ for 1975. Although the Federal Government has not arranged the financial affairs of the plan on an actuarially sound basis, the full legal responsibility for District employees participating in this plan is that of the Federal government, not the District.

(Similar descriptions would be included for other plans.)

(5) LOANS PAYABLE

Loans payable at June 30, 1975 and 1974, consisted of the obligations set forth below.

	1975	1974
	(In Thousands)	
Loans from United States, with a weighted average interest of __%	$ 971,927	$789,415
Loans from U. S. Treasury - D. C. Stadium	832	832
D. C. Stadium bonds (guaranteed by U. S. Government)	19,800	19,800
Loans from General Services Administration for hospital construction, generally bearing no interest	10,499	11,046
Loans for St. Elizabeth's Hospital construction	14,976	14,879
	$1,018,034	$835,972

Principal and interest repayments on loans from the United States are due as follows.

	In Thousands		
Payable July 1	Principal	Interest	Total
1975 (including $10.5 million deferred from prior years)			$ 74,058
1976			81,299
1977			78,005
1978			78,005
1979			78,005
1980-1984			389,784
1985-1989			388,429
1990-1994			377,857
1995-2015			611,803
	$1,018,034	$1,139,211	$2,157,245

The amount payable July 1, 1975, was not paid when due.

(6) COMMITMENTS AND CONTINGENCIES

(This section would include descriptions of significant litigation which might ultimately result in a liability to the District of Columbia. It would also include disclosures with respect to lease commitments and other contingencies or commitments which may exist.)

(7) OPERATING EXPENDITURES

The accompanying statement of revenues and expenditures reflects operating expenditures classified by function. A summary of these expenditures by type follows.

Type	Amount	
	1975	1974
	(In Thousands)	
Salaries and wages	$	$
Personnel benefits		
Retirement benefits provision		
Materials and supplies		
Outside services		
Other		
	$1,231,261	$1,032,774

(This footnote would also explain the nature of each functional classification included on the statement of revenues and expenditures, particularly the "general operations" and "miscellaneous" classifications.)

DISTRICT OF COLUMBIA

UNAUDITED ILLUSTRATIVE CONSOLIDATING BALANCE SHEET

AS OF JUNE 30, 1975*
(In Thousands)

ASSETS

	General Fund	Revenue Sharing Fund	General Fixed Assets	Highway Funds	Water and Sewer Funds	Other Funds	Trust and Deposit Funds	Combined Total	Reclassifications and Eliminations***	Consolidated Total***
CASH	$ 609	$2,524	$ -	$(5,099)	$ (772)	$505	$ 32,235	$ 30,002	$	$
INVESTMENTS:										
U. S. Treasury obligations	-	2,437	-	2,142	-	-	77,267	81,846		
Other marketable securities	-	-	-	-	-	-	6,964	6,964		
Other	-	-	-	-	-	-	1,627	1,627		
	-	2,437	-	2,142	-	-	85,858	90,437		
RECEIVABLES:										
Taxes	19,216	-	-	-	-	-	-	19,216		
Accounts	20,840	-	-	574	2,379	-	-	23,793		
Grants	**	**	-	**	**	**	**	**		
Accrued interest	9,019	-	-	-	-	-	10	9,029		
	49,075	-	-	574	2,379	-	10	52,038		
Less- Allowance for uncollectibles	**	**	-	**	**	**	**	**		
	49,075	-	-	574	2,379	-	10	52,038		
INVENTORIES	12,666	-	-	2,132	2,094	-	-	16,892		
PROPERTY AND EQUIPMENT:										
Land	-	-	101,585	-	-	-	3	101,588		
Structures	-	-	251,210	-	-	-	-	251,210		
Equipment	1,738	-	89,568	-	4,059	-	1,151	96,516		
Construction in progress	-	-	420,810	-	73,485	-	7,183	501,478		
	1,738	-	863,173	-	77,544	-	8,337	950,792		
Less- Accumulated depreciation	**	-	**	-	**	-	**	**		
	1,738	-	863,173	-	77,544	-	8,337	950,792		
OTHER ASSETS	-	-	-	-	-	-	19,667	19,667		
Total assets	$64,088	$4,961	$863,173	$ (251)	$81,245	$505	$146,107	$1,159,828	$	$

*The amounts included herein have been summarized from the Annual Financial Reports of the District of Columbia and include significant inaccuracies and omissions for which the necessary adjustments are not presently determinable.

**Information is not included in the District's Financial Report.

***Information necessary to effect a consolidation was lacking; these columns would be completed in an actual set of financial statements.

DISTRICT OF COLUMBIA

UNAUDITED ILLUSTRATIVE CONSOLIDATING BALANCE SHEET

AS OF JUNE 30, 1975*
(In Thousands)

LIABILITIES

	General Fund	Revenue Sharing Fund	General Fixed Assets	Highway Funds	Water and Sewer Funds	Other Funds	Trust and Deposit Funds	Combined Total	Reclassifications and Eliminations***	Consolidated Total***
ACCOUNTS PAYABLE	$ 19,109	$ 462	$ -	$ 5,827	$ 3,289	$ 27	$ 31,701	$ 60,415	$	$
ACCRUED EXPENSES:										
Salaries	37,778	66	-	670	-	-	7,645	46,159		
Vacation and other personnel benefits	33,607	6	-	1,398	1,135	-	1,223	37,369		
Interest	45,339	-	-	5,926	12,501	68	-	63,834		
Other	1,292	-	-	-	-	-	1,102	2,394		
	118,016	72	-	7,994	13,636	68	9,970	149,756		
DEFERRED TEACHERS SALARIES	-	-	-	-	-	-	16,309	16,309		
ADVANCES FROM U. S. GOVERNMENT	40,750	-	-	-	-	-	-	40,750		
LOANS PAYABLE	779,107	-	-	115,479	103,648	19,800	-	1,018,034		
RETIREMENT AND DISABILITY BENEFITS	**	**	**	**	**	**	**	**		
OTHER LIABILITIES	395	-	-	-	-	-	252	647		
Total liabilities	957,377	534	-	129,300	120,573	19,895	58,232	1,285,911		
ASSETS IN EXCESS OF (LESS THAN) LIABILITIES	(893,289)	4,427	863,173	(129,551)	(39,328)	(19,390)	87,875	(126,083)		
	$ 64,088	$ 4,961	$ 863,173	$ (251)	$ 81,245	$ 505	$146,107	$1,159,828	$	$

*The amounts included herein have been summarized from the Annual Financial Reports of the District of Columbia and include significant inaccuracies and omissions for which the necessary adjustments are not presently determinable.

**Information is not included in the District's Financial Report.

***Information necessary to effect a consolidation was lacking; these columns would be completed in an actual set of financial statements.

APPENDIX 2

CONCEPTS AND FACILITIES OF A FINANCIAL MANAGEMENT INFORMATION CONTROL SYSTEM

The system should integrate financial accounting, reporting, and budgetary control into one system designed to meet the financial accounting and reporting requirements of the District. The system's reporting should provide all levels of management with timely, accurate and relevant information to control operations and to comply with Federal regulations.

Scope and Objectives

The scope of the system should include those aspects of the financial operations of the District which are common among all agencies. It should provide uniform accounting and reporting to facilitate decentralized management and centralized administration of the District operations.

Within this scope, the design of the system should address six fundamental objectives.

- Account coding of source documents must be simple and straightforward.
- Reporting on the results of operations must be timely.
- All reporting must be based on the same facts.
- Reporting flexibility must be maximized to allow each user to tailor the concepts to fit his management style.

- Reporting must support the concept of financial accountability at all levels of management.
- The system must be flexible to handle changes in regulations, organization or programs.

Applications

The system should be one integrated system. Financial and nonfinancial activity (e.g., productivity indicators) should be entered only once. Depending on the type of input, appropriate computer files are posted for the following applications.

- Fund General Ledger
- Appropriation Control
- Organizational Responsibility Reporting
- Functional (Program) Cost Reporting
- Grant/Project Reporting
- Contract Reporting
- Obligation/Accounts Payable/Cash Disbursement Control
- Accounts Receivable
- Indirect Cost Allocation
- Statistical Reporting
- Budget Development
- Purchasing and Inventory Control
- Property Accounting
- Cash Management

- Payroll/Personnel/Retirement/Productivity Reporting
- Revenue Collection and Control
- Financial Planning

The system should serve the users' needs and provide the flexibility to change reporting requirements with little or no affect on computer programs. System characteristics should include:

- User maintained tables to minimize program maintenance as changes occur.
- All reports, routine and exception, produced either automatically or on request.
- Each user can select the number of copies they want for each report.
- Each user can define the distribution of reports.

Fund General Ledger Accounting

Features should be established to report the financial condition of each fund (i.e., a self-balancing set of accounts which are segregated to finance specific activities) by incorporating the following.

- User defined chart of accounts.
- Monthly statement of Fund Transfers.
- User defined account grouping, titles, and totals for:
  - Monthly Trial Balance
  - Monthly Balance Sheet
  - Monthly Statement of Changes in Fund Balance
  - Daily General Ledger Control Report

- Monthly analysis of fund activity by object comparing actual to budget.

  . Analysis of Fund Revenue
  . Analysis of Fund Expenditures

- Ability to accept and properly classify the activity for the two months during the period between calendar month end and final month end close.

- Provision for multiple preclosing before final month end close.

- Automatic closing of general ledger accounts to fund balance at year end. User selects accounts to be closed.

- User assignment of funds to fund groups or classes to accommodate combined reporting.

- Balance sheet accounts can be classified as restricted (control accounts - no external entries allowed) or unrestricted.

- User defined form for all reports (1- to 4- part paper).

- User defined report distribution.

- Automatic secondary fund accounting with user defined fund and general ledger accounts for expenditures or revenues. Permits optional capitalization of items in enterprise or plant funds which are expended in the appropriation.

- Optional agency revenue and expenditure charts of accounts cross-referenced to uniform chart of accounts. Internal reporting done on agency chart of accounts. Statutory reporting done on uniform chart of accounts.

- Monthly listing of all accounting transaction activity.

Appropriation Control

Facilities should be designed to control each appropriation.

- At the users' option, budgetary control for each appropriation can be defined at one of three possible levels.

  . Object
  . Line item (budget category)
  . Lump sum

- At the user's option, cash control for each appropriation can be defined at one of two levels.

  . By individual funding source
  . Pool all sources

- User options to selectively override, by appropriation, the controls over the

  . Allotment budget
  . Annual appropriation
  . Cash control

- Optional dedication of revenue receipts to a specific appropriation.

- User defines source of financing for each appropriation.

- Flexible specification of allotment period - 1, 2, 3, 4, 6 or 12 months.

- By transaction code, user defined posting sequence (budget revisions before expenditures, etc.) with user defined "accept/reject" specification. The "accept" specification on the transaction (i.e., Manual Cash Disbursement) overrides the budget and cash control specifications on all appropriations.

- Automatic balancing of sources of financing and budgets.

- Optional user defined grouping of multiple appropriations for month end reporting.

- User defined lapsing date of the prior year appropriations.

- Automatic distribution to the prior year appropriation for encumbrances liquidated in the subsequent fiscal year.

- Individual forms code selection (1- to 4- part paper), on each appropriation.
- User defined report distribution control.
- Up to five fund/appropriation combinations (with percentage breakdown) permitted per cost center.

Responsibility Reporting

Responsibility reporting provides for distributing actual expenditure and budget amounts according to the organization of the agency. Both current month and year-to-date data is included.

- User defined organization structure.
- No limit on the number of levels.
- Revenues, expenditure and outstanding encumbrances are included on the same report by lower level responsibility area.
- Actual results are compared to budget.
- Each manager has option to select revenue and expenditure recap detail (none, character, major object, or object) to meet his unique information needs.
- Optional unit of service cost reporting at any level of organization.
- Each level has forms control option (1- to 4- part paper).
- User defined report distribution control.

Functional (Program) Cost Reporting

Functional reporting provides for distributing actual revenue, expenditure and budget amounts according to

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the functions and/or service programs performed by the agency. Both current month and year-to-date data is included.

- User defined functional (program) structure, independent of organization and appropriation.
- No limit on number of levels.
- Revenues, expenditures and outstanding obligations are included on the same report by lower level functional area.
- Actual results are compared to budget.
- Each level has option to select revenue and expenditure recap detail (none, character, major object, object) to meet unique requirements at that level.
- Optional unit of service cost reporting at any level of program.
- Multiple units of service can be reported at any level.
- Each level has forms control option (1- to 4- part paper).
- User defined report distribution control.

Grant/Project Reporting

Optional reporting is provided for special activities, such as Federal or other sponsored grants and projects, or internal activities over which unique financial reporting and control is required.

- Optional coding capability to grants/projects.
- Grant/Project can be predefined to one or more cost centers. Activity coded to the cost center is automatically posted to the grant.

- If a grant is coded on a source document, the predefined grant is overridden.

- Optional grant chart of accounts independent of the District chart of accounts.

- Grant year end can be independent of the fiscal year.

- Optional grant/project budgeting.

- Reporting covers the current month, project year-to-date, and inception-to-date for receipts, expenditures and outstanding obligations.

- Each grant or project manager defines his report sequence (six possible sequences from combinations of grant chart of accounts, cost center, major object, object).

- Each user defines the accumulation and totaling for the report.

- Optional indirect cost allocation to grants. Multiple base, step down.

- User option to reject over expenditure of remaining grant budget.

- Multiple agencies can charge a single grant or project without effecting their appropriation.

- Provision for charging the value of "in-kind" and donated service to a grant.

- Supplemental reporting to permit restatement of grant expenditures on a cash basis.

- User defined accumulation of similar grants to one higher level.

- User defined forms control (1- to 4- part paper).

- User defined report distribution control.

Contract Reporting

Reporting for contracts provides information regarding the original contract, change order history, and payment history.

- Option to reject disbursements in excess of remaining contract balance.
- Contracts obligations when let.
- Optional assignment of a contract to a grant or project (only one grant or project is permitted).
- Ability to process change orders.
- Automatic accounting and reporting for retainage.
- Disbursements (manual or mechanized) for progress payments or retainage.
- Ability to transfer balances from one contract to another.
- Complete history of contract maintained and reported on request until contract is deleted.

Obligation/Accounts Payable/Cash Disbursement Control

Reports are prepared to aid in controlling obligations and payments to vendors and to provide data on cash requirements, payables, pay status and other pertinent information.

- Purchase orders obligated in cost centers, appropriations, funds, and optional grant or projects.
- Contracts obligated.
- Multiple account distribution on each purchase order. Can be in different cost centers, appropriations, funds and grants.

- Complete or partial purchase order liquidation by account distribution line.

- Automatic accounting for obligation relief amount versus the amount to be paid.

- Automatic reporting of inactive obligations based on user defined aging.

- Automatic accounting for outstanding obligations liquidated in subsequent fiscal year.

- Duplicate purchase orders rejected.

- Payables established for:

  . Purchase order liquidations
  . Check requisitions
  . Special checks (payee is input rather than picked up from vendor file)
  . Employee travel advance, reimbursement request.

- Multiple account distribution on payable documents.

- Ability to specify payment due date on each invoice.

- Ability to centrally override individual invoice due dates and force early dates to a later date to aid in cash management.

- Payables aged according to user defined aging criteria.

- Duplicate vendor invoices rejected.

- Credit memos applied automatically to vendor invoices.

- Multiple invoices/credit memos accumulated on and paid by one vendor check. Attached remittance advice lists each invoice or credit memo included in the check.

- Checks written on request. Request specifies pay through a specific date with maximum limit of disbursements.

- Ability to maintain a vendor file (e.g., total amounts paid to a particular vendor by agency).

- Ability to hold payment of invoices:

  . By specific invoice
  . All invoices due to a specific vendor

- Provision to cross-reference a "buy from" vendor to a different "pay to" vendor.

- Multiple bank account outstanding check files maintained.

- Automatic reporting on stop order recommendations. User defines the duration for each bank account.

- In a central systems environment, interagency billings are recorded immediately with credit given to billing agency. Cash transfers recorded internally, no check written.

Accounts Receivable

The receivable reports provide data on monthly collections, current balances, aging of accounts, past due accounts, and collection histories. Included are:

- Open item accounts receivable.

- Optional monthly payment plan (no interest calculation).

- Automatic pro-rata credit to Federal/State programs on each collection.

- Receivables aged according to user defined aging criteria.

- Provision to automatically write-off remaining receivable when an over- or underpayment causes the outstanding balance to fall within a user defined range.

- Receipt advice automatically produced for individual accounts selected by the user.

Cost Allocation

Cost allocation processing automates the distribution of indirect costs to projects and grants.

- Object of expenditure level of allocation.
- Optional identification of cost centers to indirect cost pools.
- Optional grant/project identification with indirect cost pools.
- User specifies basis for allocation.
- Percentage of allocation calculated from user supplied statistics.
- Option to reallocate less than 100% of a cost pool total.
- Allocation frequency is specified for each agency (monthly, quarterly, semiannually, annually).
- Changes to the allocation plan can be made anytime during the year.
- Virtually no limit on the number of indirect cost pools, or number of allocation levels.
- Reporting classifies expenditures between direct costs and allocated indirect costs.
- Print/No print capability provides complete or partial audit trail at the level specified by user.

Statistical (Unit of Service) Processing

- Multiple unit of service reporting at cost center or any level of agency or function (program).
- Automatic roll up of units of service to any prescribed level of agency or function (program).

- User defined cost accounting specification (none, year-to-date, average monthly).

- User defined "full time equivalent" divisor (i.e., divide raw statistic by divisor before unit cost calculation).

- Automated budget development of units of service.

- Reporting compares actual unit cost to budgeted unit cost.

Budget Development

Budget development reports provide current and historical financial information to aid in the development and approval of the annual budget for appropriations and grants.

- Revenue and expenditure budgets developed at cost center level.

- Provides for monthly financial budgeting, four user development options:

  . Monthly amount propagated through all months
  . Annual amount allocated equally by month
  . Annual amount allocated by payroll cycle
  . Budget specific amount in a specific month.

- Cost center budget automatically summarized by organization structure, function (program) structure, appropriations and funds.

- Four cycles tracked during the budget process.

  . Revised estimate for current year
  . Requested for next year
  . Recommended for next year
  . Approved for next year

- Multiple budget iterations provided in each cycle.

- Monthly pro forma results of revenue and expenditure estimates reported on all funds and appropriations.

- Cost centers can be reassigned to new appropriations and/or funds during budget development without disturbing current year processing.

- Next year's units of service budgets processed concurrently with financial budgets.

- Partial project/grant budgets generated automatically from cost center budgets.

- Provision to apply inflation factors to revenue and expenditures allowing "pro forma" initial budget worksheets.

- Provision to process budget estimates through indirect cost allocation.

General

Accounting Concepts

The system incorporates the following accounting features:

- Double entry fund accounting generated automatically based on transaction and user coding.

- Uniform charts of accounts:

  . Balance sheet
  . Revenues
  . Expenditures

- Optional agency revenue and expenditure charts of accounts cross-referenced to statutory chart of accounts.

- Modified accrual accounting - expenditures on accrual basis, revenues on either cash or accrual.

- Accounts for activity in two months during the end of the calendar month and final close for the month.

- User defined fiscal year end.

- Partial pseudo account coding. Cost center is lowest common denominator between organization and program. Up to five appropriation and fund combinations permitted in each cost center based on management's intent of how that cost center's operations are to be financed. Optional identification of that cost center's activity with a specific project/grant.

System Controls

The following controls would be incorporated:

- Batch controls on all input.
- Formatted batch proof and error report.
- User option to have batch listed. If not requested only errors and out-of-balance batches listed.
- Document balancing on all accounting transactions.
- From/To validation on file maintenance transactions.
- Data fields are assigned a security authorization. Source document preparation stations are assigned a security clearance. File maintenance transactions are accepted only if the security clearance for that preparation station is appropriate for the data field to be changed.
- Run-to-run control to assure output of one program has been received by succeeding programs.
- Control records on all master files.
- Physical files time-date stamped to assure proper mounting of computer files or reloading of files in the event of restart.
- Turnaround user confirmation printed to assure receipt of reports.
- Internal balancing of all funds.

- Internal processing on appropriations assures budgeted means of financing equals estimated expenditures.

- Input transactions sequence checked, output master file sequence checked.

- Fund control accounts can be classed as "restricted" to prevent external entries from creating out-of-balance condition between subsidiary and control.

VOLUME III

ELEMENTARY AND SECONDARY EDUCATION

DISTRICT OF COLUMBIA

ELEMENTARY AND SECONDARY EDUCATION

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DISTRICT OF COLUMBIA

ELEMENTARY AND SECONDARY EDUCATION

INTRODUCTION

This volume of our report discusses the results of our review of the District of Columbia Public Schools. It is divided into three sections.

- General Description
- Summary of Significant Findings and Recommendations
- Detail Findings and Recommendations

Our review was directed at the accounting and financial management practices of the Public Schools. The business and accounting operations are headed by the Deputy Superintendent for Management Services. His responsibilities include the following major business management functions.

- Budget preparation and control
- Finance, accounting and payroll
- Data processing
- Personnel
- Logistical support (purchasing, warehousing and transportation)
- Food services

Our review focused on the activities within those areas.

This volume is more detailed than similar volumes on the Departments of Human Resources and Environmental Services, Public Safety and Other Departments and Agencies. We placed greater resources and depth in Public Schools than these other areas because it has one of the larger budgets in the District, has a separately constituted and elected Board of Education and has experienced a number of top management changes in recent years. Since the scope of review was more intensive, our findings are naturally more extensive.

GENERAL DESCRIPTION

Nature and Size of the Public School System

The purpose of the District of Columbia Public School System is to assist and encourage the learning and basic educational process among the District's children. To accomplish this purpose, the Public Schools operate educational programs in kindergarten, elementary and secondary schools that conform to the accepted concept of traditional education in the United States. In addition, the Public Schools operate a wide variety of special purpose schools and innovative educational programs designed to meet the additional specific educational needs of various segments of the student population.

The first public schools in the District opened in 1805. The two school houses of the "system" cost less than $1,200 and served less than fifty pupils. Today there are 194 schools in the Public School System. Facilities and sites are valued in excess of $1 billion. The enrollment for fiscal year 1975-76 is approximately 131,000.

Over 80% of the operating expenses are devoted to personnel expenditures. A total of 11,744 positions were requested in the regular FY 1977 budget. Of these positions, approximately 1,000 are part-time, and may be filled

by more than one person at a time. Approximately 1,600 additional positions are authorized under Federal grant funds.

In an effort to be more responsive to the needs of parents and students, the Public Schools decentralized many of its administrative functions into six regions in July 1974. Each region encompasses the attendance area of two high schools and has its own assistant superintendent and staff.

The Public Schools receive a substantial portion of its funding from District revenues. The Public Schools budget is subject to approval of the District government and its accounting and financial records are maintained on the District Accounting System. Nevertheless, a significant amount of budgeting, accounting, financial control and reporting, Federal revenue collection, data processing, personnel, accounting and purchasing activity takes place within the Public Schools.

General Description of Financial Accounting

The five financial accounting systems which monitor the daily activities of the Public Schools are as follows.

- Financial Planning
- Financial Control

- Financial Reporting
- Personnel, Position Control, and Payroll
- Procurement, Receiving, and Accounts Payable

These systems are described below.

Financial Planning

The annual financial plan is prepared at the Public Schools and submitted to the District through the use of a computerized Budget Preparation system. This system compiles the total dollars and number of positions to support the educational programs for the upcoming fiscal year. Planned appropriations and grant program budgets are both included in the budget. Modifications are made to reflect changes which occur as the financial plan moves through the approval process.

When the master financial plan is approved, an extract is transferred to the financial control system at the Public Schools. The plan is also used as input to the District Accounting System.

Financial Control

The Public Schools maintain two basic computerized accounting systems, which are used to determine the availability of funds in individual accounts, to limit expenditures

to the amount available, and to report expenditures charged to the account.

- The Allotment System records the total amount of appropriated funds currently available to each account. It does not record actual expenditures and, therefore, does not contain the amount of funds currently available.

- The Fiscal Accounting System contains the current amount of funds available to each account, the total of expenditures made against each account, and the remaining unexpended balance not adjusted for planned expenditures.

Manual pre-validation records contain the same type of information as the computer Fiscal Accounting System, but is limited to recording planned expenditures for nonpersonnel accounts. In addition, several other informal manual systems exist to account for specific grant and food service funds. All of these systems are designed to determine the amount of available funds and record the same type of information as found in the Fiscal Accounting System and pre-validation records.

Each system is posted from original documents or transcriptions of original documents prepared by Public School personnel. Copies of these documents or transcriptions are forwarded to the District for transcription and entry into the District Accounting System. For example, a purchase order is processed against the manual pre-validation ledger and the computer Fiscal Accounting System at the

Public Schools. Documents then enter the District Accounting System. Some detail information is also directly transmitted between the Public School and District computer systems without intervening manual transcription. Other data originates at the District and is sent to the Public Schools.

The financial accounting systems are also used to record the revenues and the associated cash or receivables. At the Public Schools there are cash receipts from food service operations and nonresident tuition, and receivables for Federal grant programs.

Financial Reporting

The Finance and Budget Divisions of the Public Schools receive a variety of computer produced reports from the District Accounting System. Daily reports provide the details of individual expenditures in each school account. Monthly reports provide information on the total of the funds available to the accounts through the current quarter, the total of expenditures charged to the accounts, and the remaining unexpended balance of these funds.

Details of the Public Schools' accounts in the District Accounting System are also available to the Public Schools' Division of Automated Information Services. This detail is used to prepare special reports for the Finance

and Budget Divisions. These reports arrange the account information in a different manner than the District Accounting System reports.

Regular computer-produced reports are also provided to the Division of Finance by the Public Schools' Fiscal Accounting System. These reports provide much the same information as those from the District Accounting System. However, the Fiscal Accounting System also has the technical capability to report this information for each school.

Personnel, Position Control, and Payroll

Personnel expenditures account for 88% of the Public Schools' appropriation and over 80% of the Public Schools' budget. Control over these expenditures is provided by the Personnel, Position Control and Payroll functions which select, assign, pay and account for employees.

The Personnel function includes the selection, classification, assignment, termination and recordkeeping activities. These activities are designed to ensure that the Schools are in compliance with the School Board, District and Federal regulations governing personnel policies.

The Position Control function defines and controls authorized jobs within the Public Schools. When the need for a particular job is determined, a position is established,

and an employee is assigned to it. The employee's pay is then charged to the account from which the position is funded.

The Payroll function compensates Public School employees and provides information to the District Accounting System to account for the payroll expenses. The Payroll function is split between the District and the Public Schools. The District is responsible for preparing the paychecks and accounting for payroll expenses. The Public Schools provide the District with pay rate and attendance information. Public Schools' personnel are also primarily responsible for maintenance of payroll records and the distribution of paychecks to employees.

Procurement, Receiving, and Accounts Payable

Control over nonpersonnel expenditures is provided by the Requisition, Procurement, Receiving and Accounts Payable functions. The Public Schools select vendors and pay for the receipt of goods and services through these activities.

The Requisition function includes the identification, preliminary pricing, and approval of all requests for goods or services. Requisitions are used to determine the availability of funds.

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The Procurement function is responsible for obtaining the correct item, at the best price, from an authorized source. The normal procurement process is shared by the Department of General Services' Bureau of Materiel Management and the Public School Procurement Branch. Purchase orders or their equivalent are prepared and used to obligate funds.

The Receiving function is primarily the responsibility of the individual schools and warehouses. This responsibility includes checking the items received, reconciling to the receiving report and signing for receipt. The signed receiving reports are used in the accounts payable process.

The Accounts Payable function is responsible for establishing the authorization to pay. Accounts payable vouchering is performed at the Public Schools' Procurement Branch, the Public Schools' Division of Finance and District Accounting.

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The proposed budget for fiscal 1977 is approximately $253 million, which includes $38 million of estimated Federal grants. The budget requests (expressed in dollar amounts and in authorized positions) for the 1977 fiscal year are summarized on the following two pages.

DISTRICT OF COLUMBIA PUBLIC SCHOOLS

DISTRIBUTION OF 1977 BUDGET REQUEST BY ORGANIZATION UNIT

(Unaudited) (Note 1)

Organization Unit	1977 Budget Request ($ millions) Personnel	Other Operating Costs	Total	Percent of Total
Education (all categories)	$128.9	$ 8.3	$137.2	63.9%
Food Services	5.7	.5	6.2	2.9
Facilities	22.3	15.7	38.0	17.7
Instructional Support	5.3	1.0	6.3	2.9
Central Services and Management	24.5	2.5	27.0	12.6
Total Requested Appropriation (Note 2)	$186.7	$28.0	214.7	100.0%
Total Federal Grants (Estimated)			38.0	
Total Public Schools Budget			$252.7	

Notes

(1) Arthur Andersen & Co. did not audit the above information. The source for the above is the District of Columbia booklet, "Justifications for the 1977 District of Columbia Budget."

(2) The above total of $214.7 million does not agree with the budget request summary which requests an overall total of $206.9 million. The $7.8 million is the difference between the Public Schools' request and the Mayor's target for the Schools.

DISTRICT OF COLUMBIA PUBLIC SCHOOLS

DISTRIBUTION OF PERSONNEL BY ORGANIZATION UNIT

(Unaudited) (Notes 1 and 2)

Organization Unit	Authorized Positions	Estimated Average FY 1977 Employment	Percent of Total
Education (all categories)	8,067	7,831	68.6%
Food Services (Note 3)	1,010	978	8.5
Facilities (Note 3)	1,682	1,664	14.6
Instructional Support	300	296	2.6
Central Services and Management	665	654	5.7
Total Funded by District Appropriations	11,724	11,423	100.0%
Total Grant Positions		1,607	
Total Employment		13,030	

Notes

(1) Arthur Andersen & Co. did not audit the above information. The source for the above is the District of Columbia booklet, "Justifications for the 1977 District of Columbia Budget."

(2) The above numbers include total full-time, equivalent positions funded through District appropriations and Federal grants and reimbursements.

(3) Food services has 20 authorized full-time positions but there are an additional 990 part-time positions for operating the food services program. These 990 part-time positions are included in authorized positions. Facilities include 20 temporary positions.

SUMMARY OF SIGNIFICANT FINDINGS

The significant weaknesses of the financial accounting systems at the Public Schools occur primarily in the areas of financial planning, control and reporting. Certain weaknesses are common to all areas and are described in the first part of this section.

There Are Overall Weaknesses in the Financial Planning and Control Systems

Several overall weaknesses prevent the financial planning, control and reporting procedures and systems at the Public Schools from functioning effectively.

- The 22-digit financial account coding structure is excessively long and inconsistently applied. Elements within it are not consistently used or defined. Problems result in coding and transcription of the financial account structure. Items that process in the District Accounting System are not always accepted by the Public Schools Fiscal Accounting System and vice versa.

- The change in the Public Schools' fiscal year-end to September 30 will cause operational problems. The academic year for the Public Schools begins in September. During this period, administrative personnel are engaged in resolution of student registration and related problems. A September 30 year-end closing would add additional work to the existing heavy peak workload. The September year-end does not coincide with the Public Schools' natural business year.

- The District's Central Accounting System has not been responsive to the Public Schools. The Public Schools represent a significant portion of the total District budget. The requirements for personnel and materiel are different from other government agencies. Control must be maintained over approximately 200 different operational entities. These unique requirements and an unresponsive Central Accounting System have made financial planning, control and reporting difficult for the Public Schools, which has responded by developing their own financial accounting systems.

- The existing financial systems do not meet the unique accounting requirements of most of the grant programs. The accounting for grant programs is done predominantly with manual systems which are not integrated with existing financial systems. Property records are kept manually because the mechanized system is not kept up-to-date and cannot carry all the information necessary for grant program accounting. Differences in fiscal years prevent the Fiscal Accounting System from meeting these requirements.

- Any "early warning" of potential funds shortages is limited by cash basis accounting, the noncommitment of funds for expenditures, and the failure to obligate personnel expenditures.

- The existing financial systems do not provide adequate control to prevent or detect entry of erroneous data. Poor controls over documents, data files and computer programs expose the Public Schools to fraud and errors which may have significant financial impact.

- Redundant clerical operations are performed in different units of the Public Schools. Many tasks are also duplicated in District Accounting. For example, the vouching of accounts payable is done once at the District and twice at the Public Schools.

The District and Public School Financial Plans Do Not Agree

The financial plan for the Public Schools as maintained at the District does not agree with the financial plan maintained at the Public Schools.

- Two separate processes and documents are used to enter the financial plan into the District and Public School accounting systems. Separate processes are used when reprogramming or redirecting allotments. Transcribing these documents at different places and times is error-prone and inefficient.

- Changes to the financial plan which require approval must pass through an inflexible and time-consuming process. Funds are not made available and programs are started late. The time frame for expending the funds is reduced.

The Public Schools Cannot Produce Accurate Financial Statements

The weaknesses in financial control directly impact the ability of the Public Schools to produce accurate statements of its financial condition. Weaknesses in accounting for assets, liabilities, revenues and expenses are listed below.

Assets

- Not all receipts of grant payments are adequately controlled. Separation of the responsibility for preparing a claim for grant payments and for receiving those payments has not been provided in all cases.

- Nonappropriated funds such as student activity contributions, are not accounted for or controlled in a consistent manner.

- The Public Schools do not maintain a central record of receivables for nonresident tuition or grant programs.

- There is no inventory accounting which values the inventories at the warehouse.

- Financial reports are not maintained by the Public Schools for services that the Department of General Services is rendering to the schools. The Public Schools do not maintain control over these charges. Therefore, the Department of General Services can overspend the funds set aside for it by the Public Schools.

- Equipment and property accounting (excluding buildings and land) is out-of-date and lacking information that would allow an accurate valuation of these assets.

Liabilities

- Liabilities for pensions, hospitalization, and unpaid invoices cannot be easily established.

- Reserves for obligations cannot be determined accurately by existing procedures.

Revenues - Revenues are not accrued for grant program claims and nonresident tuition. This is a direct result of the failure to keep accounts receivable ledgers.

Expenses

- Grant funds can be overspent which results in costs which have not been appropriated.

- Grant funds can be underspent which results in the loss of this funding. When adequate controls are exercised, these funds can be reprogrammed, if the granting agency approves, and used for other purposes.

The District and the Public School Accounting Systems Do Not Provide Complete and Meaningful Management Reports

Complete and meaningful financial information cannot be prepared for the Public Schools from either the District Accounting System or the financial systems at the Public Schools. In addition, reporting of accounting information for use in the management of school operations is unavailable from these systems.

- There is no management reporting to the lower levels of the Public Schools on a regular basis. Special projects must be organized and executed to obtain cost information for individual schools. The accuracy of these reports is doubtful because they cannot be summarized and balanced to any reliable control figures for the Public Schools. Also, costs are not allocated to individual schools.

- Program reporting, which permits the accumulation of costs across organizational lines, is not accurate. For example, the total costs of the mathematics program at the secondary schools cannot be determined because of the limitations of the District-wide account code structure.

- Project reporting, which permits the accumulation of costs across organizational lines and fiscal years, is not available. Manual reports must be prepared. The absence of a separate account code element for projects is a primary cause of problems in project reporting.

SUMMARY OF RECOMMENDATIONS

Strengthen the Financial Management Systems and Control Functions

The financial management systems and control functions of the Public Schools should be strengthened. They should be integrated with the financial management systems at the District and with operational systems at the Public Schools. Integration will provide the District with overall financial control of the Public Schools at a summary level. Levels of service would be improved by integrating daily operating systems with more detailed financial information kept at the Public Schools.

The Finance Division at the Public Schools should be strengthened through adequate staffing. This Division should be supported by documented accounting procedures that are consistent with the revised accounting standards for the District. Further support should be provided by the Public Schools Department of Automated Information Services through the installation of computer-based systems that meet the financial and operational requirements of the Public Schools. These financial and operational systems should be designed and developed in close cooperation with the District. They should contain internal checks and balances which assure the reliability of data used at the Public Schools and transmitted

to the District. The internal controls should be complemented by a strong internal audit program performed by the District.

Improve the Methods of and Controls Over Financial Planning

The Public Schools have an adequate system for compiling its financial plan and placing it into its financial control system. The process for sending this financial plan to the District should be revised to provide an automated link between the computers that process the Public Schools Fiscal Accounting System and District Accounting.

The financial plan maintained at the Public Schools could be in greater detail than the one maintained at the District. The plan should be summarized prior to submission to the District. This would permit the Public Schools to reprogram detail lines of the financial plan without changing the District's summary figure. Reprogramming that causes changes to the summary plan at the District would continue to follow present approval guidelines.

Finally, the financial plan should be presented as a program financial plan. This permits the control, reporting and evaluation of each of the many programs provided in the functional areas of Instruction, Community Services, Pupil Services, Food Services and Administration.

Install One Computer-Based Financial Control System at the Public Schools

There should be one mechanized financial control system at the Public Schools. This system should support commitment, obligation and expenditure accounting. Accounting for grant projects should also be supported. This system should integrate with the operational systems for Personnel, Position Control, Payroll, Purchasing, Receiving and Accounts Payable activities. The system should integrate directly with the District Accounting System by sending summarized financial activity to the District in a form that can be processed directly by a computer.

A single system for financial control would permit rapid and accurate determinations of available funds. Requisitions for nonpersonnel items or requests to open a position would make a reservation of funds through commitment accounting. When the purchase order is prepared, or the position staffed, the commitment would become an obligation reflecting a binding agreement to pay for goods or services when received. After the goods are received and invoices checked, or after the payroll has been calculated, the obligation would become an expenditure.

The District should control the disbursement of cash. Expenditure vouchers prepared at the Public Schools should be sent to the District in sufficient detail to establish accounts payable information. The District should also control the receipt of cash. Information on grant program receivables should be prepared at the Public Schools and forwarded to the District in sufficient detail to establish accounts receivable information. Nonresident tuition receivable information should also be maintained at the District for the Public Schools.

Improve Financial Reporting at the Public Schools

The financial control systems at the District should support the preparation of a complete set of monthly financial statements at the Public Schools. These financial statements would be at a summary level and would permit the monitoring of financial condition and potential antideficiency violations. Balance sheets, revenue and expense statements, and changes in cash position should be the three major types of financial reports. They should be supported by a trial balance and a detailed list of the Public School portion of the District's General Ledger.

The financial control system and operational systems at the Public Schools should support program, project, and level-by-level management reporting. Program

reporting permits the control and evaluation of the cost of the different services provided by the Public Schools in greater detail than the financial plan maintained by the District. Project reporting permits the control and evaluation of the cost of nonrecurring services provided by the Public Schools that may or may not coincide with the Public School fiscal year. Project reporting is the basis for evaluating the grant programs and would be used to prepare reports of expenditures for claims and program reports. Level-by-level reporting permits the organizational units of the Public Schools to evaluate performance.

Reconsider Public Schools' Fiscal Year

The change in the District's fiscal year-end to September 30 will cause significant operational problems for the Public Schools. The new fiscal year-end is one month after the school year begins. This is the least desirable time to close the financial records of the Public Schools.

Financial and operating personnel are involved in student registration, personnel assignment and procurement problems associated with the opening of schools. A September 30 year-end closing would add to the heavy peak workload. Also, financial statements corresponding to the natural school year will still be required to effectively manage Public School operations.

A fiscal year ending in June (as in previous years), July or August would significantly reduce administrative problems. If Public Schools used a different fiscal year end, its budget could be prepared on that basis. The District financial statments as of September 30 would be consolidated to include the Public Schools earlier fiscal year financial statements.

Integrate the Public Schools' Payroll, Personnel and Position Control Systems

A thoroughly integrated system for personnel accounting, position control and payroll processing should be installed. The personnel function should provide information to assist in the effective selection and assignment of personnel. It should be integrated with the District's central payroll function to assure that persons are actually employed and assigned to funded and authorized positions before being paid. As employees are assigned, it should project and obligate funds to cover payroll costs.

The position control function should be integrated with the Financial Control System to record the commitment of funds for all authorized positions. The District's central payroll function should be integrated with the position control function and the Financial Control System to report distribution of payroll expenditures to the correct

accounts. The Personnel, Position Control and Payroll System should have controls to prevent or detect the entry of erroneous data.

Develop a Complete Procurement, Receiving and Payable System

A thoroughly integrated system for procurement, receiving and accounts payable should be developed and installed. The procurement function should be integrated with the Financial Control System at the Public Schools and process detail files of requisitions and purchase orders for all outstanding commitments and obligations. The procurement and receiving functions should be integrated with the Inventory Accounting System to record the dollar value of on-order and on-hand quantities. The accounts payable function should integrate with the Financial Control System to record the expenditure of funds and integrate with the District's Accounts Payable System to record potential cash disbursements. These systems should have adequate controls to prevent or detect the entry of erroneous data.

FINANCIAL PLANNING, CONTROL, AND REPORTING

GENERAL DESCRIPTION

Financial Planning

Financial planning in the District of Columbia Public Schools involves preparation of a working budget which is reviewed and approved by successive School, District, Federal Executive and Congressional authorities prior to its final approval in the form of a Congressional appropriation for the fiscal year. Each year's working budget starts with the total amount appropriated for the schools in the prior fiscal year. This amount is adjusted to eliminate nonrecurring costs and to include all known remaining cost increases. The budget is then reviewed by the Superintendent of Schools and modified to incorporate changes in educational objectives from the prior year. The resulting working budget is submitted in hearings to the School Board and to the public, and, in response to these hearings, the Board directs further adjustments before officially approving the budget.

This final budget is then adjusted to meet a tentative total spending limit for the Public Schools established by the Mayor of the District of Columbia. A firm spending limit for Public Schools is subsequently agreed upon by the Mayor and the City Council and the resulting detailed budget

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reflecting this limit is submitted to the Federal Executive Branch and, in hearings, to both Houses of Congress. These hearings result in a Congressional appropriation which is the legal authorization for expenditures against the Public Schools' portion of the funds provided for the operation of the District.

Like other public school systems, the District Public Schools receive additional funds from other sources. These funds include Federal grants for specific educational purposes and other reimbursements for services provided by Public Schools such as the Capital Page School. The additional grant and reimbursement funds are combined with those directly appropriated by the Congress to arrive at an overall financial plan for school operations.

The Public Schools' Budget Division maintains detailed information concerning the anticipated expenditure of the funds which are expected after each step of the review process. This information is carried in accounts in the Budget Division's computerized Budget Preparation System which are set up in the same way as those used to control and report the actual expenditures. Each account specifies the source of the funds in the account and the detailed nature and purpose of expenditures reported in the account.

Financial Control

At the start of the fiscal year, the accounts in the Budget Preparation System, with the associated amount of appropriated funds which are available for expenditure in each account, are forwarded to the Public Schools' Allotment System. The Allotment System, in turn, supplies this information on a computer tape to the District Accounting System. During the year, all expenditures are recorded in the District Accounting System to insure that they do not exceed the funds available. When the District Accounting System, which is the official accounting system for Public Schools, shows that these funds have been exhausted, no further expenditures are allowed.

In addition to controlling expenditures based upon the availability of appropriated funds, District Accounting also controls expenditures against what is expected to be spent during each quarter of the fiscal year. All anticipated expenditures are analyzed by the Public Schools' Budget Division and the District Office of Budget and Management Systems to determine the amounts of each type of expenditure that can be expected in each quarter. The balances obtained by this process are entered in the District Accounting System. There they are used to limit spending by making available only the cumulative quarterly subdivision of the total appropriated funds.

The Public Schools maintain several additional systems which have a similar purpose to District Accounting, i.e., to determine the availability of funds for individual accounts, to limit expenditures to the funds available, and to report the expenditures charged to the account. These systems use the same information concerning the source of the accounts' funds and the detailed nature and purpose of expenditures reported in the accounts as those used in the Public Schools' Budget Preparation System and the District Accounting System.

The first of these systems is the computerized Allotment System which records the total amount of appropriated funds available to each of the schools accounts, without reference to the amount currently remaining after expenditures have been deducted. This System also provides the details of the original amount in each account and changes in these amounts due to transfers of funds and similar adjustments. In addition to supplying original and revised amounts in the District Accounting System, the Allotment System also provides this information to the Public Schools' Fiscal Accounting System.

The computerized Fiscal Accounting System contains the current amount of funds available to each account as well as the total of expenditures made against the account and

the remaining unexpended balance. Some of the expenditure information in this System is entered directly by the Public Schools' Division of Finance while other information, such as salary expenditures, is sent from District Accounting System.

Pre-validation records contain the same type of information as the Fiscal Accounting System but is manual and limited to accounts for nonpersonnel expenditures.

In addition to these systems, several other manual systems exist for specific grant funds and for school lunch funds. These record the same type of information as is kept in the Fiscal Accounting System and pre-validation records. These systems were developed either officially or unofficially to provide information which, for various reasons, was unavailable, inaccurate, or not supplied on a timely basis from the other systems.

Financial Reporting

The Finance and Budget Divisions of the Public Schools receive a variety of computer-produced reports from District Accounting. Daily reports provide the details of individual expenditures made against each school account. Monthly reports provide information on the total of the funds made available to the accounts through the current

quarter, the total of expenditures charged to the accounts, and the remaining unexpended portion of these funds. Various details of the amount of funds available in each of several accounting categories are also provided in these reports. Actual expenditures relative to the expected expenditures for the year through the current quarter are also reported each month.

These reports are primarily used by the Divisions of Finance and Budget to identify and correct errors in the Public Schools' accounts in District Accounting. The Finance Division also uses several of these reports as a starting point for the quarterly report of expenditures which it prepares for distribution to the School Board and the public. To arrive at the figures reported in the quarterly statements, accounting information from District Accounting is adjusted for major corrections which have not yet been processed.

Details of the Public Schools' accounts maintained by District Accounting also are made available on a computer tape to Public Schools' Division of Automated Information Services where it is used to prepare special reports for the Finance and Budget Divisions. These reports arrange the account information differently from the way it appears in the routine reports prepared by District Accounting. The

reports are used by the Divisions of Finance and Budget for a variety of purposes.

The Allotment System provides a computer-produced report of the original appropriated amount for each account as well as any changes to this amount and the current appropriated amount for the account. The report is supplied to the Divisions of Finance, Budget, and Logistical Support when Public Schools' accounts are set up at the start of the fiscal year and when changes are made to the appropriated amounts. The report does not contain any information as to the amount of these funds which have been expended or the quarterly portions of the appropriated amount which has been made available for expenditures in District Accounting.

Regular computer-produced reports are also provided for the Division of Finance by the Fiscal Accounting System. These reports provide much the same information as those from District Accounting but without a division of appropriated funds into quarterly amounts and without some of the details of the accounting categories for expenditures supplied by District Accounting. The Fiscal Accounting System also has the capability to report this information for each school, however, for a variety of reasons, this feature is not currently being used.

Systematic reports are not produced from information in the other manual systems at the Public Schools. However, the pre-validation records maintained by the Division of Finance contains the most accurate and current information of the remaining available funds for nonpersonnel expenditure accounts and this information is communicated to interested parties by telephone or by inspection in the Division of Finance office.

FINANCIAL PLANNING, CONTROL AND REPORTING

DETAIL FINDINGS AND RECOMMENDATIONS

The Account Code Used by the Public Schools Is Lengthy, Complex and Causes Clerical and Reporting Errors

All of the systems used by the Public Schools for budgeting and financial control, as well as accounts in District Accounting, use a code of twenty-two characters to identify individual accounts. This means that for every transaction processed a clerk must enter on the applicable form up to twenty-two alpha or numeric characters. The account code is grouped into elements which communicate the following information.

Agency Code	- The agency, such as the Public Schools, to which the account is assigned.	2 characters
Account Type Code	- The general nature of the funds in the account, as for example, operating funds or capital outlay funds.	1 character
Fiscal Year Code	- The fiscal year for which the account is set up.	1 character
Fund Source Code	- The source of the funds in the account. For the Public Schools this would typically be either the Congressional appropriation or one of the various Federal grants to the Public Schools such as E.S.E.A. Title I.	3 characters

Category Code	- The major type of school operation with which the account is associated, such as elementary education, senior high education, or instructional support.	1 character
(1) Accountable Office Code	- The major administrative organization, such as Central Office Division, with which the account is associated. This code does not, however, relate the account with individual schools.	2 characters
(1) Limitation Code	- An additional source of information concerning the nature of the funds in the account.	2 characters
(1) Subcategory Code	- A further subdivision of the operation associated with the account such as classroom instruction, pupil services, or business services.	1 character
(1) Budget Unit Code	- Used in combination with subcategory to indicate the most detailed breakdown of Public Schools' operations including individual subject areas, such as English and instruction for the deaf and hard of hearing.	2 characters
Main Object Code	- The general classification for the type of expenditure recorded in the account such as full-time permanent (positions), personnel benefits, or supplies and materials.	2 characters
Sub-object Code	- A more detailed division of main objects.	2 characters
Unused	-	3 characters
	Total characters	22

(1) Only these elements are controllable by the Public Schools.

The Public Schools' codes use a combination of alphabetic and numeric characters in four of these elements.

The size and composition of the account code used by the Public Schools and District Accounting creates problems in the preparation and processing of documents and the reporting of information from these systems. The size of the code and its use of both alphabetical and numeric characters makes it difficult to interpret for routine clerical use as well as difficult to transcribe correctly to documents processed by each of the systems.

Both of these problems combine to increase the probability of documents being processed with incorrect account codes. This type of error is difficult to detect once the document has been processed. Considerable clerical expense is currently incurred in the location and correction of this type of error.

Currently, accounts can also be set up in District Accounting whose account codes are internally inconsistent. Many of the possible combinations of the elements which make up an account code, that is the Agency, Account Type, Fiscal Year, Fund Source, etc., can be eliminated from a listing of plausible accounts by an individual knowledgeable in the details of the codes. For example, it is possible to identify

Objects which make no sense in combination with certain Categories. There are no computerized checks in District Accounting for this type of obviously incorrect combination of code elements, and thus invalid accounts may be set up and used to accumulate expenditures through simple clerical errors.

The size of the account code also makes reports difficult to interpret when the meaning of each element of the account code is not described in writing as an integral part of the report. This is especially true of reports from District Accounting which are produced without these descriptions. The absence of a written description limits the use of the reports to individuals who are conversant with the codes, and inhibit the use of the reports by nonfinancial management.

In many cases separate elements of the account code repeat information. In these cases if one element such as the Budget Unit is known, the information in the Category element can be inferred. In a similar manner, Account Type can often be inferred from the Fund Source element. Even though no additional information is imparted by the second element, its code must be entered on all documents processed by any of the systems which require the account code.

The meanings of codes for a particular element are also inconsistent in a number of cases. For example, the Budget Unit code, which is intended to identify specific school operations, is at times used to identify specific curricula, broad groups of related curricula, physical locations, and information of a strict accounting nature. These inconsistencies make reporting of these accounts ambiguous and difficult to use for management purposes.

A further problem stems from the fact that the same element is frequently designated differently in the various systems which use it. Function, Agency Activity and Budget Unit all refer to the identical account code element. This variety of terms creates confusion when users of the different systems attempt to communicate information common to the accounts in the various systems.

The Main and Sub-Object codes contain, in many cases, extremely detailed breakdowns of expenditures. For example, communication charges for telephone and similar services are accounted for under three separate Sub-Objects by Public Schools, and the account codes provide four additional classifications for this kind of charge which are not used by Public Schools. Overall there are thirty major expenditure classifications provided in the Main Object account code element and four hundred and fifty subdivisions

of these major classifications in the Sub-Object element, all of which are available to Public Schools for financial reporting purposes. Of these, the Public Schools currently use seventeen of the major classifications and eighty-six of the subsidiary classifications.

Since the account code must be entered on all documents which are processed by any of the financial planning and control systems, any unnecessary complexities in the elements which make up the code have a cost associated with them. Additional complexity in the code elements increases the clerical effort required to set up the accounts and to determine the correct code and properly enter it on the documents. A further cost associated with a complex account code is the increased likelihood of errors and the attendant clerical costs of locating and correcting them.

Recommendations

In the short-term, a procedure should be established to verify the correctness of each account in all of the budgeting and financial control systems used by the Public Schools and in the other systems which pass information to it, with particular attention to the computerized

systems. The correctness of these codes should be determined annually at the time when the accounts are set up. This review and the on-going monitoring of the codes should be the explicit responsibility of either the Division of Finance or the Division of Budget.

Also in the short-term, the Division of Budget should, with the concurrence of the District Office of Budget and Management Systems, seek to reduce the number of different account code elements, and hence accounts, used for budgeting and financial control.

The Division of Budget should also undertake the analysis and consistent redefinition of the codes within the Budget Unit or Agency Activity account code element. Consistent Budget Unit information would provide the basis for more detailed analyses of school operations by the Division of Budget with a consequent increase in the range of policy options developed in the budgeting process.

In the long-term, a completely new account code should be defined which would reduce the total number of characters required to identify an account. Individual codes for information which is not required for routine budgeting, control, or reporting purposes should be eliminated from the account codes and alternative administrative controls or special manually prepared reports should be substituted

to accomplish special reporting and control objectives.

Each element of a new account code should be used to identify one type of information without redundancy between the codes of the elements. Any new code should also be consistently defined in all systems which require account information. Additional information necessary for reporting or control purposes which can be inferred from account code elements should not be incorporated in the code, but instead should be added by the computer when the appropriate reports are produced. In addition to these characteristics, tests for the reasonableness of code elements individually and in combination should be incorporated in any new systems which would use the account code.

Current Appropriation Information Is Not Available In the District System

A test was made of the appropriation amounts in the Fiscal Accounting System, reflecting the amounts in the Allotment System, and the corresponding accounts at District Accounting as of the end of Fiscal 1975. Accounts in both systems with the same Agency, Account Type, Fiscal Year, and Source of Funds Code were summarized to obtain comparable figures. Of the sixty-six sums obtained in this fashion in each of the systems, only thirty-nine were in agreement. Thus, the official District Accounting System and the Fiscal

Accounting System, and by implication the Allotment and Pre-Validation Systems, showed differing amounts of funds to be available for expenditure.

The difference between the amounts in these systems has a number of consequences. It appears that the most current information is not present in the official financial control system (District Accounting). This means that control over the expenditure of funds in that system is based upon amounts which may be inaccurate, and that some expenditures for which funds are actually available will be erroneously rejected while others which do not have sufficient funds will be accepted. Either of these situations makes proper financial management difficult. When expenditures are made where funds are not available, there is the possibility of deficit conditions in the accounts. When a transaction is erroneously rejected, there are unnecessary delays in processing the expenditure, as well as substantial additional clerical effort in preparing and processing adjustments to the account and reprocessing the expenditure documents through many of the original administrative and data processing steps.

Recommendation

Procedures should be set up immediately which would require forwarding of changes to the appropriation

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amount in the Public Schools' accounts to District Accounting on at least a monthly basis and require District Accounting to process the changes and notify Public Schools of this processing within three days of the receipt of the changes.

The Schools' Sophisticated Budget Preparation System Is Not Fully Utilized

The computerized Budget Preparation System was developed by the Public Schools' Division of Budget and has been in use for several years. The System contains the "base" amount appropriated in the prior fiscal year for each non-salary expenditure account and for each position which was staffed. The latter information is summarized to provide appropriated amounts in salary expenditure accounts.

Starting with the "base" figure, the Division of Budget adds amounts for planned expenditures for additional facilities, new types of services, increase in salaries related to grade changes, increases in salaries for other reasons, amounts required to fully fund partial-year positions from the prior year, and other miscellaneous increases. Each of these amounts and their sum is available for each position or account. All of these amounts are permanently recorded on computer tape for each position or account thus providing an exact record of required changes at each major

step of Public School, District, Federal Executive, and Congressional review.

The System provides reports based upon any elements of the account code, grade code, or position title, either alone or in combination with other information on the file. For most analyses used in preparing a budget, the amounts are reported based upon the account code category element and the grade and job title codes.

Following passage of the Congressional appropriation, the final version of the budget information, which was the basis for the Public Schools' portion of the appropriation, is forwarded to the Fiscal Accounting and Allotment Systems and from the Allotment System to District Accounting and the Public Schools' pre-validation records.

As the fiscal year progresses, any permanent changes in expenditures relative to appropriated amounts in each account are entered in the final "Congressional Appropriation" version of the Budget Preparation System information, since it will become the base for the next year's budget. These changes are also entered in the Allotment System along with temporary changes which will not affect future years' budgets. These changes are forwarded to the Fiscal Accounting System as well as periodically sent on computer tape from the Allotment System to District Accounting.

The analysis of projected expenditures which accompanies the preparation of the budget relies upon reporting of budgeted amounts by ten category elements, such as elementary or junior high education. Reporting operations on this basis is artificial since it specifies only broad types of operations and not the educational and administrative objectives. In addition, this reporting does not provide a framework within which subsidiary objectives can be placed in meaningful relation to these overall objectives.

Recommendation

In the short-term, a consistently defined Budget Unit classification can be used in the Budget Preparation System to provide the structure for more detailed budget analyses based on specific purposes of expenditures. With such information, a greater variety of policy alternatives can be made available to the Public Schools' administration and the School Board, and these alternatives can be more easily reviewed from the perspective of Public Schools' total resources and major objectives.

Allocation of Potential Budget Adjustments Are Not Systematically Considered in the Budget Process

The nature of the budget approval process limits the content of the budget at any point to the amount and

allocation of funds which were approved by all prior authorities. Numerous adjustments which are required at any review level must be reflected in the working budget. The total effect of the successive adjustments in the funds and their distribution makes it difficult to plan future years' educational programs on the basis of expected funding levels and allocations.

Recommendation

Using the perspective of the educational objectives, Public Schools should set up a procedure as part of the budget preparation process for explicit consideration of the allocation of potential budget adjustments prior to their imposition. This allows for advance consideration of alternatives by school management and more consistent allocation of funds relative to these objectives. For example, various levels of support to specific school operations could be based on a percentage of the educational objective amounts.

Change in Fiscal Year-End Will Cause Significant Operational Problems

The change in the District's fiscal year-end to September 30 will cause significant operational problems for the Public Schools. The new fiscal year-end is one month after the academic year begins and, thus, is the least desirable time to close the financial records of the Public Schools.

Normally, financial and operating personnel are involved during the initial weeks of a new session in resolving student registration and related problems. A September 30 year-end closing would add to the heavy peak workload. Also, financial statements maintained on the natural academic year would still be required to effectively manage Public School operations.

Recommendation

A fiscal year ending in June (as in previous years), July or August would significantly reduce administrative problems. If Public Schools used a different fiscal year end, its budget could be prepared on that basis. The District financial statements as of September 30 should be consolidated to include the Public Schools' earlier fiscal year financial statements.

Budget Change Procedures Are Not Responsive to Public Schools' Requirements

The present procedure for making major changes to the Public Schools' spending plan for the year, even within the limits of the appropriated amounts, requires the approval of the District Office of Budget and Management Systems. Public Schools have experienced delays in the processing of these requested changes and disapproval of many of them.

Recommendation

In view of the current requirement for budget preparation well in advance of the school year, Public Schools should be given more latitude in adjusting its spending plan within the limits of its appropriation. This would allow greater flexibility in determining the most beneficial expenditures of these funds to meet changing educational requirements.

The District Accounting System Is Not the Primary Basis for Financial Control

The Public Schools maintain two major types of control over expenditures. Control for nonpersonnel types of expenditures is accomplished through the pre-validation records, which manually record the amount of Public Schools' appropriation available to each account and any changes to this amount, each expenditure or adjustment to expenditure charged to the account, and the remaining unexpended amount in the account. A check for the availability of unexpended funds is made in this system prior to any other processing of requested expenditures. No further processing of the request is performed when this system shows funds to be insufficient.

Expenditures for salary and salary related items are controlled in an indirect manner because of the impracticality of manually determining the amount of each employee's total salary for the year and entering this on a record for each personnel expenditure. Control is loosely maintained by manually projecting average expenditures for the remainder of the fiscal year from the most recent periods' actual payroll expenditures. If these projections indicate potential overspending of the appropriation, school management has the option of controlling remaining expenditures for the year by imposing a freeze on hiring for new positions, declining to fill vacancies occurring during the year, or similar indirect measures.

Control over personnel and nonpersonnel expenditures is not based upon the amounts shown to be available by District Accounting because of its quarterly limitation on the availability of funds, charges of expenditures to incorrect accounts, and the tardy recording of expenditures. Expenditures are recorded in District Accounting only to comply with requirements for correct official accounting and not to control their actual outlay.

Recommendation

The proposed financial management information system discussed in Volume II of this report will solve this problem.

Control Over Expenditures Is Not Based Upon the Total Annual Appropriation

District Accounting limits expenditures of appropriated funds to a predetermined series of quarterly expected expenditure amounts and, in some cases, to the actual receipt of the funds to be expended. This procedure allows accurate determination of the requirement for funds throughout the fiscal year, but also poses severe problems for the entire process of financial control within the District's agencies including the Public Schools.

The necessity to determine, review, set up and maintain the information relating to the quarterly divisions of appropriations imposes a substantial clerical burden on Public Schools. Control by this means requires elaborate accounting procedures for handling exceptions to the usual sources of funds as, for example, with controlling of grant funds which are received subsequent to Public Schools' expenditure. Because of this type of control, expenditures, for which the Public Schools' have contractual responsibility and whose amount is known, such as salary items, cannot be reflected in the system even though this information would provide early warning of the actual amount of potential deficits. Likewise, expenditures which are within the limits of Public Schools' annual appropriation can be disallowed because of the exhaustion of the quarter's funds thus causing added clerical and data processing effort.

Despite the effort which is required to use this type of control and the additional problems it entails for routine processing of expenditures, the spending limits established by the procedure are routinely circumvented by the most important class of expenditures, i.e., salaries, which are allowed to be expended even when their amount exceeds that which is available for the quarter.

Recommendation

Beginning with Fiscal 1977, Public Schools should have made available the full amount of appropriated funds for all accounts at the start of the fiscal year. The sole limitation on the expenditure of these funds should be this total amount. Requirements for funds within the fiscal year should be determined independently of the financial control process.

The Current Amount of Unexpended Funds Is Not Available in District Accounting

For a variety of accounting, procedural, and data processing reasons, District Accounting does not have accurate and timely information about the unexpended amounts remaining in the Public Schools' accounts. Processing by District Accounting is generally based upon the policy that only firm commitments to expend funds, and, in the case of salary expenditures, only the current and prior portion of the

year's commitment to expend funds, should be treated as expenditures in the system. Neither expenditures which are intended and which are being processed prior to the status of firm commitments nor salary expenditures for future periods reduce the amount of available funds in the Public Schools' accounts. In similar fashion, the estimated amount which is expected to be expended for a position which is open but unstaffed is not shown as a reduction to the unexpended balance. The amounts of all of these intended expenditures are known with reasonable precision from the time a requisition is prepared or a position is opened or staffed, and in most cases, there is a clear intention by the Public Schools to eventually make the expenditure.

Since many of these intended expenditures are not reflected in the accounts, the true amount available for expenditure at any time up to the end of the fiscal year is always less than the amount shown by District Accounting. Additional information must be maintained outside the system about the total amount of the individual intended expenditures at any time to prevent overspending of the appropriated amount.

Recommendation

For Public Schools, the pre-validation records accomplish this function for nonpersonnel expenditures. The pre-validation processing should be continued pending development of a comprehensive financial control system.

For personnel expenditures, the full expected amount of salary and salary related items should be obligated in District Accounting at the time a position is staffed. With the exception of intended expenditures associated with positions which are intended to be filled but are yet unstaffed, this procedure will provide an accurate figure in District Accounting for unexpended amounts in salary accounts, and eliminate the current requirement for complicated estimates of year-end surpluses or deficits.

District Accounting Does Not Process Adjustments on a Timely Basis

Adjustments to correct errors in the Public Schools' accounts by District Accounting encounter delays in processing, and in some cases must be resubmitted several times before they are recorded. These delays require increased clerical effort to determine their cause and duplication of previous clerical and data processing effort when resubmissions are required. Since these errors persist in District Accounting, its credibility for financial reporting is further undermined.

Recommendation

To solve this problem, explicit and detailed procedures should be developed for the proper preparation of these transactions and their processing by District Accounting within three days of their receipt. These procedures

should also provide for corrections of minor errors made by District Accounting personnel by consultation with the Public Schools' Division of Finance, rather than incurring the clerical cost of multiple reprocessings of the same transaction.

Uncertainty As to Control Over Expenditures for Statutory Requirements

Uncertainty exists about the control which must be exerted over expenditures to insure that they do not exceed the spending limits imposed by Congress. In particular, there is no explicit direction as to the level of detail at which this limit must be imposed by District Accounting. Until recently, the practice has been to determine whether sufficient funds were available for each particular expenditure by summarizing the amounts in all Public Schools' accounts for the same Agency, Account type, Fiscal year and Fund Source and checking the amount of the item against the total. This limit now includes one additional level, the "Budget Structure" or Category and Accountable Office elements of the account code which are used to associate the account with a major division of the Schools' operations.

Recommendation

Action should be taken to determine explicitly the minimum level of control over expenditures needed to comply

with statutory antideficiency requirements. This control level alone should be exercised by District Accounting. Control of expenditures connected with the management of school operations should be exercised by the Division of Finance so long as the statutory requirements are met.

The District Accounting System Imposes Unnecessary Clerical Requirements

The Congressional appropriations and other funds available to the Public Schools must be divided among its accounts in District Accounting at the start of the fiscal year. This requires substantial clerical effort by school administrators, the Division of Budget, and the Division of Finance to break down and record the funds in this manner. Despite this data processing requirement by District Accounting, actual control over the expenditure of funds, as described previously, is based upon an aggregation of these individual amounts.

Since school administrators have flexibility in changing their spending plans for supplies and other non-personnel items, the amount of funds to be made available to these accounts must be adjusted frequently during the year. These adjustments require additional clerical effort to prepare, approve, and transcribe forms at individual schools, the school region offices, the Divisions of Budget and

Finance, as well as at District Accounting. They also require preparation and dissemination of several reports to various authorities notifying them of the changes.

Recommendation

Any new financial or control system for the Public Schools or District should allow for appropriations to be made available at a summary, rather than detailed, level and also for these funds to be made available for expenditures in individual accounts without distribution of the appropriation amount prior to the actual expenditure.

Financial Reporting by District Accounting Needs to Be Improved

The computer-prepared reports which are generated by District Accounting organize the financial information into a variety of accounting classifications, the business purposes of which are obscure and which are irrelevant to Public Schools' financial management and reporting requirements. Additionally, there is no up-to-date documentation available to the Public Schools concerning the contents of the accounting classifications which have potential financial significance.

Because of these and problems discussed elsewhere in the report, such as lack of descriptions for account codes and misleading expenditure and available balance

amounts, this reporting is of little use for nonfinancial or financial control of current operations.

The principal uses of the reports prepared by District Accounting in the Division of Finance are to verify the correct accounting of earlier expenditures and to provide a starting point for manual estimation of the Public Schools' current and year-end financial position. The routine District Accounting reports are supplemented for both of these purposes by special reports prepared by the Department of Automated Information Services from information regularly supplied from the District Accounting.

Recommendation

In the long term, the specific information requirements for operational and financial control should be determined and accommodated within a consistent and mutually supporting series of financial reports.

The Fiscal Accounting System Is Not Responsive to User Needs

The Public Schools' Fiscal Accounting System was primarily developed to provide individual schools with reports of the amount of appropriations, expenditures and unexpended balances for their accounts. While this is a legitimate reporting requirement, it cannot be satisfied in

the framework of the current system. Salary information originates in District Accounting which does not have the necessary information to relate these expenditures, the largest incurred by the Public Schools, to individual schools on a consistent basis.

Recommendation

In view of these major problems, and since at the present time Fiscal Accounting System reports are unused except to reconcile differences between District Accounting and the Fiscal Systems, all Fiscal Accounting System processing should be discontinued. This will enable clerical personnel who are currently engaged in preparing input for this System to be released for other more productive duties.

Financial Reporting to the School Board and Public Is Not Adequate

The quarterly financial reports currently prepared by Public Schools contain only information about actual versus planned expenditures for the period. These reports are prepared manually from information supplied in the regular District Accounting reports, and from the preparer's knowedge of any major corrections or adjustments which do not appear in the reports.

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The current reports do not contain any information about the Public Schools' assets, liabilities, or the details of current effects of prior years' surpluses, deficits, and current year adjustments to the amounts received or expended in prior years. In addition, the reports do not show revenue either separately or in association with information about the way these revenues were expended. This latter type of information is of particular importance in determining the Public Schools' overall financial position since deficits may arise from shortfalls of revenue as well as overexpenditure of appropriations.

Recommendation

A comprehensive financial reporting system should be developed to provide this information in computer-produced reports as required. These reports should be prepared from information maintained centrally by the District, both for the Public Schools as a whole and for specific types of funds such as grant monies whose overall financial position must be reported to third parties. This system should also provide the ability to produce Combined Funds Balance Sheets, Combined Statements of Revenue and Expenditures, and the necessary supporting reports such as detailed trial balances for the District as a whole and for individual agencies such as the Public Schools.

Financial Reporting for Daily Management Is Not Adequate

A number of deficiencies currently combine to preclude the use of financial information as an effective management tool for controlling school operations. At present there are no means of assigning appropriated amounts, or most expenditure amounts to individual schools nor to summarize these amounts by higher administrative levels such as Regions. Current reporting is based on account code classifications which reflect "traditional" educational reporting categories instead of flexible program classifications structured around the particular educational objectives and management concerns of the Public Schools. In addition, current reporting is unable to accommodate the special project reporting needs of grant and reimbursable activities.

Recommendation

In the long term, a computerized, management oriented, financial control system and subsidiary systems required for special functions such as inventory control should be set up in and operated by the Public Schools. All level-by-level organizational reporting, program reporting, and project reporting required for the management of Public School operations should be produced by the proposed financial management information system of the District discussed in Volume II of this report.

The Value of Nonresident Tuition Receivable Is Not Determined

Many students who live in the District are assessed nonresident tuition. All unpaid amounts due from these students, much of which can be expected to be written off through an administrative determination of the students' status, along with unpaid amounts from true nonresidents are recorded in the records of the Nonresident Tuition Branch. The collectible portion of the unpaid tuition is currently estimated to be between $50,000 and $60,000 but no systematic procedure is used to establish this amount. An account does exist in District Accounting, however, it has a current balance of approximately $325.

Recommendation

Steps should be taken immediately by the Division of Finance to set up procedures for establishing the value of these amounts and reporting this in the appropriate account in District Accounting.

PERSONNEL-POSITION CONTROL-PAYROLL

GENERAL DESCRIPTION

Personnel expenditures account for over 80% of the District of Columbia Public Schools' budget. Consequently, accurate financial accounting, budgeting and control of all personnel expenditures is essential for the financial well-being of the Public Schools. Control over these expenditures is provided by the personnel, position control and payroll functions. Through these functions, the Public Schools select, assign, pay and account for its employees.

There are three systems and procedures used by the Public Schools for personnel, position control and payroll.

- Personnel - responsible for the selection, classification, assignment and record-keeping of Public School employees.
- Position Control - responsible for the definition and control of authorized jobs within the Public Schools.
- Payroll - responsible for the payment of employees and accounting for the payroll expenditures.

Our review included interviews with key people throughout the personnel, position control and payroll functions, including the following.

- School principal.
- Regional superintendents and personnel coordinators.

- The Director and support personnel within the Division of Personnel.
- The Director and support personnel within the Division of the Budget.
- The Director and support personnel within the Division of Automated Information Services.
- The Supervisor and support personnel within the Payroll Section.

The interviews concentrated on the manner in which the personnel, position control and payroll functions are currently performed and on problems existing in these functions. Selected samples of transactions were observed and in some cases traced through the system to determine the actual processing steps and where time delays were encountered.

The inter-system relationships necessary for effective financial control are depicted by the chart on page 65. Financial control begins with the annual budget which becomes funding allotments for the current year. The budget and allotments are revised during the year using budget change requests. The budget authorizes specific funding and number of positions within each accounting classification code. The Position Control System controls all authorized positions, filled and vacant. This System should record the commitment of sufficient funds to cover estimated payroll costs of employees who may fill the positions.

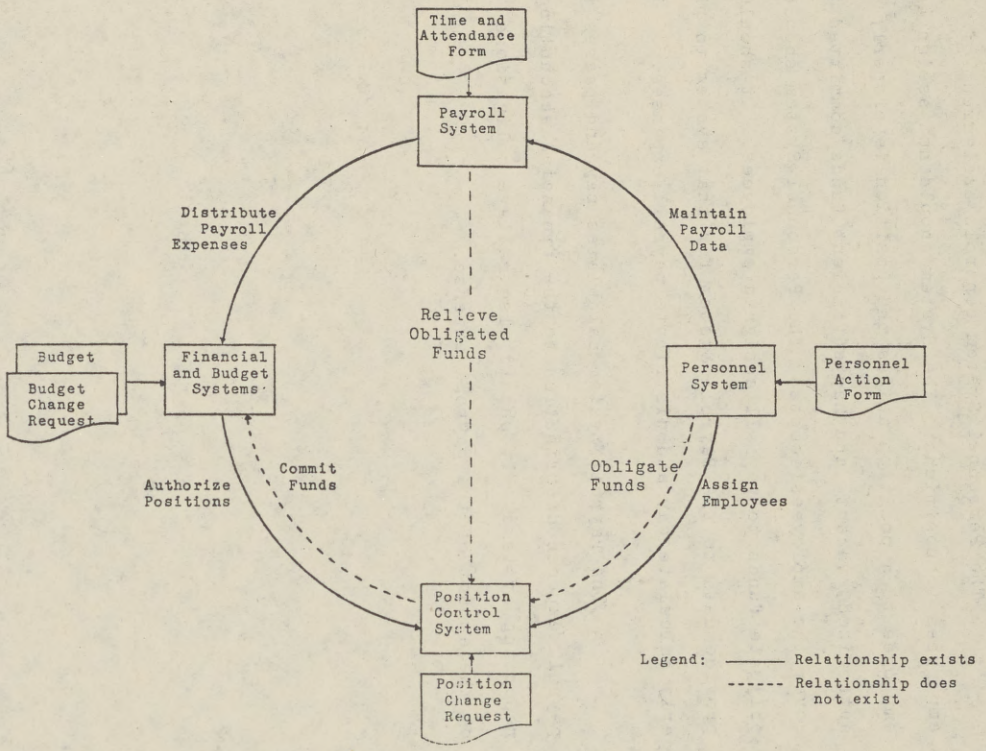
The Personnel System controls assignment of employees to positions. The System should not assign an employee to a position unless the position is properly authorized, vacant, and has sufficient funds committed to cover the employees' costs. The Personnel System should obligate funds to pay all assigned employees. It should provide data to the Payroll System for that system to properly calculate pay and distribute payroll expenses.

The Payroll System calculates pay and passes the payroll expense distribution to the financial accounting and reporting systems. It should also relieve obligations by the amount of the payroll expense.

DISTRICT OF COLUMBIA PUBLIC SCHOOLS

PERSONNEL-POSITION CONTROL-PAYROLL

INTERSYSTEM RELATIONSHIPS



Overview of the Personnel System

The Personnel System discussed in this Volume is actually a group of several separate but closely related systems and procedures with the following functions.

- Selecting employees and assigning them to positions.
- Evaluating credentials and classifying employees.
- Processing salary changes due to promotions, additional education and changes in status.
- Processing employee transfers, resignations, termination, leaves of absence and retirement.
- Maintaining records and employment history of all school employees.
- Providing management with personnel information to assist with planning and budgeting.
- Providing information to the Payroll System, including employee name, Social Security number, and pay rate.

The above list is not intended to include all personnel administration functions, but only those performed entirely or in part by the Personnel System. Such important functions as recruiting, interviewing, labor relations, and employee counseling are considered to be external to the Personnel System.

The following paragraphs summarize the manner in which the current Personnel System processes the most common and significant personnel actions.

- Professional certification.
- Employment application.
- Assignment of professional personnel.
- Assignment of general schedule (GS) personnel.
- Salary advancement of professional personnel.
- Retirement.

Professional Certification

A prerequisite for assignment to any professional position is issuance of a professional certificate. Professional personnel include teachers, counselors, librarians, psychologists, pupil personnel workers, school social workers, attendance officers, psychometrists, census supervisors, child labor inspectors, speech correctionists, hearing therapists, and technical and industrial teachers.

Each professional applicant must submit an application, birth certificate, and copies of college transcripts to the Board of Examiners. The Board of Examiners evaluates the applicant's credentials and determines if all requirements have been satisfied for a standard probationary certificate, a provisional probationary certificate, or a

temporary certificate. If the applicant qualifies for a certificate, the Board of Examiners then determines the applicant's salary group on the basis of his education level. A professional certificate is sent to the applicant and a statement of certification is sent to the Division of Personnel.

Employment Application

Upon being certified, the applicant must submit an employment application, chest X-ray, and copies of college transcripts to the Division of Personnel. If a current opening exists for which the applicant is qualified, he is referred to the personnel coordinator in the region with the vacancy. Otherwise, the application is filed in the Division of Personnel. It is normally suggested that applicants also apply to each region in which they wish to work.

Assignment of Professional Personnel

A regional personnel coordinator normally becomes aware of an anticipated vacancy when he is notified that an employee is terminating or retiring. At that time, the coordinator refers to his file of applications and selects several applicants who appear to be qualified for the position. In some cases school principals suggest candidates

to fill their anticipated vacancies. If candidates are not found from these sources, the personnel coordinator contacts the Division of Personnel to determine if there are any appropriate applications on file in that office. The personnel coordinator then verifies that all candidates under consideration have been properly certified and informs the school principal that those individuals should be interviewed. The principal interviews each candidate, selects the individual to fill the vacant position, and informs the regional personnel coordinator of his selection. The personnel coordinator then initiates the assignment action by preparing a Personnel Action Worksheet which is sent to the Division of Personnel. The Division of Personnel prepares and distributes a Personnel Action form.

Assignment of GS Personnel

Applicants for GS positions must complete a Personnel Qualification Statement (Form 171). This form is attached to a Personnel Action Worksheet prepared by the regional personnel coordinator, and both documents are forwarded to the Division of Personnel. A personnel staffing specialist reviews the Qualification Statement and determines the employee's pay grade.

Salary Advancement of Professional Personnel

As they obtain additional educational credits, professional personnel are eligible for advancement to higher salary groups. To obtain an advancement, the employee must submit copies of his college transcripts to the Board of Examiners for review. If the advancement is approved, the Board prepares a Personnel Action Worksheet and sends it to the Division of Personnel where a Personnel Action form is prepared and distributed.

Retirement

Retirement actions are normally initiated by the Division of Personnel. When an individual retires, it prepares a Personnel Action Worksheet and, using a computer terminal, verifies that the data on the worksheet agrees with the data on the master files. A Personnel Action form is then prepared and distributed.

Overview of the Position Control System

The purposes of a position control system should be to define and control authorized jobs within an organization and to provide a link between Personnel, Payroll, Financial Control and Budgeting. Position control systems are designed to perform the following functions.

- Prevent personnel costs from exceeding allotted funds.

- Provide data to assist in recruitment and assignment of personnel to satisfy current and anticipated needs.
- Provide data to assist with budget preparation.
- Provide management with information to assist in planning personnel staffing requirements.

The central element of any position control system is the positions. Positions should be associated with authorized jobs, not with individual employees. Each position normally has a unique identifier and descriptive information, such as the following.

- Job classification indicating type of work.
- Account from which the position is funded.
- Salary level.
- Physical location of the work.
- Organizational unit responsible for the position.
- Work schedule.

Additional financial control can be provided when each position also carries a fund commitment. A sufficient amount of funding should be committed to the position and obligated to cover the estimated cost of the position for the fiscal year.

It is important that a position control system tie directly to the budget. No position should be authorized

unless the budget contains adequate funds to pay employees who are expected to be assigned to that position. Funds for the position should be committed and prevented from being used for any other purpose unless the position is vacant for some period of time in which case committed funds may be reprogrammed to other positions.

Data contained in a personnel system should be associated with individual employees without regard to the positions which the employees are assigned. The Personnel System should be tied to the Position Control System by assigning each employee to a specific position. Personnel Systems control employees, Position Control Systems control positions, and the two systems together, if properly integrated, control assignment of employees to positions.

Position change requests are originated in the schools and regional offices in response to changing requirements. Examples of typical position change transactions are the following.

- Change the funding of a position from one accounting classification code to another.
- Move a position from one school to another.
- Increase or decrease the salary grade of a position.
- Add a new position.
- Delete an unnecessary position.

Changes are submitted to the Division of the Budget on a Budget Change Request Form signed by the regional superintendent or personnel coordinator. Requests affecting grant funds are forwarded to the Public Schools' State Grant Office for approval before being processed by the Division of the Budget.

The position change request is then reviewed by the Deputy Superintendent for Management Services who must approve all changes. If the requested change affects school policy, it is sent to the Superintendent of Schools for approval. Approved requests are then returned to the Division of the Budget where they are reviewed and approved by the budget director.

Approved requests are given to the position control clerk who, using a computer terminal provided for this purpose, verifies that all data on the request are consistent with information on the Position Control File. The clerk assigns a ledger number to each transaction and records it in a control log.

After they have been logged, a budget analyst reviews the requested changes to determine their impact on budgeted and allotted funds. If a change affects next year's budget, it is entered onto a budget change coding sheet and submitted to the Budget Preparation System. If the requested

change affects fund allotments for the current year, the budget analyst enters an allotment change transaction through a computer terminal. The budget analyst then dates and initials the request and records the change control number on the request form.

The change request form is returned to the position control clerk who enters the necessary position change transaction data on the Position Control File using a computer terminal. The transaction is then recorded as completed in the control log and the request form is filed. The Position Control System produces updated lists of positions, punched cards for use by the Personnel System, and an audit trail list of transactions indicating data values before and after each change.

Proposed Changes to the Personnel and Position Control Systems

The Division of Automated Information Services has proposed major changes to the Personnel and Position Control Systems in an attempt to improve control and eliminate some unnecessary operations. The most significant feature of the proposed modifications is the use of a computer-prepared turnaround document (OMS-76-2) for personnel and position change actions. The turnaround document would replace both the Personnel Action Worksheet and Position Change Request

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Form. Each document would be preprinted with all current data for an employee and his position.

The documents for all employees within a region would be filed at the regional offices. When the region finds it necessary to initiate a position or personnel change action, the regional personnel coordinator would note the change on the turnaround document. The document would be signed and sent to the Division of Personnel or the Budget Division for approval. Approved changes would be keypunched and entered into the Personnel System or the Position Control System. The automated systems would edit and validate the data, update the master files, and produce a new turnaround document to be returned to the regional office.

Overview of the Payroll System

The District of Columbia Public Schools has limited payroll responsibilities due to the centralized Payroll System used by all District agencies. There are three major payroll functions performed by the Public Schools.

- Report time and attendance data.
- Maintain certain payroll records.
- Distribute employee paychecks.

The actual processing of Time and Attendance forms and calculation of employee pay is the responsibility of the

District Office of Budget and Management Systems. The payroll responsibility of the Public Schools begins with the receipt of Time and Attendance forms. The Public Schools' Payroll Section sorts the forms by organizational unit, reviews them to determine if all units have been accounted for and then distributes them to the units.

The Time and Attendance forms are delivered to each unit's timekeeper who holds them until the next pay cycle begins. The timekeeper's main duty is to report all attendance data for employees within his organizational unit. In most cases, employees' attendance is verified by sign-in sheets which employees are required to sign when they report for work.

Time and Attendance forms are prepared the day before they are due at the Public Schools' Payroll Section. The timekeepers refer to the sign-in sheets to prepare the forms from this source of data. The length of time necessary to complete the forms varies with the size of the unit and the skills of the timekeeper. On the average, this process takes from four to sixteen hours.

The actual completion of forms begins with the entry of either the days or hours worked for an individual. For teachers or educational administrators, days are entered;

for all others, actual hours worked are entered. Next, all leave data are entered. This is accomplished by entering the previous period's ending leave balances on the new forms, entering all transactions affecting leave balances, and calculating the new leave balances. This is the most time-consuming step in the preparation of the Time and Attendance forms.

The last step is to summarize all of the information and certify the form. The timekeeper is required to sign each form certifying that the time and attendance information entered thereon is correct.

Once completed, the forms are sent to the Public Schools' Payroll Section. This section has the following major responsibilities.

- Review all Time and Attendance forms submitted for Public Schools employees.
- Prepare Time and Attendance forms for substitute teachers.
- Review all payroll-related personnel documents.
- Research all Public Schools employee payroll problems.
- Maintain certain employee payroll records.
- Assist timekeepers on payroll matters.
- Receive employee paychecks from the District.

The review of employee Time and Attendance forms is one of the most important responsibilities of the Payroll Section. The Payroll Section sorts all forms by region, organizational unit and employee name. The forms are then reviewed for completeness and accuracy. If any problems are noted, the timekeeper responsible for the preparation of that form is consulted and corrections are made.

After all forms have been reviewed, they are sent to the District of Columbia's Payroll Section. Following payroll processing, employee checks and earning statements are sent to the Public Schools' Payroll Section.

The Payroll Section is an intermediary in the check distribution process. The checks and earnings statements are sorted by organizational unit and distributed. They are not reviewed for reasonableness or to determine if they have been submitted for all employees. The checks and earnings statements are then distributed to the timekeeper of each unit. It is his responsibility to distribute the checks and earnings statements to the employees.

Another major responsibility of the Public Schools' Payroll Section is the processing of personnel documents which affect the pay status of employees. Such personnel functions as hiring, termination, promotion, and changes in payroll deductions require review and action by the Payroll Section.

Most payroll-related personnel documents are originated by the Public Schools' Division of Personnel, either through its own action, at the request of the regions, or at the request of the employees. The documents are either prepared by the employee, such as a change in tax withholding, or by the Public Schools' Division of Personnel, such as a personnel action reporting an employee promotion.

The Payroll Section reviews the documents for completeness and reasonableness. If any problems or errors are noted, the Division of Personnel is consulted to determine what corrections should be made. After a document has been reviewed and corrected, it is sent to the District's Payroll Section for processing, and the Public Schools' Payroll Section has no further responsibility.

Summary of System Weaknesses

The major weaknesses identified during the review of the Personnel, Position Control and Payroll Systems, as they affect the overall operations of the Public Schools, are summarized in the following paragraphs. The underlying problems and our recommended solutions to those problems are described in detail in the section following this summary.

Erroneous Data Can Enter The System

Most of the data used for pay calculation and accounting is provided to the Payroll System on Personnel

Action forms. The following items of data are manually entered onto the Personnel Action form, keypunched, and then entered into the Payroll System.

- Employee name, address, Social Security number.
- Date from which length of service is computed.
- Salary level.
- Retirement plan.
- Accounting classification code.
- Leave of absence (type and date).
- Effective date of appointment.
- Type and effective date of termination.
- Check distribution location.

Failure to provide accurate data results in incorrect pay calculation, charging payroll expenses to the wrong account, or paying persons not currently employed. Numerous opportunities exist for erroneous data to be provided to the Payroll System, for data to be delayed for an excessive length of time, or not passed to the Payroll System at all. While the Public Schools' Payroll Section reviews all data before submission to the District Payroll Section, the possibility remains that erroneous payroll data could be entered and processed.

Many controls normally associated with personnel expenditure control systems are not being utilized by the Public Schools. The lack of controls increases the possibility that these systems could be used for fraudulent purposes. Even though the major responsibility for payroll processing is assumed by the District Office of Budget and Management Systems, there are several tasks the Public Schools could undertake to improve control over the Personnel, Position Control and Payroll Systems.

The Systems Are Not Integrated

The Personnel, Position Control, Payroll, Budget, and Financial Systems are not properly integrated. The systems contain inconsistent data and do not provide adequate financial control. The Personnel and Position Control Systems do not assure that funding is available to cover assigned personnel nor do they record the commitment and obligation of funds when positions are authorized and filled. The Payroll System does not verify that employees are properly assigned to authorized funded positions or a prerequisite for payment.

Position Authorizations Are Based Upon Average Cost

Position authorizations are based upon estimated average personnel costs by grade which may differ materially

from actual costs incurred within an individual accounting classification.

Financial Reporting Is Inadequate

The financial reporting provided by the present Payroll System is inadequate. While the major responsibility for improving the reporting of the Payroll System rests with the District Office of Budget and Management Systems, there are several interim steps which could be undertaken by the Public Schools which would strengthen financial reporting.

Expenditure Reporting Is Inaccurate

Actual expenditures are not being accurately reported because the accounting classification codes used by the District's Payroll System disagree significantly with those used by the Public Schools for budgeting and control purposes. Over 20% of the accounting classification codes on the Personnel Master File and Position Control File were found to disagree with the codes stored on the District of Columbia's Payroll Master File. Thus, Public Schools' personnel must attempt to control expenditures on one basis while reporting actual charges on another. This situation severely restricts the amount of budgetary and financial control exercised over personnel expenditures.

Unused Funds Are Not Identified And Reprogrammed

When a funded position is vacant for a period of time, the funds allotted to that position should be reprogrammed to areas where shortages exist. This process, referred to as "salvaging" funds, is not facilitated by the current system. Budget analysts have the authority to perform such salvage changes and do so to a limited degree. However, they are not provided with complete information from which to determine the amount of funds to be salvaged.

Reporting Of Personnel Information Is Not Current

The present system does not promptly report personnel information in three principal areas.

- Although the Personnel Accounting System has the facility to provide much useful management information, it is limited by the inaccurate and outdated data on the Personnel Master File. A survey of personnel action processing times indicated that approximately 58% of the actions required five or more weeks for approval and processing. This does not include additional delays encountered from the time the Personnel Action form is submitted to the Payroll Section until the Payroll System is updated. During this period of delay, the Personnel Master File and the Payroll Master File contain outdated information. Printed reports are inaccurate and payroll is calculated and distributed incorrectly.

- Many discrepancies were found between the information on the Personnel Master File and the actual information. For example, the personnel files indicated that an employee was working at a specified school even though the employee had been transferred. In other cases the employees had actually left the school system. These errors result from failure to promptly process personnel actions through the Personnel System. The Department of Management Services, with the assistance of the regional personnel coordinators, is currently attempting to resolve these discrepancies.

- The regional personnel coordinators have been given responsibility for personnel administration, but are not provided with complete and current personnel information for employees within their regions, employees desiring to transfer to their regions, and applicants eligible to be employed within their regions. As a result, the regional personnel coordinators rely on outdated and inaccurate computer-prepared reports, incomplete files manually maintained at the regions, and frequent telephone calls to the Division of Personnel.

Selection of Personnel Is Inefficient

The present procedures do not facilitate assigning the best qualified employees to fill vacant positions. This problem is caused by the following conditions.

- Professional personnel may have been certified by the Board of Examiners and available for employment but have not completed an employment application. Such candidates are not considered for appointment.

- Regional personnel coordinators normally select candidates from their own application files without access to applications made to other regions or on file in the Division of Personnel.

- Applicants may not be personally screened or interviewed before being sent to a school for an interview by the principal.

- The lengthy and frustrating process of applying for a professional position can discourage capable candidates from pursuing a career in the Public Schools.

- Qualified applicants may be overlooked in favor of another applicant whose application may happen to be found more quickly or be on file in a regional office.

- There is no procedure for considering current employees who have requested transfers. The system whereby teachers are permitted to request transfers has not been used in recent years. Consequently, vacant positions are filled with newly-hired employees although a current employee may be better qualified and desire the position. Many employees are forced to circumvent the system and search out vacancies on their own in an attempt to arrange a trade among principals and regional assistant superintendents.

Manual Procedures Are Not Fully Documented and Followed

The procedures followed throughout the Payroll, Personnel, and Position Control Systems have not been adequately documented and are not always followed. As a result, there are substantial variations in the manner in which tasks are performed. Some individuals do not perform all of the tasks or perform them less thoroughly than other individuals with the same responsibilities. This problem is particularly serious when there is a change in personnel and a new individual must assume the responsibilities without the benefit of written descriptions of his duties and responsibilities.

Training Of Personnel Is Not Adequate

There are varying skill levels among individuals who perform identical tasks. If employees do not properly perform their jobs, control problems are increased. Many employees are assigned critical payroll, personnel, and position control duties without sufficient training. In reviewing Time and Attendance forms, errors were found. Many of them were caused by a lack of proper training. In addition, many employees stated that they believed their training was not sufficient for them to perform their jobs.

Clerical Operations Are Redundant And Inefficient

The Personnel, Payroll, and Position Control Systems involve unnecessary and inefficient clerical effort. The following facts illustrate the magnitude of the problem.

- As many as eight separate files may exist for a single job applicant.
- Personnel records on each employee are maintained in at least five different places.
- Each personnel action is processed through at least sixteen clerical operations from the time it is received in the Division of Personnel until it is passed to the Payroll Section.
- Data from each personnel action is manually transcribed five times after the original document is prepared.

- The completed Personnel Action Form consists of ten copies distributed throughout the District of Columbia.

- As many as three separate reviews of Time and Attendance forms are undertaken.

- Identical copies of the same Time and Attendance form are retained at the school, at the Public Schools' Payroll Section, and at the District's Payroll Section.

PERSONNEL SYSTEM

DETAIL FINDINGS AND RECOMMENDATIONS

The following pages describe the weaknesses noted in the Personnel System. These weaknesses do not have specific recommendations as some weaknesses require several actions to effect a workable solution. The related recommendations begin on page 102.

The Personnel System Is Not Integrated With The Payroll System

The principal source of data to maintain the Payroll System is the Personnel Action form. When a personnel action has been approved, a ten-part Personnel Action form is typed. One copy is used to enter data into the Personnel Accounting System, one copy is returned to the originating region, and three copies are given to the Division of Finance to perform payroll changes. The remaining copies are filed or distributed to other offices.

The copy returned to the region is sometimes reviewed to determine if the action was processed as intended. The copy provided to the Personnel Accounting System is keypunched and computer validated. Either of these checks can detect errors in the transaction; however, the erroneous transaction may have already entered the Payroll System. No means exist to prevent such erroneous transactions from entering the Payroll System or to recover and correct them.

Data for updating the Payroll System is keypunched from a different copy of the Personnel Action form than the one keypunched for updating the Personnel Accounting System. Not only is this a duplication of effort, but it allows inconsistent data to be entered into the two systems. Invalid data, rejected by either the Personnel Accounting System or the Payroll System, are corrected and reentered into the system without assurance that the same correction has been made to the other system. This procedure also introduces timing problems because the two systems are updated independently. Reconciliation of differences between the systems is very difficult because it is often not possible to determine which discrepancies are due to timing differences and which are due to lost or erroneous data.

Many discrepancies exist between the data on the Personnel Master File and those on the Payroll Master File. For example, approximately 3,500 of the 16,000 accounting classification code assignments on the Personnel Master File do not agree with the assignments on the Payroll Master File.

Erroneous Data Can Enter the Personnel System

There are several places in which unauthorized pay changes can be introduced into the system.

- Personnel Action Worksheets can be modified or added to the paper work flow at any of the four work points before the control number is assigned.

- The clerk who issues blocks of control numbers also maintains the transaction log and distributes completed Personnel Action forms to the Payroll Office. That individual could introduce unauthorized Personnel Action forms.

- The clerks who type and log Personnel Action forms could prepare unauthorized actions or modify authorized actions. Such Personnel Action forms would be properly logged and numbered.

- Before the transmittal sheet is prepared, unauthorized Personnel Action forms could be added to the actions being sent to the Payroll Section.

The exposure to fraudulent personnel actions was underscored during our review by the discovery of the following.

- Numerous Personnel Action forms for which no supporting worksheet was on file.

- Numerous Personnel Action forms for which the supporting worksheet had no signature.

- Personnel Action forms which bore only the rubber-stamp signature of the Personnel Director.

The employee's grade, step, and salary are entered onto each Personnel Action form by clerks in the Division of Personnel. The clerks refer to manually-maintained personnel card files and a periodic computer listing of the Payroll File. This practice could introduce salary errors for the following reasons.

- The clerks are not aware of step changes which have occurred since the last payroll listing was produced or step changes which may take

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effect before the pending transaction is processed by the Payroll System.

- If a Personnel Action form promoting an employee to a higher salary group is prepared shortly after another type of personnel action for the same employee, the result is unpredictable. For example, if a change of the accounting classification code is processed after the salary group change, it could nullify the salary increase transaction.

- The procedure of looking up the employee's grade and step, converting that to a salary, and typing the salary onto a form provides several opportunities for error.

An action to change an employee's type of employment (e.g., from "When Actually Employed (WAE)" to full-time) is processed as two separate transactions: one terminating him, and another reemploying him. This practice requires additional clerical effort, introduces errors, and can erroneously remove or add an employee if one of the transactions is rejected or lost during processing.

The Method for Selecting and Assigning Job Applicants Is Ineffective

Job applicants are expected to apply at a number of different offices.

- Applicants for professional positions not having a current District of Columbia certificate must first apply for certification by the Board of Examiners.

- All applicants are required to complete an employment application and submit it to the Division of Personnel.

- Applicants are also encouraged to apply directly to each of the six regions in which they are interested in working.

There is little coordination between the Board of Examiners and the Division of Personnel. Annually, the Board of Examiners produces a list of employees certified for temporary appointment and forwards it to the Division of Personnel and to each region. During the year, however, a current list of eligible, certified candidates is not provided, and the Division of Personnel must work from a copy of each applicant's Statement of Eligibility.

There is currently no system for keeping consolidated records of eligible applicants. An applicant frequently is assigned to a vacant position simply because his application happened to be on top of the stack or in the first file to which the personnel coordinator referred. No attempt is made to systematically rank applicants. There is no means for considering a current employee for a vacancy, even though he may be the best-qualified applicant.

The Division of Personnel maintains a file of certified teacher applicants. These applications are filed under the applicant's first choice of teaching subject. For example, if an applicant is certified to teach English and mathematics, and has expressed a preference in that order, his application would be filed under "English." If

a critical requirement for a mathematics teacher developed, there would be no means for locating his application for the mathematics position.

There Is Inadequate Control
Over Transaction Documents

Correct processing of personnel transactions is essential to accurate payroll processing and correct allocation of personnel costs. However, minimal control exists over these transactions to ensure that they are not lost, altered, delayed, or fraudulently submitted.

There is inadequate control over Personnel Action Worksheets. Although they are recorded when leaving the regional offices, they bear no control numbers and there is no control over amount fields. As a result, worksheets may be lost, altered, or added without detection.

The regional offices do not follow up on delayed transactions. Once a Worksheet has been sent to the Division of Personnel, the regions assume no further responsibility for ensuring that they are acted upon.

There is little control over documents in process within the Division of Personnel. A Personnel Action form passes through at least nine clerical operations in that office, but it is only logged after final approval and immediately before and after the Personnel Action form is typed. The

length of time required for a transaction to be processed by the Division of Personnel is normally three to four weeks. During that time, there are no convenient means to locate the document, determine its status, or determine that it has been received, rejected, or returned to the region. Although the procedures specify that each worksheet is to be stamped with the date and time it is received, 25% of the worksheets surveyed had not been so stamped.

The Personnel Action form is an official financial and legal document. Although some transactions of a critical nature were signed by an appropriate approving authority, most bore only the rubber stamp signature of the Personnel Director.

The authority for preparing a Personnel Action form is the Personnel Action Worksheet. Our survey indicated that for many Personnel Action forms, the worksheet was not signed, bore only a rubber stamp signature, was not dated, or was not on file.

Invalid or disapproved transactions can be rejected at many steps throughout the lengthy processing cycle. When this occurs, the Worksheet or the Personnel Action form is returned to the Division of Personnel or the regional personnel coordinator. In the case of invalid data, the errors should be corrected and the documents

resubmitted. However, in most cases, no record of rejected documents is maintained. Such a record is necessary for two reasons: first, to assure that rejected documents are corrected and resubmitted, and second, to allow rejected documents to be traced and located if necessary. Assume, for example, that an employee termination transaction is rejected by the system. If the rejected transaction is not corrected and reentered, the employee's payroll record may remain on the payroll files indefinitely without detection. All other records would indicate that the employee had been terminated. It would be possible for another employee to obtain and cash payroll checks produced for the terminated employee.

Programmed Controls Require Strengthening

When transactions are passed from one program or system to another, it is possible for them to be altered. The Personnel Accounting System currently provides counts of transactions passed from program to program. However, these control counts are not being manually checked to determine if the transactions are passed correctly. In addition, there are no controls over data passed from the Position Control System to other systems. The lack of effective program-to-program controls allows transactions to be dropped during the processing without being detected. If, for example,

a position assignment transaction were dropped, the Payroll System and all manual personnel files would still indicate that the employee had been assigned.

Written Procedures Are Not in Use

Manual procedures for the Personnel System are neither adequately documented nor consistently followed. There are several significant consequences of this failure to document procedures.

- There is a substantial variation in the manner and thoroughness with which similar tasks are performed by different individuals.
- Procedures are not followed consistently from day to day. For example, some Personnel Action Worksheets were stamped with the date and time received in the Division of Personnel, but others were not.
- A newly-assigned employee does not have access to a description of his responsibilities, tasks, and the manner in which he is expected to perform his job.
- It is difficult for internal or independent auditors to determine if established procedures are being followed.
- It is difficult to identify control weaknesses or procedural inefficiencies and to improve procedures.

Excessive Delays Are Encountered in Processing of Personnel Actions

An excessive amount of time is required to process personnel actions through the Personnel System. In over

one-half of the transactions sampled, more than four weeks elapsed from the time the Personnel Action Worksheet was prepared until the Personnel Action form was typed. Over twelve weeks elapsed in about 10% of the cases. Over 70% of the transactions were received by the Division of Personnel within one week; however, over 40% remained within that Division at least four weeks.

After the Personnel Action forms are typed, an average time of one week elapses before they are posted to the Personnel Master File. There are also additional delays before transactions are processed by the Payroll System. These delays have a number of effects.

- Terminated employees remain on the payroll and are eligible for payment for an excessive time after they have been terminated.
- New employees cannot begin work promptly. The Personnel Action form must be prepared, approved and processed by the Payroll System.
- Promoted or demoted employees do not receive their correct pay. The pay must be adjusted retroactively.
- Employees cannot be promptly assigned to positions. Assignment is delayed until the transactions vacating the previous encumbent have been processed.
- Positions which have been filled will be listed as vacant. Consequently, staffing personnel may assign multiple employees to a single position.
- Personnel management reports do not reflect the current employee assignments and position status.

Personnel Master File Contains Some Outdated Information

Several instances were found in which an employee was no longer working at the school indicated on the Personnel Master File. Personnel systems typically accumulate obsolete data if they are not integrated with payroll systems. Apparently, this has occurred with the Public Schools Personnel Accounting System. A project is currently underway to update data on the Personnel Master File, but it will again become obsolete if the Personnel System is not integrated with the Payroll System.

Redundant Information Is Recorded, Filed and Maintained

Personnel Action forms are normally typed in their entirety for each transaction. This practice consumes a considerable amount of clerical effort and can introduce errors into the Payroll System. There is a special clerical staff assigned to review the fully completed forms and underline the items of data which are to be keypunched for input into the Personnel Accounting System.

Personnel data is being stored and maintained in many locations throughout the system.

- The Division of Personnel maintains an official file on all current and former employees.
- A card file is also maintained by the Division of Personnel summarizing all personnel actions processed for each employee.

- A personnel folder is maintained by regional personnel coordinators containing actions affecting each employee within the region.

- A card file is maintained by regional personnel coordinators summarizing all personnel actions processed for the region's employees.

- A file is maintained by the Board of Examiners on each certified professional employee and candidate.

- A folder is maintained on each job applicant by the Division of Personnel.

- Files of applications are maintained by regional personnel coordinators. These files record individuals who have applied directly to the region for employment.

- Card files are maintained by the Board of Examiners on all probationary and temporarily certified employees to monitor their progress toward permanent status.

- Personnel Action forms are filed in the School's Payroll Section and in the District's Central Payroll Section.

Confirmation of Personnel Actions Is Not Given to the Originator for Improved Control

Salary group promotions for professional employees are originated by the Board of Examiners when an employee provides proof that he has completed the educational requirements for promotion to a higher salary group. When this occurs, the Board of Examiners forwards a Personnel Action Worksheet and copies of supporting documentation to the Division of Personnel. In most cases, the Board of Examiners does not receive confirmation that the action was processed

as intended. Consequently, if a transaction is lost or modified, or if unauthorized salary group promotions are inserted into the document flow, the errors would probably not be detected.

When a new employee's application has been fully processed by the Division of Personnel and he is authorized to begin work, he is given an employment form which he carries to the regional office as confirmation that the employment process has been completed. This is an excellent technique, but is not utilized to its full extent. It is possible for a new employee to proceed directly to a school without first reporting to the regional office, in which case he might begin work without confirmation that he has been properly employed. Furthermore, similar confirmation is not provided for transfers and reassignments. A reassigned employee may begin working in his new position without confirmation that his reassignment has been properly processed.

No method is currently in use to confirm that a new or reassigned employee has actually reported for work in his new position on the proper date. If an employee for any reason fails to report for a new assignment, all records in the Division of Personnel, regional office, and Payroll Section would be incorrect until the situation is eventually

discovered and reported by the supervisor. During the intervening period, the employee would be on the payroll and the position would be indicated as filled, thus preventing assignment of another employee. If a Time and Attendance form were inadvertantly or fraudulently submitted, a payroll check would be produced for the employee.

Documents Are Prepared Without Access to Current Data

Personnel Action Worksheets are normally initiated by regional personnel coordinators. Proper preparation of these forms requires knowledge of the current status of both the employees and positions. Unfortunately, the regional offices do not have timely access to this information. They use infrequent, computer-prepared reports from the Personnel and Position Control Systems. Because these reports are outdated and inaccurate, great reliance is placed on manual records maintained in the regional offices. Quite often these records do not reflect the data actually in the Personnel and Position Control Systems.

There Is No Followup of Persons on Leaves of Absence

Permanent employees may be granted extended leaves of absence such as sabbatical or maternity leaves. During that time, he may or may not be receiving partial pay. In

addition, no other employee can be assigned to his position with permanent status. It is assumed that the employee is fulfilling his commitment while on leave, such as attending the appropriate educational institution, and that the employee fully intends to return to the Public Schools. No procedure is currently in effect to assure that employees on leave are fulfilling their commitments. Any verification is performed after the employee has returned. In the event that an employee does not return or did not fulfill his commitments, the position would have been unnecessarily denied to another person and it would be necessary to recover any leave of absence pay which had been granted.

RECOMMENDATIONS FOR IMPROVING CONTROL IN THE PERSONNEL SYSTEM

The recommended actions listed and described below would eliminate or substantially reduce the current control problems in the District of Columbia Public School Personnel System. Some of these recommendations are directed at solving several problems. Conversely, some problems require several actions to effect a workable solution. Therefore, no attempt is made here to relate each recommended action to a specific problem.

Improve Data Consistency Between the Personnel and Payroll Systems

Several changes are necessary to improve and control the passage of data between the Payroll and Personnel Systems. These recommendations are aimed at three objectives.

- To assure that the Payroll Master File is properly maintained.
- To assure that the Personnel Master File is properly maintained.
- To reduce the volume of clerical effort and paper.

The District's Payroll System should receive all data changes pertaining to Public School employees on a computerized data file produced by Public School's Personnel

Accounting System. Every Personnel Action form would be keypunched only once for input to the Personnel Accounting System. The transaction would be validated by that system, and, if valid, a corresponding payroll transaction would automatically be passed to the Payroll System in a computer-readable form. This approach would accomplish the following.

- Enable the transactions to be fully validated before entering the Payroll System.
- Reduce the chance of different data being entered into the two systems.
- Eliminate the opportunity for unauthorized transactions to be inserted into the document flow between the systems.
- Assure that transactions would not be rejected by one system and accepted by the other.
- Reduce the risk of posting a transaction out of sequence, thus nullifying other valid transactions.
- Reduce the amount of keypunch and verification effort required to maintain the two systems.

Thorough controls must be implemented over the data file passed to the Payroll System. The Personnel System should produce a control report with the following data.

- A listing of all transactions on the file.
- The date and time the file was produced.
- The file identification label.

- Control totals on each type of transaction, including:
  - . Number of transactions.
  - . Hash total of salary amounts.
  - . Hash total of accounting classification codes.
- A signed certification that the control report is an accurate representation of the contents of the file.

The Payroll System should recalculate the control totals named above as the file is read. Those recalculated totals should be manually compared with the control report to determine that all critical data has been passed correctly.

A procedure should be established to control rejected transactions and assure that they are corrected and processed. As transactions are rejected, an error control listing should be produced. Then, as transactions are re-entered, they should be logged on the report. All transactions not re-entered within a specified length of time should be investigated. A log should also be maintained to control transactions rejected or disapproved during the manual review and approval process to assure that they are corrected and reentered.

Improve Selection and Assignment of Personnel

Improvements should be made to more effectively select qualified persons to fill vacant positions.

Job applicants should complete and submit only one application form for certification as well as employment. We recommend that a form be developed for professional applicants which would provide all information needed by both the Board of Examiners and Division of Personnel. Employment applications should not be submitted to regional offices, although photocopies of application forms could be provided to the regions on request.

After a professional applicant has been certified by the Board of Examiners, his application should be processed by the Division of Personnel where it should be screened by a professional staffing specialist. Nonprofessional applicants should be screened without prior approval by the Board of Examiners. Applicants who pass this initial screening should be interviewed to determine their suitability for employment. The relevant data for applicants who are determined to be acceptable should be recorded in a centralized Eligible Candidate File maintained by the Division of Personnel.

The Eligible Candidate File should be a computerized file from which candidates can be selected on the basis of various attributes. The file should be organized so that a staffing specialist or regional personnel coordinator could obtain a list, for example, of all certified candidates requesting to teach French in Region II. Present employees requesting transfer of reassignment should also be recorded in the Eligible Candidate File.

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The Division of Personnel and each regional personnel coordinator should periodically receive computer-prepared listings of all eligible candidates. The listing should be sequenced according to teaching subject, type of job, location, and other pertinent attributes. The list should contain sufficient descriptive information to permit identification of well-qualified candidates for a specific vacant position. It should also indicate the length of time that each candidate has been on the list.

Listings of current and anticipated vacancies should be provided to the Division of Personnel and each regional personnel coordinator. Vacancies should be listed by teaching subject, type of job, location, and other pertinent attributes to facilitate matching vacancies to eligible candidates.

We suggest that the selection and assignment of personnel be performed in the following manner.

- The regional personnel coordinator is notified of an anticipated vacancy by the school principal or other administrator.
- Using the type of position and location, the regional personnel coordinator refers to the eligible candidate listing or requests a special listing.
- The regional personnel coordinator identifies several of the best-qualified candidates from the list and requests a copy of their applications from the Division of Personnel.

- The regional personnel coordinator arranges for the candidates to be interviewed by the school principal and then forwards a copy of their applications to him.

- The principal selects the best candidate or requests more candidates from which to choose.

- The principal prepares a written evaluation, on each candidate interviewed, which is returned to the Division of Personnel.

- The selected candidate is removed from the Eligible Candidate File.

- The personnel action to assign the selected candidate is initiated by the regional personnel coordinator and submitted to the Division of Personnel.

- A staffing specialist reviews the written evaluations and reconsiders the suitability of rejected candidates.

Implement Proposed and Additional Personnel System Improvements

The Division of Automated Information Services has proposed major changes to the data processing portion of the Personnel System in an attempt to improve control and eliminate some unnecessary error-producing operations. These proposed changes offer significant advantages over the current system and should be implemented. The improvements would accomplish the following.

- Speed up processing of changes by eliminating duplicate efforts required to re-process rejected transactions.

- Ensure that current and correct data are entered on computer prepared change transaction forms.

- Improve control by providing the regions with confirmation of each personnel action. The region could assure that each action it had originated had been processed and that no unauthorized actions had been introduced into the paperwork flow.

One limitation of the proposed system is that its success would depend on the capability to process all change actions rapidly. Because a change action cannot be originated without a turnaround document, no two actions could be pending at the same time. While this improves control, it is also a limitation unless each action can be processed rapidly and the updated turnaround document returned to the region so subsequent actions can be initiated when necessary. Therefore, we recommend that written procedures for handling these transactions be established which emphasize rapid action and provide timely followup of any delayed transaction.

When the proposed changes are implemented, the cumbersome ten-copy Personnel Action form should no longer be used. The signed turnaround document should be filed as the official authorization for change. Transaction listings and computer-prepared reports would provide each office with needed data in a concise format.

The proposed changes should be revised to use two separate turnaround documents: one for personnel change actions and one for position change actions. The current proposal combines both types of information onto one two-section form. The use of separate forms would provide the following advantages.

- Position change actions could be processed independent of personnel actions.
- Personnel change actions could be processed without involving any position-related data except, in some cases, the position control number.
- The regional personnel coordinator could file position turnaround documents by location or position control number and employee turnaround documents by name or Social Security number. This is a more convenient way to maintain such records.

The position title, accounting classification code, and other position-related information should be eliminated from the personnel action turnaround document. The Personnel System could derive that information from the Position Control System when required.

Improve Document Control

Control over personnel change documents should be improved to ensure that all authorized transactions are processed quickly and accurately, and that no unauthorized transactions are introduced into the document flow. The

control measures described below assume that the personnel action turnaround document recommended above is implemented and that transactions are passed to the Payroll System on a well-controlled computer readable data file.

- Control numbers should be sequentially assigned to each personnel action by the originator, normally a regional personnel coordinator.

- A transaction log should be maintained in which each transaction is recorded in control number sequence by the originator. Any unused numbers should also be recorded in the log.

- Each transaction should be logged as completed when the updated turnaround document has been received by the originator and reviewed to verify that the action was correctly processed.

- The originator should follow up on all transactions which have not been completed within a specified length of time, probably one to two weeks.

- A control clerk in the Division of Personnel should maintain a document control log. Each transaction should be logged in when it is received and logged out when it has been sent to the Division of Automated Information Services or rejected and returned to the originator.

- Every personnel change action should be personally signed by an approving authorities in the originating office and the Division of Personnel. Rubber-stamp signatures do not provide adequate control.

- Transactions should be sorted and batched before being sent to the Division of Automated Information Services (DAIS) for processing by the Personnel Accounting System. A batch control ticket should be attached which

specifies the batch number, date, number of documents, and control totals on critical data such as salary. The batch should be logged out when sent to DAIS and logged in when returned for filing. The document count and control totals should be verified when the batch control listing is returned.

- The Personnel Accounting System should be modified to permit batch control. A control report should be produced for each batch. The report should contain a listing of all transactions, the number of transactions, and control totals on critical fields. The control totals should be compared to those on the batch control tickets, and any discrepancies investigated and resolved.

Improve Program Controls

We recommend that controls be added to the Personnel Accounting System to detect the presence of invalid data resulting from incorrect program changes, fraudulent changes to data files, and use of wrong data files.

Controls should be established over the Personnel Master File. The Personnel Accounting System should maintain counts of the number of records on file and totals of critical critical data fields such as salary rates. The file should routinely be balanced against these control totals and any discrepancies should be immediately investigated. The control totals at the end of each day should be recorded and compared to the beginning totals on the following run to ensure that the correct copy of the master file is used and that no unauthorized data changes.

Limited program-to-program controls are presently provided in the form of transaction counts. This type of control, when properly used, would detect some erroneous deletion, duplication, or unauthorized insertion of transactions as they are passed between programs. However, there is currently not a procedure to balance those controls and resolve discrepancies. We recommend that program-to-program controls be strengthened by including control totals on critical fields such as salary and that a procedure be established for regularly balancing the controls and investigating discrepancies.

Document Procedures

Procedures for initiating and processing personnel actions should be documented in writing. These procedures should enable every authorized individual to specifically determine all personnel action change procedures.

Implement Assignment Notice Control

Every employee assignment and reassignment should be confirmed by an assignment notice. The notice should be prepared by the Division of Personnel and should identify the employee being assigned, the position to which he is being assigned, and the date on which the assignment is

effective. The notice should be prepared in two copies: one should be hand-carried by the employee and the other sent to his supervisor as evidence that the assignment has been fully processed.

A copy of the assignment notice, which includes date of employment, should be signed by the supervisor. This copy should be returned to the Division of Personnel to confirm that the employee has begun working in his new position.

The Division of Personnel should maintain a log in which assignment notices are recorded when issued and again when returned. If an assignment notice is not returned within a specified length of time, the situation should be investigated to determine where the employee is working and why the notice has not been returned.

Follow Up on Employee Leaves of Absence

A procedure should be established to periodically contact employees on extended leave for the purpose of verifying that the employee is satisfying his commitments while on leave and that he intends to return to the Public Schools. If the employee is not complying with the conditions of the leave, action should be initiated to terminate the leave of absence status and any related compensation. The position should be made available to other employees.

Centralize Personnel Records

The Division of Personnel should continue to maintain the official employee personnel files. However, the personnel cards should be replaced by the personnel action turnaround documents. The regional personnel coordinator should maintain only the personnel action turnaround document as a source of information.

POSITION CONTROL SYSTEM

DETAIL FINDINGS AND RECOMMENDATIONS

The following pages describe the weaknesses noted in the Position Control System. These weaknesses do not have specific recommendations as some weaknesses require several actions to effect a workable solution. The related recommendations begin on page 120.

Use of Average Costs Minimizes Financial Control over the Number of Positions

One primary purpose of a position control system is to assist management in limiting personnel costs to the funding allotted in an account or group of accounts. Similarly, it should provide timely warning when an account does not have sufficient allotted funding to cover anticipated expenditures for the remainder of the fiscal year. The District of Columbia Public Schools Position Control System's cost management capability is limited by its inability to accurately anticipate personnel costs.

The current system uses the average employee cost in each grade to determine allotment amounts for authorized positions in each accounting classification. For example, if the average salary of all TSA-15 employees in the Public Schools is expected to be $12,500, an accounting classification authorized ten TSA-15 positions would be allotted

$125,000 for salary expenses. The actual salary for TSA-15 employees can range from $9,940 to $20,550. If, in this example, relatively inexperienced teachers are assigned, the actual salary expenditure might be $110,000. The current system would not project the $15,000 surplus and, consequently, it could not be reprogrammed for use elsewhere. Conversely, if relatively experienced teachers are assigned, the actual salary might be $180,000 and the $55,000 shortage would not be anticipated.

While the current system attempts to assure that total expenditures throughout the system approximate budgeted amounts, those areas which have an experienced personnel mix will run significantly over budget, while areas with less experienced personnel will run under budget. This practice makes comparison of actual expenditures to budget meaningless and hinders budgetary control.

Payroll Costs Are Charged to Incorrect Accounts

Actual personnel expenditures are being charged to the accounting classifications recorded on the District's Payroll Files. Over 20% of the accounting classification codes on the Public Schools' Personnel and Position Control Files were different from those stored on the District's Payroll Files. The Position Control System is attempting to control costs on one basis while actual expenditures are being charged on different basis. Consequently, the Position

Control System cannot effectively assist management in controlling personnel expenditures.

Excess Funds Are Not Readily Identified and Properly Reprogrammed

The Position Control System should enable the Public Schools to make effective use of available personnel funds. In order to do this, it should provide data to assist in redirecting excess funds to accounts where shortages exist. Excess funds can become available in two ways. An authorized, funded position may be left vacant for a period of time or a position may be filled by an employee at a lower salary level than was expected. The current Position Control System does not detect and report either of these situations. The Public Schools' budget analysts have authority to perform salvage changes and do so to a limited degree. However, they are not provided with complete information from which to determine the existence or amount of salvageable funds.

To implement a salvage change the budget analyst must authorize additional positions within an accounting classification. For example, if a given account is authorized a GS-7 position which was vacant during the first half of the year, a budget analyst may authorize an additional GS-7 position for the second half of the year and fund it with the funds not used by the vacant position. During the

second half of the year, the Position Control File would indicate that the gaining account is exceeding budget by one position. This practice circumvents and degrades the basic control features in a position control system.

Procedures Do Not Assure Consistency Among Position, Allotment and Budget Changes

When position change requests are approved by the Division of the Budget, corresponding changes to the Allotment and Budget Preparation Systems are frequently required. When this occurs, the budget analyst must assure that all three changes are made consistently. He verifies the amount of funding to be changed, prepares the budget change transaction on a budget change coding sheet, enters the allotment change through a computer terminal, and forwards the position change data to a data entry clerk. If, for any reason, not all of these transactions are posted, the three systems would not be in agreement. This inconsistency would not be recognized until the monthly reconciliation reports were generated.

Excessive Delays Are Encountered in Processing Position Change Actions

An excessive amount of time is required for position change actions to complete the approval and posting process. In our sample, 76% of the transactions were received by the Division of the Budget within one week.

However, in 50% of the transactions sampled, more than three weeks elapsed from the time the change action form was prepared until it was posted to the position control file. In 10% of the cases, over nine weeks elapsed before processing was completed.

During these delays, critically needed personnel may be prevented from assignment because positions are in process of being authorized, or they may be assigned and working without funding or proper accounting classification codes. In the event they are working, their payroll charges would be incorrectly distributed and financial reports would be inaccurate.

Confirmation of Position Change Actions Is Not Returned to the Originator

Position change requests are normally originated in the regional offices in response to changing personnel requirements. It is essential that the regional offices be notified when a change is approved, so that the regional personnel coordinator can begin the process of selecting and assigning personnel. Budget analysts usually advise the region verbally or with a courtesy copy of the approved request. This procedure does not provide the regions with a positive confirmation when a position change action has been processed. This lack of positive confirmation may result in delays for newly-authorized and critically needed positions.

RECOMMENDATIONS FOR IMPROVING CONTROL IN THE POSITION CONTROL SYSTEM

The recommended actions listed and described below would eliminate or substantially reduce the current control problems in the District of Columbia Public School Position Control System. Some of these recommendations are directed at solving general problems. Conversely, some problems require several actions to effect a workable solution.

Implement Commitment and Obligation Accounting for Personnel Costs

Position Control Systems are most effective when integrated with a well-designed commitment and obligation accounting system. Such techniques provide greatly improved control over available funds and enable management to identify areas of funding excesses and shortages so that corrective action can be taken. A more accurate and comprehensive method should be implemented to account for commitment and obligation of funds for personnel costs. This recommendation is described fully in the section of this Volume entitled, "Financial Planning, Control, and Reporting." We believe that, to provide more adequate control, the Position Control System should perform the functions described below.

The Position Control System should calculate the estimated funding requirements associated with each position

change action. It should reject any change for which allotted and uncommitted funds in the funding account are not sufficient. When this situation occurs, it should report the shortage so that management action can be taken to reprogram funds if desired.

Every authorized position represents a funding commitment. The Position Control System should maintain records of committed funds for each position. When a position is authorized, the estimated cost of that position should be recorded as a commitment and restricted from use for any other purpose.

At the time an employee is assigned to a position, the Position Control System, in conjunction with the Personnel System, should estimate and obligate personnel costs for that employee for the remainder of the fiscal year. This estimate should be based on his actual salary grade and step. The system should prevent any employee from being assigned to a position if sufficient funds have not been committed. When adequate funding is not available, management should be notified so that additional funds can be allotted.

When committed funds are unused because an authorized position is vacant for a period of time or because the amount required when an employee is assigned is less than

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the amount originally committed, the excess funds should be salvaged. The Position Control System should calculate and report projected excess funds so that the Division of the Budget can reprogram them to other accounts.

Integrate Position Control with Other Systems

To provide adequate control, the Position Control System should exchange data directly with the Personnel System, the District's Central Payroll System, and with the Financial Control System. It should also provide data directly to the Budget Preparation System to improve the accuracy of budget for personnel costs.

The Position Control System should access the allotment file for the following purposes.

- Determine that the amount of uncommitted, allotted funds is sufficient to cover a requested position change.
- Record the commitment of allotted funds to cover authorized position charges.
- Identify excess funds when a position remains vacant or is filled by a lower salaried employee.

When assigning an employee to a position, the Personnel System should access the Position Control File for the following purposes.

- Determine that a sufficient amount of funds is available before assigning an employee.
- Record the obligation of committed funds to cover the assigned employee's estimated personnel costs.

It is essential that accounting classification codes be consistent between the Position Control and Personnel Systems. Furthermore, they must be consistent with the codes used by the District's Payroll System for distributing personnel expenses. Accounting classification codes should be maintained only through the Position Control System because they are associated with positions and identify the accounts in which funds have been committed to cover the costs of these positions. Any change to these codes should be passed to the District's Payroll System using a well-controlled computer readable file.

Control All Positions

We recommend that position control be extended to cover all positions. We recognize that control over certain temporary or part-time positions cannot be as stringent as those for regular positions. However, since the cost of the temporary and part-time positions is significant, some degree of control should be exercised. A group of temporary or part-time employees performing related functions should be assigned to a single position. The total cost of that group of employees should be projected and committed.

Establish Control Over Position Change Requests

A transaction log should be maintained in which each position change request is recorded by its originator. Written confirmation of every completed transaction should be returned to the originator so that he can cross-check it to his log and verify that the transaction was correctly processed. Disapproved requests should also be returned and logged as complete. The originator should follow up on all transactions which have not been completed in a specified length of time, probably one to two weeks.

Improve Storage of Position Control Data

Unnecessary redundant storage of position data should be eliminated. All position-related data should be stored on the Position Control File and not on the Personnel Master File. The only position-related data stored on the Personnel Master File should be the position control number. This would reduce the opportunity for discrepancies between the two systems and simplify system maintenance.

PAYROLL FINDINGS AND RECOMMENDATIONS

The following payroll problems were found during the review of payroll procedures followed at Public Schools, regional offices, and the Payroll Section. Many of the control problems are the result of weaknesses in the District's Central Payroll System and, as such, the Public Schools have little or no control over them. Several of the recommendations are interim procedures which would temporarily increase control at the Public Schools until changes can be made to the District-wide Payroll System.

Control of Payroll Documents Is Weak

The present control of payroll documents is extremely weak. The Payroll Section establishes very few controls over documents as they are processed. Time and Attendance forms and Personnel Action forms are reviewed prior to submission to the District Payroll Section. However, they are not counted nor are any control totals maintained over key data, such as hours or days worked.

Documents can become lost during processing or unauthorized data can be entered without detection. For example, it would be possible to alter or add a Time and

Attendance form to those being processed. Controls must be established to minimize the potential loss or manipulation of data.

The control over Personnel Action forms processed by the Payroll Section also requires improvement. At the present time, the Division of Personnel sends a log sheet along with the Personnel Action forms to be processed to the Payroll Section. After determining whether all Personnel Action forms have been listed in the log sheet, they process and submit them to the District Payroll Section.

Recommendation

Originators of documents should count them and prepare control totals for key data fields. As they are received by the Public School Payroll Section, the documents should be counted and the control totals recalculated. These counts and totals should be matched to the controls established by the originator. If the document counts or control totals do not match, then documents have been added or altered. Corrections can be made before processing continues. The control totals calculated by the Payroll Section should be reported to the originator to determine if all submitted documents were actually received.

Since Personnel Action forms are the documents used to report new hires, terminations, and promotions, they must be carefully controlled. Failure to provide adequate control could lead to the unauthorized addition of individuals to the payroll, to the unauthorized promotion of employees, or to employees remaining on the payroll file after they have been terminated.

All Personnel Action forms processed by the Payroll Section should be reported back to the Division of Personnel to provide that only authorized Personnel Action forms were received and processed. The institution of such a control would provide greater control over the processing of these documents.

Transaction Listings Are Not Received

The Public Schools do not receive a report of the transactions which have been processed by the District's Payroll System. Therefore, it has no assurance that the transactions which they sent to the District Payroll Section were processed promptly and accurately. Because of this, the entry of erroneous or unauthorized data is extremely difficult to detect. During our review, we found many transactions which were initiated by the Public Schools but not processed by the District Payroll Section. In several cases, Public Schools employees had been waiting for over a year for a change of address to become effective.

Recommendation

The Public Schools should receive listings of all payroll transactions it originates. The computerized payroll system currently prepares such listings for the internal use of the District Payroll Section. These listings should also be sent to the Public Schools since the reporting of processed payroll data to the originator is an important element of control.

Step Increases Require Greater Control

One of the most pervasive employee complaints about the current Payroll System is that step increases are not made promptly and accurately. In a survey of 200 employee complaints about the Payroll System, more than 75% of the complaints centered on inaccurate step increases.

Step increases for all permanent teachers are granted July 1 of each year. Due to the large number of teachers, the computer system has been programmed to automatically grant every teacher a step increase. A report of these step increases is sent to the Public Schools' Payroll Section. It reviews the report to determine which teachers were not eligible for increases. In most cases, these would be probationary or temporary teachers. The names of those teachers who are ineligible are crossed out and the report is sent back to the District Payroll Section. Working from

the report, it prepares transactions to reverse step increases for ineligible persons.

Recommendation

Only permanent teachers should be granted automatic increases. A report could be produced listing those permanent teachers who received the automatic step increase. The Public Schools Payroll Section would make far fewer corrections to this report. By eliminating temporary and probationary teachers from the automatic process, the possibility of erroneous reversal of step increases is reduced.

Timekeepers Are Not Properly Trained

Based on discussions with timekeepers, it is evident that further training in payroll procedures is required. Many timekeepers believed they had not received proper training, and did not understand their duties as well as they should. This was supported by a review of randomly selected Time and Attendance forms, which revealed many addition errors, data being entered in the wrong boxes, and incorrect accruals of sick leave. A review of forms from one school revealed that extra-duty pay for teachers had been consistently coded incorrectly for several months.

Recommendation

Control problems are more likely to occur when an individual does not understand the procedures he is required to perform. Therefore, the entire training process for timekeepers should be reevaluated and improved to ensure that they understand their job.

Timekeepers Duties Are Not Segregated

In many units, the timekeepers not only prepare Time and Attendance forms, but also distribute checks and earning statements to employees. This arrangement makes it possible for the timekeeper to fraudulently manipulate the Payroll System.

Recommendation

Timekeepers should not be allowed to receive and distribute paychecks and earning statements. They should be delivered to the unit supervisor, who would review them prior to distribution.

Time and Attendance Forms Are Not Reviewed by Supervisors

When a timekeeper submits Time and Attendance forms, there is typically no second-party review. It would be possible for him to enter erroneous or fraudulent data without detection.

Recommendation

In order to establish greater control over the entire timekeeping process, the supervisor of each Public School unit should review the Time and Attendance forms of that unit prior to submission to the Public Schools Payroll Section. While this review need not be overly comprehensive, it should be thorough enough to determine that all employees have been accounted for and that proper attendance data is reported.

Timekeepers Do Not Have Trained Replacements

At several of the schools visited during this review, there was only one individual who had sufficient training to perform timekeeping duties. Failure to have a trained replacement could lead to severe time and attendance errors in the event the regular timekeeper is unable to perform this work.

Recommendation

Due to its importance, it is essential that at least two people at each unit be able to perform this task. This would not only provide an adequate "backup," but it would also provide assistance to the regular timekeeper when Time and Attendance forms have to be prepared in a short amount of time.

Time and Attendance Forms Are Distributed to the Improper Location

Preprinted Time and Attendance forms are frequently sent to the wrong unit, usually as a result of transfers of teachers from one school to another. Although all of the timekeepers stated they have attempted to have the distribution changed, in most cases the changes have not been made.

Most timekeepers will call another timekeeper to report the attendance of an employee whose form has been misdirected. In such cases, timekeepers are certifying the time of an employee with whom they have had no contact. This is a serious control problem since there is no verification that the employee worked the reported hours or, in fact, even is an active employee of the Public Schools.

Recommendation

All organizational units of the Public Schools should notify the Public School Payroll Section when Time and Attendance forms have been misdirected. As the forms are received each pay period, the Payroll Section should find the misdirected forms and send them to the proper location. In addition, the District Payroll Section should be given a list of those employees whose Time and Attendance forms are being sent to the wrong location along with the correct location. Time and Attendance form distribution corrections should be made promptly and on a regular basis.

Proper Controls Are Not Exercised Over Sabbatical Leave Process

Public School employees on sabbatical leave are eligible to receive one-half of their present salary for up to one year. The controls over the sabbatical leave process are weak. While the Time and Attendance forms for these individuals are supposed to be completed by the Payroll Section, in one case we reviewed, the form was prepared by the timekeeper at the employee's former school. Under this arrangement, it would be possible for an employee to return early from sabbatical leave, not report to work, and continue to be paid. Our review found one individual who, although terminated for over one year, was listed on the payroll register as being on sabbatical leave without pay.

Recommendation

All employees on sabbatical leave should be paid from the Payroll Section. That unit should maintain a constant liaison with the Personnel Department to ensure that individuals being paid for sabbatical leave have not returned. This is an essential control and should be implemented as soon as possible.

Reporting of Substitute Teacher Attendance Requires Greater Control

The reporting of substitute teacher attendance data should be subject to more extensive control. Under the current system, each school periodically submits a report listing the substitutes who worked at that school, the days which each worked, and the regular teacher for whom he substituted. The principal of the school is supposed to sign this report and submit it to the Payroll Section. There is one payroll technician who is responsible for compiling all substitute teacher reports and preparing Time and Attendance forms for each substitute.

Since this process is dependent upon one individual, it would be possible to report time for a substitute teacher who did not actually work. This action could remain undetected.

Recommendation

The Payroll Section supervisor should periodically reconcile substitute teacher reports to the substitute Time and Attendance forms.

Reporting of Extra Duty Pay
Requires Greater Control

Public Schools' teachers are eligible for Extra Duty pay if they perform duties in authorized special activities, such as coaching or advising school clubs. Extra Duty pay is reported by timekeepers on the Time and Attendance form. The timekeeper codes in the activity and compensation on the Time and Attendance form for the eligible employee.

During our review, we noted several control problems associated with Extra Duty pay. Although each request for Extra Duty pay should be accompanied by an authorization form, in many cases the Time and Attendance form did not have one, and yet was processed. In many cases, the Time and Attendance form is not reviewed to determine if the amount entered for extra duty is correct for the activity. Another problem is that there is no practical means of measuring the actual expenditures for an activity versus the budget. In a review of twenty-one timesheets for employees eligible for Extra Duty pay, two individuals were paid incorrectly and eight individuals were being paid retroactively because of late approval of this activity.

Recommendation

We recommend that the Payroll Section verify the accuracy of all Extra Duty pay entitlements. Such a review would ensure that an authorization for Extra Duty pay is attached to the Time and Attendance form, and that the amount of pay is correct for the activity. In addition, reports should be developed which report on actual expenditures versus budgeted amounts for each extra duty activity.

PROCUREMENT, RECEIVING AND ACCOUNTS PAYABLE

GENERAL DESCRIPTION

The procurement function exists to obtain goods and services for the schools and centralized departments. This activity requires several distinct functions: the Requisition Process, the Procurement Process, the Receiving Activity, and the Accounts Payable Audit. All of these functions are performed at the Public Schools.

The schools send requisitions for goods and services to the Procurement Branch of the Division of Logistical Support at the Public Schools. The requisitions normally contain single items and an estimated price. They have been approved by a Public Schools' approval authority, such as a principal. Prior to any procurement activity, the requisitions are sent to the Allotment Accounting System for "prevalidation." A check for the availability of funds is made. The requisitions are distributed for detail procurement activity given funds are available. Requisitions are returned to schools when sufficient funds are not available.

The normal purchase order procurement processing is shared by the Department of General Services (Bureau of Materiel Management) and the Public Schools' Procurement Branch depending upon the dollar value. The length and

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requirements of the bid process and vendor selection vary depending upon the type of purchase and the dollar value. Following this activity, a firm price and vendor are established. Any adjustments to the estimated price on the requisition is posted in Allotment Accounting. The purchase order number for low dollar purchase orders is assigned by the Public Schools' Procurement Branch. The DGS' Bureau of Materiel Management assigns purchase order numbers to high dollar orders.

The sequence of obligation of purchase orders in the Fiscal Accounting System at the Public Schools and District Accounting is dependent upon the dollar limits. Low dollar purchase orders are obligated by the Division of Finance in the Fiscal Accounting System. Several copies of the purchase order are forwarded to District Accounting. Here, a manual funds check is performed. If sufficient funds are available, an obligation is posted in the District Accounting System. The high dollar purchase orders are first obligated in District Accounting and then the Fiscal Accounting System at the Public Schools. These obligation entries are prepared from copies of the original purchase order.

The receiving function is primarily the responsibility of the schools and warehouse. The receiving responsibilities include checking the items and reconciling to

the receiving report, which was sent from the Public Schools Procurement Branch. The signed receiving reports are submitted to the Public Schools Procurement Branch.

The Public Schools Procurement Branch, the Public Schools Division of Finance and District Accounting perform similar accounts payable vouchering. All of these audits reconcile the invoice and a receiving report to the purchase order. They vary in the degree of detail and the documents involved.

District Accounting personnel audit the documents sent from the Public Schools' Division of Finance and the documents from their open purchase order file. Following this review, the vouchers are paid by District Accounting. An audit number identifies all payments. An audit number cross-reference listing is sent to Public Schools' Department of Finance. Department of Finance personnel update their closed purchase order files with this audit number.

PROCUREMENT, RECEIVING AND ACCOUNTS PAYABLE

DETAIL FINDINGS AND RECOMMENDATIONS

Document Flow Is Not Standardized

Throughout the majority of the fiscal year and at year-end, operational and financial information differences exist for nonpersonnel expenditures between the Fiscal Accounting System (FAS) at the Public Schools and District Accounting. These informational differences result from integration and coordination weaknesses between the two systems. A listing of some of these weaknesses follows.

- Documents can originate in either location and flow in opposite directions.
- Entries are made to the two systems at different times from different documents representing the same transaction.
- Documents are converted to computer readable format more than once which introduces the potential for entering different information.
- None of the nonpersonnel expenditures data is mechanically transmitted between the systems.
- Manual reviews and audits are duplicated at the Public Schools and the District.

Both systems contain different financial balances throughout the year. The reconciliation of these two systems during the fiscal year is difficult and is normally not performed. Adjustments are often made to the FAS based

upon the input to District Accounting. The two systems provide non-uniform financial controls.

Recommendation

In the short-term, the Public Schools and District Accounting should attempt to standardize the flows of obligation and disbursement instruments between the two systems. As much as possible, the Public Schools should keep the book of original entry, and send summarized data to District Accounting. Public Schools and District should attempt to reduce the number of conversions of data to computer readable format. It will be difficult to make substantial improvements in the short-term because the existing problems have evolved over several years. The overall long-term recommendations, stated earlier in this Volume, should be the most effective solution to these information problems.

Miscellaneous Encumbrance Records Are Incorrectly Recorded as Obligations

In governmental accounting, obligations should represent a legal liability to an outside vendor or an internal service unit for the delivery of goods and/or services. Most Miscellaneous Encumbrance Records (a document used to reserve funds for a wide variety of reasons) are supported by plans to expend but not by purchase orders. Yet, they are being reported in both the Fiscal Accounting

System and District Accounting System as obligations, not commitments. Obligations are overstated in these systems.

Recommendation

Until computer-based financial systems can be developed that maintain a total for commitments, Public Schools personnel must utilize this document as an expenditure planning tool. However, the total dollar amount for Miscellaneous Encumbrance Records used for commitments should be manually maintained and subtracted from obligations when financial statements are prepared at year-end.

Controls over Certain Bid Specifications Are Cumbersome

Bid specifications representing plans to "obligate" are established at District Accounting upon the request of DGS' Bureau of Materiel Management. These bid specifications are referenced with 90,000 series numbers. When actual purchase orders are obligated, these 90,000 series obligations are supposedly removed from the District Accounting System. Public Schools personnel stated that these 90,000 series obligations are not consistently cleared from the District Accounting System. On many occasions, the removal of these 90,000 series obligations is initiated by Public Schools personnel.

Since only District Accounting records these 90,000 series obligations, the following problems result.

- There is a variance in reporting between the different accounting systems. These variances are difficult to reconcile.
- Obligations are overstated at District Accounting.

The failure to remove these obligations, when the actual purchase order is obligated, causes operational and financial problems.

- The 90,000 series obligations do not even represent a plan to obligate.
- Funds checks at the District which are based upon information from the District Accounting are not valid.
- Invalid funds checks could prevent Public Schools from expending appropriated funds.

Recommendation

Until computer-based financial systems can be developed that maintain a total for commitments, bid specifications must be accounted for as obligations. However, these bid specifications should be well coordinated between District Accounting, District Materiel Management and Public Schools. They must be removed when the purchase order is obligated. At year end, these 90,000 series obligations should be backed out by the Division of Finance for financial statement presentation.

Unnecessary Clerical Effort in Accounts Payable Audit Function

The Accounts Payable audit function normally involves matching and reconciling the purchase order, the original invoice, and the receiving report. Following all adjustments and discounts, the audit should generate a payment voucher which authorizes the disbursement. This audit function for certain purchase orders is currently being performed in varying degrees in three different places: the Procurement Branch of the Division of Logistical Support at the Public Schools, the Transaction Processing Section of the Division of Finance at the Public Schools, and District Accounting. Multiple copies of the purchase order document are distributed and used to establish open purchase order files in these three areas. Each area performs the audit function and places these documents, invoices, and receiving verification documents in their closed purchase order files.

The Division of Finance at the Public Schools has an additional step prior to filing the documents in their closed purchase order file. It establishes a holding file of vouchers waiting for an audit number. This file is updated from the payment audit number assigned by District Accounting and then placed in the closed purchase order file. These steps exist to control and reconcile the payment vouchers sent to District Accounting and for future reference to respond to inquiries.

Although the audit function performed at all three places is very similar, the Procurement Branch is the only one using the "actual" receiving report signed by the Schools. The Division of Finance is using a receiving verification report signed by personnel in the Procurement Branch. District Accounting is using a receiving verification document signed by the Division of Finance at the Public Schools. Therefore, the audit functions at the Division of Finance and District are highly dependent upon the audit at the Procurement Branch at Public Schools.

The disbursement entry made to the Fiscal Accounting System is based upon the results of the accounts payable audit in the Division of Finance. The disbursements entry made to the District Accounting System is based upon the audit at the District. As a result, adjustments must be made to the Fiscal Accounting System when differences arise.

An accounts payable audit is traditionally a difficult, time-consuming, and slow process. School personnel commented that the payment process is slow and, as a result, vendors were paid late.

The current approach to the accounts payable audit causes several problems.

- There are inefficiencies in performing a slow and time-consuming task in triplicate.
- Excessive copies of purchase orders must be distributed to multiple areas.
- The three sets of open and closed purchase order files overlap each other and require substantial personnel time to maintain.
- There are inefficiencies associated with reconciling each audit with the prior audits.
- Late or slow payments are harmful to vendor relations. Vendors may increase prices to cover expected delays.
- This processing causes additional reconciliation problems between the District Accounting System and the Fiscal Accounting System.

Recommendation

The Public Schools and District Accounting should establish one accounts payable audit function for school documents. The accounts payable audit function for school obligations should be the responsibility of the Division of Finance at the Public Schools. The receiving reports signed by the schools and the invoices from the vendors should be sent directly to the Division of Finance. The official purchase order files should be maintained at the Division of Finance. There would be efficient coordination with Public Schools procurement and the more than 200

receiving units. The detail vouchers, in final format, should be forwarded to the District Accounting for entry to the system and for the disbursement of a check to the vendor.

A single accounts payable audit function should eliminate the overlap of the current multiple audits. Personnel time required for this financial task would be reduced. More prompt payments should improve vendor relationships. Fewer purchase order copies would be necessary and, thus forms cost reduced. The current reconciliation problems should be eliminated by these changes. The establishment of a single accounts payable audit function provides substantial benefits for the Public Schools and the District.

Inadequate Segregation of Duties In The Accounts Payable Function

Invoices and signed receiving reports for certain purchases are being sent to the Procurement Branch of the Division of Logistical Support at the Public Schools. The signed receiving report, "floaters," from the schools are filed in the Procurement Branch. The payment voucher generated by the Procurement Branch includes a receiving verification copy of the purchase order which is signed by personnel in the Procurement Branch.

The Procurement Branch personnel who initiate the payment vouchers and file the signed receiving reports from the schools, also have access to original purchase order forms. By maintaining all of this information in one branch, Public Schools is not achieving the checks and balances of an appropriate separation of duties.

Recommendation

Public Schools should have the invoices and signed receiving reports sent directly to the Public Schools' Division of Finance. The Division of Finance should assume all responsibility for the accounts payable audit function and preparation of the payment voucher.

A List of Authorized Receivers Was Not Maintained

Public Schools did not use or maintain a list of authorized receivers this past fiscal year. The accounts payable function verifies with this list that the personnel signing for the receipt of goods and/or services are authorized. The Procurement Branch of the Division of Logistical Support is sent receiving reports by the schools and warehouse. The accounts payable audit is weakened when signatures on receiving reports are not verified to a list of authorized receivers.

Recommendation

The Procurement Branch of the Division of Logistical Support, in cooperation with the Division of Finance should develop an up-to-date list of authorized receivers. This list should be distributed with the receiving procedures sent to the 200 schools and warehouse. The accounts payable audit, which should be performed in the Division of Finance, would be strengthened by this verification list. Opportunities for unauthorized personnel receiving goods and supplies would be reduced. As a result of our review, the Procurement Branch and Division of Finance will begin developing a list of authorized receivers for the coming year.

Duplicate Entry of Purchase Order Information Is Inefficient

The Fiscal Accounting System requires that the budget account number and the purchase order number be entered at both obligation and disbursement time. This requirement exists because of the design of the Fiscal Accounting Master File. The master file must be accessed by purchase order number within budget account number.

The budget account number consists of 22 separate alpha and numeric digits. The reentry of the budget account to the financial systems at disbursement time is inefficient. This additional conversion is time consuming and increases the opportunities for errors.

Recommendation

The Public Schools should attempt to reduce the number of times critical information must be entered into the mechanized financial system. The system should separate the budgetary control file from the purchase order file. The budget account number and purchase order number would be entered at the time the purchase order is obligated. Only the purchase order number would have to be submitted at the time of the disbursement of the obligation. The budget account number would be obtained within the system from the mechanized purchase order file. These changes are quite substantial relative to the current systems. Therefore, they should be included in the development of future systems.

Inefficient Entry of Information Into the Computer System

Most nonpersonnel expenditure source documents are manually transcribed onto another form for use in entering the information into the computer system. When purchase orders are obligated, the information on the typed purchase order is hand written on a transmittal form for entry to the Fiscal Accounting System. If adjustments occur at the time of disbursement for a purchase order, two entries are made on the transmittal form. One entry to cancel the obligation, the other to disburse the corrected amount.

Manual transcription of information from source documents to special keypunch forms and then, keypunching from the form, is an inefficient method of converting data to computer readable format. The Division of Finance and Procurement Branch personnel spend a substantial amount of time transcribing data. This approach causes duplication of effort between the original preparation of the source document and the intermediate transcription. Multiple conversions of data increases the opportunity for errors.

Recommendation

Public Schools should change the design of source documents so that the original document can be used for entry into the computer system. The disbursement entries to the financial systems should be changed to allow one transaction that will unobligate and disburse different amounts. These changes should eliminate the current duplication of effort and reduce the opportunity for errors.

Vendor Performance Is Not Formally Considered In the Bid Process

Checking past vendor performance is only done in an informal fashion. We were informed there were some unclear legal controversies over the validity of using vendor performance in the bid process.

Vendor performance is an integral ingredient of the bid process. Without a consistently used formalized vendor performance system, bid evaluations are weakened. Vendors are less concerned that a poor performance might eliminate future opportunities.

Recommendation

The procurement bid process and vendor selection would be more effective with a formalized vendor performance system. The formalized system should encourage better performance from the vendors. This system should be implemented in cooperation with the District's Bureau of Materiel Management with good controls and in conformity with legal statutes.

Document Controls Are Not Adequate

The Fiscal Accounting System does not mechanically reconcile a batch total of items or dollars submitted to a count of dollars and items submitted. As a result, these comparisons are made manually by the personnel who submitted the batches.

The batch controls between the Public Schools and District Accounting are for items only. The dollars on the documents are not included in the batch controls.

Batch controls are not used in the following areas.

- Requisitions sent from the schools to the Division of Logistical Support.
- Warehouse requisitions sent from the Division of Logistical Support to the warehouse.

The equipment inventory system does not have dollar batch controls. With the number of items entered into the equipment inventory, dollar controls would increase the accuracy of the information.

The lack of batch controls substantially decreases the internal controls over documents and many critical items can be lost or incorrectly entered into the computer systems. All of these could create incorrect information for the reporting systems.

Recommendation

Public Schools should implement item and dollar batch controls in the critical areas and item count controls in the less critical areas. Batch controls will improve the overall internal controls and should improve the accuracy of the computer reporting.

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Inefficient Manual Processing

Substantial personnel time in the Document Control Section of the Procurement Branch is required to prepare operational and management information. Personnel update a manual vendor file and prepare an informal cross-reference listing of reference numbers to purchase order numbers. The manual vendor file contains a card per vendor with all purchase order activity. The personnel in Document Control update this file for new vendors, new purchase orders, adjustments, and payments. The vendor file is a reference for answering questions from the schools and vendors. The Division of Finance uses the cross-reference listing to obligate purchase orders at Public Schools that were already obligated at the District. These manual tasks attempt to satisfy the operational and informational needs that the automated systems are currently unable to supply.

Recommendation

The manual vendor file should be moved to the Division of Finance along with all accounts payable audit functions. Public Schools should consider replacing a large portion of this manual file with computer generated reports. This change should be part of the long-range systems development at Public Schools and the District.

The informal cross-reference listing of reference numbers to purchase order numbers should be eliminated by changing and processing flow of these documents. All purchase orders should be obligated prior to obligation in District Accounting.

FEDERAL AND PRIVATE GRANTS

GENERAL DESCRIPTION

The District of Columbia Public Schools received grants from the Federal government aggregating approximately $38,000,000 to operate 45 major programs during fiscal year 1976. These 45 programs are further broken down into 288 specific projects, including 41 within ESEA Title I, 70 in Special Education, and 52 specific projects funded by Impact Aid. The grants range in size from $10.7 million (for the 41 Title I projects) to $2,000 for a health project. In addition to the fiscal year 1976 programs, some major grant programs have activities that are funded by money "carried over" from fiscal year 1975. The major Federal grant programs we reviewed allow two years in which to spend the funds granted during a fiscal year, although the carryover funds must be identified before the end of the first fiscal year.

There are also 43 grant programs funded by private agencies. The private grants range from $100 to $150,000 with approximately $800,000 currently available for all privately funded programs.

The $38 million in grant aid was in addition to the $200 million in District funds that was budgeted to operate Public Schools. The money from Federal grants cannot be used in place of local funds. In general, the grant programs are intended to supplement locally funded educational efforts, not supplant them.

There are approximately 1,600 full and part-time positions that are directly funded, in whole or in part, by current grant programs. This number does not include food service personnel. In general, all of the administrative positions and costs associated directly with day-to-day grant business management and reporting functions are funded as a part of the grant program. In addition, several of the larger grants provide reimbursement for the indirect (overhead) costs that are incurred by other public school divisions, such as Finance and Data Processing, in helping to run the grant programs.

Because of the unique status of the District of Columbia as a state and a city, the Office of State Administration has been established to perform the functions normally associated with a state office of education. This office represents the Federal grant agencies in overseeing and monitoring grant program operations in the Public Schools and assists in the preparation of grant proposals to the

Federal government. This Office also has the responsibility of monitoring Federal grant programs in private schools within the District. The Office of State Administration identifies potential grant opportunities, reviews budget proposals, verifies compliance to grant stipulations and, for some projects, assists in the financial management and reporting. It is the official conduit between the Public Schools and the Federal government.

The accounting and fiscal controls over Federal grant programs at the Public Schools are provided by a number of different groups and operations within the District of Columbia.

- The Office of State Administration oversees the preparation of grant proposals and budgets. It provides financial management and reporting services for certain programs (mainly ESEA) and reviews some grant program balances.

- The Public Schools Budget Division reviews all grant program budgets, prepares the budget allotments for Fiscal Accounting System, submits the grant program apportionment schedules to District Accounting and controls the position allocation to grant programs. It has prepared standard and average cost tables to assist grant program managers in preparing more accurate budgets.

- The Division of Finance is directly involved with grant programs in several ways. The Allotment Accounting group controls the issuing of purchase orders. The Accounting group prepares accounting adjustments and financial reports for some programs, monitors the grant fund balances and receives most of the Federal grant money and deposits it with District Accounting. This Division has recently been authorized to employ additional accountants in an effort to prepare accounting adjustments, claims and financial reports for all grant programs.

- The Division of Automated Information Systems provides special payroll reports by account and program based on information received from District Accounting. There is also a clerical group within this Division attempting to control the personnel assignments and accounting charge codes for all positions including those in grant programs.

- The Division of Logistical Support provides the purchasing services for all grant programs and operates the property control system.

- District Accounting provides the official accounting record of money apportioned, obligated, and spent and the fund balance for each grant project.

- The Local Educational Agency (LEA) is the administrative group within each grant program. This group usually provides the day-to-day business management over several projects within a grant program. Typically, this group maintains extensive manual accounting records of all personnel and nonpersonnel activity within each program in an effort to maintain a current picture of the fund balances for the program.

Since grant programs make use of all Public School resources, there are other offices involved with them. The list above includes only the key financial control groups.

FEDERAL AND PRIVATE GRANT PROGRAMS

DETAIL FINDINGS AND RECOMMENDATIONS

There Is No Central Control Over the Claiming of or Request for Grant Funds

There is no central source of information regarding the preparation and filing of grant program claims and requests for funds. While the accounting group in the Public Schools Division of Finance prepares some grant program financial reports and claims, most of the major programs prepare their own claim reports. In some cases, the financial reports are signed by the Public Schools Chief Accountant, but he does not have the staff or time to completely verify the accuracy of the financial report information. There is no central management control over the timely filing of reimbursement requests to ensure the prompt receipt of grant program funds.

As a result of the decentralized grant claiming and fund request process, there is increased potential for the following grant program financial problems.

- Late claims or requests for fund advances. The lack of cash on deposit in the Treasury could cause the District to borrow money to cover cash outlays for Federal grant programs until the funds are received. While the District may already be borrowing to cover cash outlays, this increases the amount of borrowing required.

- There is no pre-audit of grant financial report information to assure that the information corresponds to that recorded in the District Accounting system. The financial reports and claims prepared by the project personnel may be based on a wide variety of source documents that may not correspond to information contained in the District Accounting system. This increases the possibility of audit exceptions and disallowance of specific claimed expenses.

- Public Schools management has no way of knowing what claims and reports are due and who should be preparing them.

Recommendation

We recommend a consolidation of grant program financial reporting and claim preparation and fund request efforts into the Division of Finance. This grant program accounting group would be responsible for the following.

- Reviewing District Accounting System reports, comparing the data to program management records and actual activity in the field and preparing the necessary accounting adjustments.

- Maintaining a central list of specific claims and grant program financial reports to be filed including the estimated amounts and the earliest date that the granting agency will accept the report. This group would prepare all grant project financial claims and reports (at least in final form) based on this schedule. Public Schools management can then use this list as a basis of measuring the group's claim preparation performance.

- Auditing all grant agency financial reports before they are submitted to the funding agency to assure that the reports correspond to District Accounting information and actual project conditions.

The centralization of claim and financial reporting will require the full cooperation of the grant project business managers who would still be responsible for the day-to-day financial management of those projects. They will have to provide detail information on their projects (grant reporting requirements, personnel lists, etc.) and, in some cases, help prepare the detail justification of a grant claim. We believe that several efficiencies will result from centralization of these efforts.

- Timely submission of fund requests (each day lost on the $40 million received each year represents a potential cost to the District government of $6,500 a day at 6% borrowing costs).
- Standardization of financial reports with corresponding ease of auditing.
- The use of one basic source of information, i.e., the District Accounting system, for claim and financial report information that is kept accurate and current.
- The ability for management and grant agency auditors to focus responsibility for financial report preparation and reporting errors.

Public Schools Cannot Determine the Total Amount of Grant Funds Claimed or Requested but Not Received

There is no central record of the amount of grant funds claimed and requested. Thus, at any given time, no one at the Public Schools can be certain of the outstanding grant funds that are currently owed by or expected from the

Federal government. The District government has become very concerned about unpaid grant claims and the resultant large negative cash balances of some grant programs.

Lack of a complete record of requested or claimed funds can result in lost revenue. For example, because no central record of expected payments is maintained, an unreceived $52,000 payment from the Department of Health, Education and Welfare had gone unnoticed since October, 1975. HEW had apparently lost track of the paperwork so the payment was never processed. In the meantime, Public Schools personnel had assumed that the payment was included with one of the many other payments received from HEW.

Recommendation

We believe that better grant payment control and, therefore, better control over the District government cash flow, would be achieved through a centralization of requests for payment. We recommend centrally recording all grant claims and cash requests that have been filed with the granting agencies. This "accounts receivable ledger" would be maintained by the Public Schools Division of Finance in conjunction with the claim and financial report control procedures. Such a ledger would enable management and outside auditors to accurately assess the Public Schools' position with regard to outstanding payments and, if necessary, take action with the granting agency to speed the

payment process. It would serve to help identify payments that are received without documentation. It would also help the District government anticipate its cash requirements.

Grant Payment Receipts Are Not Controlled Through Separation of Duties

Grant payments may be received by anyone at the Public Schools. Federal government checks addressed only to Public Schools are currently sent to the Division of Finance. The check depositing procedures call for all grant project checks addressed to other Public School offices or personnel, except Department of Agriculture payments, to be forwarded to the Division of Finance. The Department of Agriculture payments are deposited by the Department of Food Services. One person in the Division of Finance is responsible for identifying the grant to which the payment is applied (often there is no remittance advice with the check), preparing the deposit slip (all checks are deposited through the District Treasurer) and eventually reconciling the District Accounting system reports to the deposit records. Depending upon the difficulty of determining the grant to which the payment should be applied, the deposit process may take from two to five days from receipt of the check. Each day lost in depositing the grant funds could mean unnecessary interest costs to the District.

Although some progress has been made in getting the Federal government to identify the grant payments, many checks are still unidentified. Recently, an unidentified $2.6 million Federal check was received in the Public Schools' Division of Finance because it was addressed to "District of Columbia, Presidential Building" (Public School headquarters). After some research, it was determined that the check belonged to the District Department of Highways. The U. S. Department of Agriculture payments are mailed directly to the Department of Food Services which does its own direct depositing with the District Treasurer and its own deposit reconciliation.

Recommendation

We believe that better grant payment control and, therefore, better control over the District government cash flow would be achieved through a modification of the deposit and reconciliation procedures. We recommend that all payments be received by the Division of Finance. All granting agencies would be instructed to remit their payments to this Division along with a copy of the claim or remittance advice for payment identification purposes. The payments should be deposited immediately in a bank and recognized as revenue by District government. A claims payment receivable ledger and the remittance advices should speed the identification of the grant.

In order to properly control the receipt of grant payments, the procedure should divide the responsibilities in the following manner.

- Individual "A" posts the payments receivable ledger when the claim or request is filed.
- Individual "B" receives all checks and prepares a list of all checks received. That list is used by individual "A" to post the receivable ledger.
- Individual "C" prepares the deposits and a deposit list and is responsible for depositing the payments at the bank and notifying the District Treasurer.
- Individual "D" reconciles the deposits by comparing the deposit list, bank statement, check listing and receivables ledger.

The current methods of handling payment receipts offer the opportunity to misappropriate funds or incorrectly account for them.

The District Accounting System Is Not Accurate or Timely Enough for Grant Reporting

The District Accounting System is the official accounting record for all Public School programs, including Federal grant programs. It does not provide adequate information to permit effective grant program management and reporting from that system for the following reasons.

- Accounting errors are not adjusted on a timely basis.

- The reports produced by District Accounting alone do not provide detail of expenditures, and do not provide balances remaining available to spend by expense classification. In order to determine the balances available by project and total expenses to date, it is necessary to combine two computer reports on a manual basis.

- Delays in recording purchase order obligations (a combination of purchasing procedure and data processing problems) cause the remaining balance figures to be overstated.

Accounting distribution restrictions in the District's Central Payroll System which feeds accounting information to District Accounting will not permit an individual's payroll to be charged to more than one account. For example, if an individual works primarily on a grant, but also receives extra duty pay as an athletic coach, that extra pay will be charged to the grant by District Accounting.

Recommendation

In order to provide better management reporting for grant project directors, several changes should be made to the District Accounting System.

- Reporting expenses and balances by object within project as well as program.

- Ability to forecast total project costs to accurately identify carryover funds early in the project year.

- Recording estimated nonpersonnel expense and reducing available balance when a requisition is prepared.

- Summarizing the grant expenses and balances by specific school and total project (all fiscal years).
- Ability to report local matching funds on a grant project report.

The grant program requirements for an improved computer accounting system can be met through procedures and processing that assure current and accurate data. The system must allow flexible reporting formats for a variety of data combinations.

Grants Maintain Manual Accounting Systems

As a result of the delays, inaccuracies, and lack of reporting by the computer accounting systems, each grant business manager has developed his own manual accounting system and set of procedures to attempt to control and report the costs of his project. For some grants, we observed well organized records and balance sheets while other grant records appeared to be disorganized and included incorrect entries on the balance control sheets. None of these manual accounting systems can be accurate due to possible changes in requisition/purchase order prices once the requisitions are processed by the Public Schools' Division of Logistics and the District Procurement Office.

Not all of the grant business managers try to keep track of salary and fringe benefit charges. The ones who do generally have inaccurate figures for the personnel costs. The others rely on District Accounting to report their grant's personnel expenses even though that system may not have accurate personnel expense figures. The business managers may attempt to synchronize their accounting system with the other accounting systems, but this is generally an exercise in frustration.

Within just one $900,000 program at the Public Schools, a Department of Health, Education and Welfare audit disallowed $92,000 of claimed direct program costs on the basis that the claim could not be reconciled to the District Accounting system. Grant managers were preparing inaccurate monthly claims based on their own accounting records, not the official District records.

Use of different accounting systems to control grant results in the following problems.

- A significant effort is expended in trying to make the manual accounting system work. This effort should be devoted to other business management activities such as monitoring grant activity.

- Incorrect claims and financial reports are being submitted to funding agencies based on the manual accounting records. The funding agencies expect the claims and reports to correspond to official

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public school accounting records on the District Accounting System. Most claims that are prepared from the manual records draw audit exceptions for this reason.

- Claims and reports prepared from other than District Accounting records draw audit exceptions.

No accounting system stands alone as the accurate financial record of grants.

Recommendation

In order to maintain complete financial control of Federal grants, to concentrate that control and financial reporting at the Public Schools Central Office and to use the District Accounting system as it is currently operated as the accurate and current basis of all grant financial reporting, more staff is required in the Division of Finance accounting group and the Property Control group. It should be emphasized that these personnel are required to monitor and augment the current accounting and property control systems. They should also be trained and a complete set of operating procedures and reporting requirements should be prepared for these areas.

The grant business managers are still required to perform day-to-day financial and procedure management functions. They can use better management control reports from the Fiscal Accounting System. Also, they need standards and

minimum requirements for manual bookkeeping which is required in the current public school financial system environment.

Until major computer system changes can be made, it will be necessary to continue to rely on manual accounting records maintained within each grant to produce management control information. To this end, the Division of Finance must prepare record keeping standards and procedures to be followed by all grant business managers. This includes standard methods of processing personnel actions and requisitions, and determining object balances using the District Accounting System and Allotment Accounting balance records.

The Grant Accounting Systems Do Not Adequately Identify Excess Funding

No grant accounting systems offer an accurate method of determining project carryover or excess funds. Carryovers are the grant amounts which will not be or cannot be spent during the first fiscal year of the grant but will be "carried over" into the second year of that grant. Typically, the grant contract will not allow a carryover for the payment of unliquidated project expenses.

The excess funds result when a grant reaches the end of its allowed time and not all of the award has been spent. The usual situation is that salary expenses for the

grant award were overestimated. If the grant managers can identify potential excess and carryover funds, they can petition the grant agency to allow them to "reprogram" the estimated excess from one object (expense type) to another. For example, excess salary amounts could be reprogrammed (rebudgeted) to buy additional equipment for the grant project. The grant agencies generally do not allow the grant managers to wait until the end of the grant term (when all costs are finally recorded) to request reprogramming of grant funds. This must be done based on estimates at some earlier point in the grant.

The most embarrassing and costly situation arises when grant award payments have been received in advance for the total amount of the grant and, at the end of the grant period, a portion of the grant award (excess funds) has not been spent. The Public Schools must then return the unspent portion of the award to the granting agency or have it deducted from the following year's grant. Excess grant funds cannot legally be spent on other activities. Earlier detection of potential excess funding may permit reprogramming of most of that money so that it could be spent helping students rather than returning it to the funding agency. This process can also disrupt the District government cash flow process.

The unspent Federal grant funds returned are not necessarily small amounts. The Public Schools will have to return $462,000 not spent during the first grant period of the Emergency School Aid Act Program to the Office of Education, Department of Health, Education and Welfare. There are several reasons why this large amount must be returned, and not all of them are related to identification of excess funds. A community group lawsuit and another community group action significantly delayed the start of the grant. However, delays in the purchase order liquidation process and late identification of excess salary funding also contributed to underspending of money that was requested and received from HEW.

There were delays in determining the available carryover funds for the Vocational Education Schools' of Career Development also had difficulty in determining the amount of funding to be set aside in that grant for aid to the disadvantaged. As a result, the Public Schools must return $263,000 of the $1,763,000 in Federal grant funds received for this grant because those funds were not spent as of June 30, 1975.

Recommendation

Until major computer system changes can be made, it will be necessary to rely on the manual accounting systems to project total grant costs and identify potential

funds for reprogramming and carryover. To this end, the Division of Finance must prepare procedures that describe standard methods of projecting total grant expenses and estimating funds for carryover or reprogramming. These projections and estimates should be revised periodically throughout the grant year and should be finalized before the cutoff date for the reprogramming of funds.

The Property Control System Is Not Adequate

Many Federal grants stipulate that all equipment and nonconsumable supplies purchased for that grant be identified, recorded and controlled for use in the grant activities at least until the grant term expires. Grant audit reports have already taken exception to the fact that the property for some grants has not been recorded or officially controlled. One major problem that would be faced in conducting a complete audit of Federal grants is the absence of an equipment inventory list.

The Public Schools' Division of Logistics maintains a computer property control system, but the information in that system is not current (there is several months backlog of input processing). There is no procedural control mechanism to assure that all property is recorded in that system. Most of the grant business managers do not submit equipment information to that system. The property

control system does not have the ability to record certain information such as date of purchase or specific location within a school. Some grant managers maintain their own equipment inventory control lists, but there is no standard approach to property control within all grants and no control over accuracy. Without a complete central list of equipment, no individual can be held responsible for its control.

Recommendation

We recommend the following steps to improve grant property control.

- Maintain standard inventory records of nonconsumable property for all grants.
- Identify the property with prenumbered tags that identify the grant.
- Control the recording of property through central office procedures.
- Modify the computer property control system to record and report additional information such as location within the school, date of purchase, depreciation and specific grant project.

In some cases, the grant contract will define the property criteria. Public School management will have to determine the criteria (e.g., value, life expectancy, etc.) for identifying all equipment and property to be controlled. Each grant project director should receive regular reports of the

equipment for which he is responsible. Periodically, central office teams would perform grant property inventories based on the property control system information.

There Are Difficulties In Controlling Grant Apportionment Amounts

Apportionment amounts are entered into the District Accounting System at the program level (e.g., ESEA Title I) but expenses are reported at the project level (e.g., ESEA Title I, Career Development Widening Horizons Project). Manual calculations are required to correctly determine the official District Accounting balance remaining in a particular grant.

District Accounting identifies the particular projects that have negative balances but does not offset project expenses to the total program apportionment. Thus, a large number of projects continue to appear on the "Red and Zero Balance Report" even though the program level account has a large positive apportionment balance. This reason, along with the lack of up-to-date balance information (a result of incorrect or delayed accounting entries), was given for not using the "Red and Zero Balance Report" as a management control tool.

Recommendation

In the short-term, we recommend that the District Accounting System should be modified to allow apportionment entries at the project level and, in turn, those apportionments should be summarized and cross-checked to the total program apportionment. Expenses within a program should also be summarized and offset against the total program apportionment. The accounting system reports should be modified to show project and program expenses to date and apportionment balances on the same report. The Division of Finance should be responsible for reviewing the Red and Zero Balance Report, determining why specific projects and programs are in that position and what can and will be done to correct the negative balance situation.

FOOD SERVICES

GENERAL DESCRIPTION

The Public Schools Department of Food Services is responsible for the management and administration of feeding programs in 194 public schools. Of those schools, 104 have full-service cafeterias, and the remainder have facilities to serve hot, preplated meals. During the month of January 1976, this operation served the following approximate number of meals.

- 240,000 cafeteria prepared breakfasts
- 170,000 preplated heated breakfasts
- 1,200,000 cafeteria and preplated lunches
- 220,000 units of special milk

The cash revenue from sales of the above items was approximately $200,000 (high school lunches cost $.40 and grade school lunches cost $.35). A majority of those meals were served free or at reduced prices under the U. S. Department of Agriculture's Child Nutrition Program. For example, during January 1976, the approximate reported number of free/reduced meals was as follows.

	Free	Reduced
Breakfast	377,000	11,000
Lunch	950,000	44,000

The USDA reimburses the Public Schools for the free and reduced meals at rates established by the Department of Agriculture, as well as providing subsidy in the form of commodity surpluses. The cash sales and Federal reimbursement still fall short of the total cost of meal service. The difference is made up by District funds.

January 1976

District Appropriated Funds	$ 734,000
Cash Sales	205,000
Federal Reimbursement	891,000
Revenue	$1,830,000
Total Food Service Expenses	1,960,000
Net Deficit	$ (130,000)

The purpose of the food service operation is to serve nutritious meals to students through a nonprofit meal program. Food service officials believe that by raising selling prices, students would leave the schools to purchase less nutritious meals. The participation decline would also result in a decrease in cash revenue. A marketing analysis of school meal prices was beyond the scope of our survey as was an assessment of whether the same quality of food service could be maintained by achieving significant reductions in employee and supply costs.

The free and reduced price meal eligibility requirements are clearly spelled out by USDA. Students must apply for the benefit based on family economic conditions. As a control, the school principal, not the food service employees, determines final eligibility. Complete records of approved student applications are maintained at all schools for a period of three years and are subject to review by Food Services management and Federal auditors. The number of free and reduced meals served are carefully monitored by both field managers and the food service central office staff.

There are over 1,200 employees in the Public School Food Service operation. The majority are part-time workers. Most of these employees work at the school level with each school food operation reporting to the central food service office through one of 18 area managers. All personnel actions are processed and controlled at the central food service office and all staffing is done from there.

During fiscal year 1976, USDA will provide an estimated $8.9 million in aid through eight programs to supplement the $5.4 million (per the published District government FY 76 Budget) in District appropriations and the $2 million in cash sales for funding of the food service

programs. USDA funding represents 23% of the total of all Federal grant award money to be received by the Public Schools for FY 76 programs. In addition to funding the food service programs in the Public Schools, one USDA program partially funds the State Agency function of the Public Schools Food Services Department.

USDA funds for the four major meal service grants are claimed monthly by Food Services. Reimbursement is based on USDA rates for different types of meals (free, reduced price, etc.) which are adjusted every six months to reflect changes in the consumer price index. Public Schools must calculate the per meal cost of breakfast and lunch and will receive reimbursement at the maximum allowable rate if the cost per meal exceeds those rates.

Food Services manually computes a monthly meal cost analysis for both lunch and breakfast programs. Food costs are calculated by costing the entire monthly menu (a tedious task) and then multiplying the number of meals served by the appropriate cost. Paper supplies, transportation and labor costs are computed separately for breakfast and lunch, based on actual costs reported for each month, and added to the food cost. Repair, maintenance and equipment costs are allocated to the breakfast and lunch program on a percentage basis.

At this time, Public Schools is not including indirect costs (e.g., services provided by other Public Schools offices such as Logistics, Personnel, and Purchasing) or depreciation on equipment in the cost per meal calculation. However, for claim purposes, calculations of these costs are largely academic since the cost per meal served still exceeds the maximum reimbursement rates by a significant amount. During January 1976, the costs per meal were calculated as follows.

Cafeteria Breakfast	$0.44
Preplated Breakfast	$0.47
Lunches	$1.36

During this same period, the USDA average claim rates allowed were as follows.

Breakfast	
Free	$0.25
Reduced	$0.19
All	$0.10
Lunch	
Free	$0.57
Reduced	$0.47
All	$0.13

FOOD SERVICES

GENERAL COMMENTS

Our review included the examination of procedures used to control the cash receipts at the schools. Because of the relatively small amounts of cash received at a large number of locations, the opportunities for misappropriating small amounts of those funds are numerous. We are satisfied that a system has been established to adequately control receipts through various cross-checks of deposits and meal tickets issued. An audit would include verification of the use of these procedures and a test of their current and historic reliability. We noted that the use of armored car services in picking up cash receipts at the schools is a necessary and desirable expense.

There also appears to be good central control over the use of raw food commodities at the school level. The manual commodity inventory and monitoring procedures, along with procurement records and warehouse receipt and delivery documents should make it possible to verify the physical and financial control over raw food commodity inventories. The central receipt and delivery of commodities (only milk, bread and some fresh fruit are ordered by and delivered directly to the schools) adds significantly to this control.

The extensive manual calculations and recordkeeping required to monitor the raw food inventories follow a monthly pattern that suggests a relatively straightforward computer inventory control system based on estimated and actual usage rates. A food service system that monitors the use of commodities could also be used to calculate the raw food cost of each meal served for USDA claims and Public Schools cost control.

A pilot project in preparation flexibility and local innovation is being conducted. The Central Office specifies the commodities and amounts to be used for each meal, but the cafeteria manager decides the form in which the final product will appear. This is an attempt to increase student interest in the lunch program. As local innovation is increased, the manual monitoring and control of commodity inventory and usage will become very complex. A computer commodity inventory control system would help make this control function easier and more complete.

FOOD SERVICES

DETAIL FINDINGS AND RECOMMENDATIONS

The District Accounting System Is Not Responsive to the Needs of the Department of Food Services

The District Accounting System is not flexible enough and its information is not accurate enough to provide reliable accounting data for food service reporting and management control purposes.

- Errors in the accounting distribution of payroll expenses may result in incorrect payroll expenses being charged to the Food Service accounts. Since the District Accounting reports are used to calculate the cost per meal for claims to USDA, an error in the expense distribution could cause a misstatement of cost per meal expense.

- The District Accounting System does not allow multiple accounting distribution of payroll expenses. Thus, the costs of serving specific meals can only be estimated.

- Overhead costs incurred by other offices in assisting Food Services cannot be allocated nor can equipment depreciation be charged.

- The District Accounting System does not allow Food Service management to obtain reports that will identify food service cost by school. Only significant manual effort would enable food service management to compare costs per meal between schools.

- Delays and account code errors in the processing of purchase orders mean that manual logs must be kept by Food Services to identify nonpersonnel expense fund balances.

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USDA claim requirements involve identifying the cost per meal served each month. Those calculations are based on expenses that may be approximate. They do not include indirect costs.

Recommendations

The Public Schools should develop a computer system that will take direct food service costs and combine it with other commodity expense data to accurately calculate cost per meal. The District Accounting System should be modified to report accurately food service expense by school location and by program using estimated percentage distributions or actual distribution if possible.

The District Accounting System Does Not Report Food Service Program Account Balances by Expense Type

There are no computer reports that indicate remaining balances by expense type for each program which Food Services operates. The purchaseing procedures may delay the recording of an equipment or supply expense so that District Accounting reports a larger available balance in an equipment or supply account than is actually available. The result is the development of parallel manual bookkeeping systems in Food Services and in the Division of Finance to keep track of available balances for nonpersonnel costs.

Even the manual systems will not show the same balances because of price changes once the purchase order is prepared. An attempt is made to reconcile the manual records between these offices. The Food Service accountant attempts to periodically reconcile his records to the District Accounting System, but this is a time-consuming task.

Recommendations

The District Accounting System should be modified to reflect the current fund balances for each program so that individual programs do not have to maintain detail ledgers in order to identify balances. The District Accounting System should report commitments as well as obligations in order to project realistic object balances in nonpersonnel expenditures. It should also be able to project actual personnel costs over the course of the fiscal or program year and to identify potential over/underspending of grant funds. The accountants for Food Services should receive daily reports of system input for their programs to verify its accuracy. They should also receive reports that reflect actual and projected fund balances at a detailed level.

Until substantial improvements are made to the District Accounting System, financial records will still have to be maintained by Food Services. The Division of Finance should establish and enforce standards for manual

recordkeeping. This would include standards for maintaining listings of program personnel and corresponding personnel action forms, copies of procurement documents and procedures for monitoring and controlling requisitions and Personnel Actions forms once they leave the program accounting group. If adequate manual recordkeeping standards are enforced, they will serve as a basis for quickly and correctly adjusting the District Accounting System.

The Division of Finance Does Not Exercise Control Over the Claiming of Food Service Grants

The State Office is responsible for submitting financial requests to USDA based on the the claims from the school districts within the "state." Public Schools, along with other agencies and private schools operating child feeding programs, submits its monthly claim to the State Office. This office consolidates the claims into the monthly request for funds. When payment is received from USDA, the money is disbursed to the appropriate agency accounts through accounting transfers or through direct payment.

Since the State Office for USDA Child Nutrition Programs is located in Food Services, the Office relies on the Food Services chief accountant to control the accounting activity associated with the State Office. The State Office

prepares and directly submits claims for reimbursement to USDA.

- There is no central control within the Public Schools over the claiming of Federal grant funds.
- There is no central record within the Public Schools of money to be received from USDA.

Recommendations

We recommend a central control of all claim and grant financial reporting (Food Services) within the Public Schools' Division of Finance. This function would maintain a record of all money claimed or requested so that at any point in time, Public Schools can know in total how much has been received from and is still owed by grant agencies, including USDA. This record would also serve as the basis for reconciling and identifying payments that are received.

Food Services Is Performing Accounting Activities That Should Be Performed in Other Offices

As discussed previously, Food Services operates like an independent agency. While this is necessary for some functions, the accounting function should not be divorced from the overall Public Schools accounting operation. While Food Services accountants are currently better able to recognize accounting errors in their programs, the responsibility for maintaining an accurate accounting system and

documentation of input should rest with one group in the Division of Finance. This allows consistency of audit trails.

The Division of Finance should be staffed to perform the functions of reviewing monthly reports from District Accounting for all programs and submitting the appropriate accounting correction documents. Food Services should provide the accounting group with all the information needed to identify accounting errors (e.g., personnel lists by program and equipment/supply purchase lists). In the short run, it may be necessary for Food Services to concentrate accounting efforts to completely correct errors in District Accounting pertaining to Food Services.

In order to achieve better control over expenditures and revenues, Public Schools should institute the following.

- All Food Service requests for USDA funds be filed through the Division of Finance and that all claim funds received be deposited and reconciled by that division in an effort to centralize and control grant claims and receipts.

- All accounting adjustments and transfers be prepared by the Division of Finance. While Food Services is fully capable of preparing such adjustments, it is an overlapping of accounting effort and a potential control weakness. The Division of Finance should be provided with the records and manpower to perform this task.

- Manual accounting systems and recordkeeping required to supplement the District Accounting System meet specific standards of recordkeeping, control and regular reconciliation to the computer systems until such time as those systems can be upgraded to meet user needs.

Central control of all accounting transactions should be a goal of the Public Schools. The Division of Finance should be staffed at a level and be provided with appropriate records to enable it to take on these additional control and accounting functions.

There Is No Complete Record of Food Service Property

Food Services does not maintain a complete list of property charged to the food service accounts. A list of mechanical and refrigeration equipment is maintained for repair history purposes. There is no permanent record of tables, chairs and other major nonmechanical equipment that was purchased with Food Service appropriations. No attempt is made to identify the equipment as belonging to Food Service through Food Service property tags.

There is no procedure for regularly submitting Food Service property information to the Public Schools Property Control System. In any event, the Property Control System has not been updated for several months. It does not have provision for specifying equipment location in the

school, date of purchase or depreciation calculations. As a result, there is no complete record of equipment belonging to Food Services and creates several problems.

- Food Service equipment may be used in other locations in the school and not be returned.
- Food Service equipment may be removed from the school without record. There is no procedure for identifying responsibility for that equipment.
- There is no method of including the cost of equipment depreciation in the total cost of meal service.
- Fiscal responsibility for equipment cannot be enforced.

Recommendations

The following steps should be taken to gain control of all of the Food Service property.

- Take a complete inventory of current Food Service nonconsumable equipment and property above a dollar value to be decided by management. Ideally, this inventory would be based on purchase order records, but a physical count may be the only way of identifying current property. All property would be tagged as belonging to Food Services and the tags would be prenumbered. This property control number would be recorded on the inventory list. Some items such as folding chairs might be recorded as a total group. Once the inventory at a particular location is complete, the food service manager will be held responsible for that equipment.
- When receiving documents on additional equipment are received in the central office as payment authorization, the Food Service equipment specialists should go to the location, tag the equipment, and

record the property control information which includes:

description
location
date of purchase
cost
estimated life
food service property tag number
serial number (if any)
accounting code from the purchase order

- An effort should be made to get all property records up to date and keep them current within the property control system so that Food Services does not have to manually list the equipment.

Modifications should be made to the property control system to allow the following additional information to be recorded.

- Date of purchase
- Property tag number
- Location within the school.

The system should be given the ability to calculate depreciation on seclected items.

Meal Ticket Cash Receipt Collection Is Inefficient

Since it is not safe for Food Service personnel to deposit daily cash receipts at local banks, an armored car service provides daily cash pick-up services. The daily pick-up is a necessity because there are no facilities for keeping money at the schools. The cost of a pick-up for each school is $4.90. While the daily pick-up at a school

with a large student population may be several hundred dollars, the smaller schools may deposit less than $25 a day. It may be possible to reduce the cost of cash pick-ups if the schools were equipped with safes and deposits could be consolidated.

Recommendation

Food Services is considering the installation of safes in its school cafeterias. Invitations to bid on this installation have recently been issued. This approach will be desirable if the cost of the safes can be offset by a reduction in future armored car costs. The safes will also provide additional in-school security over cash receipts. Alternatively, schools with safes available for other purposes should use such safes to accumulate Food Services receipts.

WAREHOUSE AND EQUIPMENT INVENTORIES

FINDINGS AND RECOMMENDATIONS

Equipment Inventory Is Not Current

The equipment inventory data at the Public Schools is substantially out-of-date. This information is maintained by the Division of Logistical Support. The last physical inventory was taken in May 1973 and the results have not been posted to the equipment inventory file. Most subsequent acquisitions and transfers have similarly not been posted.

Because equipment is an important and significant asset, the out-of-date information substantially misstates the fixed assets of the Public Schools and individual schools are not held accountable for these items.

Recommendation

The Public Schools should update its equipment inventory data. A physical inventory should be conducted as part of this updating process. It should be planned, supervised, and controlled by the Division of Finance rather than by the Division of Logistical Support. The up-to-date information will improve the controls over the equipment inventory.

Information for the Equipment Inventory System Does Not Come from the Accounts Payable Function

Schools and warehouses submit a special document to the Equipment Inventory System. The warehouse submits these documents regularly. The schools have a submission percentage that is extremely low because they must code a separate document and, because of this, it will be difficult to improve the submission percentage. Without a good submission rate, the equipment inventory will not stay up-to-date.

Recommendation

Public Schools should integrate the information retrieval for the equipment inventory to the receiving reports and accounts payable function. This would reduce the requirement for submission of unique equipment inventory documents by the schools. The accuracy and currentness of the system would be improved and the clerical task eliminated at the schools.

The Equipment Inventory File Lacks the Date of Receipt

The date of receipt of equipment is not an integral portion of the information maintained on the equipment inventory file. This information could only be obtained

with substantial manual effort. As a result, it will be extremely difficult to calculate depreciation and value the equipment inventory. Obsolescence reporting for the assets cannot be done routinely, which makes the planning and control of replacements difficult.

Recommendation

Public Schools should incorporate the date of receipt into the equipment inventory file for all future additions. This additional data would provide the ability for accurate depreciation calculations and aging techniques.

Accounting Treatment for Warehouse Inventories Needs to Be Improved

The Public Schools established a warehouse operation to satisfy more effectively the supply requirements of the schools and to obtain favorable quantity purchase discounts.

Warehouse materials are recorded as disbursements against a central inventory budget account and are expensed when purchased. When supplies are delivered to the schools, the disbursement is transferred from the inventory budget account to the supply budget accounts for the schools. There is no expenditure reflected on the statement of revenues and expenditures at this time.

Recommendation

Public Schools should convert to an inventory treatment which records expense at the time of consumption. An inventory asset account would be established. The asset account would be increased when supplies are purchased. When items are delivered to the schools the inventory account would be decreased and the associated expenses would be recorded. This method would provide continuous inventory dollar value information for management.

Control over Inventories Needs to Be Clarified

Inventory procedures and controls are used uniformly for all items in the warehouse operation. Perpetual inventory records are manually posted for issues to the schools, for materials entered into the inventory, for backlogged items, and for purchase orders outstanding. These cards report primarily the inventory quantities. Physical inventories are taken on all items and the results are reconciled with the perpetual records.

Extended inventory costs are not available from the records. A detailed analysis of the inventory by value, shelf-life, chance of theft, and other critical variables has not been done. This type of analysis is referred to as an "ABC Analysis."

Recommendation

Public Schools should develop an "ABC Analysis" of the warehouse inventory. The analysis would assist personnel in reducing the detail of the inventory records, procedures, and controls for the lower level, or "C" category, items. This would reduce some of the cost associated with the current procedures. It would also permit the use of more extensive inventory procedures and controls for the critical, or "A" category, items. Based on an "ABC Analysis," personnel could apply varying inventory controls and procedures to meet the requirements of the various categories.

The Division of Finance Does Not Audit Physical Inventories

The Division of Logistical Support currently performs physical inventories of warehouse supplies throughout the year on a cycle count basis. Accounting personnel are currently not involved in these physical inventories.

Recommendation

The personnel in the Division of Finance should audit or assist in the physical inventories taken by the Division of Logistical Support. This procedure would help to improve the accuracy and reliability of physical inventories.

The Public Schools Do Not Have an Automated Inventory Control System

The warehouse system interfaces with the financial systems both at the times when goods are received and also shipped. The requisitions are prevalidated in the Allotment Accounting Ledger prior to any inventory activity. The manual perpetual inventory records, which primarily maintain inventory quantities, are updated and the order is issued to the warehouse. Following the delivery of supplies to the schools, the requisitions are processed in the mechanized warehouse system. The computer cards prepared by this system are processed in the Fiscal Accounting System and the report is forwarded to District Accounting for processing. These cards record the charges to the schools' accounts for supply items. During FY 1976, these charges were regularly delayed several months. The lateness of these charges delays their impact on the funds check at the District, which is based on the District Accounting System.

The mechanized warehouse system was intended to produce financial management information for the supply accounts at the schools. Budget account information for nonpersonnel items was supposed to be incorporated in this system. This was unsuccessful because transfers between budget accounts were not posted to this system. Items

purchased and delivered directly to the schools by vendors also were not entered into this system. For these reasons, the system was unable to report accurate and complete supply budget account information. As a result, the financial management information for the supply accounts has been discontinued.

Recommendation

Public Schools should develop an automated inventory system that would maintain dollarized inventory records. The system should not include budgetary accounting information as was attempted in the fund management portion of the current warehouse system.

The automated inventory system should process all warehouse requisitions and generate picking/packing and delivery documents. It should contain inventory techniques, such as demand levels and economic order quantities, so that material requirements reports can periodically be generated and sent to vendors. This system should perform other operational tasks and provide overall inventory reporting.

A new automated inventory system would provide substantial benefits.

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- It would eliminate many of the current manual operations.

- The accuracy of the inventory records would be improved.

- With the proper interfaces, the financial system would reflect accurate supply and budgetary information on a timely basis.

- The system would improve the efficiency of many aspects of the warehouse operation.

VOLUME IV
DEPARTMENT OF HUMAN RESOURCES

DISTRICT OF COLUMBIA

DEPARTMENT OF HUMAN RESOURCES

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DISTRICT OF COLUMBIA

DEPARTMENT OF HUMAN RESOURCES

INTRODUCTION

This volume of our report discusses the results of our review of the Department of Human Resources (DHR) of the District of Columbia and is divided into three sections:

- General Description
- Summary of Significant Findings and Recommendations
- Detail Findings and Recommendations

Our review was directed principally at the accounting and financial management practices of DHR. We focused our efforts on the organizational units allocated the greatest share of DHR staff and financial resources as well as those charged with management of these resources. Our survey of the operations of DHR was conducted principally in the Payments Assistance Administration and Community Health and Hospitals Administration, which, together, are responsible for approximately 60% of the annual DHR appropriation and employ 50% of DHR staff. We also concentrated our efforts on the administrative functions of DHR, principally within the Office of the Controller.

GENERAL DESCRIPTION

The Department of Human Resources (DHR) is a consolidated organization established to integrate and coordinate those municipal services that concern human needs. It was established in 1970 through the merger of several separate District government departments, including Vocational Rehabilitation, Public Health and Public Welfare. Broadly speaking, its major functions are to:

- Provide transfer payments such as Aid to Families with Dependent Children (AFDC) and General Public Assistance (GPA) to individuals and families who are determined to be financially needy.

- Provide medical and rehabilitative services to maintain the health and physical well being of District residents. Such services are provided directly through DHR operated medical facilities as well as through purchase from private health care practitioners and organizations.

- Provide comprehensive social services to District residents who are in need of special help to maintain their self-support or self-sufficiency or who are in need of special supervision or custody. Services provided to children include foster care and adoption as well as detention and residential care for delinquent juveniles. Services provided to families and adults are intended to strengthen and improve family living and stability and to provide a sheltered environment for persons who cannot cope effectively with their environment.

- Coordinate human services programs offered by DHR and other public and private agencies to help assure access by the public and effective utilization of the District's total human services resources.

DHR is responsible for the administration and operation of a variety of programs intended to maintain the health and well being of District residents. Most programs have their derivation in Federal or local statutes, or a combination of the two authorities. A large proportion of DHR funding is obtained from the Federal government in the form of matching grants or project funds provided for specific purposes.

Many of the DHR programs are "categorical" in nature. That is, individuals must meet specific eligibility criteria in order to receive available DHR benefits or services. These criteria are usually based upon the individual's financial, physical or social status. Persons who are determined to be ineligible are either excluded from receiving the service or, as in the case of health care, are required to pay for the services they receive.

Eligibility rules are complex. Each program typically has its own set of eligibility criteria, and these are often inconsistent with the criteria used in other programs. Moreover, the determination of program eligibility is made at a given point in time relative to the established eligibility criteria and the existing status of the applicant. Over time, the eligibility criteria established for a given program are changed through

legislative and administrative action. More frequent change is likely to occur in the financial and personal status of individuals receiving DHR services. Thus, services to individuals are often initiated under a complex set of rules and regulations and require continual administration and monitoring to ensure that appropriate services are provided to qualified individuals.

Service programs operated by DHR typically have large client volumes. Public assistance payments, for example, are presently made to roughly 40,000 families and individuals per month. In addition, 50,000 to 60,000 cases have been established for households eligible to receive Food Stamps. Annually, some 700,000 documents are issued authorizing periodic purchases of Food Stamps by those households. In its health care role, D. C. General Hospital provides in excess of 200,000 days of inpatient care and serves outpatients who make 195,000 hospital visits each year.

Effective administration of the programs with the scope, complexity and volume offered by DHR requires an efficient and disciplined organization. The information needed to serve this organization mandates well controlled, automated information systems. While overall fiscal control of DHR can be exercised on a District-wide basis through the

appropriation process, effective controls over the individual programs of DHR require unique internal solutions.

- -

DHR is comprised of five major operating divisions plus several staff or administrative functions, each reporting to the Office of the Director. The major organizational entities within the Department are:

- Executive Direction and Support
- Payments Assistance Administration
- Social Rehabilitation Administration
- Mental Health Administration
- Community Health and Hospitals Administration
- Narcotics Treatment Administration

The proposed departmental budget for fiscal 1977 is approximately $435 million, 65% of which is funded through District appropriated funds and 35% of which is funded through Federal reimbursements and other grants. The DHR budget is approximately 28% of the total District budget. DHR currently employs 9,993 full and part-time persons. The largest staff is employed by the Community Health and Hospitals Administration with 42% of total DHR employment.

The budget requests (expressed in dollar amounts and in authorized positions) for the 1977 fiscal year are summarized on the following two pages.

DEPARTMENT OF HUMAN RESOURCES

DISTRIBUTION OF 1977 BUDGET REQUEST BY ORGANIZATION UNIT

(Unaudited) (Note 1)

Organization Unit	1977 Budget Request ($ millions) Personnel	Other Operating Costs	Total	Percent of Total
Executive Direction and Support	$ 19.2	$ 3.4	$ 22.6	7.9%
Payments Assistance Administration	7.4	86.2	93.6	32.9
Social Rehabilitation Administration	14.9	26.0	40.9	14.4
Mental Health Administration	21.2	27.6	48.8	17.1
Community Health and Hospitals Administration	58.5	15.5	74.0	26.0
Narcotics Treatment Administration	3.6	1.3	4.9	1.7
Total Requested Appropriation	$124.8	$160.0	284.8	100.0%
Total Federal Grants			150.4	
Total Human Resources Budget			$435.2	

Note

(1) Arthur Andersen & Co. did not audit the above information. The source for the above is the District of Columbia booklet "Justifications for the 1977 District of Columbia Budget."

DEPARTMENT OF HUMAN RESOURCES

DISTRIBUTION OF PERSONNEL BY ORGANIZATION UNIT

(Unaudited) (Notes 1 and 2)

Organization Unit	Authorized Positions	Estimated Average FY 1977 Employment	Percent of Total
Executive Direction and Support	1,277	1,104	13.4%
Payments Assistance Administration	732	632	7.7
Social Rehabilitation Administration	1,511	1,304	15.8
Mental Health Administration	1,476	1,272	15.4
Community Health and Hospitals Administration	3,983	3,448	41.8
Narcotics Treatment Administration	272	240	2.9
Other Positions not Allocated per Budget	-	250	3.0
Total Funded by District Appropriations	9,251	8,250	100.0%
Total Grant Positions		1,743	
Total Employment		9,993	

Notes

(1) Arthur Andersen & Co. did not audit the above information. The source for the above is the District of Columbia booklet "Justifications for the 1977 District of Columbia Budget."

(2) The above numbers include total full-time equivalent positions funded through District appropriations and Federal grants and reimbursements.

SUMMARY OF SIGNIFICANT FINDINGS AND RECOMMENDATIONS

The major business and administrative problems of DHR are summarized in the following paragraphs. More specific observations relating to accounting, reporting and systems considerations are described in the last section of this volume.

Two broad categories of programs--welfare and health care--comprise the majority of DHR services and are allocated the major share of resources. Taken together, the operation and administration of these two programs account for 75% of the total financial resources available to the Department.

The financial impact of welfare programs is through payments to, or on behalf of, those persons determined to be financially needy. Present welfare payment programs of DHR suffer from staggering levels of payment errors and client ineligibility. Effective fiscal administration of health care programs demands careful attention to the cost of providing health care services and stringent controls over the recovery of those costs from insurers, Federal reimbursements, and private parties. These elements are lacking in the health care programs of DHR.

In summary, the two major financial activities administered by DHR are inadequately controlled. Serious weaknesses are exhibited in the administrative practices and financial results of the Department's operations. We believe that the following key problems demonstrate a need for significant improvements and require critical administrative attention.

Proposed Solutions to Problems Detected in Previous Audits Have Not Been Implemented

DHR has been the subject of many audits performed by the Comptroller General of the United States, the General Accounting Office, the Department of Health, Education and Welfare, and the District of Columbia Office of Municipal Audit and Inspection. These audits have addressed both the financial administration and program compliance of DHR. The audits typically identify financial and program problems, request management attention to these problems, and include a response from DHR. The responses often include solutions which DHR intends to implement to correct the problems uncovered.

As a starting point for our survey, we reviewed many of these audit reports and followed up on the status and effectiveness of DHR's solutions. Solutions to significant problems have not been implemented and the initial problems have often grown worse.

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For example, on March 20, 1974, the Municipal Auditor reported that DHR had serious financial problems with its hospital patients' accounts receivable procedures. The Municipal Auditor attributed these problems to "an overall lack of control and accountability" and made several explicit recommendations to DHR. DHR responded that it concurred with the recommendations, and had organized an "action-oriented DHR task force team" to study the problems and develop an integrated billing and accounting system. More than two years after the DHR response, we found that the automated billing and accounting system is not operational and the problems identified in the audit have increased.

Health Care Billing Policies Are Not Clearly Defined and Billing and Collection Practices Are Weak

It appears that much confusion exists, both internally and on the part of the public, regarding DHR policies in billing for its health care services. We understand that most billings to private-pay patients for D. C. General Hospital emergency and outpatient services have not been issued during the past several years. Some health care charges, particularly those of Neighborhood Health Clinics, are not recorded by patient to ensure their appropriate disposition. Moreover, efforts to collect health care receivables from private-pay patients are weak or nonexistent.

In summary, health care billing practices of DHR suffer from a lack of well-defined policies, fragmented and outmoded systems and procedures, and understaffed collection efforts. With continuation of these practices, it is impossible to determine whether DHR is maximizing its health care reimbursements from Medicare, Medicaid, various insurance programs and private parties. The Department is in critical need of a well-controlled, coordinated patient accounting and billing system to serve all of its health care agencies. Such a system will not be effective, however, until DHR clearly defines those services to be billed, the method by which the billing will be determined and the conditions under which billings will be waived or reduced.

Delinquent Accounts Receivable from Hospital Patients Are in Excess of $100 Million

The computerized hospital billing system contains in excess of $100 million worth of delinquent accounts receivable. These accounts, primarily for inpatients at D. C. General and Glendale Hospitals, represent health care services which were billed but never collected by DHR. It is impossible to determine how many of these accounts are for eligible Medicaid patients for whom DHR could collect from the Department of Health, Education and Welfare.

Almost every hospital has bad debts, but DHR has ignored its delinquent accounts to the extent that they have become uncontrollable. Collection efforts are minimal despite the fact that DHR management estimates that $10 to $20 million of these accounts could be collected. Moreover, the amount of these receivables is not shown in the District's financial statements. Instead, an accounts receivable amount from 1967 has been reported. No delinquent accounts have been written off as bad debts since 1969, and, due to ineffective accounting procedures, the limited number of payments that are received are not consistently applied to the proper patient accounts.

While it is unreasonable to refuse medical services to those unable to pay for them, it is equally unreasonable to fail to collect from those who can pay. Failure to collect limits financial resources of DHR which otherwise would be available to extend its services to those in need.

We believe that control over patient billing and collection would be improved by establishing separate enterprise funds for the DHR hospitals. That is, the revenues generated and collected by the hospitals should be returned directly into the operating funds of those institutions. Concurrently, the funding available to administer hospital programs would be contingent on their ability to effectively manage their patient billing and collection functions.

An Excessive Rate of Error Exists In Financial Assistance Payments Made To Families And Individuals

Departmental task forces consisting of more than 150 employees are currently conducting a special review of over 30,000 cases receiving financial assistance payments. Preliminary results, based upon their review of about 25% of total cases, indicate that almost two of every three cases are paid erroneous financial assistance amounts or are, in fact, ineligible to receive assistance.

Departmental estimates of savings attainable through elimination of errors in the cases reviewed thus far are approximately $8 million per year. These savings are underestimated in that they consider only the direct payment programs and not the impact of removing ineligible clients from related benefits such as Medicaid and Food Stamps. Nor do they include estimates of prior, unrecoverable amounts erroneously paid to the cases which have been reviewed.

Regulations of the Department of Health, Education and Welfare presently allow a 3% to 5% error rate without loss of Federal reimbursements for welfare payment programs. The excessive error rate of DHR, however, could have a significant fiscal impact on the District through reduced Federal reimbursements for assistance payments programs.

The Department has stated that the efforts of the task forces thus far have focused on those cases expected to be most susceptible to error. Departmental administration estimates that an additional 2,000 to 4,000 "high risk" cases remain to be reviewed, after which the error rate should decline. The error rate for welfare payments nationally is high, averaging 27% according to a recent report of the Department of Health, Education and Welfare. Nonetheless, payment errors of the magnitude uncovered within DHR are alarming and indicative of serious control problems.

The efforts of the task force are commendable. We understand this group will ultimately issue a formal report documenting their findings and identifying the principal causes of the errors. It is imperative that immediate attention be given to improving the underlying procedures which led to these errors. We believe, however, that procedural revisions would only represent temporary measures to control the error rate. More stringent measures are necessary, including improved training and supervision of public assistance personnel, increased automation of eligibility and payment functions, and continued monitoring of the caseload by an independent task force which has the capability and

authority to take corrective action to resolve eligibility and payment errors.

Top Level Financial Reporting Is Inadequate

DHR's financial and accounting reports provide elaborate accounting details but seriously fail in providing top level management-oriented reports which depict the status of the Department's total financial resources. It is impossible to effectively monitor and control the financial resources of an organization of the size and complexity of DHR without such a summary of key financial indicators and operating statistics. This information may exist in the numerous internal reports and files maintained by DHR, but its inaccessibility on a recurring basis renders it ineffective for overall financial evaluation and control.

Financial information which should be readily available is not. Such simple, straight-forward numbers as the amount of cash disbursements by major organization unit require excessive time and effort to obtain. Nonappropriated funds, such as Federal reimbursements, represent a significant portion of DHR's financial resources, yet are not adequately disclosed in its financial reporting. Information on the financial status of each DHR program area, such as Medicaid

and Food Stamps, is not included as a part of the regular management reporting system. Additionally, current reporting does not adequately reflect the status of the current year or carry-over appropriations.

It should be recognized that the internal management reporting practices of DHR are more extensive than most other District agencies. Monthly budget status reporting is provided to the management of each DHR administration and financial review committees which have been established to monitor each administration's status. We do not believe, however, that this reporting is effectively consolidated to present an accurate picture of the overall financial status of DHR.

The overall budget practices and financial reporting structure utilized for DHR should be thoroughly reevaluated. Major changes are required in management reporting concepts to facilitate improved financial control and to accurately reflect the results of operations. Rather than provide voluminous detail, adequate financial reporting for DHR must begin by responding to the top-level information needs defined by management and work downward to lower organization and program levels.

Significant Revenues Are Being Lost In Reimbursement For Indirect District Costs

The Federal government allows agencies to allocate an appropriate portion of their overall administrative and overhead costs to projects and grants. These are described as indirect costs. The District does not presently have an approved indirect cost allocation plan. Thus, the overall administrative costs of the District are not being allocated to DHR and included among its operating costs for reimbursement from Federal and private sources. This revenue loss is not the result of inaction on the part of DHR but, rather, has been caused by the District's inability to obtain Federal approval for its plan. We understand that in prior years such a plan was utilized and resulted in additional revenue of $400,000 to $500,000.

The absence of an approved indirect cost allocation plan results in revenues being lost through DHR as well as other District departments. Moreover, we believe the estimated loss of $500,000 to DHR is conservative and that reimbursements could be significantly greater with the development of an accurate plan. The District should place a priority on developing and obtaining approval for this plan.

DHR Does Not Have A Viable Approach For Correcting Its Key Problems

It appears that the primary response of DHR to resolve many internal management problems consists of its efforts to develop a Human Resources Management Information System (HRMIS). HRMIS is intended to be an automated information system to initially serve the needs of the public assistance, Food Stamp and Medicaid programs. The system is intended to improve the automation of day-to-day administrative functions such as certifying eligibility for financial and medical assistance, issuance of payment checks and Food Stamp authorizations, and providing more timely information for management planning and control. The Department is presently engaged in the conceptual design of this system and has estimated that a time span of at least two to three years will be required to develop and implement the first phase of the system.

However appropriate the concepts of HRMIS may be to the Department's problems, it is doubtful that HRMIS will significantly contribute to their solution. The gap between these concepts and the current procedures and information systems of DHR is too great to be bridged by a single systems development effort. We question the advisability of attempting to solve many of the Department's major problems in one large undertaking. The risk of failure is substantially increased and no offsetting advantages are gained. Many

other states and cities have embarked on similar systems only to have their ambitions fail. We know of no similar system that has ever become totally operational.

DHR does not have adequate resources to develop this system. In numbers of data processing people alone, DHR could not staff a development of this magnitude. Nor does the Department have the required data processing planning and project control techniques in place to properly manage this undertaking.

DHR must break the HRMIS project up into manageable pieces that can be independently developed, more immediately implemented, and integrated into a single functioning system. Smaller, well-planned system development efforts are required. Effective project control mechanisms must be set in place, both within DHR and external to it. Numerous budget and design checkpoints should be established and development efforts should be rigorously measured against these goals at specific checkpoints.

We believe that all major computer system efforts should be monitored by an external group (either a central District group or an outside firm) on a periodic or milestone basis. This procedure generally helps to insure the success of the system project, or at least, provide an early warning that the project is falling behind schedule or developing technical trouble.

DETAIL FINDINGS AND RECOMMENDATIONS

WELFARE PAYMENT CONTROLS

Payments Assistance Error Rate Is Excessive

The Department of Human Resources has organized special task forces responsible for detailed reviews of the payment programs of Aid to Families with Dependent Children (AFDC) and General Public Assistance (GPA) in order to verify client eligibility and accuracy of payments. At the current time, the task force assigned to review the AFDC program consists of approximately 150 DHR employees. We were informed that these people have been drawn from the Department's existing staff within the Public Assistance Administration as well as other DHR administrations, and are funded through District appropriations.

As of April 30, 1976, a total of 8,500 AFDC cases had been reviewed with the following payment errors present:

No. of Cases	Problem	% of Total
1,700	Ineligible clients	20
2,300	Overpayments to clients	27
800	Underpayments to clients	10
4,800		57

A total of 57% of the AFDC cases reviewed to date have been ineligible or in error. The Task Force has projected potential annual savings of $4,600,000 through termination of ineligible cases and $1,900,000 through correction of overpayments for a total of $6.5 million. These savings apply only to the cases which have been reviewed to date, or roughly 25% of the total AFDC caseload, and do not include the potential savings from removal of ineligible clients from related benefit programs such as Medicaid and Food Stamps.

The special review of GPA program is being conducted by 10-13 employees of the Public Assistance Administration. The results of their review indicate that approximately 68% of current GPA cases are ineligible to receive assistance. A total of 1,140 cases, or 18% of the GPA caseload, have been reviewed thus far. Projected annual savings of $1.5 million are anticipated through termination of the ineligible cases.

Other quality control reviews have consistently shown high rates of ineligibility and errors. In spite of an ongoing quality control function within DHR, however, it does not appear that substantial improvements have been made in reducing the error rates. If, as announced, the Federal government withholds AFDC reimbursements for programs which

exceed a 3% rate of ineligibility and a 5% overpayment rate, the financial impact on the District would be significant.

Recommendation

The existing task forces must ensure that all financial assistance cases are reviewed and reconciled in accordance with program requirements and DHR policies. We understand a final report is to be issued at the conclusion of the task force reviews. It is important that this report analyze and communicate the causes of errors to management and operating personnel so that strong positive measures can be taken to tighten policies, procedures and improve personnel training in the future.

We recommend that an ongoing case audit group be established to continue the review effort after the task force reviews have been completed. This group should encompass the quality control functions performed by DHR, but go beyond normal sampling procedures in their review of cases. The case audit group should be provided with the authority and capability to resolve case errors and not simply develop statistical reporting. The new group should also be responsible for development of an effective management reporting structure which provides communication on why errors occur and direction in establishing improved controls.

It is important to recognize that the work of the task forces represents a post audit review. That is, the detection of errors has been made after the fact. Estimates of savings are based upon a reduction of future monthly payments. Figures are not available to identify the amount of funds already spent erroneously. To avoid recurrence of a similar problem, the Department must improve its ongoing policies and procedures for initially certifying eligibility for new cases and maintaining accurate, up-to-date information on existing cases. In view of the large volumes of information handled by the Department, it is imperative that increased automation of payments assistance functions be included among the improvements made.

Medical Vendor Payment Control Is Weak

An effective procedure does not currently exist to avoid duplicate payments to medical vendors who submit claims under the Medicaid program. The automated medical payments system does check for duplicate claims submitted in the same month and processed through the same payment cycle. If a claim was paid in a previous month, however, and a duplicate billing is received in the current month, it will not be detected as a duplicate in the automated payment system. A manual post-audit is also performed to identify

duplicate medical claims which have been paid within a 90-day time period. In light of the large Medicaid claim volumes handled by DHR, however, the effectiveness of this review is limited.

Recommendation

An effective, automated check for duplicate claims is essential to properly control Medicaid vendor payments. We believe such a procedure could reasonably be implemented by DHR within a time frame of two to three months. Other tests for the validity of medical claims should be considered in establishing the new procedures. It may be possible, for example, to also include procedures to detect overlapping or inconsistent dates of medical service by multiple vendors for a single recipient.

We understand that the Department has recently initiated a study of its Medicaid payment practices to assess the feasibility and requirements for such procedures.

Food Stamp Reconciliation Procedures Are Weak

Food Stamp recipients receive Authorization To Purchase (ATP) cards, prepared by DHR, which they use at designated banks and credit unions to purchase food coupons. These cards are returned to DHR for reconciliation. DHR's reconciliation procedures consist basically of posting

received Food Stamp cards to a computerized file of outstanding cards. While information contained on the card is validated against the computerized file of outstanding ATP cards, it is not validated against case data on the Food Stamp Master File. As a result, these reconciliation procedures can detect counterfeit ATP cards, but they cannot detect instances where Food Stamp households have obtained and cashed ATP cards in excess of their allotment. These instances could arise out of error such as DHR computer programming problems or fraudulent reporting of an original ATP card being "lost."

Recommendation

DHR should improve its ATP card reconciliation procedures to include a validation function whereby Food Stamp coupon purchase information would be extracted from every cashed ATP card and posted against both the computerized outstanding ATP card file and the Food Stamp Master File. Multiple ATP cards would post on a cumulative basis and as each posting is made, a validation would be performed to ensure that no household has purchased in excess of its allotment.

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HEALTH CARE ACCOUNTING AND BILLING PRACTICES

Billing Policies Are Not Consistent with Practices

We understand that DHR's policy is to provide health care services to all in need regardless of the ability of the individual to pay for the service. In discussions with DHR personnel it appears that confusion exists, both internally and on the part of the public, as to the meaning of this policy. Apparently, it is sometimes construed to mean that all health care services are free, especially in the outpatient and emergency room service areas.

There are many outpatient and emergency room private-pay charges in the Accounts Maintenance Branch of DHR that have not been entered into the automated patient billing system. Accounts Maintenance personnel stated that few emergency room or outpatient department private-pay bills have been prepared for D. C. General Hospital during the past 2-1/2 years. Similar charges for Neighborhood Health Clinics, including some potential Medicaid reimbursables, are not billed by Accounts Maintenance and in some cases are not even recorded by the Neighborhood Health Clinics for possible billing. Moreover, no controls are in force to assure that charges initiated by a health care

facility are received by PAA for subsequent entry to the patient billing system. Because many charges are unrecorded, it is impossible to ensure collection for services where it is subsequently determined that a patient is eligible for third-party reimbursement.

Recommendation

DHR must evaluate the impact this policy has on the collection of revenue. If the policy is to collect for all services, then the public must be informed. Appropriate internal communications and associated procedures must then be implemented to ensure that all charges are captured in a timely manner and to determine the responsibility for payment. The objective should be to capture as many Medicaid, Medicare and insurance eligible charges as possible, and to capture all private-pay charges regardless of whether they are collectible or not. This approach would aid in maximizing collections from both private and third-party payors.

Health Care Accounts Receivable Are Uncontrolled

DHR's hospital accounts receivable system includes numerous delinquent accounts. The accounts receivable file has become large and cumbersome because delinquent accounts have not been written off annually in accord with Title 2-14-1 of the D. C. Accounting Manual. Previous audits have

estimated that this file contains receivables in excess of $100 million.

Uncollectible receivables have not been written off since 1969 and the District General Ledger has continually carried forward a $14 million delinquent accounts receivable figure for D. C. General and Glendale hospitals each year since that time. Many payments have been received but cannot readily be applied to these accounts.

Recommendation

DHR should establish a complete trial balance of outstanding health care receivables at the earliest possible date and subsequently initiate concerted efforts to collect or dispose of uncollectible receivables. In light of the magnitude of these receivables, the legal considerations of a write-off should be weighed. New accounts receivable control procedures should be established to ensure that this situation does not recur.

In order to provide proper accountability for D. C. General Hospital and the health clinics, we believe separate enterprise funds should be established. Under enterprise fund accounting, the District's health care facilities would be accounted for on the same basis as if they were separate entities.

Fiscal Controls and Management Reporting Do Not Readily Present The Total Financial Status And Results Of DHR Operations

We found it difficult to readily assess the financial condition of DHR in that concise reporting depicting the status of its total financial resources was not available. Nonappropriated funds, such as Federal reimbursements, represent a significant portion of DHR's financial resources, yet are not adequately disclosed from a financial reporting viewpoint. Information on the financial status of each DHR program area, such as Medicaid and Food Stamps, is not included as a part of the regular management reporting system. Additionally, current reporting does not adequately reflect the status of the current year appropriations. These reporting weaknesses hinder a comprehensive analysis of DHR's financial condition.

Recommendation

The budget practices and financial reporting structure utilized for DHR should be thoroughly reevaluated. Major changes are required in management reporting concepts in order to facilitate improved financial control and to accurately reflect the actual results of the operations.

All-Inclusive Rate Structure May Not Be Appropriate

The basic charge structure for health care is based on an "all-inclusive" rate. For example, there is one standard charge for an outpatient visit. Even inpatient rates are all-inclusive in that there is one daily charge for obstetrics, medicine, pediatrics, etc. No distinction is made at D. C. General Hospital between the rates for a ward or private room. These rates are currently under revision but apparently the basic "all-inclusive" concept will not change.

Recommendation

A detail study should be performed to determine the cost of health care services. Different procedures (i.e., x-ray, blood test) should be separated to determine whether an "all-inclusive" rate effectively captures true costs. The results should be weighed against the current charge structure and, if appropriate, changes made to charge on a more detailed service basis. If a more accurate picture of the cost of operations were determined under a detailed charge philosophy, it could be possible to increase reimbursements from third parties.

Billing and Collection Systems Are Not Adequate

There are separate automated billing systems for most of the District's health care institutions. It appears

that many of these systems are out-of-date and require supplemental manual procedures to function effectively. Evidence of controls and periodic reconciliation of the information in these systems is unavailable. It is difficult, if not impossible, to determine the value of health care accounts owing to DHR, in that no balancing of the individual accounts to the total has been performed since 1966.

Efforts to collect private-pay and emergency charges are weak. Many private bills are returned due to incorrect billing addresses. The cost of postage has proven to be very expensive in relation to the estimated collections actually received. Only one person is staffed in the area of Delinquent Accounts so little follow-up is performed on over-due accounts or returned bills. The lack of accounts receivable aging reports and complete claims information causes problems in identifying over-due accounts and in the application of payments to an account.

Recommendation

A consolidated, centralized health care billing and accounts receivable system should be developed by DHR. Billing and collection functions should be centralized in conjunction with the implementation of a system to serve the needs of all institutions.

SYSTEM DEVELOPMENT AND IMPROVEMENT PROJECTS

Redirection Is Needed for Development of Proposed Human Resources Management Information System

A major development project is underway in the Office of the Director to develop a Human Resources Management Information System (HRMIS). Efforts to date have focused on the conceptual design of an integrated information system which will serve the needs of the public assistance, food stamps and Medicaid programs. Ultimately, HRMIS would also encompass the management information needs of the social service and vocational rehabilitation programs. Development of HRMIS is in its initial stages. Its implementation could be expected to require many man-years of effort over an elapsed time span of two to three years. We have reviewed available HRMIS material and, conceptually, agree with the system's objectives. It is doubtful, however, given the current state of DHR's existing systems and procedures, that a single systems development project can bridge the gap between the present systems and the sophisticated concepts planned for HRMIS. As we see it, DHR's principal problem is to ensure that these concepts become reality through practical application.

HRMIS is a major undertaking by any measure. We know of no similar system that has ever become totally operational. Many states and cities have embarked on similar systems, only to have their ambitions fail.

Recommendation

To accomplish the eventual development of the HRMIS concepts, it is imperative that DHR divide HRMIS into more manageable subsystems. These subsystems should take the form of segmented, development projects having tangible benefits and shorter-range solutions to Departmental problems. We believe the projects can be consistent with long-range objectives developed for HRMIS. We recommend that HRMIS be defined and implemented as a series of interrelated parts which can be developed independently and built upon one another.

Since HRMIS subsystems are to acquire the workload of several current DHR systems, planning should be initiated now for converting data files, systems processing, and manual operations to the HRMIS environment. If, for example, it is determined that HRMIS will employ a common person identifier, such as the identification number now in use, then effort should begin well before segments of HRMIS become operational to obtain identification numbers for all food stamp and public assistance clients. It may also be

practical to modify current public assistance and food stamp files to use the identification number as their access key to client information. Likewise, current automated and manual functions should be investigated to determine the extent to which they would conflict with future HRMIS processing and associated operations. Where current and future operations are not compatible, gradual modifications should be made to merge the two.

Substantial time could elapse before HRMIS subsystems become fully integrated. In the meantime, user service requests for existing computer systems should be ambitiously addressed. It is conceivable that changes in Federal and District regulations could effect significant changes in DHR's present systems. These changes should be incorporated in as comprehensive a manner as possible. The closer the current systems can be made to approach the future desired DHR system, the earlier a subsequent conversion will be.

Systems Project Control Techniques Need Refinement

Systems and procedures within DHR seldom appear to be static. Many planning and development efforts were underway at the time of our review. The impact of some may be restricted to specific functions or programs, such as Medicaid. Others, such as the development of the Human

Resources Management Information System, could potentially impact every major organizational unit within DHR.

One of the difficulties encountered in our assessment of DHR operating practices was the presence of pending changes to correct or improve on existing procedures. Improvement projects are controlled at various levels within the Department, and their state of development varies from narrative descriptions of proposed changes to formal planning documents. We consistently encountered problems in determining the current schedule and status of the various improvement projects. Often the project schedules were expressed in terms of elapsed time to accomplish the change without documented evidence of progress to date or the practicality of the scheduled deadlines.

Recommendation

We recommend that DHR implement project control techniques to improve management control and performance reporting over its internal development projects. A standard project requirement should be a formalized work plan containing (1) estimates of manpower and other resource requirements; (2) timetables and milestones for project performance; and (3) economic analyses for development and operating costs and savings. A formal status report should be used to measure actual progress against initial estimates and identify reasons for significant variances.

A single agency within DHR should be assigned responsibility for reviewing and monitoring all internal systems development efforts. This unit should be the focal point for assessing the nature and scope of all efforts in progress and should provide a consolidated status report to DHR management.

ACCOUNTING AND FINANCIAL REPORTING

Appropriation Controls Are Not Comprehensive

Overall financial reporting for DHR activities is performed both by the District's Central Accounting System and the DHR Controller's Office. The financial condition of DHR cannot be readily assessed because no single, concise report is available which describes the planned vs. actual status of all financial resources of DHR.

Several problems are encountered in utilizing current financial reports for DHR. Of prime importance is the manner of distinguishing District appropriated funds from Federal reimbursements and other grants. Although the latter represent more than 35% of the total DHR budget, or in excess of $150 million, they are not adequately disclosed from a financial reporting viewpoint because they are not "appropriated" funds. Confusion may easily result from an analysis of financial reports and budgets unless the reader understands whether the report reflects total available funding for DHR or simply encompasses "District appropriations." The reporting emphasis is often focused on the latter, thus, understating the total financial resources available to DHR.

Adding to the difficulty of financial analysis is the inconsistent treatment afforded certain categories of Federal funding available to DHR. Federal reimbursements for the District's program of Aid to Families with Dependent Children (AFDC), for example, are treated as "District appropriated" funds. In contrast, Federal reimbursements for the Medicaid program are considered "nonappropriated." We do not believe that a reasonable distinction exists between the two funding sources to justify separate financial classification and unique report treatment.

Recommendation

All funds available to DHR should be appropriated. While it is important to segregate funding sources for budgeting and financial control purposes, exclusion of significant financial resources from the appropriation process weakens overall fiscal control. Whether funds are derived through the taxing authority of the District or through Federal grant programs should not alter their significance or the degree of fiscal control exercised over them. The appropriation process should focus on total financial resources available to DHR regardless of funding source. Similarly, ongoing financial controls and reports should accurately reflect the utilization of all financial resources appropriated to DHR.

Reimbursements Are Not Received for Significant Indirect Costs

DHR currently allocates a percentage of its own administrative and indirect costs to its projects and grant programs. Thus, Federal matching funds for programs such as AFDC and Medicaid are appropriately allocated a portion of Departmental administrative costs which apply to those programs. We understand, however, that the District does not currently have an approved indirect cost allocation plan, under OMB Circular 74-4. As a result, the costs of overall District administration are not presently being allocated to DHR and included among DHR's reimbursable costs.

Recommendation

The District should place a high priority on developing and obtaining approval for a District-wide indirect cost allocation plan. We understand that such a plan was utilized in prior years and that allocation of the District's indirect costs to DHR resulted in $400,000 to $500,000 of additional revenues through Federal reimbursements. We believe this is a conservative estimate of the potential revenues available to DHR as the proper use of indirect cost allocation techniques should result in additional revenues in excess of $500,000.

Duplicate Accounting Procedures Are Costly and Inefficient

As is the case for other departments and agencies, much of the financial reporting available within DHR is produced directly from District Accounting. Financial transactions originating in DHR are fed to District Accounting for centralized fund and appropriation control. Financial data is then returned to DHR either in the form of periodic financial status reports or computer readable files for report preparation by DHR Accounting.

While a centralized accounting system is in place for the District, many accounting activities remain decentralized. Substantial activity takes place within DHR to record, verify and approve accounting transactions originated by each of the DHR operating divisions. In essence, two centralized accounting organizations serve DHR. First, the Office of the Controller acts as an internally centralized unit to provide accounting and financial control over the activities of every DHR operating entity. Second, District Accounting provides central accounting control over DHR finances.

In theory, this accounting structure should provide for effective control and coordination of the financial activities of DHR. In practice, however, accounting procedures, reports and information files often overlap or

appear repetitively in various organizations in DHR. This duplication often results from one of two causes: (1) timing delays in processing accounting transactions are excessive and cause a need for interim files and audit trails within DHR to determine the status of a transaction or (2) the scope of centralized accounting activities is not well defined or understood by persons who originate transactions, thus, they maintain their own systems and records rather than relying on centralized information.

Recommendation

The entire accounting process within DHR should be analyzed in detail and streamlined. Particular emphasis should be placed upon improving the manual procedures. DHR should reevaluate the filing and related paper flows required from the origin of the transaction through its recording by District Accounting. Reasons for processing delays and excessive elapsed times should be identified for each type of transaction. Duplicate procedures, unnecessary approval cycles and redundant information files should be eliminated. The end result should produce a concise accounting policy and procedures manual which is consistent with actual practices and addresses the functions and procedures of each DHR organization unit involved in the accounting process. The existence of an effective accounting and

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financial reporting system at the District level would contribute to the elimination of many redundant or unnecessary accounting activities within DHR.

The Account Code Is Lengthy and Complex

The present account coding structure required by the District for entry of DHR's financial information into the District Accounting System is overly cumbersome and complex. For each accounting entry up to 22 digits of identifying information must be manually recorded to properly identify the transaction. The amount of required coding makes the accounting data susceptible to clerical errors as well as judgmental errors in determining the proper coding to be used.

Recommendation

The account coding structure should be simplified for manual use without reducing its flexibility for account classification and reporting. Manual efforts and decisions currently required to classify an accounting transaction can be transferred, in part, to the computer system. This modification would simplify the manual processing efforts and reduce the likelihood of error in classifying accounting entries. We understand that the District is currently planning improvements of this nature in connection with

their development of an improved financial management information system. DHR is actively participating in the developmental effort. This proposed system is more fully discussed in Volume II of this report.

Personnel Classifications Are Not Appropriate

DHR employees are classified for personnel and payroll purposes as District or Federal. As of March 1976, the DHR Personnel Organization List identified approximately 75% of its authorized positions as District and 25% as Federal. The distinction between the two is based upon source of funding--positions funded through District appropriations vs. Federal grants or reimbursements. In practice, the distinction is less clear. A new position funded by a Federal grant may be established as "Federal." Although the Federal funding may be reduced or phased out, over time the classification for the position remains. Similarly, a position which is initially established through "District" funding may be assigned full or part-time to a project funded through a Federal grant. Yet, the position description continues to be "District" funded.

Recommendation

We believe that the distinction between Federal and District employees should be eliminated from the DHR personnel systems. Regardless of funding sources used to

pay for the positions, all DHR personnel are District employees. Moreover, the classification scheme, which is based on expected funding sources when the positions are established, becomes outdated with time and confuses an evaluation of DHR's total staffing situation.

This does not imply that personnel costs should not be allocated to the applicable sources of funds. It will continue to be necessary to apply accurate payroll costs to grants and reimbursable programs. However, this is a labor distribution and cost allocation process which need not be reflected in the personnel classification scheme.

DHR Personnel System Is Redundant With District Payroll System

The DHR personnel system and District payroll system perform similar functions. It appears that much redundancy exists between the two systems, but that DHR maintains its own personnel system to allow more immediate access to its employee information and provide certain reporting not available centrally. However, neither system provides personnel productivity reports. Productivity reporting could assist DHR to identify understaffed efforts and justify the hiring of additional staff.

Recommendation

Each system should be reviewed to determine the extent of redundant operations. Alternatives should be considered to minimize the duplications between the systems. Entry of data into two independent systems increases not only the DHR workload but also the possibility that corresponding information will not agree. We believe that, through improvement of computer and manual processing procedures, the DHR personnel system could be eliminated. This accomplishment would require modification of the District personnel system, however, to improve response times and completeness of personnel reporting. The feasibility of performing personnel productivity reporting should be explored.

Cash Receipts Are Not Deposited Timely

Cash is not always deposited on a daily basis with the District Treasurer. In some instances the amounts may not justify daily pick up, but there are situations where only weekly or monthly deposits are made.

Recommendation

All areas in which cash is received should be evaluated to develop a deposit schedule that, given the cost of delivery, maximizes cash flow and limits the risk of loss. Wherever practical and economical, cash receipts should be deposited on a daily basis.

OTHER OBSERVATIONS AND RECOMMENDATIONS

Grant Accounting Procedures Are Not Well Controlled

It is our understanding that personnel costs are frequently made against general appropriation accounts and later allocated to individual grants which share a portion of the cost. Since this allocation is performed by journal entry after the original costs have been recorded, there is a significant possibility of missing an allocation.

Recommendation

To maximize allowable reimbursement for grants and specially funded projects, all allocations should be controlled, entered on a timely basis and reconciled. DHR should explore the possibility of expanding the payroll system to provide multi-fund distribution of personnel costs.

Procurement Process Is Slow and Cumbersome

Although the requisitioning of and payment for vendor-supplied products and services requires stringent and effective operational and fiscal controls, it appears that DHR's requisition and vendor payment procedures are excessively cumbersome. Specifically, purchase requisitions for relatively routine products and services require many levels of approval before a purchase order is finally

released to a vendor. Upon receipt of the goods or services, payment is frequently delayed due to failure of DHR personnel to provide on a timely basis all of the internal documentation required for approval of a vendor invoice for payment. These delays contribute significantly to the fact that there are, on the average, approximately 1,800 outstanding "open" purchase orders.

Recommendation

DHR is currently trying to improve its procurement and purchase order functions through changes to the District's Central Accounting System. It is important for any improvements to be responsive to a more timely flow of documents. Without effective procedures to complement the system, including consideration of related purchasing policies, the benefits of the automated system will not be fully realized.

Supplies and Materials Handling Is Inefficient

There are over 400 receiving locations in DHR for receipt of supplies and equipment purchases. The volume of materials handled by many locations is small. This decentralized structure causes problems in the timely routing of receiving reports to the Office of the Controller and subsequent vendor payment. Procedural improvements have been implemented but have not fully solved the timing and control problems.

Recommendation

The number of receiving points should be substantially reduced. An evaluation should be made to determine the practical number of receiving locations required to provide good service, minimize transportation costs and improve physical and accounting control. The possibility of concentrating receiving locations on a geographic basis should be explored.

Food Stamp Reimbursements Are Not Timely

Federal reimbursement for the Food Stamp program operates on a letter-of-credit basis. While funds are available from which to draw during a quarter, we understand that funds are not typically drawn by DHR until actual program costs are known for the quarter. In effect, DHR is not utilizing its cash draw authority, but rather, is operating on a cash reimbursement basis.

Recommendation

To maximize cash flow for the District, DHR should fully utilize its authority to draw against the letter of credit during the period rather than waiting for actual program costs to be determined.

SUGGESTED PROJECTS FOR IMPLEMENTING THE REQUIRED SHORT-TERM IMPROVEMENTS

I. WELFARE PAYMENT CONTROLS

A. Complete Special Task Force Review of Cases Receiving Financial Assistance in Order to Verify Eligibility and Accuracy of Payments.

B. Implement Improved Procedures for Determination of Initial and Continuing Eligibility for

- Public Assistance
- Medicaid
- Food Stamps
- D. C. Medical Care Program

C. Develop Common Eligibility Control File and Related Client Information for All Financial Assistance Programs.

D. Improve Medicaid Vendor Payments System to Control Duplicate and/or Erroneous Payments.

E. Improve Reconciliation Control Procedures for Food Stamp Authorization to Purchase Cards and Eliminate Backlog of Unreconciled Cards.

II. HEALTH CARE ACCOUNTING AND BILLING PRACTICES

A. Define Health Care Billing Policies.

B. Evaluate Basic Charge Structure.

C. Implement Centralized Health Care Billing and Accounts Receivable System.

D. Establish Trial Balance of Accounts Due from Health Care Patients at September 30, 1976, and Implement Appropriate Collection and Follow-Up Procedures.

III. ACCOUNTING AND FINANCIAL REPORTING

A. Implement the Required Procedures and Controls for Obtaining Improved District Financial Reporting.

B. Implement Improved District-Wide Payroll and Personnel Control Procedures.

VOLUME V
PUBLIC SAFETY

DISTRICT OF COLUMBIA

PUBLIC SAFETY

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DISTRICT OF COLUMBIA

PUBLIC SAFETY

INTRODUCTION

This volume of our report discusses the results of our review of the Public Safety Agencies of the District of Columbia and is divided into three sections as follows:

- General Description
- Summary of Significant Findings and Recommendations
- Detail Findings and Recommendations

There are four major agencies in this program area:

- Metropolitan Police Department
- Fire Department
- Court System
- Department of Corrections

Since our review was directed principally at the accounting and financial management practices of the Public Safety Agencies, we focused our efforts on those organization units allocated the greatest share of Public Safety staff and financial resources and the individuals charged with management of those resources. Our survey of the operations of the Public Safety Agencies was conducted principally in the Police and Fire Departments, Department of Corrections and the Superior and Appellate Court Systems, which, together, are responsible for approximately 97% of the annual Public Safety Agencies appropriation and employ 98% of the staff.

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GENERAL DESCRIPTION

Metropolitan Police Department

The police provide crime prevention, criminal investigation and traffic control services for the District's citizens, workers and visitors. The major program places personnel on patrol throughout the District. Other programs aim at prevention of specific types of crime.

A key effectiveness indicator is the crime index as measured by the FBI reporting procedures. Other current measures for specific programs include arrests, cars in use, court cases, clearance rate of offenses, number of calls for service, and street mileage covered.

In 1968-70 the Nixon administration provided financing and encouraged the Department to increase its uniformed staffing by over 50% from 3500 to 5100. According to a Law Enforcement Assistance Administration Study, the reported and unreported crime for the District is approximately 175 offenses per year per 1,000 population. The national average for major cities is approximately 275 offenses per year per 1,000 population. Since 1972, the uniformed police staffing has decreased to 4400 with a slight rise in reported crime. The current staffing is approximately six uniformed police per 1,000 population versus three per

1,000 for the average major metropolitan city. This is down from eight uniformed police per 1,000 population in 1973.

The major responsibility for personnel scheduling lies with the seven District Commanders and other Division Commanders. Support functions provide vehicles, clothing, weapons, and supplies. Administrative functions include payroll, personnel and warehousing.

Fire Department

The Fire Department provides fire fighting, fire prevention, and emergency ambulance services for the District of Columbia. The Fire Fighting Division is supported by the Communications, Apparatus, Administration, Fire Prevention and Training Divisions. The District and the surrounding governmental entities have an agreement to provide emergency support services to each other as required.

The Department is in the process of converting from a pull-type telegraph call box to a voice telephone call box on their network of 1600 call boxes. As a part of this process, they are also implementing a computerized system which will help the Department to dispatch the most appropriate and nearest fire equipment to a call. The voice call box system will also provide voice communication to other emergency functions of the District (e.g., police and

hospitals).

The Fire Department responds to approximately 80,000 ambulance calls and 36,000 firefighting calls annually. Approximately 12,000 false firefighting calls are reported annually.

Superior Court

The District of Columbia Superior Court is responsible for handling all court cases in the District with the exception of Appeals and Federal cases. There are 44 judges in the Superior Court. The main types of cases which are processed by the Superior Court are listed below:

Case Type	Estimated Cases Per Year
Criminal	30,000
Traffic	75,000
Civil	12,000
Small Claims	28,000
Landlord/Tenant	120,000
Family	16,000

The Court has created four divisions (Criminal, Civil, Family and Tax) to process each of the case types mentioned above. There is a Clerk's Office, which does all case recordkeeping and legal document preparation, and a Finance Office, which handles all of the financial transactions involving the Court for each major case type.

Other key Divisions of the Court include: Financial Operations, Data Processing, Personnel, Social Services (probation officers), and Court Administration.

Approximately 80% of the Superior Court appropriation is devoted to personnel cost. The largest expenditure other than personnel cost is juror fees which amount to approximately $1,400,000 per year.

The Court receives and disburses approximately $20 million each year in funds in addition to its appropriation. These additional funds consist of the following:

$11,000,000 - Court fees and fines which are deposited with the U. S. Treasury (approximately $7 million of which is generated by traffic cases) for credit of the District

$ 9,000,000 - Money which is held by the Court but eventually disbursed to parties involved in the cases (e.g., attorney fees, support payments, estate holdings, etc.)

Court of Appeals

The District of Columbia Court of Appeals is responsible for handling all appeals from the Superior Court of the District and all administrative reviews for the District.

There are nine judges who, through a system of random draw and rotation, sit in a panel of three to hear

each case. On major cases, all nine judges will hear the case. The Court hears approximately 1,200 cases each year and has approximately 1,200 cases which are awaiting argument before the Court. After a case is argued, the Court renders its decision in approximately 60 days.

Department of Corrections

The Department of Corrections provides care, control and protection of persons assigned to its custody; attempts to improve the attitudes, behavior and capabilities of inmates through various programs so that they can become productive in society upon release; and supervises conditionally released young offenders and parolees in readjusting to society.

The key correctional objective is to return an inmate to society with the ability to operate at a reasonable level without resorting to criminal behavior. A key effectiveness indicator is the recidivism rate, which is the rate at which individuals return to the system. However, there is not a common definition of recidivism.

The District's Department of Corrections defines recidivism as the rate at which individuals released less than three years return to the District's correctional system for incarceration. According to the Department's

most recent studies the current recidivism rate is approximately 45% for youth and 27% for adults. Because of the inconsistent definition of recidivism, we did not attempt to compare this rate with other jurisdictions. However, significant reduction in this rate would have a major impact on the Police, Courts and Corrections budget requirements.

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The budget requests (expressed in dollar amounts and authorized positions) for the 1977 fiscal year are summarized on the following two pages.

PUBLIC SAFETY

DISTRIBUTION OF 1977 BUDGET REQUEST BY ORGANIZATION UNIT

(Unaudited) (Note 1)

Organization Unit	1977 Budget Request ($ millions) Personnel	Other Operating Costs	Total	Percent of Total
Metropolitan Police Department (Note 2)	$121.2	$ 7.3	$128.5	51.1
Fire Department (Note 3)	42.5	2.1	44.6	17.7
Courts -				
Superior	17.7	4.2	21.9	8.7
Appellate	1.7	.2	1.9	.7
Court System (Administration)	1.4	3.2	4.6	1.8
Public Defender	1.7	.2	1.9	.8
Department of Corrections	33.8	14.1	47.9	19.0
National Guard	.3	.1	.4	.2
Total Requested Appropriation	$220.3	$31.4	$251.7	100.0
Total Federal Grants			4.2	
Total Public Safety Budget			$255.9	

Notes

(1) Arthur Andersen & Co. did not audit the above information. The source for the above is the District of Columbia booklet "Justifications for the 1977 District of Columbia Budget."

(2) The Police Department's Personnel Budget includes approximately $39 million for its anticipated pension payments to retired police officers. Approximately $6 million of this amount is for Federal Police Officers who are included under the District retirement plan. The District is reimbursed by the Federal Government for this amount.

(3) The Fire Department's Personnel Budget includes approximately $16 million for its anticipated pension payments to retired firemen.

PUBLIC SAFETY

DISTRIBUTION OF PERSONNEL BY ORGANIZATION UNIT

(Unaudited) (Notes 1 and 2)

Organization Unit	Authorized Positions	Estimated Average FY 1977 Employment	Percent of Total
Metropolitan Police Department	5,185	5,028	51.1%
Fire Department	1,490	1,480	15.3
Courts -			
Superior	1,052	970	10.0
Appellate	71	71	.7
Court System (Administration)	75	68	.7
Public Defender	84	84	.9
Department of Corrections	2,177	2,044	21.1
National Guard	20	20	.2
Total Funded by District Appropriations	10,154	9,765	100.0%
Total Grant Positions		47	
Total Employment		9,812	

Notes

(1) Arthur Andersen & Co. did not audit the above information. The source for the above is the District of Columbia booklet "Justifications for the 1977 District of Columbia Budget."

(2) The above numbers include total full-time equivalent positions funded through District appropriations and Federal grants and reimbursements.

SUMMARY OF SIGNIFICANT FINDINGS AND RECOMMENDATIONS

The Basic Financial Accounting And Control Problems Are Similar to Other District Agencies

Each agency which we reviewed had similar conditions of duplication, poor controls and inadequate reporting for the major accounting and control systems:

- Financial Accounting
- Payroll-Position Control
- Budgeting
- Property Accounting
- Inventory Control

In the case of Financial Accounting and Position Control, most Public Safety Agencies have developed their own systems which duplicate the District Accounting systems. The District should take immediate steps to design and install well controlled accounting and control systems which are responsive to the needs of agency managers as well as District management.

The Metropolitan Police Department's Manpower Planning Approach Should Be Reviewed

The Police Department has been steadily reducing its uniformed force from the high of 5,100. Currently, the force is at 4,400 and there has been no appreciable change in the District's reported crime rate. The current manpower level is not based on a methodical staffing approach which

relates the service requirement (e.g., patrol miles/month or investigations/month) and the manpower required per unit of service (e.g., 2 men/car or 4 men/investigation) to determine the required staffing. We recognize that this is a difficult process in a complex service area. Furthermore, as far as we are aware, no major metropolitan Police Department is developing its manpower requirements using such an approach. Nevertheless, we recommend that the Police Department take steps to evaluate the possibility of implementing an organized, quantitative method to planning its service levels and staffing requirements. This may require special funding and specialized expertise not currently available with the Department.

Traffic Tickets Could Be Deleted Without Authorization

Currently, the dollar value of tickets removed from the open ticket computer file is not balanced to the amounts of money received for those tickets. This situation opens the opportunity to covertly "fix" tickets. The Courts should take immediate steps to establish controls over these transactions so that all cash and tickets are properly controlled.

Ticket Payments Are Not Deposited In the Bank On A Timely Basis

Currently, the Superior Court receives, opens, verifies amounts, prepares deposit slips and deposits all ticket payments. At the time of our review the Court had approximately two days of mail ($65,000) on hand but not processed. There have been periods when this amount is significantly greater. The Courts should take immediate steps to strengthen this procedure. A bank lockbox depository service would reduce the exposure of cash misuse and would improve cash flow.

Effective Position Control Systems Are Needed

Each Public Safety Agency is maintaining its own manual position control system which generally only attempts to define all authorized positions funded by the District. The District should develop one comprehensive position control system which meets the needs of all agencies and which is closely linked with the payroll and budgeting systems. This recommendation is discussed in Volume II of this report.

DETAIL FINDINGS AND RECOMMENDATIONS

COMMON PROBLEMS AND RECOMMENDATIONS

There are several common accounting, control and reporting problems in most of the Public Safety Agencies. Many of these points are caused because the District does not have sound accounting and control systems to meet both the District's and each Agency's needs.

Duplicate Accounting Systems Are Costly and Inefficient

As is true with other agencies within the District, each of the four Public Safety Agencies has developed and maintained their own financial accounting systems. These records are independent of the "official books" which are maintained by District Accounting. In general, the District Accounting System does not meet the needs of the respective departments for the following reasons:

- The information contained in financial reports is not timely and therefore it is not possible for agencies to accurately determine their budget condition.
- The reports are not management oriented (e.g., there is no variance or exception reporting, and no responsibility or program reporting, etc.).
- The transaction audit trails are not clear or complete.

As a result, each Public Safety Agency maintains its own manual accounting systems which are not routinely reconciled to the District Accounting System. These duplicate efforts obviously create inefficiencies and unwarranted costs.

Recommendation

The District should implement a comprehensive financial accounting system which has the following features:

- On-line data entry to improve data timeliness and accuracy.
- Double entry, accrual accounting to provide sound financial information.
- Organization and program responsibility reporting to provide both Agency and District management with the information they need to operate efficiently and effectively.
- Fund and appropriation reporting to support proper financial statements and provide overall control tools.
- Project and grant reporting which recognizes both the grant year and the District's fiscal year.

This proposed system is more fully discussed in Volume II of this report.

Financial Records Are Not Closed Annually

Financial records are kept "open" for three years. This allows current year expenditures to be made from a prior year's appropriation. There are instances where special procedures allow purchases to be charged against appropriations for up to ten years. A primary accounting objective should be to "close the books" promptly after each fiscal year end. Open obligations and encumbrances at year end should be acknowledged and recorded so the actual costs and expenses for the year are known.

Recommendation

The District should develop sound accrual based accounting systems and procedures. The obligation system should record and report all open purchase orders and provide a monthly memo listing for management's review and control.

Batch Balancing and Error Correction Procedures Need Refinement

The payroll, obligation, accounts payable and financial accounting systems have centralized (as opposed to Agency) batch balancing and error correction. As a result the Agencies do not know if what was sent was processed, or if an error transaction was corrected properly.

Recommendation

The District should take immediate steps to develop streamlined input procedures which assign responsibility for batch balancing and error correction with the respective Agencies. These procedures should include the following steps.

- Agency submits one or more batches to District Accounting daily.
- The next day a transaction list should be returned to the Agency. This list should show:
  - All batch totals (user and computer) highlighting out-of-balance conditions
  - All transactions for out-of-balance batches
  - All error transactions
- All valid transactions should generally be processed by the system even though they may be a part of an out-of-balance batch.
- Users should resubmit all corrections promptly.
- Monthly reports should be run independent of the error correction process. Uncorrected errors will be processed as a part of the next month's business.

Budgeting Policies, Procedures and Systems Are Inefficient

Budget preparation procedures are essentially manual and extremely time consuming. As a result an insufficient amount of time is spent on the proper evaluation of the various alternatives which could potentially reduce the

level of spending and/or increase service levels. This is one of the most important aspects of the budgeting process.

In addition, the budget approval procedure is cumbersome and lengthy (approximately 20 months) which further negates its effectiveness. As a result, the Agencies develop budgets which represent one attempt to allocate resources. Furthermore, the Agencies operate some programs in a different manner than contemplated in the budget request as some program thrusts change from the time the budget request is initiated until it is approved.

Even after the budgets are approved, the Office of Budget Management and Systems (OBMS) can unilaterally reduce appropriations. In order to avoid reduced appropriations by OBMS the Agencies reserve amounts for "Miscellaneous Items" which obligates funds when in fact they have not been. This confuses the actual budget status and makes any meaningful financial analysis very difficult.

Recommendation

As more fully discussed in Volume II, the District should establish formal policies and procedures for all Agencies and develop a more streamlined budgeting system which would be executed in a substantially shorter time frame.

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The practice of reserving for "miscellaneous items" (MER's) should be greatly restricted or eliminated.

Purchasing and Accounts Payable Procedures Are Not Adequate

The District's purchase order and accounts payable processing and reporting are not adequate from an Agency point of view. For example, it is difficult for Agencies to determine the status of an accounts payable voucher (authorization to pay a bill) and frequently they are unaware of the actual payment date. In addition ultimate payment is frequently delayed.

The Agencies have the business relationship with the suppliers. One of the practical difficulties is that the relationship can and does become strained when the District continues its poor payment history.

Recommendation

As is more fully discussed in Volume II, the District should implement an integrated obligation, accounts payable and check writing system which would assist in streamlining District Accounting and Agency document processing procedures, provide the District with good cash management tools and provide timely payment to vendors.

Payroll System Controls Are Weak

The payroll system has poor input and master file controls.

- Payroll input documents are not well controlled which makes it possible to initiate unauthorized master file changes such as pay rate or addition of ficticious employees.

- Source documents sent to District Accounting are not controlled by the Agencies or by District Accounting. As a result it is extremely difficult to know if all documents sent to the payroll system were received and/or processed.

- Payroll changes (i.e., pay rate) are not specifically reported back to the Agencies for their use in determining that all changes were properly processed.

- The Agencies are responsible for manually assuring that all "step" increases and raises are entered into the system.

Payroll is a significant portion of the Public Safety Agencies' operating budget (approximately 90%) and in substance poor payroll controls mean high risk.

Recommendation

The District should take immediate steps to improve the controls over input source documents entering the payroll system.

- Documents should be accounted for and verified for accuracy.

- Strict controls should be placed over the distribution of key payroll file maintenance documents.

- Payroll file additions and changes should be verified by someone other than the person who initiated the changes. This can be done through the preparation of a periodic report which lists the changes by type of change.

- Input controls should be established and reconciled for such items as hours paid and hours submitted, pay adjustments, etc.

Our overall comments on the payroll system are discussed in detail in Volume II of this report.

The Agencies' Position Control Systems Are Not Effective

In general, the Public Safety Agencies Position Control manual procedures are designed to monitor the general staffing levels of the Agencies. They are not used to help assure that all employees are filling valid authorized positions, to provide support to budget requests or to forecast year-end budget status. In addition, the District and Congress are following an extremely weak procedure by authorizing a significantly higher level of staffing than is budgeted. These positions are called "authorized but unfunded." This procedure provides agencies with the opportunity to request funding for "approved" positions even though the Agency may have provided adequate service levels with the present lower staffing levels. Furthermore, the present procedures frequently do not include employees funded by Federal grants.

Recommendation

Position control systems can be effective management and control tools if they have the proper capabilities and are operated under appropriate policies. The District should develop one position control system which allows Agency flexibility within established guidelines and overall controls (i.e., total positions and total salary dollars) and which would be integrated with the payroll system. In addition, the position file should provide the detail support for each Agencies' salary budget. A comprehensive description of our position control recommendations is contained in Volume II.

Records for Property and Equipment Contain Insufficient Data

During our review we noted the absence of records pertaining to the acquisition costs for property and equipment. The records that are maintained include all items with a cost in excess of $100 but, except for the Courts System, the records do not indicate the cost of such items. Without cost information it is difficult to prepare realistic estimates (budgets) for replacements or to value these assets for financial statement presentation.

Recommendation

The District should develop a centralized property management system which would include all furniture, fixtures, equipment and fixed assets (buildings, property improvements, etc.) and which would provide asset accounting information for this property.

Inconsistent Accounting Policies and Procedures

The District does not have a current, comprehensive accounting policies and procedures manual. As a result, each Agency has developed its own procedures or standing orders. These policies and procedures are incomplete and/or inconsistent with those of other Public Safety Agencies.

Meaningful financial accounting and reporting is largely dependent on the adequacy and consistency with which financial information is recorded. Significant discrepancies in these areas means that the financial information which is recorded is not reliable, which negates its value.

Recommendation

The District should develop a comprehensive accounting policies and procedures manual for the entire District. This is discussed in Volume II of this report.

Pension Budgeting and Accounting Needs Clarification

The Police and Fire Departments' budget includes retirement payments. Other agencies do not have this payment in their budget. This current budget presentation procedure makes interagency comparisons difficult and the current lack of pension liability recognition grossly misstates the District's obligations.

Recommendation

The District should develop a sound, consistent method for budgeting, presenting and accounting for pensions. This issue is more fully discussed in Volume II of this report.

Inventory Procedures Need Refinement

The Fire Department and Department of Corrections have manual inventory control systems which appear to be operating smoothly. They contain usage history, reorder points and reorder quantities. All items are controlled in a like manner, however, which is normally not necessary or appropriate, and generally requires significant additional recordkeeping.

Recommendation

Inventory control systems should recognize and be sensitive to the several characteristics (value, critical nature, lead time) of each item. More sophisticated controls should be used for more valuable, critical or hard-to-get items, and less sophisticated controls should be applied to easily obtainable, lower value items. A typical inventory analysis might look like:

Item Characteristics	% Items	% $Value
Valuable, Hard-to-Get, Critical	5	45
Moderately Valuable	15	40
Less Expensive, Easily Obtainable	80	15
	100	100

If this were the case, then with 20% (5 + 15) of the effort 85% (45 + 40) of the inventory value of these Departments would be controlled. The remaining 80% of the items could be properly controlled using safety stock and traveling requisition procedures which require little clerical record-keeping.

The Departments should review their inventory control systems to determine if alternate inventory control procedures, such as those described above would be appropriate.

In addition, the District should give consideration to designing and installing a computerized inventory control system which would meet the needs of all Departments and Agencies.

METROPOLITAN POLICE DEPARTMENT

The Approach to Manpower Planning Should be Reviewed

The Department has undertaken special studies to review and adjust the staffing levels of certain administrative staff areas. However, the requested staffing levels presented in the annual budget request are based generally on the prior year's staffing level adjusted for desired changes. That is, quantitative procedures which, for example, relate the desired service level (patrol each mile once each hour) to the total miles of road to be patrolled are not used to help determine the desired staffing levels for each function within a District. However, the Department does use quantitative procedures to allocate available staff in a District to the various functional activities (e.g., patrol, investigation, etc.).

As a result the current budget may be more or less than it should be and/or the mix of staff between major functions or districts may or may not be appropriate.

We believe that the use of a quantitative approach would provide the Department with a more rational method of determining their manpower requirements. If such an approach could be implemented, it would significantly enhance the Department's ability to support their manpower request.

Recommendation

We recommend that the Police Department explore the feasibility of implementing an ongoing program of planning and evaluating each organization unit's functions and staffing based on a desired service level, the estimated units of service to be provided, and the estimated manpower which each unit of service requires. The Department will probably need additional resources and expertise to accomplish this project.

Inventory Procedures Are Not Adequate

The Police Department does not have an adequate inventory control system. On hand balances, economic order quantities, and reordering rules are not maintained. As a result, purchasing practices are based on experience and judgment and are not guided by inventory management information.

Recommendation

Implementation of good inventory management techniques frequently result in significant savings by reducing current inventory levels and by maintaining inventories of the lower levels in future years. These techniques also promote good cash management practices.

The Police Department should expand its inventory control system to support inventory management as well as asset valuation.

Cash Control Procedures Are Weak

The Police Department cash control procedures are weak and inefficient. Examples include the following.

- The current procedure, which is outlined by law, does not assure that the proceeds from outside auctioneers for abandoned property sales (which approximate $350,000 per year) are properly controlled.

- There is no reconciliation by the Police Districts of all issued receipts to insure that all cash received was properly deposited.

- The Department brings its cash receipts to the Courts for deposit. This is a daily procedure for each of seven districts and the courier policemen must wait while the Courts verify the amount.

- There is limited ongoing review of the Police District's cash procedures.

Weak cash receipt controls provide the opportunity for cash receipts to be misappropriated.

Recommendations

The Police Department should implement a program to review its cash receipt and control procedures and make appropriate changes to determine if an armored car pickup with deposits or direct deposits to a lockbox would be more cost effective and provide better control.

The Department should monitor the proceeds of abandoned property sales to assure that the amount received was in fact deposited.

FIRE DEPARTMENT

The Fire Department Should Not Be Responsible for the Accident Claims

The Fire Department is responsible for the follow-up and collection of accident claims in which the District is the claimant (e.g., a traffic accident with a private vehicle when the Fire Department is not at fault). This may be an inappropriate use of the Department's time.

Recommendation

The District should establish a central claims processing and accounts receivable function which would include accounting for these accident claims. The Corporation Counsel is probably the most appropriate office to followup and process these claims. Centralization of this procedure would help insure consistent follow-up of accident claims and would allow more efficient use of various Department talents.

COURT SYSTEM

Traffic Ticket Payments Are Not Always Deposited On A Timely Basis

Currently, the Superior Court personnel are opening the mail, making the bank deposit, and writing a check to the District Treasury for traffic ticket proceeds on a weekly basis. There is presently a 2-day backlog before receipts are deposited. This normally approximates $65,000 in cash and in peak periods, is significantly larger. Timely processing of ticket payments is important in order to:

- Clear the outstanding ticket from the system as soon as possible.
- Deposit the cash as soon as possible.

Recommendation

The Superior Court should evaluate alternative ways to deposit receipts in a more timely and controlled manner, including consideration of utilizing bank lockbox services. This would reduce the Court's clerical and associated cash control problems, improve the cash flow and help assure timely updating of the open ticket file. A lockbox service can be installed and used with little or no cost to the District.

Traffic Ticket Payments Are Not Properly Controlled

The cash received for traffic ticket payments is not reconciled to the amounts removed from the open ticket monitoring system. This means that a ticket could be removed from the system without being either paid or cleared through a court proceeding. While it would require some collusion, it would be possible for those who know the system to enter a transaction into the system to cancel (fix) a ticket without actually receiving the cash. Furthermore, the traffic ticket accounts receivable amount is not dollarized or aged.

Recommendation

The controls and reporting of the traffic ticket system should be reviewed and strengthened.

- The total dollar value of tickets removed should be categorized into the key categories (e.g., paid and acquitted).
- Cash receipts should be categorized into court costs and fines on a daily basis.
- Cash receipts and tickets removed should be balanced on a daily basis and all discrepancies should be explained and approved by an independent source.
- The Courts should expand the system to print an aged trial balance.

Transfer of Traffic Tickets to Criminal Cases Requires Duplicate Processing

Separate computer systems exist for processing parking tickets, moving violations, and criminal cases. When traffic tickets become criminal cases the data must be reentered (keypunched) into the criminal system even though it has already been entered once into the traffic system. This process is redundant and can cause unnecessary clerical errors.

Recommendation

The Court should review these systems to determine if a computerized transfer of traffic cases to the criminal case files could be effected.

Responsibilities of Court Branch Finance Offices Differ

The responsibilities of Branch Finance Offices differ for no apparent reason. Some Branch Finance Offices receive cash only, some receive and deposit cash, and some receive, deposit, and account for cash. Consistent procedures and responsibilities facilitate training new personnel as well as make job rotation and backup more feasible.

Recommendation

The Court should review the responsibilities and procedures of the various Court Branch Finance Offices to determine if more consistent responsibilities would be feasible and appropriate.

Procedure for Witness Fee Payments Needs Improvement

Emergency witness fee payment forms are prepared and signed by the attorney and given to the witness. The witness then has the opportunity to change the form on his way to the Finance Office where it is honored. For example, the dates of service and the amount ($20/day) are entered on the form. However, days could easily be added and the amount altered.

Recommendation

The Court should establish a procedure to reduce this exposure (e.g., place the payment form into a sealed envelope and have the attorneys write the amount (twenty) as well as show the numerical amount ($20). This would minimize the risk of overpayments to witnesses.

Attorney Escrow Fees Are Not Handled Properly

In Family Division cases, $100 is received from persons needing an attorney which is paid to the attorney when the case is closed. The Finance Office is responsible

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for the payment but is not always notified when cases are closed because the case file is not always routed to the Finance Office.

Recommendation

A procedure should be established to ensure that these escrow amounts are properly paid on a timely basis. For example, one procedure would be to require all closed Family Division case files be routed to the Finance Office.

Cash Deposits to District Accounting Are Commingled

Finance Officers within the Court System which are receiving and depositing monies should be able to easily verify that the money transmitted to the District Treasurer was properly deposited. However, it is difficult to reconcile Agency deposits to the "General Fund Deposit Report" since all deposits are commingled on the report.

Recommendation

The deposits shown on the report should be segregated by respective Agency. This would not involve separate deposits to the District Treasurer but merely a revision to the report format to indicate deposits by each agency.

Cash Receipts Are Used To Replenish Petty Cash

Superior Court's daily cash receipts are being used to temporarily replenish petty cash funds. This is occurring because it frequently takes 2-3 weeks for petty cash reimbursements to be processed by District Accounting. The practice of borrowing from cash receipts to fund petty cash is not sound because it invites illicit use of funds.

Recommendation

The District should establish streamlined petty cash replenishment procedures. For example:

- Allow advances to be made for petty cash reimbursements which would then be deducted from the ultimate reimbursements.
- Allow each agency to write a check up to its authorization which would be honored by any bank. The check stub would be supported by the petty cash receipts and would be forwarded to District Accounting. District Accounting would match the cancelled check to the check stub.

Court of Appeals Cash Control Procedures Are Inadequate

Cash control procedures over deposits made by Appellate Courts are inadequate for the following reasons:

- All checks are not stamped with a restricted endorsement upon receipt. The checks are kept in a safe until the weekly deposit is made. However, the safe remains unlocked during business hours and a number of people have access to the safe

during this time. Daily receipts approximate $1,000. The Clerk of the Appellate Court indicated that he would take immediate steps to correct these deficiencies.

- Weekly deposits are transported to the Superior Court by court mail employees. The deposit is in a plain envelope and includes cash and checks with an unrestricted endorsement.

Recommendation

Three key cash management objectives are to reduce cash handling, to physically control cash and to make bank deposits as soon as possible in order to minimize the opportunity to misuse cash and to maximize the use of cash. This can be accomplished by:

- Stamping all checks "For deposit only to the account of the District of Columbia" as the checks are received. This could be accomplished by machine.

- Set a limit on the amount of undeposited receipts that can be accumulated to determine when a deposit should be made, instead of only once a week.

- Establish a safer method of transporting cash receipts from the Appellate Court to the Superior Court such as armored car service or sealed currency cases. The Courts should seriously consider having the Appellate Court deposit cash receipts directly to District Treasury on a daily or twice-a-week basis.

DEPARTMENT OF CORRECTIONS

Cash Replenishment Is Slow

The Department of Corrections has a $40,000 fund which is used to pay accumulated earnings and trust funds to released inmates. Reimbursement of this fund from the District Treasurer takes 3-4 weeks to process. As a result the on-hand balance is frequently insufficient to meet current needs.

Recommendation

The District should establish a procedure to assure more timely processing of the fund reimbursement. With a more rapid reimbursement procedure it would be possible to reduce the amount of the fund. The District should consider allowing the Department of Corrections to write checks up to their authorization which would be honored by any bank. The check stub would be supported by the petty cash receipts and would be forwarded to District Accounting. District Accounting would match the check to the check stub when it cleared.

Inmate Finance Accounting Procedures Are Cumbersome

Inmate Finance is concerned with accounting for each inmates earnings and expenditures. Based on our review, there appear to be excessive controls of the inmate

financial records. There are written procedures documenting this area; however, there are procedural inconsistencies between the various locations responsible for portions of the inmate finance accounting activity.

Recommendation

The Department should review the inmate finance accounting procedures in order to maintain adequate control over the monies, eliminate any duplicate or unnecessary effort, assure procedural consistency, and improve the related reporting.

Proposed Changes To Inmate Credit System May Be Difficult To Control

The Department is considering eliminating the use of canteen books and installing a manual direct charge (credit) system. This procedure is in effect at the women's detention center.

It may be difficult to establish a simple method of providing each inmate's account balance to the canteen on a daily basis without incurring a significant clerical effort to prepare a listing of each inmate's available credit.

Recommendation

The Department should carefully review the decision to eliminate canteen books prior to the implementation of this procedure. A procedure should be established which would assure the safety of the inmate account information and not be cumbersome to the canteen's operation. If a new procedure is implemented it should be documented and all locations should be reviewed periodically to help assure that the procedures are being followed.

The Inmate Payroll/Trust Fund Transfer Is Presently Delayed

The transfer by District Accounting of inmate payroll for work performed in the industries is delayed significantly. Transfer of the inmate payroll into the inmate trust fund occurs 2-3 months after the inmate's account has been credited with the payroll amount and is, therefore, available to the inmate.

Recommendation

The inmate payroll should be transferred from the industry program account to the inmate trust fund at the time the payroll information is submitted to inmate finance.

VOLUME VI

DEPARTMENT OF ENVIRONMENTAL SERVICES

DISTRICT OF COLUMBIA

DEPARTMENT OF ENVIRONMENTAL SERVICES

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DISTRICT OF COLUMBIA

DEPARTMENT OF ENVIRONMENTAL SERVICES

INTRODUCTION

This volume of our report discusses the results of our review of the Department of Environmental Services of the District of Columbia and is divided into three sections as follows:

- General Description
- Summary of Significant Findings and Recommendations
- Detail Findings and Recommendations

Since our review was directed principally at the accounting and financial management practices of the Department of Environmental Services, we focused our efforts on those organization units allocated the greatest share of Department staff and financial resources and on the Office of Executive Management which is charged with the financial management of those resources. Our survey of the operations of the Department was conducted principally in the Water Resources Management Administration and Solid Waste Management Administration which, together, are responsible for approximately 86% of the annual Department appropriation and employ approximately 79% of the Department's staff. In addition, we reviewed the administrative functions of the Department, principally within the Office of the Director.

GENERAL DESCRIPTION

The Department of Environmental Services was established in 1971 as a result of merging several separate District Government departments, including the Department of Sanitary Engineering, the Office of Community Beautification of the Department of Highways and Traffic and the Environmental Health Administration of the Department of Human Resources. The Department's major functions are to:

- Provide pure and fresh drinking water.
- Provide water to fight fires.
- Provide for the collection and treatment of sewage and storm water.
- Provide for the collection and disposal of all solid waste in a sanitary manner which does not defile the environment.
- Provide health services for the control of sanitary conditions in food dispensing facilities, pharmacies, hospitals, nursing homes, schools and institutions.
- Provide and design operating facilities used by the other sections of the Department of Environmental Services.

The Department of Environmental Services is comprised of five major organization units, each reporting to the Office of the Director. The overall organization of the Department is as follows:

- Administration
- Engineering and Construction Administration

- Water Resources Management Administration
- Solid Waste Management Administration
- Environmental Health Administration

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The proposed departmental budget for fiscal 1977 is approximately $68.5 million, which includes $4.0 million of estimated Federal grants. The budget requests (expressed in dollar amounts and in authorized positions) for the 1977 fiscal year are summarized on the following two pages.

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DEPARTMENT OF ENVIRONMENTAL SERVICES

DISTRIBUTION OF 1977 BUDGET REQUEST BY ORGANIZATION UNIT

(Unaudited) (Note 1)

Organization Unit	1977 Budget Request ($ millions) Personnel	Other Operating Costs	Total	Percent of Total
Administration	$ 5.8	$ .8	$ 6.6	10.2%
Engineering and Construction	.7	-	.7	1.1
Water Resources Management Administration	14.2	17.6	31.8	49.3
Solid Waste Management Administration	17.9	5.5	23.4	36.3
Environmental Health Administration	1.8	.2	2.0	3.1
Total Requested Appropriation	$40.4	$24.1	$64.5	100.0%
Total Federal Grants			4.0	
Total Environmental Services Budget			$68.5	

Note

(1) Arthur Andersen & Co. did not audit the above information. The source for the above is the District of Columbia booklet, "Justifications for the 1977 District of Columbia Budget."

DEPARTMENT OF ENVIRONMENTAL SERVICES

DISTRIBUTION OF PERSONNEL BY ORGANIZATION UNIT

(Unaudited) (Notes 1 and 2)

Organization Unit	Authorized Positions	Estimated Average FY 1977 Employment	Percent of Total
Administration	403	395	15.9%
Engineering and Construction	39	31	1.2
Water Resources Management Administration	908	771	31.0
Solid Waste Management Administration	1,279	1,196	48.1
Environmental Health Administration	112	94	3.8
Total Funded by District Appropriations	2,741	2,487	100.0%
Total Grant Positions		96	
Total Employment		2,583	

Notes

(1) Arthur Andersen & Co. did not audit the above information. The source for the above is the District of Columbia booklet, "Justifications for the 1977 District of Columbia Budget."

(2) The above numbers include total full-time equivalent positions funded through District appropriations and Federal grants and reimbursements.

SUMMARY OF SIGNIFICANT FINDINGS AND RECOMMENDATIONS

The Department Does Not Have An Enterprise Fund

The Department provides services which are in part to be paid for by residents. As such, it operates as a public utility and should keep its accounting records accordingly. Establishment of an Enterprise Fund which recognizes profit and loss, and follows full accrual accounting methods, would significantly aid the Department in managing its affairs and in setting rates for water, sewer and solid waste. With Home Rule, future funding of large water resources capital projects could involve issuing water improvement bonds. Without adequate financial reporting, it may be difficult to sell bonds unless an unusually high interest rate is paid.

The Department Does Not Have Asset Records

Acquisition costs and descriptive information about the Department's pumping stations, pipelines, etc., are not documented. This complicates planning for replacements and service rate determinations. The Department should undertake a program to establish accurate cost records for all of its assets as this would be required under an Enterprise Fund accounting system.

There Are Severe Water And Sewage Customer Billing Problems

The Department has severe problems in attempting to render timely and accurate billings to the approximately 120,000 customers. The problem resulted from the installation of an inadequate customer billing system. For example, in May 1975, approximately 41,500 bills prepared by the new system were in error. The Department was unable to correct these bills until May 1976 at which time the 41,500 customers were sent bills covering an 18-month period. Due to pressures in correcting the bills, the accounting controls over the billing procedures are not being followed and the Department is now faced with a tremendous effort to update and correct the system before the next billing takes place. The situation is extremely critical and immediate corrective action must be taken. Accounting controls must be reestablished and short-term procedures defined before the necessary new billing system can be designed and installed. Unless this problem is corrected, the District might be faced with a loss of revenue due to the (1) inability to determine if customer bills for past services have been collected and (2) the inability to bill customers accurately for current services and arrearages and/or losses through customer inability to pay.

The delay in billing over the last 18 months has postponed the collection of revenues for the District. The delay in collection ranges from nine months for those who paid the erroneous bills to 18 months for those who did not. Based on water and sewer service revenues from customers of approximately $18 million in 1975 (excluding billings to the Federal government and for special services), we estimate that the cash flow deferral from the 41,500 incorrect bills was approximately $6 million, and that the estimated interest lost was approximately $400,000.

The Department Does Not Have Adequate Controls Over Solid Waste Billings

The Department recognizes that the solid waste billing procedures lack adequate accounting controls and has designed procedures to strengthen these controls. Due to a variety of reasons, the Department has not implemented several of the critical control procedures. We recommend that the Department reinitiate the computer and systems development effort required to implement the identified procedures. This will provide the necessary support for the solid waste billings and will potentially increase revenue by ensuring that complete and timely bills are rendered to all customers.

The Job Cost System Is Not Integrated With The Payroll And Purchasing Systems

A job cost system is used to develop cost buildups of reimbursable and capital outlay expenditures. This system is not integrated with the regular, supplemental and casual day labor payroll system or the purchasing system. The lack of integration results in a significant duplication of effort. We recommend that consideration be given to the installation of an integrated job cost/payroll/purchasing system. Such a system could significantly reduce the manual effort in the Department. We believe that this system could utilize the same data which will be used by District Accounting to process payroll and vendor disbursements. Thus, the Department's and District Accounting's records would be in agreement.

There Is Inadequate Control Over Contractor Deposits

The Department requires contractors to make deposits when they are performing work which could potentially damage District property and equipment. Procedures relating to these deposits lack adequate accounting controls to ensure proper financial reporting. The Department should segregate the duties of issuing receipts and refunding deposits, institute overall accounting control procedures, and recognize the outstanding deposit liability in

the Department's financial reporting as required by enterprise fund accounting.

Outstanding Billings Were Not Accurately Reflected In The 1975 Financial Statements

The outstanding billings "accounts receivable" were not properly reflected in the District's 1975 financial report. We were informed the Department has not reported to District Accounting any amounts for outstanding water and sewage billings since 1973 and District Accounting apparently estimated the amounts reflected in the financial statements. In addition, the financial statements did not include certain special outstanding billings in excess of $1,500,000. The Department must adequately control all outstanding billings and these amounts should be reflected in the financial statements.

The Department Has Experienced Significant Problems In the Installation Of Computer Systems

Prior design and installation projects for computer applications did not utilize sound computer development procedures. The water and sewer billing system is an example. Prior to undertaking any new computer system development projects, the Department should establish standard computer development procedures and monitor the progress of the projects to ensure compliance with the standards. This will assist in developing systems that are installed on time, within budget and responsive to the needs of the users.

DETAIL FINDINGS AND RECOMMENDATIONS

FINANCIAL REPORTING

Present Method Of Financial Reporting Does Not Provide Adequate Financial Information

The Department of Environmental Services presently maintains its accounting system using the cash basis of accounting. By using the cash basis, the system records only the amounts actually spent for current operations. The accounting procedures followed do not give recognition to the cost of depreciation of physical facilities and to revenue billed to residents but not yet collected from those residents. As a result, meaningful information is not available for determining the actual operating costs or evaluating the efficiency or effectiveness of operations. Accrual accounting procedures should be used to recognize all applicable assets, liabilities and the related revenues and expenditures. Without the use of an accrual accounting system, it is very difficult to determine the proper rate structure for services provided (i.e., rates for sewer and water usage).

Recommendation

The District of Columbia should adopt accrual basis accounting principles for the water, sewer and solid

waste operations. The sewer and water services provided by the District are similar to those provided by other public-owned or investor-owned utilities. These utilities maintain their records on a full accrual basis which allows them to use their accounting information to effectively manage the business. The Department's accounting system should develop and accumulate all revenue and expenses, assets, liabilities and fund balances by major operating activity so that Department administration can determine the effectiveness of its activities. The assets should include cash, temporary investments, uncollected billings less an allowance for uncollectible billings, unbilled revenues (estimated usage between cycle billing dates and fiscal reporting period), inventories, prepayments and capital assets such as land, buildings, pumping stations, distribution lines, construction in progress, and machinery and equipment, less an allowance for depreciation of the capital assets. Liabilities should include accounts payable for services received and not yet paid, borrowed funds and the related accrued, but unpaid interest costs. Revenues should be identified for the major operating activity by source (i.e., residential, commercial, Federal, etc.) and should be recorded in the accounting records as the services are rendered. Expenses should include the costs of all services incurred, such as salaries, material usage, interest and depreciation of capitalized

assets. This would provide the basis for establishing water and sewer rates and to review the cost of providing these services.

The accounting for the above described activities should be recorded in a separate fund referred to as an Enterprise Fund. The use of enterprise fund accounting procedures for revenue producing activities of governmental units has been commonly accepted for some time. Periodic financial statements for each major operating activity should be developed from the accounting system. The financial statements are essential for the effective operation of the Department and to provide accountability to the public. Now that the District has Home Rule, it is conceivable that future funding of large water resources capital projects could involve issuance of water improvement bonds. Without adequate financial reporting, it may be difficult to sell bonds unless an unusually high interest rate is paid.

The Nelsen Commission report issued in 1972 recommended that the District of Columbia establish this type of an accounting system for water and sewer activities. We believe the recommendations in the Nelson report are still valid today and should be implemented.

Records For Property And Equipment
Are Not Presently Maintained

During our review we were informed that the Department does not maintain records of the acquisition costs for its property and equipment (e.g., pumping stations, distribution lines, etc.). Without such records it is difficult to have any meaningful physical or accounting control over these assets. Realistic estimating and budgeting for major repairs and replacements and for establishing service rates is also difficult. Detail records are required to support the previously discussed enterprise fund accounting procedures.

Recommendations

A property and equipment accounting system by type of asset (i.e., pumping stations, distribution lines, trucks, office equipment, etc.) should be established for all new acquisitions. This system would include a property record for each individual asset acquired or constructed.

A diligent review of historical records and documents should provide the detail information to support a substantial portion of the Department's previously acquired

or constructed property and equipment. This can be accomplished by a physical inventory of the major property and equipment and a search for invoices, contracts or other documents to support the cost or other basis of the Department's major property and equipment.

Outstanding Billings Are Not Accurately Reflected In The 1975 Financial Statements

The outstanding billings for the operations of the Department of Environmental Services were not properly reported in the District's "Financial Report FY 1975." Included in the published financial statements were the following amounts for outstanding billings (accounts receivable):

Water Fund	$ 455,825
Sanitary Sewage Works Fund	1,802,963
Metropolitan Area Sanitary Sewage Works Fund	120,655

We were informed the Department has not reported any amounts for outstanding water and sewage billings to District Accounting since 1973 and that the Department cannot identify the source of the above amounts. Apparently, District Accounting estimated the amounts.

The Department also informed us that outstanding special water and sewage billings of approximately $1,500,000, which include charges for meter repairs, trap cleaning,

corrections, relocations, etc. were not reflected in the 1975 financial statements. Furthermore, there is an indeterminable amount of outstanding reimbursable billings due from other District agencies and from Federal agencies. These amounts were also not included in the 1975 financial statements.

Recommendation

The Department must be able to determine and control all outstanding amounts due from customers and Federal agencies. These outstanding balances should then be reflected in the financial statements as "outstanding billings" (accounts receivable).

Duplicate Accounting Systems Are Costly And Inefficient

At the present time the Department maintains its own accounting records, while District Accounting maintains the official accounting records for the Department. The Department's financial records have evolved over a period of time primarily because of the delays in obtaining reliable and timely financial information from District Accounting. We were informed that there is approximately a three to six week delay from the time the Department submits its transactions until the related financial reports are received from District Accounting. Accordingly, the Department believes it must maintain its own records to expedite the

review of its financial affairs. Maintaining two separate accounting systems creates additional costs and is an inefficient use of resources.

Recommendation

The duplicate accounting effort between the Department and District Accounting could be eliminated by the use of a comprehensive financial accounting system for the entire District. This proposed system is more fully discussed in Volume II of this report.

Systems Development Considerations

Sound computer development procedures have not been followed in the installation of computer systems for the Department. Without a sound, standardized approach to systems development, the following may occur:

- The system will not satisfy the needs of the user.
- The system will not include some functions that are key to the operations of the area.
- The system development effort will be uncontrollable from a budget and schedule viewpoint with the almost certain result that it will not be installed on time and will cost significantly more than expected.
- The system will be very difficult, if not impossible, to maintain and update when changes are needed.

The above problems occurred with the computerized water and sewage billing system and can occur with the new supplies inventory system that is currently under development. Our concerns over the new supplies inventory system originated during our discussions of the system requirements with the data processing personnel in Environmental Planning and Management. We were told that an inventory master file is being created with little, if any, definition of the reporting requirements. Our experience has been that the reporting requirements form the basis for the definition of the contents of the master file.

Recommendations

The systems development of major computer systems for the Department should follow clearly defined and documented standards and procedures. These standards should include staffing the projects with personnel possessing the technical and managerial capabilities to perform the assignments within the following guidelines to systems development:

- The Department should develop a long-range systems plan as part of the District's long-range system plan. This would include identifying each major system to be designed with an analysis of the estimated cost-benefit of each. The systems would be ranked on a prioritized schedule for implementation based on the need for the system and the availability of qualified personnel and financial resources to proceed with the development.

- Each system development project team should include both user department personnel and systems and data processing personnel. Consultant personnel should be used where District personnel resources are limited and the system is assigned a high priority.

- The systems should be thoroughly reviewed and approved by the user management before proceeding with computer programming and implementation. The design would consist of a document which includes a sample of each major report produced by the system, each source document from which data would be collected, each master file to be used in the system detailed by a description of the data to be stored on the file, each computer program to process the data and a clear definition of the controls to be incorporated in the new system. This design document should be reviewed in detail by management of the department responsible for the system operation and should be approved in writing.

- Once the system computer programs are completed and tested, a thorough systems test should be performed of the entire system. Only after this is successfully performed should a conversion to the new system be initiated.

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WATER AND SEWAGE BILLING

Inadequate Controls Over Water And Sewage Billings

The Department has severe problems in attempting to render timely and accurate billings to the approximately 120,000 water and sewage customers. The problems resulted from the installation of a customer billing system that did not fully consider the Department's requirements in its design combined with inadequate consideration of the magnitude of installation and conversion requirements.

The first computerized bills were prepared in May 1975 and shortly thereafter it was discovered that the great majority of the computer prepared bills (approximately 41,500) were in error. Since that time the Department has devoted considerable effort to correcting the computer errors and to converting the remaining 80,000 customer records onto the computer system. This resulted in a significant billing delay. We estimate that one third of the customers or approximately $6 million in revenues were deferred. The annual interest lost by the Department on this deferred revenue is estimated at approximately $400,000. In addressing this problem, the City Council directed the Department to prepare corrected bills, covering an 18-month period, for the 41,500 customers that were initially billed erroneously and to catch up on late billings for the remaining 80,000 customers by May 1, 1976.

The mandate by the City Council was generally achieved, but only by reassigning personnel to work on producing customer bills and allowing their regular assignments to go unattended. The cash posting process has fallen behind and the accounting controls over the billing procedures have not been verified. The Department is now faced with another major effort to update both a manual ledger system and the new computer system for cash collections prior to preparing the next round of customer bills. The duplicate processing of cash collections is required since the new computer system was not designed to accommodate the inclusion of outstanding balances on the customer bills. These outstanding balances must be obtained by a review of the manual billing ledgers. An additional cash processing problem results from the procedure that all collections which vary by two dollars or more from the amount billed must be returned to the customer with a request to pay the proper amount.

The Department has recognized the numerous problems with the computerized system and currently is in the process of identifying alternatives for replacing that system. One alternative that the Department recently considered involved the use of the Washington Suburban Sanitary Commission (WSSC) customer billing system. While this system performs the basic billing functions, the processing

requirements of the Department have not been clearly defined in order to determine if the WSSC system will meet the basic needs.

Recommendations

The Department should immediately establish controls to verify that the following functions are performed:

- All meters are read or estimated.
- Bills are rendered for all accounts in a meter book.
- All delinquent and penalty charges are included on the bills.
- All billed amounts are properly posted to the individual customer account records.
- Cash collections are accurately credited to the individual customer records on a timely basis.
- Collection action is taken on all delinquent customer accounts.
- Summary totals which reconcile to the detail ledgers are reinstituted.

The personnel who normally perform these activities are working extensive overtime in an attempt to maintain the schedule for the customer billings and cash postings to the manual and mechanized systems. Therefore, the backlog of work is not being reduced. It would appear that additional manpower resources are required immediately to assist with this situation.

Due to the method used to convert to the computerized system, a major conversion effort would be required to revert to the manual posting system. Therefore, it is recommended that short term improvements be made to the computerized system to allow timely billing and cash receipts posting on the system under a controlled environment. These short term improvements must include the development of adequate controls to safeguard the integrity of the system until a new comprehensive customer billing and information system can be designed and installed.

The Department should initiate a project to analyze the current customer billing procedures. The project should identify the customer inquiry and meter control information needs and related processing requirements for a new computer-based customer billing and information system that will correct the current operating problems and be responsive to the Department's needs for accurate and timely information. The new system should, as a minimum, provide the following features:

- All cash collections should be accepted, endorsed, balanced, and automatically credited to the customer accounts daily.
- The customer billing procedures should be flexible and include consumption estimating techniques, off-cycle billing provisions, billing adjustments and correction procedures, and high-low billing reasonability tests.

- The meter reading documents should be computer prepared on a predetermined schedule and provisions made to automatically enter the meter reads and notations such as leaks, meter test okay, etc., into the computer system.

- Collection procedures should be developed to analyze the customer records on a predetermined schedule to initiate the appropriate collection action, including:

  Apply a late payment charge.

  Automatically prepare delinquent notices.

  Automatically prepare field collection and shut-off notices.

- The detailed meter records and meter inventory reporting may be able to be incorporated with the normal customer billing process to eliminate the duplicate processing of meter set, remove, and exchange order documents to both the customer and meter files.

- Information to meet the customer inquiry requirements should be included in the new computer-based system and displayed in the customer service area on microfiche viewers or video display terminals.

- Management information reporting should be developed to provide:

  Daily and monthly revenue statistics by type of service.

  Meter reading performance statistics.

  Meter inventory.

  Collection activity statistics.

  Aged outstanding balance statistics.

  Water and sewage usage statistics.

This necessary activity of analyzing the Department's customer billing and related functions should be performed by a project team consisting of Department personnel knowledgeable in the current procedures and needs and data processing personnel possessing experience in sound computer system design and installation practices. It is also critical that the personnel assigned to this project have in-depth knowledge of water and sewer customer billing procedures and operations to help insure that the new system will be directly responsive to the needs of the Department.

SOLID WASTE

Truck Weights Are Only Verified Annually

The District charges private haulers $5.00 per ton to unload their containers at the District's disposal facilities. Annually each private hauler is issued a license and the weight of his trucks and containers are determined on a preannounced schedule. Loaded trucks are weighed when the haulers arrive at the disposal site. The billing to the hauler is based upon the gross weight of the loaded vehicle less the weight assigned at the time of the annual weighing. The current procedure of determining a truck's weight annually on a preannounced basis makes it easy for a hauler to arrange to maximize the weight of his vehicle on that day in order to minimize the amount of his future billings.

Recommendations

On an unannounced basis selected trucks should be weighed after they have dumped their refuse to obtain a representative actual weight of the truck and container when empty. If this weight is significantly lower than the one on file, it should be used to lower the weight originally assigned to the vehicle. We recognize this could present a problem when there is a line of vehicles waiting to dispose

of their refuse. This could be accomplished, however, when there is no line at the disposal site or on a test basis such that, over a year, most trucks are re-weighed at least once.

Ideally, each vehicle should be weighed both before and after disposal to obtain the true weight of the disposed refuse. In those cases where it is not feasible for the empty trucks to be weighed on the same scale as the full trucks entering the land fill area due to volume or different exit routes, an additional scale could be installed to handle the empty trucks leaving the land fill site.

Truck Scale Cards Are Not Being Controlled

The current billing system provides no way of assuring that a hauler actually receives a truck scale card upon the discharge of the truck's contents at a disposal site. It is the responsibility of the supervisor to periodically check that the haulers have received scale cards. In addition, the scale cards are ultimately computer processed for billing but, if the card is rejected for some reason, there are no controls to insure that the rejections are resubmitted.

We understand that a new system is being planned which would automatically create a scale card when the hauler passes through the entrance gate at the disposal facility. This system would also deny access to suspended haulers. However, the data processing personnel needed to complete the design and installation of this system have been assigned to other projects, such as the billing system for water and sewage charges.

Recommendation

The design and installation of this new system (technically referred to as the Disposal Management Information System) will remove a significant weakness and possibly result in additional revenue to the District. We strongly recommend that the Department provide the necessary resources to complete this system as soon as possible.

Controls Are Not Adequate Over Suspended Haulers

On an irregular basis the Department prepares a computer report which is referred to as the "90-day suspended list." This report includes haulers who are 90 days or more in arrears and haulers who actually have been suspended. This report is of little use in stopping delinquent haulers from dumping because haulers are not automatically suspended when they are 90 days in arrears.

Recommendation

The 90-day suspended list should distinguish between those haulers who are merely 90 days in arrears and those who actually have been suspended. This will assist in preventing suspended haulers from further use of the disposal facility. Further, the Department should consider adoption of automatic suspensions when billings become 90 days delinquent.

Standards For Collection Routes Are Not Updated On A Timely Basis

The Collection and Disposal Management Information System provides for the reporting of actual hours spent in collection activities against standards for these activities. However, in our interviews with Solid Waste Collection and Environmental Planning and Management personnel, we were informed that no one has assumed the responsibility for ongoing maintenance of these standards.

Recommendation

The reporting of actual statistics against standards is necessary to provide information to assist in:

- Revision of routes on an equitable basis for staffing or procedural changes such as the recent reduction in collection crew size from 4 to 3 or the proposed reduction in collection frequency from twice to once a week for certain areas.

- Balance of manpower and workload levels to avoid overstaffing in some areas and understaffing in others.

PROCUREMENT AND INVENTORIES

Handling Of Purchase Orders And Invoices Is Not Segregated

The purchasing or procurement function takes place within all divisions of the Department for purchases under $10,000. Each division can institute competitive bids for purchases, select the lowest bid and prepare a purchase order (without a number assigned). The purchase orders are then sent to the Supply Management and Administrative Services Division (SMASD) for review and determination that the purchase order complies with the established requirements.

Competitive bids are not received on purchases under $250 and for other purchases which, because of uniqueness, are negotiated. Total negotiated contracts approximated $750,000 for the year ended June 30, 1975.

In many cases, the operating department employee who initiated the purchase order also directly receives the related invoice.

Recommendations

A Central District Purchasing Department should perform all competitive bidding for commonly ordered items and establish blanket purchase orders that operating departments may draw from. Blanket purchase orders stipulate

a specified price for a given quantity purchased. Establishing this process will help assure uniform quality of purchased items by the District and maximize the use of volume discounts offered by suppliers.

The same individual should not be responsible for preparing the purchase order and receiving the related invoice. The District should establish a central department which would be responsible for the matching of receiving reports, purchase orders and invoices, and the approval and payment of all invoices.

This subject is more fully discussed in Volume II of this report.

Inventory Records Are Not Accurate

The Department has supply inventories which are stored at various locations which are valued at approximately $1 million. However, the Department does not maintain the related inventory records accurately. We understand that the Department plans to physically count and value each item of inventory in the near future.

Recommendation

Inventory records should be adjusted to reflect purchases and usage on a timely basis. This is an area in which the District should consider in the design and

installation of a central inventory control system which would be used by all departments and agencies within the District.

JOB COST ACCOUNTING

Accounting For Costs Needs Improvement

The Department of Environmental Services maintains two internal job cost accounting systems to control and bill construction and repair projects. One system, used by the Bureau of Construction and Repair, is a manual system processed on a weekly basis for controlling and scheduling of their own activities. This system includes labor cost to date and an estimate of total costs. The second system is a computerized accounting system for all projects which involve billing for reimbursable expenditures, and includes actual labor, material and equipment costs. It is maintained by the Office of Executive Management and duplicates the manual system described above.

Reimbursable expenditures are those costs associated with moving of sewer and water lines, sewer tap-ins, etc. which are billed to the benefited parties. These reimbursables, which are estimated to be over $9 million for 1975, are not included in the annual budget in either estimated revenue or expenditures. In addition, the Department supervises capital outlay projects approximating $90 million for 1975.

Individual job records are established to control costs incurred for the following situations.

- Projects funded by a grant or for which reimbursement is expected.
- Work performed by the Department which will be billed to other agencies within the District.
- Projects funded by the capital outlay budget.

Each employee who works on an established job is required to report his hours and the equipment to the time-keeper in his area. However, the total hours reported into the job system are not compared to the total hours paid to ensure that all of the costs are properly charged to the respective job. In addition, supplemental payrolls (which on certain projects can be substantial) are not included as costs related to the job.

Apart from payroll and material costs which are charged directly to the job, other costs such as fringe benefits, administration, etc. are charged to the jobs using a flat percentage of total payroll and materials. It is not known whether this percentage, which is currently 16%, is representative of the actual additional costs incurred. However, in light of the unrecorded pension benefits discussed in Volume II of this report, it appears the 16% is insufficient to even cover the pension costs.

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Recommendations

There is a significant amount of duplicate effort in the preparation and maintenance of the job cost records (manual and computer). Consideration should be given to the installation of an integrated job cost/payroll/purchasing system which would provide timely reporting for:

- Budget/actual cost reporting.
- Total project cost to date listed by labor, materials, equipment, overhead.
- Comparison of percentage complete to job cost to date to identify potential overruns.

Such a system would significantly reduce the manual effort currently required and would provide more meaningful information.

Overall control of project costs would be strengthened by including regular payroll adjustments in the job cost system. Also, total labor hours from the job cost system should be reconciled to actual hours paid to help insure that all payroll costs have been properly charged to the jobs.

Presently, no one has been assigned the responsibility of reviewing individual jobs to identify potential cost overruns. A careful, timely review of the cards by

project supervisors could identify potential cost overruns for management follow-up on a timely basis. A critical periodic review of overhead cost rates should be performed to ensure that indirect costs are being charged to projects in reasonable amounts.

Inadequate Control Over Billing Reimbursable Projects

Reimbursements are received for special work performed by the Department for other agencies within the District or for other governmental units. This type of special work can include:

- Capital outlay projects.
- Special water main and sewer system construction.
- Refuse pickups at a District agency.

The detail lists are not balanced to overall control totals for the uncollected monthly billings. Cash collections are received and forwarded to the individual who prepared the bills.

Recommendations

An overall control should be established for the total reimbursable billings and the billed amounts should be reported to District Accounting. The billings should be numerically controlled and the detail billing records should be balanced to the established control totals.

The mail room should open the mail and log in the cash received and restrictively endorse the checks, forward the remittance advice to the billing department for customer account posting, and forward the actual checks to the District Treasury for immediate deposit. A copy of the log (prepared by the mail room) should be sent to an independent source for comparison of the amount actually posted in customers' records with the amount deposited.

In Volume II of this report, lock box remittances, under control of the District Treasurer, are discussed. We believe that special billings, grant and reimbursable project billings, etc., are well suited for lock box remittances.

OTHER

Payroll and Personnel Duties Are Not Segregated

All Department personnel report their time to an assigned timekeeper. The timekeeper is also responsible for maintaining the records for sick leave and available vacation as well as reporting time for the job cost system. Department employee paychecks are distributed by supervisors or job foreman. Errors and corrections to employees' time are reported on a supplemental time sheet. These corrections are usually for retroactive increases, erroneous pay or overtime. Each will result in a supplemental paycheck.

Recommendations

An integrated job cost accounting and payroll system should be developed. This will result in one overall system rather than the three systems which are currently in use (job cost, regular payroll, and supplemental payroll). This system would also be integrated with the proposed District Payroll/Personnel System which is discussed in Volume II of this report.

Procedures for recording accruals, usage and maintaining the available balances of vacation and sick time should be incorporated into the central payroll system.

This will eliminate the manual recordkeeping function for these activities, improve accuracy and minimize improper handling.

Supplemental pay procedures, including retroactive pay, should be incorporated into the regular payroll process and eliminate the need for supplemental checks.

Periodically the employee paychecks should be distributed directly to the employees by a responsible District official. The District official should request suitable identification from the employee. This procedure will verify that employee paychecks are being received only by persons currently employed by the District.

Control Over Contractor Deposits Needs Improvement

The Department requires contractors to make deposits when they are performing work that could damage District property and equipment. We were informed there are no control totals established over these deposits and thus the details cannot be periodically balanced to the total deposits collected and not yet refunded. Access to the Department's copies of the receipts is not limited (total deposits are estimated at $1,000,000). In addition, we could not identify these deposits in the District's financial statements.

Recommendations

An outstanding deposit control total should be established and periodically balanced to the detail of individual contractor deposits. The contractor deposit liability should be reflected in financial statements of the Department.

Also, the Department's copies of the receipts should be kept under strict physical control to ensure that all deposits received are properly accounted for.

Different employees should be responsible for issuing receipts and refunding the deposits. The Department should establish numerical and physical control over the deposit receipts.

VOLUME VII
OTHER DEPARTMENTS AND AGENCIES

DISTRICT OF COLUMBIA

OTHER DEPARTMENTS AND AGENCIES

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DISTRICT OF COLUMBIA

OTHER DEPARTMENTS AND AGENCIES

INTRODUCTION

This volume of our report discusses the results of our review of the remaining four significant District departments together with comments on certain of the smaller agencies and offices. The four significant departments are as follows:

- Institutions of Higher Education
- Department of Recreation
- Department of Transportation
- Department of Housing and Community Development

This volume is divided into the following three sections:

- General Description
- Summary of Significant Findings and Recommendations
- Detail Findings and Recommendations

Since our review was directed principally at the accounting and financial management practices of these departments, we focused our efforts on those organization units allocated the greatest share of departmental staff and financial resources and those charged with the management of

those resources. Also, since a consolidation of the existing institutions of higher education is to take place by September 1, 1976, our approach to that portion of the survey was generally to identify problems which would have an impact on the proposed University of the District of Columbia.

GENERAL DESCRIPTION

Institutions of Higher Education

The District of Columbia provides postsecondary education in three publicly supported institutions of higher education -- Washington Technical Institute, Federal City College and District of Columbia Teachers College. Under current legislation, these institutions will be consolidated into the University of the District of Columbia as of September 1, 1976.

Both the Washington Technical Institute (WTI) and Federal City College (FCC) were established by enactment of the D. C. Public Education Act of 1966. WTI was established to provide residents of the District and others with the necessary education to enter recognized occupations. Courses are offered on both a credit and noncredit basis. FCC was established for the same purpose except that it is a college of arts and sciences.

The District of Columbia Teachers College (DCTC) was established by merger of the formerly separate Miner and Wilson Teachers Colleges. DCTC's primary purpose is to enable students to teach in preschools, early-childhood education centers, and elementary and secondary schools.

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D. C. Law 1-36, The District of Columbia Public Postsecondary Education Reorganization Act Amendments, effective November 1, 1975, authorizes establishment of a public land-grant University of the District of Columbia through the reorganization of the existing District institutions of higher education. This consolidation is to take place by September 1, 1976, and is to be accomplished under the direction of a 15 voting member Board of Trustees.

Department of Recreation

The Department of Recreation's basic function is to provide residents of the District with the opportunity to enrich, enhance and improve the quality of their physical, social and cultural lifestyles through the operation of recreational centers of the following types.

- Athletic fields
- Basketball courts
- Pools
- Tennis courts
- Day camps
- Day care centers

These centers are staffed and maintained by the personnel of the Department of Recreation. Each large center is staffed by at least 2 persons.

Department of Transportation

The Department of Transportation was created in July 1975 by combining the existing Department of Highways and Traffic and the Department of Motor Vehicles.

The following is a listing of major functions and responsibilities of the Department.

Presently Operational

- Street, bridge and sidewalk construction and maintenance.
- Planting, spraying and trimming street line trees.
- Maintenance of small park areas.
- Maintenance and operation of street lighting and traffic control devices.
- Testing and licensing of vehicle operators and inspection and registration of vehicles.
- Maintaining and planning public and metered parking facilities.
- Vehicle maintenance for the Department's vehicles.

Not Fully Operational

- Identification, implementation and coordination of plans and programs related to all modes of transportation. This contemplates that eventually the Department will be responsible for all transportation systems.

Department of Housing and Community Development

The Department of Housing and Community Development was created in July 1975 by combining the formerly

separate National Capital Housing Authority (NCHA), the Redevelopment Land Agency (RLA), the Model Cities Program Office, the Office of Housing and Community Development and part of the Office of Economic Development. NCHA and RLA were Federal government agencies prior to Home Rule.

Essentially, NCHA has become the low income housing section of the Department and RLA has become the urban renewal section. For simplicity of identification, we will refer to these sections as NCHA and RLA throughout our report.

NCHA owns and operates approximately 12,000 low income residential rental units in the District with monthly rentals aggregating $500,000 to $600,000. Revenues are derived entirely from rental income and HUD grants, with no appropriated District funds.

RLA purchases land and buildings in the District for urban renewal and attempts to relocate tenants living in the purchased buildings. When purchasing land, RLA is given authority by HUD to issue public notes which are guaranteed by HUD. These notes are secured by the land and renewed until the land is ultimately sold. RLA revenues are derived entirely from rental income (approximately $11 million annually) and HUD grants, with no appropriated

District funds. Other District agencies provide RLA with noncash services such as repairing sidewalks.

Other Agencies and Offices

Other agencies and offices consist of both administrative agencies and public service agencies. Appendix I at the end of this volume provides a list of these agencies and offices. Except for the City Council, all agencies and offices generally operate autonomously and report directly to the Mayor. Each agency or office is responsible for submitting a budget and controlling its expenditures.

- -

The budget requests (expressed in dollar amounts and in authorized positions) for the 1977 fiscal year are summarized on the following two pages.

OTHER DEPARTMENTS AND AGENCIES

DISTRIBUTION OF 1977 BUDGET REQUEST BY ORGANIZATION UNIT

(Unaudited) (Note 1)

Organization Unit	1977 Budget Request ($ millions) District Appropriated	Federal Grants	Total
Institutions of Higher Education	$ 40.4	$ 10.7	$ 51.1
Department of Recreation	17.8	.8	18.6
Department of Transportation	29.8	24.5	54.3
Department of Housing and Community Development	5.6	94.3	99.9
Miscellaneous Agencies and Offices	47.4	35.6	83.0
Total Requested Appropriation	$141.0	$165.9	$306.9

Note

(1) Arthur Andersen & Co. did not audit the above information. The source for the above is the District of Columbia booklet "Justifications for the 1977 District of Columbia Budget."

OTHER DEPARTMENTS AND AGENCIES

DISTRIBUTION OF PERSONNEL BY ORGANIZATION UNIT

(Unaudited) (Notes 1 and 2)

Organization Unit	Authorized Positions	Funded By District Appropriations: Estimated Average FY 1977 Permanent Employment	Funded By District Appropriations: Estimated Average FY 1977 Other Employment	Federal Grant Positions	Total Employment
Institutions of Higher Education	1,627	1,543	71	264	1,878
Department of Recreation	816	753	580	90	1,423
Department of Transportation	1,458	1,272	4	37	1,313
Department of Housing and Community Development	294	283	168	1,374	1,825
Miscellaneous Agencies and Offices (Note 3)	1,742	1,646	7	18,984	20,637
	5,937	5,497	830	20,749	27,076

Notes

(1) Arthur Andersen & Co. did not audit the above information. The source for the above is the District of Columbia booklet "Justifications for the 1977 District of Columbia Budget."

(2) The above numbers include total full-time equivalent positions funded through District appropriations and Federal grants and reimbursements.

(3) Grant positions include approximately 16,000 youths employed in the summer by the Office of Youth Opportunity Services.

SUMMARY OF SIGNIFICANT FINDINGS AND RECOMMENDATIONS

Each Department and Agency Maintains Accounting Records Independent of the District Accounting System

The duplicate accounting records are an outgrowth of the District Accounting System which has not been responsive to the needs of the user agencies. Also, personnel have not been adequately trained, resulting in a lack of understanding of the District Accounting System. In addition, financial information is not distributed to the user agencies by District Accounting on a timely basis. The District should designate an individual from District Accounting who would assist in the training of accounting personnel of smaller agencies and respond to inquiries from those agencies, thus resulting in more accurate and timely data.

Budgetary Controls Over Revenues Are Not Adequate

Due to the lack of budgetary controls over agencies' revenues, there is little incentive to properly control receipts. Agencies should be required to budget all anticipated revenues and should be held accountable for collection of these revenues.

Many Functions Are Performed by the Individual Agencies Which Have Not Been Centralized

Presently, all agencies perform certain functions that could be centralized and would result in cost savings. These functions are accounting, payroll, personnel, material control and maintenance. The District should review the benefits that could be derived through centralization of these functions.

D. C. Law 1-36 Is Unclear as to the Board of Trustees' Responsibility for the University of the District of Columbia

D. C. Law 1-36, which creates the University of the District of Columbia does not "charge" the Board of Trustees with full responsibility for the University's operation. Also, although the Law requires "financial statements," they are not required to be prepared in accordance with generally accepted accounting principles for colleges and universities. The Board of Trustees should be held accountable for all budgetary, financial and operating aspects of the University. Financial statements should be prepared in conformity with generally accepted accounting principles.

Change in the University's Fiscal Year-End to September 30 Will Cause Operational Problems

The fall semester for the universities begins in September. During this period, administrative personnel are engaged in resolution of student registration and related problems. A September 30 year-end closing would add additional work to the existing heavy peak workload. The September year-end does not coincide with the university's natural business year. For example, contracting for instructors, which generally must be completed by February, may have to be completed without prior budget approval. Consideration should be given to allowing the University to report on a July 31 or August 31 basis. This year-end change would require District negotiations with Congress to receive approval.

The Redevelopment Land Agency (RLA) Does Not Properly Control Rental Properties

RLA does not have a complete master listing of all rental property it operates. Thus, it is not possible to determine whether the District is receiving all rental income. RLA must compile a master file listing of all property owned and establish control over rentals due.

The National Capital Housing Authority (NCHA) Does Not Have Accurate Records For Furnishings

NCHA does not have cost records for apartment furnishings and therefore lacks control over these assets. NCHA must take a physical inventory of all furnishings and prepare a complete listing of all furnishings which includes the cost. In addition, procedures need to be established to insure the accuracy of these records in the future.

DETAIL FINDINGS AND RECOMMENDATIONS

COMMON PROBLEMS AND RECOMMENDATIONS

Information From District Accounting Is Not Adequate

The initial reaction obtained from personnel in most agencies was that the reports obtained from District Accounting have improved significantly in recent years. Even though this comment was made, each agency still needs to have a minimum of one individual devoting at least part-time to the maintenance of some type of accounting records which are duplicates of the District Accounting system records. Agency personnel stated this was necessary because the District Accounting system reports are not timely. In addition, they stated that it is necessary to review the District's reports for accuracy because numerous errors are often made by District Accounting. Since each agency director is held accountable under the antideficiency laws, he needs to ensure himself that he is not overspending.

It appears to the agencies that the District Accounting system does not offer flexibility in meeting the needs of the variety of sizes and types of agencies found in the District. For example, the system reports appropriations and expenditures by type of expenditure (i.e., payroll, supplies, etc.). However, it provides no further breakdown

to enhance the control and reporting of obligations and expenditures within an agency. As a further illustration, in order to properly control and evaluate the operations of the Department of Recreation management needs a report by area or district, and each center or location within an area or district. This breakout by area would provide management information for control over an area and would provide management with a basis for evaluation. Presently, the Department of Recreation has an accounting staff of four persons to maintain these manual records, a portion of which could be eliminated if more appropriate reports were provided by the District Accounting system.

Grant reporting is another example of the apparent inflexibility of the system. In several cases, agency personnel mentioned that the expenditure reporting of the District Accounting system was not adequate to allow the agencies to control grant activities and expenses and prepare billings and other reports for sponsoring Federal agencies and other funding sources. For this reason, the agencies began to keep parallel grant accounting records in addition to information provided by the District Accounting system.

Agency representatives, especially from the smaller agencies, expressed concern about the lack of adequate training for management personnel. Financial personnel also

expressed concern over the lack of training and the misunderstandings about the District Accounting System's operations. For instance, one person complained that all his grants were grouped into one account and that he had to maintain subsidiary ledgers to segregate expenditures by each grant. The District Accounting System, however, allows for each grant to be set up separately. Another agency employee expressed concern that the agency was not notified when a disbursement was actually made. In fact, the District Accounting System provides that information.

Recommendations

As discussed in more detail in Volume II of our report, the following recommendations are made to improve the financial management for the smaller agencies:

- The District should consider reorganizing the financial responsibilities of smaller agencies to provide one common accounting department with responsibility for a selected group of smaller agencies. This could involve the assignment of an individual who would have the financial management, training and coordination responsibility for a group of, say, ten smaller agencies. In addition, this common accounting office would be responsible for budget coordination for the smaller agencies, thus eliminating the disproportionate amount of time spent by smaller agencies in budget preparation and in defending the budget.

- The present District Accounting System should be reviewed to determine its ability to meet the needs of agency management. In order to accomplish this, we suggest that a group, having a thorough understanding of the present District Accounting System, meet with each agency director and his key staff to determine the specific agency management information needs.

Budgetary Controls Over Revenues Are Not Adequate

Due to the lack of budgetary controls over agencies' revenues, there is little incentive to properly control receipts. Although agencies must budget for expenditures and are held responsible for over-spending, the same controls do not exist over revenue collections. For example, there does not appear to be adequate controls to ensure that all revenue collections are ultimately deposited with the District Treasurer.

Recommendation

Agencies must be more conscious of revenue maximization and cash flow. Each agency should be required to budget for all anticipated revenues and should be held just as accountable for insuring collection and depositing of budgeted revenues as they are for controlling expenditures.

Since most grants provide for budgeted expenditures, we further recommend that the District seek to have interim grant payments made periodically by the granting source. These payments would be based upon a predetermined funding arrangement. Monthly reports of actual expenditures can be furnished the following month. Interim monthly advances can be reconciled at the conclusion of the grant in a final billing. This would provide the proper cash flow to the District to fund grant operations.

Many Functions Are Performed By The Individual Agencies Which Have Not Been Centralized

Presently, all agencies perform certain functions that could be centralized to reduce costs.

- Many agencies have large personnel offices performing various functions that are being duplicated by the existing District central payroll section.
- Purchasing and material controls are handled by each agency with separate inventories and warehousing facilities.
- Some agencies, like the Department of Recreation, perform their own maintenance on vehicles and utilize a service bureau to maintain cost records.

Recommendation

The District should review the benefits that could be derived through the centralization of the various functions mentioned. More detailed recommendations regarding the centralization of these and other functions are covered in Volume II of this report.

Board of Trustees Is Not Charged With Full Responsibility

Under the recently passed D. C. Law 1-36, The District of Columbia Public Postsecondary Education Reorganizaton Act Amendments, there is no discussion of the disposition of tuition and other miscellaneous fees (i.e., whether these fees should be retained for operating use by the University or remitted to the District). The current budget procedures require the Institutions to operate under a direct budget allotment without consideration of revenues generated.

This procedure has caused a budgeting problem with regard to areas such as the supply of student textbooks and student store materials sold in the bookstores. In this instance, store inventories are budgeted in the supplies budget category and are strictly limited by appropriations, whereas the effectiveness of the bookstore operations would be substantially enhanced if sales revenues could determine inventory levels. In addition, little incentive is placed on the Institutions to properly control and collect Federal and District receivables, since the monies are directly deposited to the District Treasury and do not affect the Institutions' appropriations. Finally, there is no indication of

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planning for the merger of the Institutions in order to identify excess personnel, equipment, facilities, etc.

The current method of reporting does not charge the University's Board of Trustees with full responsibility for governing the University's operations. Currently, financial reports cannot be readily prepared under generally accepted accounting principles for colleges and universities. Although D. C. Law 1-36 does not require financial statements prepared in accordance with generally accepted accounting principles, "financial statements" are required. As a result, without the inclusion of revenues, no one is provided a clear understanding of University operations.

Recommendation

The budgeting and planning of the University should give effect to anticipated revenues in order to provide the Institutions with the appropriate incentive to control and collect receivables. Also, reimbursable services, such as the bookstores, should operate at the level required to meet the needs of the students and not at a predetermined and sometimes unrealistic level. Furthermore, those agencies generating revenue should be required to provide and enforce procedures that are as effective for revenue control as those for expenditure control.

Financial statements should be prepared by the University in accordance with generally accepted accounting principles. In this regard, the University's Board of Trustees should be held accountable for all budgeting, financial and operating aspects.

Change In Fiscal Year-End Will Cause Significant Operational Problems

The change in the District's fiscal year-end to September 30 will cause significant operational problems for the Institutions. The new fiscal year-end is one month after the academic year begins and, thus, is not a desirable time to close the financial records of the Institutions.

Normally, financial and operating personnel are involved during the initial weeks of a new session in resolving student registration and related problems. A September 30 year-end closing would add to the heavy peak workload. Also, financial statements maintained on the natural academic year would still be required to effectively manage Institutional operations.

Contracts for academic services are negotiated annually in February. If the University adopts a September 30 fiscal year, the contracting may have to be completed without prior budget approval.

Recommendation

A fiscal year ending in July or August would significantly reduce administrative problems. For example, if August 31 were to be the fiscal year-end, the budget could be prepared on that basis and District financial statements as of September 30 should be consolidated to include the University's August 31 financial statements.

One Internal Audit Position Is Not Filled And The Other Is Not Fully Utilized

The budget authorizes internal audit positions for WTI and FCC/DCTC. The WTI internal audit position has not been filled and the FCC/DCTC position has been filled but is not used to its maximum capabilities.

With the reorganization into the University of the District of Columbia, the operations may become more complex and a larger segment of the District budget may be devoted to higher education. Without an adequate internal audit function, a valuable management tool is lost, which would otherwise provide management with an independent means of reviewing the operations of its departments. Also, without this function, there is no independent means of insuring proper compliance with various governmental regulations.

Recommendation

In order to provide additional control, the position of internal auditor should be filled and a program developed to assure that the capabilities of the internal auditors are used to their fullest extent. An educational program should be implemented to make various department supervisors aware of the benefits provided by the internal audit functions. Furthermore, an internal audit function could identify problems on a timely basis (before they become extremely difficult) and provide corrective action prior to a problem becoming a public or political issue.

Existing Facilities Usage Is Not Coordinated

There is limited coordination of resources among District departments and agencies. For example, the District Public Schools have certain classrooms which are idle in the evenings while the Higher Education Institutions are planning construction of new facilities. We recognize that some facilities in the outlying areas of the District may not be particularly useful for the Institutions and some curricula require special equipment. However, general courses requiring no special equipment or facilities could utilize presently available classroom space.

Recommendation

Continuous review should be made of the currently planned construction of additional facilities to determine if existing facilities are available through use of facilities of the District Public Schools, Public Library or other agencies.

Efforts Are Duplicated Within The Department

Although the Department of Highways and Traffic and the Department of Motor Vehicles recently combined, the Department of Transportation is essentially operating as two distinct departments. This results in inherent inefficiencies (e.g., separate and/or duplicate purchasing functions, approval procedures and clerical checks). As an example of this duplication, purchasing is performed at all levels within the Department with no coordination or control between the various bureaus or departments. Purchase authorization often is after the fact. In addition, the Department presently has no procedure for accumulating accounts payable, accruals and other liabilities. With the diverse accounting and purchasing functions, the accumulation of these data would be a significant task.

Recommendation

These inefficiencies have been recognized by management who has initiated steps to study this matter. We encourage the efforts of the Department to complete the consolidation of the two predecessor departments which would eliminate the duplicate efforts and improve efficiency.

Communications Are Inadequate And
Responsibilities Are Not Fully Defined

There appears to be a lack of communication and understanding of functions within the Department. Responsibilities within and between various bureaus and especially between the administration office and other bureaus are undefined. In addition, the accounting function and responsibility are dispersed throughout all levels of the Department. For example, construction and maintenance is responsible for accounts payable functions for contracts, while mobile equipment is responsible for vehicle maintenance payables.

Recommendation

The functional responsibility of each bureau and division should be defined in writing and disseminated to all employees. Along with this, the lines of reporting and job descriptions should be reevaluated and defined. This definition is especially critical for supervisory positions since it appears that approval procedures and lines of reporting are often unclear. As a result, too much paperwork is generated and too many approvals are required.

Project Control System Is Inadequate

The Department's Office of Administration is presently using a project control system which only accumulates total project costs. This information is already available from several other sources. The system does not attempt to report project costs by type of expenditure and does not provide for any analysis of the percent completed. There is at least one person assigned to this system on a full-time basis and several others spend a significant portion of their time on matters directly related to the system.

Recommendation

The revision of the District Accounting System as discussed in Volume II of this report should provide for project cost information to allow for the elimination of individual agency systems.

Inventory Controls Are Inadequate

The Department's inventory records are inadequate and there are no standard reorder procedures. Safeguarding of inventory is the responsibility of one individual at each of six inventory locations. Also, there is no central receiving or storage location, and there are no physical inventory procedures. Further, it is difficult to convert

physical quantities to dollar amounts for financial reporting purposes. The Department is aware of this problem and has assigned an individual to initiate a plan to establish inventory controls.

Recommendation

The District should install a sound inventory control system which could be consistently used by each department within the District. In Volume II we describe this system in detail.

Controls Over Miscellaneous Billings Are Not Centralized

The Department handles miscellaneous billings and collections for special reimbursable work, such as right of way and railroad lighting rentals. The billing controls rest with various individuals throughout the Department. Checks are being received payable to the individuals handling the billings. Certain billings do not specify where to remit so payments are received in numerous locations in the Department.

Recommendation

Centralized control needs to be established over these miscellaneous billings. Even though these billings

are not significant, the poor controls invite improper handling. At a minimum, all such rental agreements should specify payment to the order of the District of Columbia and payments should be received in a single location.

In Volume II of this report, lock box remittances, under control of the District Treasurer, are discussed. We believe that special billings, grant and reimbursable project billings, etc., are well suited for lock box remittance.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

The following comments and recommendations are indicative of the need for stronger financial controls and property management at the Department of Housing and Community Development as has been pointed out in recent General Accounting Office reports.

Grant Reporting Is Not Adequate

Approximately $100 million received by the Department as Federal grants is expended annually for the Department's programs. Due to grant reporting requirements, both the National Capital Housing Authority (NCHA) and the Redevelopment Land Agency (RLA) believe the District Accounting System is inadequate for their purposes. Therefore, both maintain separate accounting systems for certain financial reporting data.

RLA expenditures which are reported to District Accounting for disbursement are not charged to a detail expenditure account such as "Supplies." Instead, all expenditures are charged to a single account. RLA is attempting to reconcile the expenditures recorded in its system to the disbursements reported by District Accounting. However, RLA is experiencing significant difficulty in this reconciliation and is currently several months behind in some reconciliations.

NCHA management stated it does not always receive daily runs from District Accounting and has encountered many problems in attempting to reconcile the District Accounting reports to its own reports. Therefore, NCHA is no longer attempting to reconcile the records, although through a log, NCHA does determine that vouchers have been paid.

Recommendation

The inadequacy of the District Accounting System for agencies points out the need for a thorough revision of the District Accounting System to meet the needs of the user agencies, especially in grant control.

Rental Units and Related Furnishings Listings Are Not Accurate

NCHA maintains a property register showing the cost of all assets (e.g., refrigerators and stoves furnished in rental units). However, there are no procedures to insure that those items which are removed from service (retired) are relieved from the records, and no independent verification is made to assure that property on the records physically exists.

Also, RLA does not have a complete listing of all the rental property it owns or an indication as to whether the property is occupied or vacant. Thus, it is not possible

to determine whether the District is receiving all rental income from these units. In addition, the property listings used by different departments within RLA have inconsistencies as to which properties are owned by RLA. RLA is currently compiling a master file listing of all property owned.

Recommendation

We recommend that the Department immediately begin to physically verify all rental units and the related furnishings. After this, the master file should be continuously checked to insure that rentals are being collected from all occupied units.

Rental Rate Controls Need To Be Revised

NCHA bases the rent charged to its tenants on a percentage of the tenants' income. A form is sent to each tenant annually on the tenant's lease anniversary date requesting that he report his present income, obtain his employer's signature and return the form to the agency. Salary verification processing currently averages approximately six months. After processing the information, if the rental charge is to be reduced, a retroactive adjustment is made to the anniversary date of the tenant. On the other hand, if the rent is to be increased, the increase becomes effective the month after processing is complete.

Recommendation

The Department should receive an independent verification of salary directly from each tenant's employer. This could be accomplished by having the tenant complete an authorization of salary confirmation form which he returns to NCHA. NCHA would then send this authorization form to the tenant's employer for his completion and return.

The annual rental charge reviews should be more timely in order to reduce the amount of time between the tenant's anniversary date and the completion of this processing. Any rent increases should be passed on to tenants as soon as possible.

This suggestion should be reviewed by the Corporation Counsel for any legal problem.

RLA Receivables Are Not Properly Stated

RLA maintains accounts receivable records for each individual tenant and recognizes rental income monthly. However, RLA has had problems obtaining timely vacate notices from its relocation section and, therefore, RLA continues to record rental income and receivables for these vacated units.

Recommendation

At present, RLA is in the process of computerizing the receivable system, which will result in the preparation of a rental receivable listing (aged trial balance). This will be an important step in controlling rental income. However, unless a standard procedure is adopted to follow-up on delinquent balances on a timely manner, the system's effectiveness will be limited. The Department has assigned a task force to study this matter.

Control over NCHA Receipts Need Improvement

NCHA bills tenants monthly for rent. The payments of these bills are remitted to a lockbox at a bank, which remits the bill stubs to NCHA and sends the cash received to the District Treasurer. The bill stubs are used as the basis for recording the payments on the tenant's accounts receivable record. However, no reconciliation is made between the amount recorded and the cash deposited.

Recommendation

NCHA should institute a procedure for reconciling the amounts posted in its receivable ledger to the cash received by District Treasury. This is a critical control procedure for any rental property management system as it allows timely identification of errors and minimizes tenant dissatisfaction.

MISCELLANEOUS COMMENTS AND SUGGESTIONS

Potential For Additional Revenue

The District should review the following situations as possibilities for obtaining additional revenues. In most cases, these situations have been recognized by the appropriate agency and are in the process of correction.

- The District Surveyor's fees, which are charged on a cost-reimbursement basis, were last updated in 1964. Fees should be established at current rates reflecting the economic value of services rendered.

- The fee schedule for brokerage licenses administered by the Public Service Commission was last updated in 1964. Current costs for administrating the brokerage license operation are approximately double the revenues of $55,000.

- The District Register, which is printed once a week with additional supplements, costs the subscriber $7 per year. This amount would not appear to be adequate to cover the cost of administration and the actual printing of the publication.

- The entire fee structure of the numerous business and professional licenses and fees should be re-examined to ensure that the District is charging a fair fee for the privilege granted and that costs to administer the particular activity are reasonably related to the amount charged. Further, there should be a penalty for failure to make timely payments for business and professional licenses.

Board Of Elections and Ethics

- In fiscal years 1974 and 1975, the Board of Elections and Ethics incurred costs in excess of its related appropriations. These amounts have not been recorded nor paid by District Accounting as the result would be an overspending of an appropriation.

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As of June 1976, the amount of unpaid invoices relating to past years totaled approximately $324,000. Unfortunately for vendors involved, District Accounting has held up payment on the basis that the Board has no further available funds. This is not a reasonable explanation for nonpayment to businesses and persons who served the District in good faith.

Office Of The Surveyor

- The District Surveyor's Department does not bill for work performed for other District agencies. This should be done as many of these billings might be reimbursable under Federal grants.

- The Surveyor stores all records on site, without any duplicate backup records. A major fire or disaster would require a tremendous effort to recreate the records.

Recorder Of Deeds

- There appears to be a certain amount of excess paperwork and reporting on cash receipts. The daily audit envelope could be eliminated as a daily summary is prepared with the same information. Auto lien receipts are received by the District Treasurer, forwarded to the Recorder's office and then are sent back to the District Treasurer for deposit. Detailed manual summaries are maintained for numerous small revenue items.

- Checks received on corporate document transactions are not deposited on a timely basis.

- When cash registers are out of service, uncontrolled dummy receipts are given to customers in lieu of the register receipt.

Other

- District Accounting codes all payroll costs to the same project grant code, even though the same personnel could possibly be supported from different grants. The payroll system is not capable of preparing the payroll and coding the related costs unless the employee is charged to only one grant. This matter is discussed in Volume II of our report.

- Currently, regulations apparently enable school cafeteria workers who have nine-month employment periods to collect unemployment compensation for the summer.

- Procedures need to be strengthened for controlling payments to persons entitled to compensation adjustments from employers who have violated minimum wage laws. Presently, there are a number of undeliverable checks on hand.

- Each agency receives a computer listing called "Organizational Listing of Positions and Employees." This is a listing indicating each of the agency's employees, but a few agencies noted that this listing is outdated by as much as two years. If this listing is used for any functional purpose, it should be updated and maintained currently. If this listing is not being used, it should be eliminated.

APPENDIX I

DISTRICT OF COLUMBIA

LISTING OF MISCELLANEOUS AGENCIES AND OFFICES

Board of:

- Appeals and Review
- Elections and Ethics
- Labor Relations
- Parole

Commission on Judicial Disabilities and Tenure

Commission on the Status of Women

Council of the District of Columbia

Department of:

- Economic Development
- Insurance
- Manpower

Legislation Office

Minimum Wage and Industrial Safety Board

Municipal Planning Office

Office of:

- Bicentennial Programs
- Civil Defense
- Consumer Affairs
- Corporation Counsel
- District of Columbia Auditor
- Human Rights
- Mayor
- Personnel
- Public Affairs
- Secretariat
- Surveyor
- Youth Opportunity Services

Public Library

Public Service Commission

Recorder of Deeds

Rental Accommodations Office

Since approximately 60% of police and firemen retire under the disability provisions, the average working life for these employees would probably be about 23 to 24 years. Most teachers retire under normal retirement and thus an average working life for teachers would be 35 years.

Another question which needs to be explored is whether or not the amortization period should be reduced to the average remaining years of service of the present active employees, as the prior service costs being amortized relates directly to them. For police and firemen, the amortization period should be in the range of 17 years (24 - 7 years), and for teachers, the amortization period should be in the range of 26 years (35 - 9 years). However, under APB Opinion No. 8, it would be acceptable for the amortization period to be the average working life of the employees without reducing it by the average years of service of the present active employees, if the District and its actuary agreed.

Based on the facts presented, one acceptable period of amortization would be approximately 20 years for the police and firemen's prior service costs and 25 years for the teachers' prior service costs.

Funding vs. Financial Reporting

As mentioned previously, the actual funding of a pension plan might differ from the financial reporting of pension expense, although in many cases the amounts are the same.

The funding proposal currently being considered by the House District Committee is a level percentage financing method. This method calls for the funding of the annual normal cost plus interest on the unfunded liability at a level percentage of payroll costs. It does not attempt to amortize the unfunded liability, only to stabilize it at the present level. The District and the Treasury actuary feel that this would result in actuarially sound funded plans for the District. On the other hand, financial reporting in accordance with generally accepted accounting principles requires the amortization of prior service costs (in this case the same as the unfunded liability) and ERISA requires the funding of the prior service costs. Although ERISA, which imposes reporting and funding requirements on most pension plans, does not apply to governmental plans, Congress passed ERISA in order to protect employees from abuses in handling pension plans by requiring them to be adequately funded on an actuarial basis. Therefore, the guidelines of ERISA should be considered in the establishment of proper funding for the District's plans.

VOLUME VIII

INTERNAL FINANCIAL REPORTING PACKAGE

DISTRICT OF COLUMBIA

INTERNAL FINANCIAL REPORTING

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INTERNAL FINANCIAL REPORTING

INTRODUCTION

Each decision-making manager within an organization such as the District of Columbia must rely on financial information in evaluating the entity's performance of day-to-day activities, and for planning future activities. Effective planning and control of operations are essential to the efficient utilization of available District resources in providing the desired level of services to the public. In addition, because the District and its agencies are subject to the provisions of various appropriation acts, budget restrictions, administrative regulations, etc., management must receive information to monitor compliance with these provisions.

Considering the magnitude and diversity of services rendered by the District, it is critically important that the Mayor, City Council, agency heads, and other management personnel receive timely and informative data on the performance of their responsible area of District operations. However, based on our survey of District reporting systems and on discussions with numerous District personnel, it is our understanding that the Mayor and other top officials do not receive regularly

scheduled, timely reports on the operations of the District. Although numerous reporting systems are in operation, none of these regularly provide summary level information to meet the special needs of top management.

RECOMMENDATION

In order to satisfy this critical management information need, as well as other objectives outlined below, we recommend that the District develop a more comprehensive and meaningful internal financial reporting system. The objective of this internal financial reporting system would be to provide accurate and timely operational and financial information that will assist the Mayor and agency management personnel in making operating decisions and exercising control over District funds. The reporting should be tailored to the various levels of responsibility within the District, e.g., organization, program, project, so that costs and revenues can be accumulated and reported by these levels and accountability established for variances from pre-defined budgets.

OBJECTIVES OF DISTRICT INTERNAL FINANCIAL REPORTING

In addition to providing timely and accurate data, the internal financial reports should be designed to:

1. Provide an effective method for monitoring the day-to-day financial operations of the District.

2. Provide actual performance data compared to a pre-defined plan as a basis for monitoring the achievement of objectives.

3. Monitor District and agency financial compliance with the provisions of appropriation acts, administrative regulations, grants, etc.

4. Provide for a uniform method of recording and reporting financial information throughout the District while maintaining flexibility for the agencies in meeting their specific internal reporting requirements. This will improve the understanding of the various reports and provide for their consistent interpretation.

5. Eliminate duplication of effort in the agency systems and the District's central accounting system.

6. Provide historical financial data at the appropriate management level to assist in the preparation of budgets.

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BASIC CONCEPTS

In order to make internal financial reporting an effective management tool, several basic concepts must be incorporated into the system. These basic concepts include:

1. Administrative Involvement at All Levels

   Revenue, expenditure and obligation information should be provided for all administrative and operational levels so that each level has the necessary reporting for planning and evaluating its activities. This concept, because of its importance, is discussed below in greater detail in the section titled "Accountability Reporting."

2. Budget Development on a Monthly Basis

Monthly budgeting and monthly comparison to budget provides timely information to evaluate performance and plan activities with respect to present and anticipated fiscal positions.

3. All Reports Based on the Same Facts

The reports should be based on the same data so that both central and agency personnel can plan, implement, review and evaluate activities using the same data.

4. Uniform General Ledger Account Classifications

A uniform chart of accounts is necessary for standardized input procedures, computer processing and reporting.

5. Exception Reports for Administrative Action

Significant variations of actual from planned revenues and expenditures should be highlighted in the reports to call attention to those items requiring action.

6. Strong Financial Controls

The system must be designed to provide the District with strong controls over the accuracy and completeness of the data being entered into the system and the data being reported out of the system.

ACCOUNTABILITY REPORTING

The cornerstone of internal financial reporting is the reporting of performance by levels of responsibility. Recognizing that various levels of management are

involved in the organization and program structure of each department or agency, the reports should be tailored for each level of management as a tool for controlling operations. The reports should summarize totals through the organization, program, project and appropriation levels from the cost center level to the Mayor. The summary reports should present information only at the detail necessary for fiscal and operational control at that management level. In addition to current month and year-to-date information, the reports should also present remaining budget and outstanding obligations data to facilitate future planning.

These reporting concepts comprise what is generally referred to as accountability reporting. The fundamentals of an accountability reporting system include:

1. Reporting expenditures and revenues to the individuals responsible for control. This involves assigning responsibility for controlling individual items of cost and revenue to a specific person--a key person who can take action. It is well to note here that the person who controls revenue may not be the person who controls the expenditure.

2. Comparison of actual results to a budget or plan. The actual results compared to the plan must be reported to the person responsible for controlling the costs or revenue.

3. Holding managers responsible only for costs or revenue that they can control. This may mean reporting only controllable costs and/or revenues to that responsibility area.

REPORTING AREAS

In order to achieve the objectives outlined above, the internal financial reporting of the District should address the following six major functional reporting areas:

1. Organization Reporting - reports expenditures, and revenues where a responsibility is indicated, by cost center/agency according to the organizational structure of the District and its agencies.

2. Program Reporting - reports expenditures associated with a program (e.g., drug rehabilitation) undertaken by the District according to the program structure of the District and its agencies.

3. Project/Grant Reporting - reports receipts and expenditures data for one-time activities such as capital improvement projects, system development projects and Federal grants.

4. Appropriation Reporting - shows the status of appropriations authorized by the District and Congress.

5. General Ledger/Fund Reporting - reports the status of assets, liabilities, revenues, expenses, obligations and fund balances for each fund.

6. Budget Development Reporting - provides automated support to the annual budgeting process both before and after the appropriation process.

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INADEQUACIES OF EXISTING CENTRAL ACCOUNTING SYSTEMS

Organization, Program, Project/Grant and Appropriation Reporting

Because of the interrelationships of these four reporting areas in the existing central accounting systems, and their similarity of design, we are outlining their inadequacies as a single unit.

The District's current systems do not clearly differentiate between organization, program, project/grant and appropriation reporting. Through the use of four reports, the District's system attempts to address the reporting requirements of all these areas. No one report contains all of the data necessary to properly report the results of one functional area (e.g., organization). The reports are so confusing and technical that it often precludes their use by any non-financial personnel. Even financial personnel, without a detailed knowledge of the coding structure, cannot make effective use of these reports. The following points generally apply to reports generated by the existing systems in all four reporting areas:

1. The system does not provide reporting at all levels within any of the reporting structures (e.g., organization, program, etc.). If agencies wish to have low level reporting, they must develop their own independent reporting systems.

2. The system does not provide summary reports at the upper levels. Every report shows detail object category reporting rather than a more useful summarization.

3. The reporting system is set up in such a manner that data can only be reported to one of organization, program, or project/grant rather than to all three if appropriate.

4. There is no reporting of revenue other than reimbursements on the current reports.

5. There is no current month comparison to plan or budget. The system does a budget comparison only to year-to-date figures which makes it difficult to perceive developing trends.

6. For the report that compares plan to actual, the "plan to date" column is updated quarterly rather than monthly for non-personnel costs. This makes it difficult to analyze the financial situation (compare plan to actual) during the first two months of any quarter because the plan-to-date includes figures for all of the months in this quarter while obligations-to-date show only the amounts through the current month-end.

7. The reports do not compare actual to plan for other than appropriated funds. In order to analyze the situation properly, all funds, including grants, reimbursements, appropriations, etc., should have this comparison.

8. The reports do not provide the ability to report unit of service information (e.g., the number of X-rays processed, the number of purchase orders issued).

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General Ledger/Fund Reporting

The current system only produces a detailed general ledger and a trial balance by fund. These reports are not distributed outside of District Accounting even though agency personnel are responsible for the administration of certain of the

funds (e.g., Department of General Services is responsible for the Printing and Reproduction Fund). The current system does not provide any analytical reports such as those depicted in our examples. In summary, the current system provides minimal reporting, and that reporting is not always being distributed to the appropriate users.

Budget Development Reporting

The District of Columbia's current central budget reporting system is a completely manual process. As such, computer generated budget development reports illustrated in this report are not currently available to District personnel involved in the budgeting process. If the various agencies in the District want to utilize reports such as these, they must independently develop the system to support the preparation of these reports.

- -

The remainder of this report will describe the major types of internal financial reporting that we believe should exist for the District. These reports are not intended to be all-inclusive, but only to illustrate the key types of information which should be available to District management. The reports are categorized into the functional reporting areas discussed on page 6.

Before illustrating these reporting areas, we have included a set of reports representative of those which would be distributed to the Mayor on a monthly basis. This "Mayor's Report Package" is intended to:

1. Highlight the key financial management factors which must be controlled within the District.
2. Summarize the actual revenue, expenditure and personnel status of each agency as compared to plan.
3. Summarize the cash receipts and disbursements status of the District.
4. Provide a summary of the status of capital projects and other one-time activities.

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DISTRICT OF COLUMBIA

INTERNAL FINANCIAL REPORTING

MAYOR'S REPORT PACKAGE

MAYOR'S EXCEPTION REPORT

DESCRIPTION: The contents of this report would be defined to highlight the key management factors which must be controlled for the District to adhere to its financial plan. Items shown on this report would represent variances in those key factors greater than a predefined acceptable limit. As illustrated, three examples of areas which should be monitored on an exception basis are:

(A) Revenue and expense items whose current month actual amount varies 10% or greater from the budget.

(B) Revenue and expense items whose fiscal year-to-date actual amount varies 5% or greater from the budget.

(C) Cash items (e.g., Federal grants, payments) not received as scheduled.

Prior to submitting this report to the Mayor, comments would be obtained from the individuals responsible for the exception items as to the cause of the variance and the action to be taken to assure conformance with the budget, if necessary.

PURPOSE: To inform District top management on an exception basis of those key financial factors requiring management action.

DISTRIBUTION: Mayor, City Administrator

PERIOD ENDING 03-31-XX

DISTRICT OF COLUMBIA
FINANCIAL MANAGEMENT AND CONTROL SYSTEM
MAYOR'S EXCEPTION REPORT

REPORT NO. X1
PAGE NO. 1

(A) CURRENT MONTH VARIANCES ≥ 10%

DESCRIPTION	ACTUAL	BETTER (WORSE) THAN PLAN	%	COMMENTS
REVENUES				
AGENCY/DEPARTMENT EXPENDITURES				

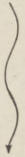
(B) YEAR-TO-DATE VARIANCES ≥ 5%

DESCRIPTION	YTD ACTUAL	YTD BETTER (WORSE) THAN PLAN	%	COMMENTS
REVENUES				
AGENCY/DEPARTMENT EXPENDITURES				

(C)

PAYMENTS/GRANTS NOT RECEIVED AS SCHEDULED

DESCRIPTION	AMOUNT	DUE DATE ORIGINAL	DUE DATE RESCHEDULED	COMMENTS



(D)

OTHER KEY FACTORS WITHIN THE DISTRICT

E.G.,

- APPROPRIATIONS EXCEEDED
- ACCOUNTS RECEIVABLE EXCEEDING PLAN
- INVENTORY LEVELS EXCEEDING PLAN
- ETC.

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ORGANIZATION ACCOUNTABILITY REPORT

MAYOR (10001)

DESCRIPTION:

1. Current Month Actual--Actual revenue/expenditure amounts for the current month.
2. Better (Worse) Plan--Difference between current month actual amounts and current month plan amounts.
3. Description--Description of the organizational unit reporting to this level (Area) and the appropriate District-wide Chart of Accounts expenditure/revenue classification (Object).
4. Year-to-Date Actual--Actual year-to-date revenue/expenditure amounts for the related area/object category.
5. Better (Worse) Plan--Difference between year-to-date actual amounts and year-to-date plan amounts.
6. Obligations--Amount of outstanding obligations as of the end of the reporting month.
7. Annual Budget--Annual budget for related area/object code description.
8. Remaining Annual Budget--Calculated as the annual budget less the amount of year-to-date expenditures and outstanding obligations. For revenues, calculated as the annual budget less year-to-date actual revenue.

PURPOSE: To inform the Mayor and the City Administrator of the results of the current month and year-to-date revenues and expenditures in comparison to the budget. To provide the Mayor with information necessary for management action, revenues are reported both by agency and by major source, and expenditures and obligations are reported by agency and also by object of expenditure.

DISTRIBUTION: Mayor and City Administrator.

PERIOD ENDING 03-31-XX
RUN DATE 04-02-XX

DISTRICT OF COLUMBIA
FINANCIAL MANAGEMENT AND CONTROL SYSTEM
ORGANIZATION ACCOUNTABILITY REPORT

REPORT NO. 107
PAGE NO. 1

COST CENTER - MAYOR (10001)

------CURRENT MONTH------ ACTUAL (1)	BETTER(WORSE) PLAN (2)	(3) DESCRIPTION	------YEAR-TO-DATE------ (4) ACTUAL	BETTER(WORSE) PLAN (5)	(6) OBLIGATIONS	(7) ANNUAL BUDGET	(8) REMAINING ANNUAL BUDGET
		********** REVENUES **********					
		BY AREA					
23,565,860	(1,697,792)	HUMAN RESOURCES	127,255,645	(3,849,458)	-0-	230,769,200	103,513,555
		OFFICE OF THE MAYOR					
		EXECUTIVE OFFICE					
		CONTRI. TO METRO AREA AGENCIES					
		INDEP. AGENCIES & OFFICES					
		MISC. CONTRIBUTIONS					
		PUBLIC SAFETY					
		RECREATION DEPT.					
		EDUCATION					
		TRANSPORTATION					
		ENVIRONMENTAL SERVICES					
73,525,075	660,803	TOTAL REVENUES	465,797,948	(11,660,232)	-0-	990,058,222	524,260,274
		BY OBJECT					
11,897,666	6,004	PROPERTY TAXES	108,214,166	237,941	-0-	142,700,000	34,485,834
		SALES & GROSS RECEIPTS					
		INCOME TAXES					
		PARKING TAX					
		MOTOR VEH. REGIST. FEES					
		MOTOR VEH. EXCISE TAX					
		GASOLINE TAX					
		LICENSES					
		PARKING METERS					
		INTEREST ON INVESTMENTS					
		WATER SERVICE CHARGE					
		PAYMENT FROM VIRGINIA					
		PAYMENT FROM MARYLAND					
		SEWER SERVICE CHARGE					
		WATER POLLUTION GRANTS					
		PAYMENT--POTOMAC INTERCEPTOR					
		OTHER TAXES					
		OTHER CHARGES & REVENUE					
		FEDL. PAY. FOR WATER CONS.					
		FEDL. PAY. FOR SEWER SER.					
		FEDL. PAYMENT - D.C. GOVT.					
		FEDL. LOAN (APPROPRIATED)					
		REVENUE SHARING (APPRO.)					
73,525,075	660,803	TOTAL REVENUES	465,797,948	(11,660,232)	-0-	990,058,222	524,260,274

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COST CENTER - MAYOR (10001)

------CURRENT MONTH------ ACTUAL (1)	BETTER(WORSE) PLAN (2)	(3) DESCRIPTION	------YEAR-TO-DATE------ (4) ACTUAL	BETTER(WORSE) PLAN (5)	(6) OBLIGATIONS	(7) ANNUAL BUDGET	(8) REMAINING ANNUAL BUDGET
		********** EXPENDITURES **********					
		BY AREA					
65,118,716	(34,019)	HUMAN RESOURCES	329,167,030	(146,989)	6,416,969	435,000,000	99,416,001
		OFFICE OF THE MAYOR					
		EXECUTIVE OFFICE					
		CONTRI. TO METRO AREA AGEN.					
		INDEP. AGENCIES & OFFICES					
		MISC. CONTRIBUTIONS					
		PUBLIC SAFETY					
		RECREATION DEPT.					
		EDUCATION					
		TRANSPORTATION					
		ENVIRONMENTAL SERVICES					
73,054,067	5,193,482	TOTAL EXPENDITURES	438,324,406	106,354,377	30,900,000	990,058,222	520,833,816
		BY OBJECT					
28,193,731	1,476,974	PERSONNEL COSTS	169,162,388	10,338,820	-0-	353,670,801	184,508,413
		OPERATING EXPENSES					
		EQUIP. TO BE CAPITALIZED					
		OTHER					
73,054,067	5,193,482	TOTAL EXPENDITURES	438,324,406	106,354,377	30,900,000	990,058,222	520,833,816

CASH FLOW SUMMARY

DESCRIPTION:

1. Cash Requirements--Major categories of expenditures requiring the outlay of cash.
2. Cash Sources--Major sources of cash.
3. Current Month Actual--Actual cash receipts and outlays during the month.
4. Year-to-Date Actual--Actual cash receipts and disbursements from the beginning of the fiscal year through the reporting month-end.
5. Better (Worse)--The amount by which actual cash receipts and disbursements are better (worse) than the plan for the current month and year-to-date.
6. Forecast--The forecast of cash receipts and disbursements for the entire fiscal year. The forecast is equal to the YTD actual amounts plus the plans for the remaining months in the fiscal year.
7. Fiscal Year Better (Worse)--The amount by which forecasted cash receipts and disbursements are expected to be better (worse) than the fiscal year plan.
8. Net Cash Flow--The difference between total cash requirements and total cash sources.
9. Beginning Balance--The cash balance at the beginning of the current month or fiscal year.
10. Ending Balance--The actual cash balance at the end of the current month; the projected cash balance at the end of the current fiscal year.

PURPOSE: To inform the Mayor of cash receipts and disbursements for the current month, year-to-date and fiscal year. Highlights potential shortfalls in expected sources of cash as well as cash requirements greater than planned.

DISTRIBUTION: Mayor, City Administrator, District Chief Financial Officer.

DISTRICT OF COLUMBIA
FINANCIAL MANAGEMENT AND CONTROL SYSTEM
CASH FLOW SUMMARY

CURRENT MONTH			YEAR-TO-DATE		FISCAL YEAR	
ACTUAL (3)	BETTER(WORSE) THAN PLAN (5)	DESCRIPTION	ACTUAL (4)	BETTER(WORSE) THAN PLAN (5)	FORECAST (6)	BETTER(WORSE) THAN PLAN (7)
		CASH REQUIREMENTS (1)				
		DEPARTMENTAL EXPENDITURES				
		REPAYMENT OF LOANS AND INTEREST				
		SETTLEMENT OF CLAIMS AND SUITS				
		PURCHASE OF SECURITIES				
		DEPOSIT ACCOUNT EXPENDITURES				
---	---	TOTAL CASH REQUIREMENTS	---	---	---	---
=========	=========		=========	=========	=========	=========
		CASH SOURCES (2)				
		PROPERTY TAXES & PENALTIES				
		SALES & GROSS RECEIPTS TAXES				
		INCOME & FRANCHISE TAXES				
		GASOLINE TAXES				
		INHERITANCE & ESTATE TAXES				
		FINES & FOREFEITURES				
		WATER & SEWER SERVICES				
		MOTOR VEHICLE REGISTRATION				
		LICENSING & FEES				
		CHARGES FOR CURRENT SERVICES				
		MISCELLANEOUS				
		INTEREST				
		FEDERAL REVENUE SHARING				
		FEDERAL PAYMENT				
		FEDERAL LOANS-SHORT TERM				
		FEDERAL LOANS-LONG TERM				
---	---	TOTAL CASH SOURCES	---	---	---	---
---	---	(8) NET CASH FLOW	---	---	---	---
---	---	(9) BEGINNING BALANCE	---	---	---	---
---	---	(10) ENDING BALANCE	---	---	---	---
=========	=========		=========	=========	=========	=========

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PERSONNEL STATUS REPORT

DESCRIPTION:

1. Accountability Area--The organizational area to which the personnel are assigned and that is accountable for meeting its personnel budget.
2. Headcount--The "full-time equivalent" headcount (covering both full-time and part-time employees) at the end of the current month by accountability area. The actual equivalent headcount for each area is compared to planned headcount and a variance determined.
3. Payroll Costs--Current month and year-to-date actual personnel costs by accountability area and the variance from plan. Payroll costs include associated employee benefit costs. The payroll costs for each area on this report should agree with the salary amounts of that area on its respective accountability report produced in the Financial Management and Control System.

PURPOSE: To monitor how each area of accountability is adhering to its plan regarding the number of equivalent personnel, both appropriated and grant positions, and related payroll costs.

DISTRIBUTION: Mayor, City Administrator.

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DISTRICT OF COLUMBIA
PERSONNEL STATUS REPORT

REPORT NO. X3
PAGE NO. 1

ACCOUNTABILITY AREA (1)	F/T EQUIVALENT HEADCOUNT (2)		PAYROLL COSTS (3)			
	CURRENT MONTH-END		CURRENT MONTH		YEAR-TO-DATE	
	ACTUAL	BETTER(WORSE) THAN PLAN	ACTUAL	BETTER(WORSE) THAN PLAN	ACTUAL	BETTER(WORSE) THAN PLAN
OFFICE OF THE MAYOR						
CITY COUNCIL						
EXECUTIVE OFFICE						
DEPARTMENT OF GENERAL SERVICES						
DEPARTMENT OF FINANCE AND REVENUE						
OFFICE OF THE CORPORATION COUNCIL						
DEPARTMENT OF GENERAL SERVICES						
DEPARTMENT OF ECONOMIC DEVELOPMENT						
PUBLIC LIBRARY						
* OTHER INDEPENDENT OFFICES AND AGENCIES						
* ENVIRONMENTAL SERVICES						
TOTAL, DISTRICT OF COLUMBIA						

* PERSONNEL DATA WOULD BE PRESENTED AT THE DESIRED LEVEL OF DETAIL WITHIN THE MAJOR DEPARTMENTS.

PROJECT/GRANT SUMMARY REPORT

DESCRIPTION: Report is divided into two sections--controllable revenues and expenditures for individual project summaries and a recap of expenditures by major object category.

1. Current Month--Actual revenue and expenditure amounts for the current month.
2. Year-to-Date Actual--Actual revenue and expenditure amounts for year-to-date.
3. Better (Worse) Plan--Difference between year-to-date actual amounts and year-to-date plan amounts.
4. Project/Object--Associated code relating to type of amounts reported. Report is sectioned by project and object.
5. Description--Description related to project or object depending on report section.
6. Inception-to-Date Actual--Actual revenue and expenditure amounts since the inception of the project.
7. Better (Worse) Plan--Difference between inception-to-date actual and plan amounts.
8. Obligations--Outstanding obligations for related code description as of the end of the reporting month.
9. Remaining Budget--Remaining project/object budget for related code description.

PURPOSE: To provide top management with a summary of controllable revenues and expenditures for similar or associated projects. Controllable revenues represent those revenues for which the project receives direct outside funding and/or must submit bills for reimbursement. Does not include appropriations from the general revenue fund.

DISTRIBUTION: Mayor, City Administrator, District Chief Financial Officer, Project/Grant Manager with overall responsibility for capital projects.

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DISTRICT OF COLUMBIA
FINANCIAL MANAGEMENT AND CONTROL SYSTEM
PROJECT/GRANT SUMMARY REPORT

REPORT NO. 399
PAGE NO. 1

PROJECT SUMMARY - RECREATION DEPARTMENT (30001)

(1) CURRENT MONTH	YEAR-TO-DATE ACTUAL (2)	BETTER(WORSE) PLAN (3)	(5) DESCRIPTION	INCEPTION-TO-DATE (6) ACTUAL	BETTER(WORSE) PLAN (7)	(8) OBLIGATIONS	(9) REMAINING BUDGET
			********** REVENUES **********				
			PROJECT CODE (4)				
49,601	347,916	(33,000)	30100 KNOB NOSTER PARK DEVEL.	820,010	(101,816)	-0-	171,747
630,010	2,896,916	(104,084)	TOTAL REVENUES	23,763,914	(695,015)	-0-	12,679,447
			********** EXPENDITURES **********				
			PROJECT CODE (4)				
45,918	360,123	(18,900)	30100 KNOB NOSTER PARK DEVEL.	890,816	(67,168)	60,001	40,940
689,399	3,091,094	107,587	TOTAL EXPENDITURES	26,302,889	(98,917)	150,071	14,990,401
			(4) BY OBJECT				
324,017	1,620,085	56,826	PERSONNEL COSTS	13,770,722	(59,998)	-0-	7,298,482
689,399	3,091,094	107,587	TOTAL EXPENDITURES	26,302,889	(98,917)	150,071	14,990,401

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ORGANIZATION REPORTING

Organization reporting is one of the cornerstones of a sound financial accounting and reporting system. It reports expenditures and budget amounts according to the organization structure of the District. Revenues may also be reported if there is an identification of revenue responsibility at an organizational level.

The basic concept of good organizational reporting is that financial data should be able to be reported to all levels of management within the District from the same base of data. As shown in the report examples on the following pages, the level of detail reported would vary for the different organization levels. First level management who have direct control over the detail line items need detail reports, while upper level management needs and desires summary reporting.

As illustrated, actual results should be compared to a budget or plan and the variance reported. This reporting should be done on both a current month and a year-to-date basis. This does not mean that there must be a comparison of budget to actual at the very lowest level. However, it is important to provide first line supervisors with reports of actual expenditures even if the budgeting was performed

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at a higher level. We do recommend that the budget process be extended to the lowest possible level within the District organization.

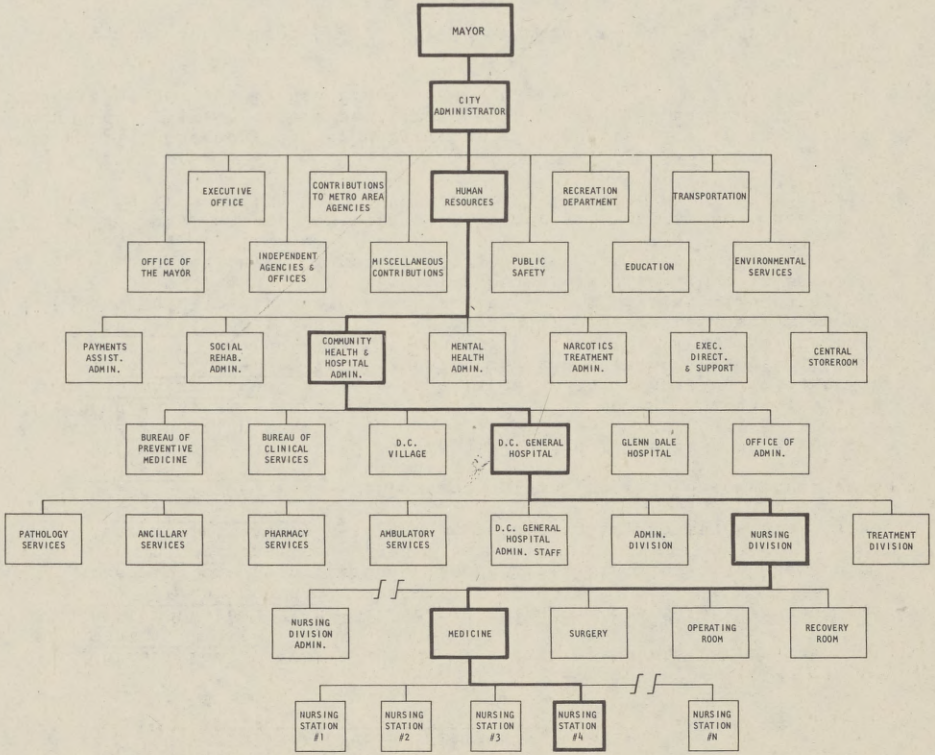
On the lowest level report we have shown unit of service information. The inclusion of this data coincides with our recommendation regarding the budgeting process (Volume II) that units of service be established at the lowest budget level so that those who are charged with budget approval can relate costs to some tangible accomplishment. These units of service cannot necessarily be rolled up to higher organization levels because the units may be different at each level.

In summary, good organization reporting, which starts at the lowest level of the organizational structure and rolls the budgets, expenditures, and revenue where appropriate, up to top management, is necessary to implement the philosophy that people are responsible for the revenue and costs of the District.

We have selected the Department of Human Resources' (DHR) reports to illustrate how each organizational level from the lowest level (Cost Center - Nursing Station #4) to the highest level (Mayor) can be included. These reports are illustrative of those that would be received by each level of management in each department or agency. The following reports are related to the DHR organization structure

schematic on the next page. You should keep in mind that these reports are illustrative only and do not necessarily reflect the actual dollars or cost center organization of the Department of Human Resources.

DISTRICT OF COLUMBIA
ORGANIZATIONAL STRUCTURE
(ILLUSTRATIVE ONLY)



COST CENTER ACCOUNTABILITY REPORT

COST CENTER - NURSING STATION #4 (43114)

DESCRIPTION:

1. Current Month Actual--Actual expenditure amounts for the current month.
2. Better (Worse) Plan--Difference between current month actual amounts and current month plan amounts.
3. Description--Description of appropriate District-wide Chart of Accounts expenditure classification.
4. Year-to-Date Actual--Actual year-to-date expenditures of this cost center.
5. Better (Worse) Plan--Difference between year-to-date actual amounts and year-to-date plan amounts.
6. Obligations--Amount of outstanding obligations as of the end of the reporting month.
7. Annual Budget--Annual budget for related object code description.
8. Remaining Annual Budget--Calculated as the annual budget less the amount of year-to-date expenditures and outstanding obligations.
9. Units of Service--The appropriate productivity measures for the particular cost center. For each unit of service, current month and year-to-date actual and variance from plan are indicated along with annual and remaining budget amounts. Multiple units of service may be reported for the same cost center.

   The total amount for this cost center will appear as a detail line item on the next level organization accountability report.

PURPOSE: To provide the cost center supervisor with the results of the current month and year-to-date expenditures as compared to plan and the remaining balance in his fiscal year budget.

DISTRIBUTION: Cost Center Supervisor (e.g., Nursing Station #4 supervisor).

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DISTRICT OF COLUMBIA
FINANCIAL MANAGEMENT AND CONTROL SYSTEM
COST CENTER ACCOUNTABILITY REPORT

COST CENTER - NURSING STATION #4 (43114)
REPORTS TO - MEDICINE (43120)

------CURRENT MONTH------ ACTUAL (1)	BETTER(WORSE) PLAN (2)	DESCRIPTION (3)	------YEAR-TO-DATE------ ACTUAL (4)	BETTER(WORSE) PLAN	OBLIGATIONS (6)	ANNUAL BUDGET (7)	REMAINING ANNUAL BUDGET (8)
		********** EXPENDITURES ********** (5)					
		BY OBJECT					
25,305	(588)	SALARIES - DISTRICT FUNDED	50,400	(966)	-0-	321,321	270,921
1,710	(688)	SALARIES - GRANT FUNDED	3,320	(1,104)	-0-	14,404	11,084
-0-	425	SALARIES - OTHER	627	233	-0-	5,525	4,898
1,465	(160)	FRINGE BENEFITS	2,760	(148)	-0-	16,978	14,218
233	(28)	BENEFITS TO FORMER EMPLOYEES	450	(40)	-0-	2,665	2,215
28,713	(1,039)	TOTAL PERSONNEL COSTS	57,557	(2,025)	-0-	360,893	303,336
4,884	(328)	SURGICAL & MEDICAL SUPPLIES	9,230	(118)	-0-	54,672	45,442
2,108	(921)	LABORATORY SUPPLIES	3,235	(861)	-0-	14,244	11,009
1,520	173	IV SOLUTIONS & SETS	3,073	313	-0-	20,316	17,243
2,599	(761)	SUTURES	5,005	(159)	-0-	29,554	24,549
1,584	(402)	CATHETER & SURGICAL TUBES	3,156	(792)	-0-	14,184	11,028
165	(28)	HOUSEKEEPING SUPPLIES	339	(65)	-0-	1,644	1,305
1,375	(81)	DRUGS & MEDICINE	2,899	(311)	-0-	15,528	12,629
13	131	TRAINING MATERIAL	166	122	-0-	1,728	1,562
472	36	LINENS	968	48	-0-	6,096	5,128
14,720	(2,181)	TOTAL OPERATING EXPENSE	28,071	(1,823)	-0-	157,966	129,895
200	-0-	FURNISHINGS	400	-0-	29	2,400	1,971
300	-0-	MACHINERY	600	-0-	-0-	3,600	3,000
500	-0-	TOTAL EQUIP. TO BE CAPITALIZED	1,000	-0-	29	6,000	4,971
-0-	3	SUBSCRIPTIONS	5	1	-0-	36	31
-0-	8	FREIGHT & EXPENSES	32	4	-0-	216	184
-0-	21	TOTAL OTHER	37	5	-0-	252	215
43,933	(2,489)	TOTAL EXPENDITURES	86,665	(3,765)	29	525,111	438,417
		********** UNITS OF SERVICE ********** (9)					
269	(27)	NO. OF PATIENT DAYS	549	(30)		3,500	2,951
163.32	(13.32)	COST PER PATIENT DAY	157.86	(7.86)		150.00	
22	1	NO. OF PERSONNEL					

ORGANIZATION ACCOUNTABILITY REPORT

MEDICINE (43120)

DESCRIPTION:

1. Current Month Actual--Actual expenditure amounts for the current month.
2. Better (Worse) Plan--Difference between current month actual amounts and current month plan amounts.
3. Description--Description of the organizational unit reporting to this level (Area) and the appropriate District-wide Chart of Accounts expenditure/revenue classification (Object).
4. Year-to-Date Actual--Actual year-to-date expenditure amounts for the related area/object category.
5. Better (Worse) Plan--Difference between year-to-date actual amounts and year-to-date plan amounts.
6. Obligations--Amount of outstanding obligations as of the end of the reporting month.
7. Annual Budget--Annual budget for related area/object code description.
8. Remaining Annual Budget--Calculated as the annual budget less the amount of year-to-date expenditures and outstanding obligations.

The total amount for this organizational level will appear as a detail line in the next higher level organization report.

PURPOSE: To provide management at this organization level in the agency with the results of the current month and year-to-date expenditures in comparison to the budget along with outstanding obligations for all cost centers under their supervision.

DISTRIBUTION: The appropriate supervisor of this organization level.

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DISTRICT OF COLUMBIA
FINANCIAL MANAGEMENT AND CONTROL SYSTEM
ORGANIZATION ACCOUNTABILITY REPORT

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COST CENTER - MEDICINE (43120)
REPORTS TO - NURSING DIVISION (43150)

------CURRENT MONTH------			------YEAR-TO-DATE------				
ACTUAL (1)	BETTER(WORSE) PLAN (2)	DESCRIPTION (3)	ACTUAL (4)	BETTER(WORSE) PLAN	OBLIGATIONS (6)	ANNUAL BUDGET (7)	REMAINING ANNUAL BUDGET (8)
		********** EXPENDITURES ********** (5)					
		BY AREA					
43,933	(2,489)	NURSING STATION #4	86,665	(3,765)	29	525,111	438,417
		NURSING STATION #1					
		NURSING STATION #2					
		NURSING STATION #3					
		NURSING STATION #5					
140,400	(4,762)	TOTAL EXPENDITURES	1,274,289	(3,013)	350	1,714,523	439,884
		BY OBJECT					
26,305	(738)	SALARIES - DISTRICT FUNDED	207,376	(6,251)	-0-	381,000	173,624
		SALARIES - GRANT FUNDED					
		SALARIES - OTHER					
		FRINGE BENEFITS					
		BENEFITS FOR FORMER EMPLOYEES					
		TOTAL PERSONNEL COSTS					
		TRAVEL & TRANSPORTATION					
		RENT, COMMUNICA. & UTILITY					
140,400	(4,762)	TOTAL EXPENDITURES	1,274,289	(3,013)	350	1,714,523	439,884

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ORGANIZATION ACCOUNTABILITY REPORT

NURSING DIVISION (43150)

DESCRIPTION:

1. Current Month Actual--Actual expenditure amounts for the current month.
2. Better (Worse) Plan--Difference between current month actual amounts and current month plan amounts.
3. Description--Description of the organizational unit reporting to this level (Area) and the appropriate District-wide Chart of Accounts expenditure/revenue classification (Object).
4. Year-to-Date Actual--Actual year-to-date expenditure amounts for the related area/object category.
5. Better (Worse) Plan--Difference between year-to-date actual amounts and year-to-date plan amounts.
6. Obligations--Amount of outstanding obligations as of the end of the reporting month.
7. Annual Budget--Annual budget for related area/object code description.
8. Remaining Annual Budget--Calculated as the annual budget less the amount of year-to-date expenditures and outstanding obligations.

The total line for this organizational level will appear as a detail line in the next higher level organization report.

PURPOSE: To provide management at the divisional level with the current month and year-to-date expenditures in comparison to the budget for the organizations for which he or she is responsible, plus the amount of outstanding obligations.

DISTRIBUTION: To the appropriate supervisor of this organizational level.

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DISTRICT OF COLUMBIA
FINANCIAL MANAGEMENT AND CONTROL SYSTEM
ORGANIZATION ACCOUNTABILITY REPORT

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COST CENTER - NURSING DIVISION (43150)
REPORTS TO - D. C. GENERAL HOSP. (43101)

------CURRENT MONTH------ ACTUAL (1)	BETTER(WORSE) PLAN (2)	(3) DESCRIPTION	------YEAR-TO-DATE------ (4) ACTUAL	BETTER(WORSE) PLAN	(6) OBLIGATIONS	(7) ANNUAL BUDGET	(8) REMAINING ANNUAL BUDGET
		********** EXPENDITURES ********** (5)					
		BY AREA					
140,400	(4,762)	MEDICINE	1,274,289	(3,013)	350	1,714,523	439,884
		NURSING DIV. ADMIN.					
		SURGERY					
		OPERATING ROOM					
		RECOVERY ROOM					
352,862	(10,876)	TOTAL EXPENDITURES	2,117,172	(341,999)	376,800	3,490,200	996,228
		BY OBJECT					
65,169	(3,700)	SALARIES - DISTRICT FUNDED	359,462	(27,600)	-0-	590,084	230,622
		SALARIES - GRANT FUNDED					
		SALARIES - OTHER					
		FRINGE BENEFITS					
		BENEFITS FOR FORMER EMPLOYEE					
		TOTAL PERSONNEL COSTS					
		TRAVEL & TRANSPORTATION					
		RENT, COMMUNICA. & UTILITY					
352,862	(10,876)	TOTAL EXPENDITURES	2,117,172	(341,999)	376,800	3,490,200	996,228

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ORGANIZATION ACCOUNTABILITY REPORT

D. C. GENERAL HOSPITAL (43101)

DESCRIPTION:

1. Current Month Actual--Actual revenue/expenditure amounts for the current month.
2. Better (Worse) Plan--Difference between current month actual amounts and current month plan amounts.
3. Description--Description of the organizational unit reporting to this level (Area) and the appropriate District-wide Chart of Accounts expenditure/revenue classification (Object).
4. Year-to-Date Actual--Actual year-to-date revenue/expenditure amounts for the related area/object category.
5. Better (Worse) Plan--Difference between year-to-date actual amounts and year-to-date plan amounts.
6. Obligations--Amount of outstanding obligations as of the end of the reporting month.
7. Annual Budget--Annual budget for related area/object code description.
8. Remaining Annual Budget--For expenditures, calculated as the annual budget less the amount of year-to-date expenditures and outstanding obligations. For revenues, calculated as the annual budget less year-to-date actual revenue.

The total lines (revenues and expenditures) for this organizational level will appear as a detail line in the next higher level organization report.

PURPOSE: To provide intermediate management in the agency with the results of the current month and year-to-date expenditures in comparison to the budget for each division or organization under their direction along with the current amount of outstanding obligations. Report actual versus planned revenues by revenue source (object) for those revenues which are controllable by the hospital.

DISTRIBUTION: To the appropriate director of this organization level (e.g., Director of D. C. General Hospital).

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DISTRICT OF COLUMBIA
FINANCIAL MANAGEMENT AND CONTROL SYSTEM
ORGANIZATION ACCOUNTABILITY REPORT

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COST CENTER - D. C. GENERAL HOSP. (43101)
REPORTS TO - COMM. HEALTH & HOSP. ADMIN. (43001)

------CURRENT MONTH------ ACTUAL (1)	BETTER(WORSE) PLAN (2)	(3) DESCRIPTION	------YEAR-TO-DATE------ (4) ACTUAL	BETTER(WORSE) PLAN (5)	(6) OBLIGATIONS	(7) ANNUAL BUDGET	(8) REMAINING ANNUAL BUDGET
		********** REVENUES **********					
		BY OBJECT					
575,000	(75,000)	PATIENT BILLINGS	1,525,000	(25,500)	-0-	3,160,000	1,635,000
		REFUNDS					
846,048	(150,000)	TOTAL REVENUES	4,976,289	(984,261)	-0-	17,921,100	12,944,811
		********** EXPENDITURES **********					
		BY AREA					
352,862	(10,876)	NURSING DIVISION	2,117,172	(341,999)	376,800	3,490,200	996,228
		TREATMENT DIVISION					
		ADMINISTRATION DIVISION					
		D. C. GEN. ADMIN. STAFF.					
		AMBULATORY SERVICES					
		PHARMACY SERVICES					
		ANCILLARY SERVICES					
		PATHOLOGY SERVICES					
2,822,896	(363,727)	TOTAL EXPENDITURES	16,937,379	(2,735,993)	2,000,000	27,921,100	8,983,721
		BY OBJECT					
110,986	1,950	PERSONNEL COSTS	698,666	(22,046)	-0-	1,202,488	503,822
		OPERATING EXPENSES					
		EQUIP. TO BE CAPITALIZED					
		OTHER					
2,822,896	(363,727)	TOTAL EXPENDITURES	16,937,379	(2,735,993)	2,000,000	27,921,100	8,983,721

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ORGANIZATION ACCOUNTABILITY REPORT

COMMUNITY HEALTH AND HOSPITALS ADMIN. (43001)

DESCRIPTION:

1. Current Month Actual--Actual revenue/expenditure amounts for the current month.
2. Better (Worse) Plan--Difference between current month actual amounts and current month plan amounts.
3. Description--Description of the organizational unit reporting to this level (Area) and the appropriate District-wide Chart of Accounts expenditure/revenue classification (Object).
4. Year-to-Date Actual--Actual year-to-date revenue/expenditure amounts for the related area/object category.
5. Better (Worse) Plan--Difference between year-to-date actual amounts and year-to-date plan amounts.
6. Obligations--Amount of outstanding obligations as of the end of the reporting month.
7. Annual Budget--Annual budget for related area/object code description.
8. Remaining Annual Budget--For expenditures, calculated as the annual budget less the amount of year-to-date expenditures and outstanding obligations. For revenues, calculated as the annual budget less year-to-date actual revenue.

The total lines (revenues and expenditures) for this organizational level will appear as a detail line in the next higher level organization report.

PURPOSE: To provide intermediate management in the agency with the results of the current month and year-to-date controllable revenues and expenditures in comparison to the budget for each functional organization under their direction along with the current amount of outstanding obligations.

DISTRIBUTION: The appropriate director of this organization level (e.g., Director of Community Health and Hospital Administration).

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RUN DATE 04-02-XX

DISTRICT OF COLUMBIA
FINANCIAL MANAGEMENT AND CONTROL SYSTEM
ORGANIZATION ACCOUNTABILITY REPORT

REPORT NO. 105
PAGE NO. 1

COST CENTER - COMM. HEALTH & HOSP. ADMIN. (43001)
REPORTS TO - DEPT. OF HUMAN RESOURCES (50001)

------CURRENT MONTH------ ACTUAL (1)	BETTER(WORSE) PLAN (2)	(3) DESCRIPTION	------YEAR-TO-DATE------ (4) ACTUAL	BETTER(WORSE) PLAN (5)	(6) OBLIGATIONS	(7) ANNUAL BUDGET	(8) REMAINING ANNUAL BUDGET
		********** REVENUES **********					
		BY AREA					
846,048	(150,000)	D. C. GENERAL HOSPITAL	4,976,289	(984,261)	-0-	17,921,100	12,944,811
		D. C. VILLAGE					
		GLEN DALE HOSPITAL					
		BUREAU OF CLINICAL SERVICES					
		BUREAU OF PREVENTIVE MEDICINE					
		OFFICE OF ADMIN.					
2,743,321	(356,679)	TOTAL REVENUES	15,487,666	(1,532,633)	-0-	37,600,000	22,112,334
		********** EXPENDITURES **********					
		BY AREA					
2,822,896	(363,727)	D. C. GENERAL HOSPITAL	16,937,379	(2,735,993)	2,000,000	27,921,100	8,983,721
		D. C. VILLAGE					
		GLEN DALE HOSPITAL					
		BUREAU OF CLINICAL SERVICES					
		BUREAU OF PREVENTIVE MEDICINE					
		OFFICE OF ADMIN.					
4,792,758	(383,244)	TOTAL EXPENDITURES	29,235,824	(2,337,791)	5,000,000	52,406,600	18,170,776
		BY OBJECT					
4,235,497	(577,868)	PERSONNEL COSTS	26,260,086	(3,640,570)	-0-	43,851,916	18,123,718
		OPERATING EXPENSES					
		EQUIP. TO BE CAPITALIZED					
		OTHER					
4,792,758	(383,244)	TOTAL EXPENDITURES	29,235,824	(2,337,791)	5,000,000	52,406,600	18,170,776

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ORGANIZATION ACCOUNTABILITY REPORT

DEPT. OF HUMAN RESOURCES (50001)

DESCRIPTION:

1. Current Month Actual--Actual revenue/expenditure amounts for the current month.
2. Better (Worse) Plan--Difference between current month actual amounts and current month plan amounts.
3. Description--Description of the organizational unit reporting to this level (Area) and the appropriate District-wide Chart of Accounts expenditure/revenue classification (Object).
4. Year-to-Date Actual--Actual year-to-date revenue/expenditure amounts for the related area/object category.
5. Better (Worse) Plan--Difference between year-to-date actual amounts and year-to-date plan amounts.
6. Obligations--Amount of outstanding obligations as of the end of the reporting month.
7. Annual Budget--Annual budget for related area/object code description.
8. Remaining Annual Budget--For expenditures, calculated as the annual budget less the amount of year-to-date expenditures and outstanding obligations. For revenues, calculated as the annual budget less year-to-date actual revenue.

The total lines (revenues and expenditures) for this organizational level will appear as a detail line in the next higher level organization report.

PURPOSE: To provide upper management in the agency with the results of the current month and year-to-date controllable revenues and expenditures in comparison to the budget for each intermediate agency under their direction along with the current amount of outstanding obligations.

DISTRIBUTION: Agency director (e.g., Director of the Department of Human Resources).

PERIOD ENDING 03-31-XX
RUN DATE 04-02-XX

DISTRICT OF COLUMBIA
FINANCIAL MANAGEMENT AND CONTROL SYSTEM
ORGANIZATION ACCOUNTABILITY REPORT

REPORT NO. 106
PAGE NO. 1

COST CENTER - DEPARTMENT OF HUMAN RESOURCES (50001)
REPORTS TO - MAYOR (10001)

------CURRENT MONTH------ ACTUAL (1)	BETTER(WORSE) PLAN (2)	(3) DESCRIPTION	------YEAR-TO-DATE------ (4) ACTUAL	BETTER(WORSE) PLAN (5)	(6) OBLIGATIONS	(7) ANNUAL BUDGET	(8) REMAINING ANNUAL BUDGET
		********** REVENUES **********					
		BY AREA					
2,743,321	(356,679)	COMM. HEALTH & HOSP. ADMIN.	15,487,666	(1,532,633)	-0-	37,600,000	22,112,334
		EXECUTIVE DIRECTION & SUPPORT					
		SOCIAL REHAB. ADMIN.					
		PAYMENT ASST. ADMIN.					
		MENTAL HEALTH ADMIN.					
		NARCOTICS TREAT. ADMIN.					
		CENTRAL STOREROOM					
23,565,860	(1,697,792)	TOTAL REVENUES	127,255,645	(3,849,458)	-0-	230,769,200	103,513,555
		********** EXPENDITURES **********					
		BY AREA					
4,792,758	(383,244)	COMM. HEALTH & HOSP. ADMIN.	29,235,824	(2,337,791)	5,000,000	52,406,600	18,170,776
		EXECUTIVE DIRECTION & SUPPORT					
		SOCIAL REHAB. ADMIN.					
		PAYMENT ASST. ADMIN.					
		MENTAL HEALTH ADMIN.					
		NARCOTICS TREAT. ADMIN.					
		CENTRAL STOREROOM					
65,118,716	(34,019)	TOTAL EXPENDITURES	329,167,030	(146,989)	6,416,969	435,000,000	99,416,001
		BY OBJECT					
10,191,432	(1,793,622)	PERSONNEL COSTS	61,148,596	(9,256,712)	-0-	102,812,171	41,663,575
		OPERATING EXPENSES					
		EQUIPMENT TO BE CAPITALIZED					
		OTHER					
65,118,716	(34,019)	TOTAL EXPENDITURES	329,167,030	(146,989)	6,416,969	435,000,000	99,416,001

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ORGANIZATION ACCOUNTABILITY REPORT

MAYOR (10001)

DESCRIPTION:

1. Current Month Actual--Actual revenue/expenditure amounts for the current month.
2. Better (Worse) Plan--Difference between current month actual amounts and current month plan amounts.
3. Description--Description of the organizational unit reporting to this level (Area) and the appropriate District-wide Chart of Accounts expenditure/revenue classification (Object).
4. Year-to-Date Actual- Actual year-to-date revenue/expenditure amounts for the related area/object category.
5. Better (Worse) Plan--Difference between year-to-date actual amounts and year-to-date plan amounts.
6. Obligations--Amount of outstanding obligations as of the end of the reporting month.
7. Annual Budget--Annual budget for related area/object code description.
8. Remaining Annual Budget--Calculated as the annual budget less the amount of year-to-date expenditures and outstanding obligations. For revenues, calculated as the annual budget less year-to-date actual revenue.

PURPOSE: To inform the Mayor and the City Administrator of the results of the current month and year-to-date revenues and expenditures in comparison to the budget. To provide the Mayor with information necessary for management action, revenues are reported both by agency and by major source, and expenditures and obligations are reported by agency and also by object of expenditure.

DISTRIBUTION: Mayor and City Administrator. This report may also be distributed to the City Council and Congressional Committees, or serve as a basis for a report to these groups.

COST CENTER - MAYOR (10001)

------CURRENT MONTH------ ACTUAL (1)	BETTER(WORSE) PLAN (2)	(3) DESCRIPTION	------YEAR-TO-DATE------ (4) ACTUAL	BETTER(WORSE) PLAN (5)	(6) OBLIGATIONS	(7) ANNUAL BUDGET	(8) REMAINING ANNUAL BUDGET
		********** REVENUES **********					
		BY AREA					
23,565,860	(1,697,792)	HUMAN RESOURCES	127,255,645	(3,849,458)	-0-	230,769,200	103,513,555
		OFFICE OF THE MAYOR					
		EXECUTIVE OFFICE					
		INDEP. AGENCIES & OFFICES					
		MISC. CONTRIBUTIONS					
		PUBLIC SAFETY					
		RECREATION DEPT.					
		EDUCATION					
		TRANSPORTATION					
		ENVIRONMENTAL SERVICES					
73,525,075	660,803	TOTAL REVENUES	465,797,948	(11,660,232)	-0-	990,058,222	524,260,274
		BY OBJECT					
11,897,666	6,004	PROPERTY TAXES	108,214,166	237,941	-0-	142,700,000	34,485,834
		SALES & GROSS RECEIPTS					
		INCOME TAXES					
		PARKING TAX					
		MOTOR VEH. REGIST. FEES					
		MOTOR VEH. EXCISE TAX					
		GASOLINE TAX					
		LICENSES					
		PARKING METERS					
		INTEREST ON INVESTMENTS					
		WATER SERVICE CHARGE					
		PAYMENT FROM VIRGINIA					
		PAYMENT FROM MARYLAND					
		SEWER SERVICE CHARGE					
		WATER POLLUTION GRANTS					
		PAYMENT--POTOMAC INTERCEPTOR					
		OTHER TAXES					
		OTHER CHARGES & REVENUE					
		FEDL. PAY. FOR WATER CONS.					
		FEDL. PAY. FOR SEWER SER.					
		FEDL. PAYMENT - D.C. GOVT.					
		FEDL. LOAN (APPROPRIATED)					
		REVENUE SHARING (APPRO.)					
73,525,075	660,803	TOTAL REVENUES	465,797,948	(11,660,232)	-0-	990,058,222	524,260,274

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COST CENTER - MAYOR (10001)

------CURRENT MONTH------ ACTUAL (1)	BETTER(WORSE) PLAN (2)	(3) DESCRIPTION	------YEAR-TO-DATE------ (4) ACTUAL	BETTER(WORSE) PLAN (5)	(6) OBLIGATIONS	(7) ANNUAL BUDGET	(8) REMAINING ANNUAL BUDGET
		********** EXPENDITURES **********					
		BY AREA					
65,118,716	(34,019)	HUMAN RESOURCES	329,167,030	(146,989)	6,416,969	435,000,000	99,416,001
		OFFICE OF THE MAYOR					
		EXECUTIVE OFFICE					
		CONTRI. TO METRO AREA AGEN.					
		INDEP. AGENCIES & OFFICES					
		MISC. CONTRIBUTIONS					
		PUBLIC SAFETY					
		RECREATION DEPT.					
		EDUCATION					
		TRANSPORTATION					
		ENVIRONMENTAL SERVICES					
73,054,067	5,193,482	TOTAL EXPENDITURES	438,324,406	106,354,377	30,900,000	990,058,222	520,833,816
		BY OBJECT					
28,193,731	1,476,974	PERSONNEL COSTS	169,162,388	10,338,820	-0-	353,670,801	184,508,413
		OPERATING EXPENSES					
		EQUIP. TO BE CAPITALIZED					
		OTHER					
73,054,067	5,193,482	TOTAL EXPENDITURES	438,324,406	106,354,377	30,900,000	990,058,222	520,833,816

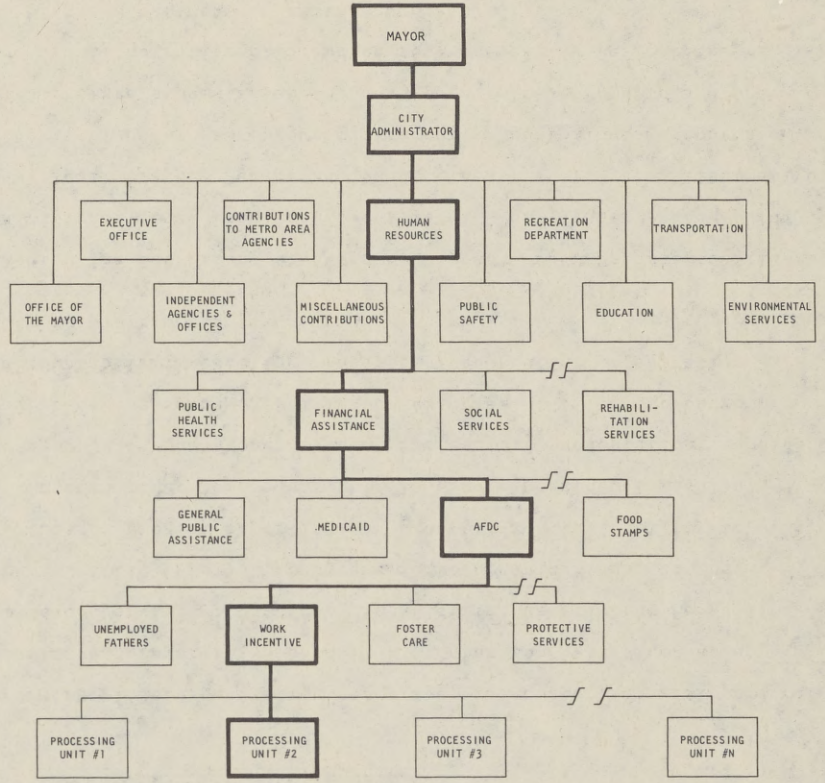
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PROGRAM REPORTING

Program reporting, like organization reporting, is another integral part of sound financial accounting and reporting systems. A program can be defined as an ongoing service or class of services provided by the District (e.g., Drug Rehabilitation, Hot Lunch Program, Traffic Safety). Programs, like organizations, can be structured into hierarchies. Program reporting can also provide the facility to cross organizational lines in order to present data in a more meaningful fashion. This crossover can even occur at the agency level. For ease of presentation, we did not depict any crossovers at the agency level in our examples. All of the budget, unit of service and accountability reporting concepts discussed for organization reporting apply equally to program reporting.

We have selected the Department of Human Resources' (DHR) reports to illustrate how each organizational level from the lowest level (Cost Center - Processing Unit #2) to the highest level (Mayor) can be included. These reports are illustrative of those which would be received by each program director. The following reports relate to the program structure schematic on the next page. These reports and the accompanying structure are illustrative only and do not necessarily reflect the actual program makeup of the Department of Human Resources.

DISTRICT OF COLUMBIA
PROGRAM ORGANIZATION
(ILLUSTRATIVE ONLY)



COST CENTER ACCOUNTABILITY REPORT

COST CENTER - PROCESSING UNIT #2 (5501)

DESCRIPTION:

1. Current Month Actual--Actual expenditure amounts for the current month.
2. Better (Worse) Plan--Difference between current month actual amounts and current month plan amounts.
3. Description--Description of appropriate District-wide Chart of Accounts expenditure classification.
4. Year-to-Date Actual--Actual year-to-date expenditures of this cost center.
5. Better (Worse) Plan--Difference between year-to-date actual amounts and year-to-date plan amounts.
6. Obligations--Amount of outstanding obligations as of the end of the reporting month.
7. Annual Budget--Annual budget for related object code description.
8. Remaining Annual Budget--Calculated as the annual budget less the amount of year-to-date expenditures and outstanding obligations.
9. Units of Service--The appropriate productivity measures for the particular cost center. For each unit of service, current month and year-to-date actual and variance from plan are indicated along with annual and remaining budget amounts. Multiple units of service may be reported for the same cost center.

   The total amount for this cost center will appear as a detail line item on the lowest level program accountability report for which it is associated.

PURPOSE: To provide the cost center supervisor with the results of the current month and year-to-date expenditures as compared to plan, and the remaining balance in his fiscal year budget.

DISTRIBUTION: Cost Center Supervisor (e.g., Processing Unit #2 supervisor).

PERIOD ENDING 03-31-XX
RUN DATE 04-02-XX

DISTRICT OF COLUMBIA
FINANCIAL MANAGEMENT AND CONTROL SYSTEM
COST CENTER ACCOUNTABILITY REPORT

REPORT NO. 201
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COST CENTER - 5501 PROCESSING UNIT #2
REPORTS TO - WORK INCENTIVE PROGRAM (1001)

------CURRENT MONTH------			------YEAR-TO-DATE------				
ACTUAL (1)	BETTER(WORSE) PLAN (2)	(3) DESCRIPTION	ACTUAL (4)	BETTER(WORSE) PLAN (5)	(6) OBLIGATIONS	(7) ANNUAL BUDGET	(8) REMAINING ANNUAL BUDGET
		BY OBJECT					
33,003	697	SALARIES - DISTRICT FUNDED	237,027	(3,727)	-0-	648,127	111,100
27,819	996	SALARIES - GRANT FUNDED	281,014	(1,679)	-0-	307,459	126,445
13,959	179	SALARIES - OTHER	136,631	611	-0-	149,045	112,414
12,902	750	FRINGE BENEFITS	132,109	759	-0-	143,065	110,956
-0-	-0-	BENEFITS FOR FORMER EMPLOYEES	-0-		-0-	-0-	-0-
97,683	2,622	TOTAL PERSONNEL COSTS	786,781	4,036	-0-	1,247,696	460,915
968	132	TRAVEL AND TRANSPORTATION	7,385	2,075	-0-	10,000	2,615
1,174	(174)	TRANSPORTATION OF THINGS	7,712	1,082	-0-	8,500	788
62,561	(1,136)	RENT, COMMUNICA., UTILITY	618,436	(15,796)	-0-	715,400	96,964
36,918	3,002	PRINTING AND REPRODUCTION	408,975	(3,885)	-0-	511,000	102,025
9,694	306	OTHER SERVICES	115,000	5,000	2,000	140,000	23,000
6,947	(966)	SUPPLIES AND MATERIALS	79,469	(2,001)	150	91,456	11,837
195	(195)	EQUIP. NOT TO BE CAPITALIZED	2,196	(296)	-0-	3,000	804
118,457	969	TOTAL OPERATING EXPENSES	1,239,173	(13,821)	2,150	1,479,356	238,033
261,140	3,591	TOTAL EXPENDITURES	2,025,954	(9,785)	2,150	2,727,052	698,948
		********** UNITS OF SERVICE **********					
678	(22)	APPLICATIONS PROCESSED (9)	7,462	319		8,800	1,338
385.16	(75.27)	COST PER APPLICATION	271.50	38.39		309.89	
87	3	NO. OF PERSONNEL					

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PROGRAM ACCOUNTABILITY REPORT

WORK INCENTIVE (1001)

DESCRIPTION:

1. Current Month Actual--Actual program expenditure/revenue amounts for the current month.
2. Better (Worse) Plan--Difference between current month actual amounts and current month plan amounts.
3. Description--Description of cost centers reporting to this program and appropriate District-wide Chart of Accounts expenditure/revenue object classification.
4. Year-to-Date Actual--Actual year-to-date expenditures/revenues of this program.
5. Better (Worse) Plan--Difference between year-to-date actual amounts and year-to-date plan amounts.
6. Obligations--Amount of outstanding obligations as of the end of the reporting month.
7. Annual Budget--Annual budget for related area and object code description.
8. Remaining Annual Budget--Calculated as the annual budget less the amount of year-to-date expenditures and outstanding obligations. For revenues, calculated as the annual budget less year-to-date actual revenue.
9. Units of Service--The appropriate productivity measures for the particular program level. For each unit of service, current month and year-to-date actual and variance from plan are indicated along with annual and remaining budget amounts. Multiple units of service may be reported for the same program level.

   Total program expenditures/revenues included on this report appear as a detail line item (e.g., work incentive program) on the next higher program level report (e.g., AFDC program).

PURPOSE: Provides program management with current month and year-to-date expenditures/revenues in comparison to budget for a specific program. Allows identification of cost centers reporting to the program whose expenditure patterns are not in adherence to plan.

DISTRIBUTION: Appropriate program manager, and as requested.

PERIOD ENDING 03-31-XX
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DISTRICT OF COLUMBIA
FINANCIAL MANAGEMENT AND CONTROL SYSTEM
PROGRAM ACCOUNTABILITY REPORT

REPORT NO. 202
PAGE NO. 1

PROGRAM - WORK INCENTIVE (1001)
REPORTS TO - AFDC PROGRAM (20001)

------CURRENT MONTH------ ACTUAL (1)	BETTER(WORSE) PLAN (2)	(3) DESCRIPTION	------YEAR-TO-DATE------ (4) ACTUAL	BETTER(WORSE) PLAN (5)	(6) OBLIGATIONS	(7) ANNUAL BUDGET	(8) REMAINING ANNUAL BUDGET
		********** REVENUES **********					
		BY OBJECT					
416,595	10,405	REIMBURSEMENTS	2,337,521	19,028	-0-	4,650,000	2,312,479
439,914	10,584	TOTAL REVENUES	2,655,460	19,337	-0-	5,000,000	2,344,540
		********** EXPENDITURES **********					
		BY AREA					
261,140	3,591	PROCESSING UNIT #2	2,025,954	(9,785)	2,150	2,727,052	698,948
		PROCESSING UNIT #1					
		PROCESSING UNIT #3					
796,407	(2,666)	TOTAL EXPENDITURES	8,999,962	(1,777)	26,950	9,976,816	949,904
		BY OBJECT					
316,456	(3,116)	SALARIES - DISTRICT FUNDED	3,968,689	(64,643)		5,116,960	1,148,271
276,815	105	SALARIES - GRANT FUNDED	2,516,615	9,618		3,216,000	699,385
		SALARIES - OTHER					
		FRINGE BENEFITS					
		BENEFITS FOR FORMER EMPL.					
		TOTAL PERSONNEL COSTS					
		TRAVEL AND TRANSPORTATION					
		TRANSPORTATION OF THINGS					
		RENT, COMMUNICA., UTILITY					
796,407	(2,666)	TOTAL EXPENDITURES	8,999,962	(1,777)	26,950	9,976,816	949,904
		********** UNITS OF SERVICE ********** (9)					
2,341	19	APPLICATIONS PROCESSED	29,460	376		32,194	2,734
340.23	(30.34)	COST PER APPLICATION	305.50	4.39		309.89	
709	13	NO. OF PERSONNEL					

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PROGRAM ACCOUNTABILITY REPORT

AFDC (20001)

DESCRIPTION:

1. Current Month Actual--Actual program expenditure/revenue amounts for the current month.
2. Better (Worse) Plan--Difference between current month actual amounts and current month plan amounts.
3. Description--Description of lower level programs and appropriate District-wide Chart of Accounts expenditure/revenue object classification.
4. Year-to-Date Actual--Actual year-to-date expenditures/revenues of this program.
5. Better (Worse) Plan--Difference between year-to-date actual amounts and year-to-date plan amounts.
6. Obligations--Amount of outstanding obligations as of the end of the reporting month.
7. Annual Budget--Annual budget for related programs and object code description.
8. Remaining Annual Budget--Calculated as the annual budget less the amount of year-to-date expenditures and outstanding obligations. For revenues, calculated as the annual budget less year-to-date actual revenue.

There is one line on this report, for both expenditures and revenues, that represents each lower level program which reports to this program level. The total lines for this program appear as detail lines on the next higher program level report.

PURPOSE: Provides the program manager with current month and year-to-date information on program expenditures/revenues subject to his control. Allows identification of lower level programs reporting to this program whose expenditures and/or revenues are not as planned.

DISTRIBUTION: Appropriate program manager; program planning management.

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RUN DATE 04-02-XX

DISTRICT OF COLUMBIA
FINANCIAL MANAGEMENT AND CONTROL SYSTEM
PROGRAM ACCOUNTABILITY REPORT

REPORT NO. 203
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PROGRAM - AFDC (20001)
REPORTS TO - FINANCIAL ASSISTANCE PROGRAM (30001)

------CURRENT MONTH------ ACTUAL (1)	BETTER(WORSE) PLAN (2)	(3) DESCRIPTION	------YEAR-TO-DATE------ (4) ACTUAL	BETTER(WORSE) PLAN (5)	(6) OBLIGATIONS	(7) ANNUAL BUDGET	(8) REMAINING ANNUAL BUDGET
		********** REVENUES **********					
		BY AREA					
303,123	295	PROTECTIVE SERVICES	6,832,377	(1,743)	-0-	7,700,000	867,623
439,914	10,584	WORK INCENTIVE	2,655,460	19,337	-0-	5,000,000	2,344,540
		FOSTER CARE					
		UNEMPLOYED FATHERS					
3,320,456	12,294	TOTAL REVENUES	24,857,769	(13,558)	-0-	34,300,800	9,443,031
		BY OBJECT					
2,988,410	385	REIMBURSEMENTS	22,371,992	(10,371)	-0-	30,800,000	8,428,008
3,320,456	12,294	TOTAL REVENUES	24,857,769	(13,558)	-0-	34,300,800	9,443,031
		********** EXPENDITURES **********					
		BY AREA					
618,619	905	PROTECTIVE SERVICES	13,943,627	(3,106)	3,700	15,715,843	1,768,516
796,407	(2,666)	WORK INCENTIVE	8,999,962	(1,777)	26,950	9,976,816	949,904
		FOSTER CARE					
		UNEMPLOYED FATHERS					
6,917,617	138	TOTAL EXPENDITURES	51,787,019	(16,009)	56,015	71,460,000	19,616,966
		BY OBJECT					
3,300,000	-0-	CLIENT PAYMENTS	29,700,000	-0-	-0-	40,000,000	10,300,000
2,419,618	(1,965)	PERSONNEL COSTS	12,951,400	(18,916)	-0-	19,889,337	6,937,937
620,418	(119)	OPERATING EXPENSES	7,019,614	(1,165)	18,000	9,123,963	2,086,349
496,661	1,869	PROFESSIONAL SERVICES	1,219,986	2,050	36,015	1,506,700	250,699
80,920	353	OTHER EXPENSES	896,019	2,022	2,000	940,000	41,981
6,917,617	138	TOTAL EXPENDITURES	51,787,019	(16,009)	56,015	71,460,000	19,616,966

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PROGRAM ACCOUNTABILITY REPORT

FINANCIAL ASSISTANCE (30001)

DESCRIPTION:

1. Current Month Actual--Actual program expenditure/revenue amounts for the current month.
2. Better (Worse) Plan--Difference between current month actual amounts and current month plan amounts.
3. Description--Description of lower level programs and appropriate District-wide Chart of Accounts expenditure/revenue object classification.
4. Year-to-Date Actual--Actual year-to-date expenditures/revenues of this program.
5. Better (Worse) Plan--Difference between year-to-date actual amounts and year-to-date plan amounts.
6. Obligations--Amount of outstanding obligations as of the end of the reporting month.
7. Annual Budget--Annual budget for related programs and object code description.
8. Remaining Annual Budget--Calculated as the annual budget less the amount of year-to-date expenditures and outstanding obligations. For revenues, calculated as the annual budget less year-to-date actual revenue.

There is one line on this report, for both expenditures and revenues, that represents each lower level program which reports to this program level. The total lines for this program appear as detail lines on the next higher program level report.

PURPOSE: Provides the program manager with current month and year-to-date information on program expenditures/revenues subject to his control. Allows identification of lower level programs reporting to this program whose expenditures and/or revenues are not as planned.

DISTRIBUTION: Appropriate program manager; program planning management.

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RUN DATE 04-02-XX

DISTRICT OF COLUMBIA
FINANCIAL MANAGEMENT AND CONTROL SYSTEM
PROGRAM ACCOUNTABILITY REPORT

REPORT NO. 204
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PROGRAM - FINANCIAL ASSISTANCE (30001)
REPORTS TO - HUMAN RESOURCES PROGRAM (50001)

------CURRENT MONTH------ ACTUAL (1)	BETTER(WORSE) PLAN (2)	(3) DESCRIPTION	------YEAR-TO-DATE------ (4) ACTUAL	BETTER(WORSE) PLAN (5)	(6) OBLIGATIONS	(7) ANNUAL BUDGET	(8) REMAINING ANNUAL BUDGET
		********** REVENUES **********					
		BY AREA					
1,968,757	(968)	GENERAL PUBLIC ASSISTANCE	27,319,999	(3,212)	-0-	28,750,000	1,430,001
3,320,456	12,294	AFCD	24,857,769	(13,558)	-0-	34,300,800	9,443,031
		MEDICAID					
		FOOD STAMPS					
6,705,029	17,981	TOTAL REVENUES	61,860,042	28,562	-0-	78,986,000	17,125,958
		BY OBJECT					
6,034,526	16,182	REIMBURSEMENTS	55,674,037	12,655	-0-	71,087,400	15,413,363
		GRANTS					
6,705,029	17,981	TOTAL REVENUES	61,860,042	28,562	-0-	78,986,000	17,125,958
		********** EXPENDITURES **********					
		BY AREA					
4,101,578	(1,961)	GENERAL PUBLIC ASSISTANCE	56,916,666	(916)	26,115	60,500,000	3,557,219
6,917,617	138	AFCD	51,787,019	(16,009)	56,015	71,460,000	19,616,966
		MEDICAID					
		FOOD STAMPS					
13,968,812	(97,123)	TOTAL EXPENDITURES	124,709,217	(111,816)	126,816	151,960,000	27,123,967
		BY OBJECT					
8,514,967	(126,901)	CLIENT PAYMENTS	109,019,967	(89,819)	-0-	119,471,650	10,451,683
		PERSONNEL COSTS					
		OPERATING EXPENSES					
		PROFESSIONAL SERVICES					
		OTHER EXPENSES					
13,968,812	(97,123)	TOTAL EXPENDITURES	124,709,217	(111,816)	126,816	151,960,000	27,123,967

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PROGRAM ACCOUNTABILITY REPORT

HUMAN RESOURCES (50001)

DESCRIPTION:

1. Current Month Actual--Actual program expenditure/revenue amounts for the current month.
2. Better (Worse) Plan--Difference between current month actual amounts and current month plan amounts.
3. Description--Description of lower level programs and appropriate District-wide Chart of Accounts expenditure/revenue object classification.
4. Year-to-Date Actual--Actual year-to-date expenditures/revenues of this program.
5. Better (Worse) Plan--Difference between year-to-date actual amounts and year-to-date plan amounts.
6. Obligations--Amount of outstanding obligations as of the end of the reporting month.
7. Annual Budget--Annual budget for related programs and object code description.
8. Remaining Annual Budget--Calculated as the annual budget less the amount of year-to-date expenditures and outstanding obligations. For revenues, calculated as the annual budget less year-to-date actual revenue.

There is one line on this report, for both expenditures and revenues, that represents each lower level program which reports to this program level. The total lines for this program appear as detail lines on the next higher program level report.

PURPOSE: Provides the program manager with current month and year-to-date information on program expenditures/revenues subject to his control. Allows identification of lower level programs reporting to this program whose expenditures and/or revenues are not as planned.

DISTRIBUTION: Appropriate program manager; program planning management.

PERIOD ENDING 03-31-XX
RUN DATE 04-02-XX

DISTRICT OF COLUMBIA
FINANCIAL MANAGEMENT AND CONTROL SYSTEM
PROGRAM ACCOUNTABILITY REPORT

REPORT NO. 205
PAGE NO. 1

PROGRAM - HUMAN RESOURCES (50001)
REPORTS TO - MAYOR (10001)

------CURRENT MONTH------ ACTUAL (1)	BETTER(WORSE) PLAN (2)	(3) DESCRIPTION	------YEAR-TO-DATE------ (4) ACTUAL	BETTER(WORSE) PLAN (5)	(6) OBLIGATIONS	(7) ANNUAL BUDGET	(8) REMAINING ANNUAL BUDGET
		********** REVENUES **********					
		BY AREA					
6,705,029	17,981	FINANCIAL ASSISTANCE	61,860,042	28,562	-0-	78,986,000	17,125,958
		PUBLIC HEALTH SERVICES					
		SOCIAL SERVICES					
		REHABILITATION SERVICES					
23,565,860	(1,697,792)	TOTAL REVENUES	127,255,645	(3,849,458)	-0-	230,769,200	103,513,555
		BY OBJECT					
21,209,274	339,558	GRANTS	114,530,080	103,727	-0-	207,692,200	93,162,120
		REIMBURSEMENTS					
23,565,860	(1,697,792)	TOTAL REVENUES	127,255,645	(3,849,458)	-0-	230,969,200	103,513,555
		********** EXPENDITURES **********					
		BY AREA					
13,968,812	(97,123)	FINANCIAL ASSISTANCE	124,709,217	(111,816)	126,816	151,960,000	27,123,967
		PUBLIC HEALTH SERVICES					
		SOCIAL SERVICES					
		REHABILITATION SERVICES					
65,118,716	(34,019)	TOTAL EXPENDITURES	329,167,030	(146,989)	416,969	435,000,000	105,416,001
		BY OBJECT					
21,022,771	(2,242)	CLIENT PAYMENTS	206,918,760	(16,899)	-0-	289,600,000	82,681,240
		PERSONNEL COSTS					
		OPERATING EXPENSES					
		PROFESSIONAL SERVICES					
		OTHER EXPENSES					
65,118,716	(34,019)	TOTAL EXPENDITURES	329,167,030	(146,989)	416,969	435,000,000	105,416,001

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PROGRAM ACCOUNTABILITY REPORT

MAYOR (10001)

DESCRIPTION:

1. Current Month Actual--Actual program expenditure/revenue amounts for the current month.
2. Better (Worse) Plan--Difference between current month actual amounts and current month plan amounts.
3. Description--Description of lower level programs and appropriate District-wide Chart of Accounts expenditure/revenue object classification.
4. Year-to-Date Actual--Actual year-to-date expenditures/revenues of this program.
5. Better (Worse) Plan--Difference between year-to-date actual amounts and year-to-date plan amounts.
6. Obligations--Amount of outstanding obligations as of the end of the reporting month.
7. Annual Budget--Annual budget for related programs and object code description.
8. Remaining Annual Budget--Calculated as the annual budget less the amount of year-to-date expenditures and outstanding obligations. For revenues, calculated as the annual budget less year-to-date actual revenue.

This report represents the highest level program report and contains one line, for both expenditures and revenues, for each program sponsored by the agency directing the various programs (e.g., Department of Human Resources).

PURPOSE: Provides the Mayor and City Administrator with current month and year-to-date information on program expenditures/revenues subject to their control. Allows identification of agency programs whose expenditures and/or revenues are not as planned.

DISTRIBUTION: The Mayor, City Administrator, Appropriate program manager; program planning management. This report may also be distributed to the City Council and Congressional Committees, or serve as a basis for a report to these groups.

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DISTRICT OF COLUMBIA
FINANCIAL MANAGEMENT INFORMATION SYSTEM
PROGRAM ACCOUNTABILITY REPORT

REPORT NO. 206
PAGE NO. 1

PROGRAM - MAYOR (10001)

CURRENT MONTH			YEAR-TO-DATE				
ACTUAL (1)	BETTER (WORSE) PLAN (2)	DESCRIPTION (3)	ACTUAL (4)	BETTER (WORSE) PLAN (5)	OBLIGATIONS (6)	ANNUAL BUDGET (7)	REMAINING ANNUAL BUDGET (8)
		********** REVENUES **********					
23,565,860	(1,697,792)	BY AREA					
		HUMAN RESOURCES	127,255,645	(3,849,458)	-0-	230,769,200	103,513,555
		OFFICE OF THE MAYOR					
		EXECUTIVE OFFICE					
		CONTRIB.TO METRO AREA AGCYS.					
		INDEPEN.AGCYS. & OFFICES					
		MISCELLANEOUS CONTRIBUTIONS					
		PUBLIC SAFETY					
		RECREATION DEPARTMENT					
		EDUCATION					
		TRANSPORTATION					
		ENVIRONMENTAL SERVICES					
53,525,075	660,803	TOTAL REVENUES	315,797,948	(11,660,232)	-0-	990,058,222	674,260,274
		BY OBJECT					
48,172,567	144,517	REIMBURSEMENTS	284,218,153	722,890	-0-	890,500,000	606,281,847
		GRANTS					
		PROPERTY TAXES					
53,525,075	660,803	TOTAL REVENUES	315,797,948	(11,660,232)	-0-	990,058,222	674,260,274
		********** EXPENDITURES **********					
		BY AREA					
65,118,716	(34,019)	HUMAN RESOURCES	329,167,030	(146,989)	416,969	435,000,000	105,416,001
		OFFICE OF THE MAYOR					
		EXECUTIVE OFFICE					
		CONTRIB.TO METRO AREA AGCYS.					
		INDEPEN.AGCYS. & OFFICES					
		MISCELLANEOUS CONTRIBUTIONS					
		PUBLIC SAFETY					
		RECREATION DEPARTMENT					
		EDUCATION					
		TRANSPORTATION					
		ENVIRONMENTAL SERVICES					
73,054,067	5,193,482	TOTAL EXPENDITURES	438,324,406	106,354,377	80,900,000	990,058,222	470,833,816
		BY OBJECT					
51,916,013	1,986,001	CLIENT PAYMENTS	296,916,987	29,223,886	0	428,932,659	132,015,672
		PERSONNEL COSTS					
		OPERATING EXPENSES					
		PROFESSIONAL SERVICES					
		EQUIP.TO BE CAPITALIZED					
		OTHER EXPENSES					
73,054,067	5,193,482	TOTAL EXPENDITURES	438,324,406	106,354,377	80,900,000	990,058,222	470,833,816

PROJECT/GRANT REPORTING

Project/Grant reporting is designed to provide cost and revenue, if applicable, information for activities such as:

1. Federal grants.
2. Capital expenditure projects, such as construction and remodeling programs.
3. Other one-time activities such as employee training programs, systems development projects and agency audits.
4. Specialized information needs not supplied by other types of reports such as detailed information concerning printing or data processing costs.

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Project/Grant reporting should be set up to account for projects with fiscal years different from that of the District. For example, a Federal grant with a May 31 project fiscal year can be reported on the organization and program reports as part of the District's normal revenue and expenditures. It can also be reported on the special project/grant reporting system with a fiscal year which corresponds to that of the project itself.

Project/Grant reporting should be capable of accounting for multi-year projects. The reports would show both current period, current year and inception-to-

date information. Another capability of the system should be to maintain the accounting records necessary to facilitate the audit of grants.

Project reporting can also be set up in a hierarchy structure. Thus, summary project reports would be provided to District personnel who have multiproject responsibility, while the report for an individual project would be given to the person responsible for that particular project.

In summary, project/grant reports are designed to provide information required by the District to meet the following objectives:

1. Establish control over the cost of activities that may span several fiscal years.
2. Provide for separate financial control as may be prescribed by legislative intent.
3. Provide for project (grant) reporting to the Federal government and/or other grant agencies.

The two reports included in this section are illustrative only and do not represent actual projects undertaken by the District.

DETAIL PROJECT/GRANT REPORT

DESCRIPTION:

1. Current Month--Actual revenue and expenditure amounts for the current month.
2. Year-to-Date Actual--Actual year-to-date revenues and expenditures on this project.
3. Better (Worse) Plan--Difference between year-to-date actual amounts and year-to-date plan amounts.
4. Cost Center/Object--Associated code relating to type of revenue and expenditure amounts reported.
5. Description--Description related to cost center or object depending on report section.
6. Inception-to-Date Actual--Actual revenue and expenditure amounts since the inception of the project.
7. Better (Worse) Plan--Difference between inception-to-date actual and plan amounts.
8. Obligations--Outstanding obligations for related object code description as of the end of the reporting month.
9. Remaining Budget--Remaining project revenue and expenditure budgets for related object code description.

The total revenues and expenditures for an individual project will appear as a detail line in the Project Summary Report.

PURPOSE: To provide management with information on the status of controllable revenues and expenditures regarding a specific project. Project reporting allows for a separate control of revenue and expenditure information on activities which may span several fiscal years. Controllable revenues represent those revenues for which the project receives direct outside funding and/or must submit bills for reimbursements. Does not include appropriations from the general reserve fund.

DISTRIBUTION: Project/Grant Manager.

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DISTRICT OF COLUMBIA
FINANCIAL MANAGEMENT AND CONTROL SYSTEM
DETAIL PROJECT/GRANT REPORT

REPORT NO. 301
PAGE NO. 1

PROJECT - 30100 KNOB NOSTER PARK DEVELOPMENT
RESPONSIBILITY - 30001 RECREATION DEPT.

CURRENT MONTH (1)	YEAR-TO-DATE ACTUAL (2)	YEAR-TO-DATE BETTER(WORSE) PLAN (3)	(5) DESCRIPTION	(6) INCEPTION-TO-DATE ACTUAL	INCEPTION-TO-DATE BETTER(WORSE) PLAN (7)	(8) OBLIGATIONS	(9) REMAINING BUDGET
			********** REVENUES **********				
36,174	323,000	(27,000)	FEDERAL REIMBURSEMENTS	780,416	(96,523)	-0-	143,886
			GRANTS (4)				
49,601	347,916	(33,000)	TOTAL REVENUES	820,010	(101,816)	-0-	171,747
			********** EXPENDITURES **********				
			COST CENTER/OBJ CODE				
15,036	225,180	(1,890)	1251 SALARIES - DISTRICT FUNDED (4)	416,786	(16,786)	23,960	104,902
			TOTAL PERSONNEL COSTS				
			TRAVEL AND TRANSPORTATION				
45,918	360,123	(18,900)	TOTAL EXPENDITURES	890,816	(67,168)	60,001	40,940

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PROJECT/GRANT SUMMARY REPORT

DESCRIPTION: Report is divided into two sections--controllable revenues and expenditures for individual project summaries and a recap of expenditures by major object category.

1. Current Month--Actual revenue and expenditure amounts for the current month.
2. Year-to-Date Actual--Actual revenue and expenditure amounts for year-to-date.
3. Better (Worse) Plan--Difference between year-to-date actual amounts and year-to-date plan amounts.
4. Project/Object--Associated code relating to type of amounts reported. Report is sectioned by project and object.
5. Description--Description related to project or object depending on report section.
6. Inception-to-Date Actual--Actual revenue and expenditure amounts since the inception of the project.
7. Better (Worse) Plan--Difference between inception-to-date actual and plan amounts.
8. Obligations--Outstanding obligations for related code description as of the end of the reporting month.
9. Remaining Budget--Remaining project/object budget for related code description.

PURPOSE: To provide top management with a summary of controllable revenues and expenditures for similar or associated projects. Controllable revenues represent those revenues for which the project receives direct outside funding and/or must submit bills for reimbursement. Does not include appropriations from the general revenue fund.

DISTRIBUTION: Mayor, City Administrator, District Chief Financial Officer, Project/Grant Manager with overall responsibility for capital projects.

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RUN DATE 04-02-XX

DISTRICT OF COLUMBIA
FINANCIAL MANAGEMENT AND CONTROL SYSTEM
PROJECT/GRANT SUMMARY REPORT

REPORT NO. 399
PAGE NO. 1

PROJECT SUMMARY - RECREATION DEPARTMENT (30001)

(1) CURRENT MONTH	YEAR-TO-DATE ACTUAL (2)	YEAR-TO-DATE BETTER(WORSE) PLAN (3)	(5) DESCRIPTION	INCEPTION-TO-DATE (6) ACTUAL	INCEPTION-TO-DATE BETTER(WORSE) PLAN (7)	(8) OBLIGATIONS	(9) REMAINING BUDGET
			********** REVENUES **********				
			PROJECT CODE (4)				
49,601	347,916	(33,000)	30100 KNOB NOSTER PARK DEVEL.	820,010	(101,816)	-0-	171,747
630,010	2,896,916	(104,084)	TOTAL REVENUES	23,763,914	(695,015)	-0-	12,679,447
			********** EXPENDITURES **********				
			PROJECT CODE (4)				
45,918	360,123	(18,900)	30100 KNOB NOSTER PARK DEVEL.	890,816	(67,168)	60,001	40,940
689,399	3,091,094	107,587	TOTAL EXPENDITURES	26,302,889	(98,917)	150,071	14,990,401
			(4) BY OBJECT				
324,017	1,620,085	56,826	PERSONNEL COSTS	13,770,722	(59,998)	-0-	7,298,482
689,399	3,091,094	107,587	TOTAL EXPENDITURES	26,302,889	(98,917)	150,071	14,990,401

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APPROPRIATION REPORTING

Appropriation reporting is designed to allow fiscal managers to budget and control expenditures and obligations according to the way in which the budget and budget authorizations are enacted. In the District entities, budgeting is not done solely on strict organizational or programmatic lines. In these situations, a separate appropriation reporting system is necessary so that the financial management of the District can relate the actual expenditures and obligations incurred to those set forth in the budgeting process. All expenditures throughout the District, regardless of source (e.g., appropriated, grant, etc.), should be included in both the budget process and the appropriation reporting.

Appropriation reports should be summarized at several levels to provide system users with information that more closely meets their needs. This hierarchy of reporting will closely follow that which is recommended for the organization, program, and project/grant reporting systems. In other words, detail appropriation status reports should be prepared for agency personnel who have first-line responsibility for appropriation control. Summary appropriation reports should be prepared at both the overall agency level and at the District level. As illustrated in the

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report examples, first-line supervisors would receive detail object reporting while upper level management, both centrally and at the agencies, would receive a summary of the appropriation status. Although not illustrated, the system can be designed to report the status of apportionments of each appropriation.

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DETAIL APPROPRIATION STATUS

DESCRIPTION:

1. Department/Agency--The agency to which the appropriation was made.
2. Appropriation--Number and name of the appropriation.
3. Revenues--The sources of revenues from which the appropriation expenditures are to be paid. District sources represent payments from the general fund (e.g., taxes, federal payment). Non-District sources would consist of grants, reimbursements, self-generated revenues such as service fees, etc.
4. Expenditures--Shows a comparison of the District-wide Chart of Accounts expenditure categories under the appropriation against an agency budget.
5. Current Month--The current month actual revenues/expenditures and variances from the plan.
6. Year-to-Date--The year-to-date actual revenues and expenditures and variances from the plan.
7. Obligations--The amount of outstanding obligations in the expenditure class as of the end of the reporting period.
8. Annual Budget--Annual budget for related object code description.
9. Remaining Annual Budget--The remaining budgeted amount for the rest of the fiscal year. The remaining budget amount for expenditures is calculated by deducting year-to-date expenditures and outstanding obligations from the total budgeted expenditures.

PURPOSE: To provide management with a report showing the revenue and expenditure status by appropriation. The totals for this appropriation will appear as a detail line in the "Summary Appropriation Status by Agency" report for the respective agency.

DISTRIBUTION: Agencies/Division of Accounting

PERIOD ENDING 03-31-XX
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DISTRICT OF COLUMBIA
FINANCIAL MANAGEMENT AND CONTROL SYSTEM
DETAIL APPROPRIATION STATUS

REPORT NO. 401
PAGE NO. 1

(1) DEPARTMENT/AGENCY 608 SOCIAL SVCS-FAMILY SVCS
(2) APPROPRIATION 0015 INCOME MAINTENANCE

(5) CURRENT MONTH ACTUAL	(5) CURRENT MONTH BETTER (WORSE) PLAN	(3) DESCRIPTION	(6) YEAR-TO-DATE ACTUAL	(6) YEAR-TO-DATE BETTER (WORSE) PLAN	(7) OBLIGATIONS	(8) ANNUAL BUDGET	(9) REMAINING ANNUAL BUDGET
		********** REVENUES **********					
125,000	25,000	DISTRICT SOURCES	500,000	(125,000)	0	1,000,000	500,000
		NON-DISTRICT SOURCES					
		GRANTS					
425,000	(50,000)	TOTAL REVENUES	1,250,000	(250,000)	0	3,900,000	2,650,000
		(4) ********** EXPENDITURES **********					
207,801	(6,374)	SALARIES - FULL TIME REGULAR	1,047,083	13,089	0	2,546,412	1,499,329
3,889	(1,282)	SALARIES - PART TIME REGULAR	15,799	(855)	5,306	39,986	18,881
510	(10)	PER DIEMS	3,233	(12)	0	7,137	3,904
212,100	(7,666)	TOTAL PERSONNEL SERVICES	1,066,115	12,222	5,306	-	1,522,114
509	(9)	LOCAL TRAVEL - ADMIN.	606	85	0	1,619	1,013
703	297	TRAVEL - ADMIN.	1,112	(112)	100	2,318	1,106
1,212	288	TOTAL TRAVEL	1,718	(27)	100	3,937	2,119
600	200	PRINTING	3,655	696	0	7,765	4,110
9,950	1,111	RENTALS	49,787	(1,090)	49,017	158,541	59,737
81,394	(732)	TOTAL OPERATING SERVICES	473,267	2,061	90,919	1,257,198	693,012
312,319	(8,110)	TOTAL EXPENDITURES	1,541,100	14,256	96,325	3,854,670	2,217,245

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SUMMARY APPROPRIATION STATUS BY AGENCY

DESCRIPTION:

1. Department/Agency--The agency to which the appropriation was made.
2. Appropriation--Number and name of the appropriation.
3. Revenues--Revenues generated/received from various sources for each appropriation. Each revenue line on this report represents the total revenues from all sources as reported on the Detail Appropriation Status report.
4. Expenditures--Expenditures made under the appropriation.
5. Current Month--Current month actual revenues and expenditures and variances from plan.
6. Year-to-Date--Year-to-date actual revenues/expenditures and variances from plan.
7. Obligations--The amount of outstanding obligations in the expenditure class as of the end of the reporting month.
8. Annual Budget--Annual budget for the related appropriation.
9. Remaining Annual Budget--The remaining fiscal year budget/appropriation for each appropriation.

PURPOSE: To provide management with a report of the revenue and expenditure status of each agency's appropriations. Each appropriation included as a line item on this report is reported in detail on a "Detail Appropriation Status" report.

DISTRIBUTION: Applicable Agency/Division of Accounting

PERIOD ENDING 03-31-XX
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DISTRICT OF COLUMBIA
FINANCIAL MANAGEMENT AND CONTROL SYSTEM
SUMMARY APPROPRIATION STATUS BY AGENCY

REPORT NO. 402
PAGE NO. 1

(1) DEPARTMENT/AGENCY 608 SOCIAL SVCS-FAMILY SVCS

(5) -CURRENT MONTH- ACTUAL	BETTER (WORSE) PLAN	APP'N (2)	DESCRIPTION (3)	(6) -YEAR-TO-DATE- ACTUAL	BETTER (WORSE) PLAN	(7) OBLIGA.	(8) ANNUAL BUDGET	(9) REMAINING ANNUAL BUDGET
			********** REVENUES **********					
6,908	(761)	0986	HEALTH SUPPORT	27,156	(1,096)	0	73,674	46,518
425,000	(50,000)	0015	INCOME MAINT.	1,250,000	(250,000)	0	3,900,000	2,650,000
10,763,225	(1,901,421)		TOTAL REVENUES (4)	101,900,460	(9,101,012)	0	186,916,123	85,015,663
			********** EXPENDITURES **********					
7,061	(96)	0986	HEALTH SUPPORT	26,019	519	1,019	73,600	46,562
312,319	(8,110)	0015	INCOME MAINT.	1,541,100	14,256	96,325	3,854,670	2,217,245
11,614,024	(34,500)		TOTAL EXPENDITURES	116,814,901	(98,014)	265,416	186,000,000	68,919,683

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GENERAL LEDGER/FUND REPORTING

General ledger/fund reporting should provide a full accountability of all the assets, liabilities, revenues, expenses, obligations and fund balances of the various fund entities in the District. General ledger/fund reporting would be a basic tool used by the finance oriented personnel in the District to monitor the overall financial planning and control of operations. As depicted by the report examples, the general ledger/fund reporting system would report:

1. Fund balance sheets to report all assets, liabilities and fund balances.
2. Analysis of changes in the fund balance.
3. Analysis of revenues and expenses.
4. Interfund transfers.

The reports on the following pages are illustrative only and do not necessarily represent existing District funds.

FUND GENERAL LEDGER TRIAL BALANCE

DESCRIPTION:

1. Fund Number and Name
2. Account--District-wide balance sheet Chart of Accounts number.
3. Description--Description of District-wide Chart of Accounts' account number.
4. Beginning Balance--The balance of the applicable account at the beginning of the month.
5. Current Activity--Total dollar activity posted against the account in the current period.
6. Ending Balance--The balance of the applicable account as of the end of the month. The ending balance is equal to the beginning balance plus or minus current activity.
7. Balance Check--Indicates that the total postings to the fund and the resultant account totals are in balance.

PURPOSE: To provide management with a report showing, by account, the beginning-of-month balance, total current activity and ending balance of each accounting fund.

DISTRIBUTION: Chief accounting officer of each fund, agencies where applicable (agency funds and Federal funds).

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DISTRICT OF COLUMBIA
FINANCIAL MANAGEMENT AND CONTROL SYSTEM
FUND GENERAL LEDGER TRIAL BALANCE

REPORT NO. 501
PAGE NO. 1

(2) ACCOUNT	(3) DESCRIPTION	(4) BEGINNING BALANCE	(5) CURRENT ACTIVITY	(6) ENDING BALANCE
(1) FUND 0101 GENERAL REVENUE FUND				
0100	CASH	31,930,083.00	11,173,423.00-	20,756,660.00
0110	ACCOUNTS RECEIVABLE	3,045,918.00	1,787,602.00	4,833,520.00
0120	INVESTMENTS	6,099,895.00	500,505.00-	5,599,390.00
0130	PROPERTY AND EQUIPMENT	525,374,296.00	242,156.00	525,616,452.00
0140	OTHER ASSETS	772,344.00	95,909.00	868,253.00
	TOTAL	567,222,536.00	9,548,261.00-	557,674,275.00
1000	REVENUE CONTROL	251,090,753.00-	70,548,937.00-	321,639,690.00-
0200	ACCOUNTS PAYABLE	5,995,669.00-	1,195,777.00	4,799,892.00-
0210	LOANS PAYABLE	228,054,995.00-	2,708,157.00	225,346,838.00-
0220	ACCRUED PAYROLL	8,067,495.00-	202,200.00	7,865,295.00-
0225	RETIREMENT AND DISABILITY BENEFITS	205,435,383.00-	356,658.00-	205,792,041.00-
0230	ESCROW AND REFUNDABLE DEPOSITS	997,492.00-	-0-	997,492.00-
0240	DEFERRED CREDITS	2,122,649.00-	1,135,496.00	987,153.00-
2000	EXPENDITURE CONTROL	255,531,561.00	24,202,307.00	329,733,868.00
2800	TRANSFERS OUT	123,167,189.00	4,986,580.00	128,153,769.00
2900	OBLIGATIONS	5,067,215.00	933,709.00-	4,133,506.00
0245	ACCUMULATED DEPRECIATION - PROPERTY AND EQUIPMENT	98,756,157.00-	2,189,059.00-	100,945,216.00-
0255	RESERVE FOR OBLIGATIONS	5,067,215.00-	933,709.00	4,133,506.00-
0265	ALLOWANCE FOR DOUBTFUL ACCTS.	3,045,918.00-	1,787,602.00-	4,833,520.00-
0300	FUND BALANCE	142,354,775.00-	-0-	142,354,775.00-
	TOTAL	567,222,536.00-	9,548,261.00	557,674,275.00-
(7)	FUND 0101 BALANCE CHECK	0.00	0.00	0.00

FUND BALANCE SHEET

DESCRIPTION:

1. Fund Number and Name
2. Assets--Account description and ending account balance for balance sheet accounts classified as assets or as deductions from assets.
3. Liabilities and Reserves--Same as 2 for liability and reserve accounts.
4. Fund Balance--Cumulative total after applicable accounts have been closed to Fund Balance.
5. Balance Check--Indicates that the assets of the fund are equal to the fund liabilities, reserves and Fund Balance.

PURPOSE: To provide management with a report, by fund, of fund accounts in requested reporting sequence. For this report, appropriate revenue and expenditure control accounts must be closed to the Fund Balance account prior to the preparation of the report.

DISTRIBUTION: Chief accounting officer of each fund, agencies where applicable (agency funds and Federal funds).

DISTRICT OF COLUMBIA
FINANCIAL MANAGEMENT AND CONTROL SYSTEM
FUND BALANCE SHEET

(1) FUND 0101 GENERAL REVENUE FUND

	----ASSETS----------		
(2)	CASH	20,756,660.00	
	ACCOUNTS RECEIVABLE	4,833,520.00	
	ALLOWANCE FOR DOUBTFUL ACCOUNTS	4,833,520.00-	
	PROPERTY AND EQUIPMENT	525,616,452.00	
	ACCUMULATED DEPRECIATION - PROPERTY AND EQUIPMENT	100,945,216.00-	
	INVESTMENTS	5,599,390.00	
	OTHER ASSETS	868,253.00	
	TOTAL ASSETS		451,895,539.00
	----LIABILITIES, RESERVES, & FUND BALANCE----		
(3)	ACCOUNTS PAYABLE	4,799,892.00	
	LOANS PAYABLE	225,346,838.00	
	ACCRUED PAYROLL	7,865,295.00	
	ESCROW AND REFUNDABLE DEPOSITS	997,492.00	
	RETIREMENT AND DISABILITY BENEFITS	205,792,041.00	
	DEFERRED CREDITS	987,153.00	
	RESERVE FOR OBLIGATIONS	4,133,506.00	
	TOTAL LIABILITIES & RESERVES		449,922,217.00
(4)	FUND BALANCE	1,973,322.00	
	TOTAL FUND BALANCE		1,973,322.00
	TOTAL LIABILITIES, RESERVES, FUND BALANCE		451,895,539.00
	(5) FUND 0101 BALANCE CHECK		0.00

ANALYSIS OF CHANGES IN FUND BALANCE

DESCRIPTION:

1. Fund Number and Name
2. Fund Balance Beginning of Period--The total Fund Balance as of the beginning of the current month and as of the beginning of the current year.
3. Total Results from Operations--The total activity for the current month and for the year-to-date for operations accounts which close to Fund Balance.
4. Total Budget Operations--The net results of recording the estimated fund revenues and appropriated expenditures in the Fund Balance for both the current month and the year-to-date.
5. Total Fund Balance--The Fund Balance as of the end of the current month. The balance for the current month should be equal to the year-to-date balance.

PURPOSE: To provide management with a report, by fund, of the current month and year-to-date activity of accounts that close to the Fund Balance account.

DISTRIBUTION: Chief accounting officer of each fund, agencies where applicable (Federal funds and agency funds).

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PERIOD ENDING 03-31-XX
RUN DATE 04-02-XX

DISTRICT OF COLUMBIA
FINANCIAL MANAGEMENT AND CONTROL SYSTEM
ANALYSIS OF CHANGES IN FUND BALANCE

REPORT NO. 503
PAGE NO. 1

(1)	CURRENT MONTH	YEAR-TO-DATE
FUND 0101 GENERAL REVENUE FUND		
----FUND BALANCE----------		
FUND BALANCE BEGINNING OF PERIOD	9,679,563.00- (2)	142,354,775.00-
TOTAL FUND BALANCE BEGINNING OF PERIOD	9,679,563.00-	142,354,775.00-
REVENUE CONTROL	70,548,937.00-	321,639,690.00-
EXPENDITURE CONTROL	74,202,307.00	329,733,868.00
TRANSFER EXPENDITURE CONTROL	4,986,580.00	128,153,769.00
OBLIGATIONS	933,709.00-	4,133,506.00
TOTAL RESULTS FROM OPERATIONS	7,706,241.00 (3)	140,381,453.00
NET BUDGET RESULTS	0.00	0.00
TOTAL BUDGET OPERATIONS	0.00 (4)	0.00
TOTAL FUND BALANCE	1,973,322.00- (5)	1,973,322.00-
FUND 0101 BALANCE CHECK	1,973,322.00-	1,973,322.00-

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STATEMENT OF REVENUES AND EXPENSES

(ENTERPRISE FUND)

DESCRIPTION:

1. Fund Number And Name
2. Current Month--Revenues generated by the fund and expenses chargeable to the fund for the current month.
3. Year-to-Date--Revenues and expenses of the fund from the beginning of the fiscal year through the end of the current reporting month.
4. Net Income (Loss)--Net income (loss) for the fund for the current month and year-to-date.

PURPOSE: To provide management with a report of the current month and year-to-date revenues and expenses of each enterprise fund.

DISTRIBUTION: Chief accounting officer for each fund, agencies where applicable (Federal funds and agency funds).

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PERIOD ENDING 03-31-XX
RUN DATE 04-02-XX

DISTRICT OF COLUMBIA
FINANCIAL MANAGEMENT AND CONTROL SYSTEM
STATEMENT OF REVENUES AND EXPENSES

REPORT NO. 507
PAGE NO. 1

	(2) CURRENT MONTH	(3) YEAR-TO-DATE
(1) FUND 0131 WATER AND SEWER FUND		
OPERATING REVENUE:		
WATER SERVICE CHARGES	758,468	9,101,618
SEWER SERVICE CHARGES	1,207,306	14,487,678
FEDERAL PAYMENT	460,000	5,600,000
OTHER CHARGES	185,922	2,231,066
TOTAL OPERATING REVENUES	2,611,696	31,420,362
LESS: OPERATING EXPENSES BEFORE DEPRECIATION:		
SALARIES AND WAGES	1,087,140	13,045,734
FRINGE BENEFITS	362,380	4,348,578
MATERIALS AND SUPPLIES	181,190	2,174,289
OUTSIDE SERVICES	90,595	724,763
ADMINISTRATIVE AND ENGINEERING	255,889	3,070,679
ACCOUNTING AND COLLECTIONS	379,957	4,559,493
PLANT MAINTENANCE	136,991	1,643,899
OTHER EXPENSES	90,602	1,449,529
TOTAL OPERATING EXPENSES	2,584,744	31,016,964
OPERATING INCOME (LOSS) BEFORE DEPRECIATION	26,952	403,398
LESS: DEPRECIATION	389,258	4,671,103
OPERATING INCOME (LOSS)	(362,306)	(4,267,705)
ADD: NON-OPERATING INCOME	12,415	139,174
LESS: NON-OPERATING EXPENSE - INTEREST	250,710	3,008,529
(4) NET INCOME (LOSS)	(600,601)	(7,137,060)

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BUDGET DEVELOPMENT REPORTING

The purpose of budget development reporting is to facilitate the budgeting process of the District regarding budget preparation and reporting, while reducing the clerical effort and increasing the accuracy of the budget amounts at all levels of the budget. The purpose of good budget development reporting is to:

1. Eliminate the need for departments to manually enter prior year historical and present year budget amounts on the budget forms. This should be done automatically by the system.

2. Eliminate the need to manually extend the present year budget amounts (estimated expenditures) to arrive at a total budget figure.

3. Automate the summarization of budget schedules to higher level reports and the reworking of budget changes throughout all budget forms.

4. Allow agencies to budget programmatically without the need to organize along program lines. The budgets would still be controlled by organizational responsibility area.

5. Insure that all budgets are in balance and the monthly and annual plan for all levels throughout the organization are equal.

6. Allow individuals throughout all management levels of the organization of the District of Columbia to participate in the budget development process.

7. Help to insure that persons held responsible for budgets will take an active role in their preparation.

8. Report changes to historical and current year estimates of expenditures throughout the budget process so that the budget information is current.

As illustrated in the budget development reports, the budgets are initially developed at the desired level and rolled up for the program, organization and appropriation budgets. In conformity with our recommendations concerning the budgeting process of the District, we have illustrated the budgeting of units of service at the lowest level. Basically, budget development reporting should free District personnel from the manually intensive clerical function of the budgeting process and allow more time for analyzing the budget itself.

A concept incorporated into the design of these example reports is that of including in the budget "contingencies" such as cost-of-living or merit increases. Because the District follows the Federal budgeting concepts, it is not allowed in its budgeting process to provide for anticipated future events which are not absolutely certain, i.e., contingencies. However, because we have recommended (Volume II) that the District's budgeting process be modified to include anticipated events, such as cost-of-living increases, the budget development reports illustrated here provide for the determination, by the system, of the impact of a cost-of-living factor, etc., on the current year's budget. This capability should facilitate the preparation of the future year's budget.

The budget development reports on the following pages are illustrative only and do not represent actual budget categories or amounts.

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COST CENTER (ORGANIZATION/PROGRAM) BUDGET

DESCRIPTION: This illustrative report provides historical data to the cost center/organization/program manager to assist in developing the budget. It also provides a chronology of the budget through the various approval stages in the budgeting process. Specifically, the budget amounts are reported as they are approved by the Mayor and agency head, by the City Council, and by Congress.

The inclusion of budget amounts under each approval stage report column does not necessarily mean that the individuals that comprise that stage have actively participated in the development of the budget. For example, a cost center or low level organization budget may have budget amounts indicating approval by the Mayor and City Council. Although the Mayor and City Council will probably not be involved at such a low budget level, that budget may reflect the end result of higher level budget increases or decreases by them.

Although a budget development report is illustrated only at the cost center level, the same budgeting concepts and report formats would

be used for the organization and program budgets. The organization and program budgets would be generated automatically by the system based on their predefined relationships to the cost centers.

1. Budget Period--Fiscal year for which budget is being prepared.
2. Cost Center--Cost center number and description and the next organization level to which the cost center reports.
3. Revenues/Expenditures--Last year's actual revenue and expenditure data by District-wide Chart of Accounts object code (from history files for the cost-center indicated).
4. Planned Revenues/Expenditures--Current year budgeted revenues and expenditures adjusted for expected increase or decrease during the current year.
5. Agency/Mayor--Reflects the budget which resulted from discussions between the Mayor and the head of the agency to which the cost center reports.
6. City Council--Reflects the budget which resulted from the review by the City Council and discussions between the Council and the Mayor.
7. Congressional Appropriation--The final budget or appropriated amounts for the cost center/organization/program as approved by all involved parties.
8. Increase/Decrease--The difference in dollars and percent between the planned revenues and expenditures for the current fiscal year and either the budget as submitted to Congress or the Congressional appropriation, depending on the stage in the budgeting process.
9. Units of Service--The appropriate productivity measures for the particular cost center. Multiple units of service may be budgeted. Budgeted units of service cannot necessarily be "rolled-up" to higher organization or program levels because the units may be different at each level.

PURPOSE: To provide assistance to management in the budget preparation and approval cycle. The cost center budget reports are the basic level at which budget information is developed. Cost center budget information is "rolled" into organization, program and appropriation reports for management.

DISTRIBUTION: Cost Center/Program or Agency Budget Personnel, Office of Budget and Management Systems.

DISTRICT OF COLUMBIA
FINANCIAL MANAGEMENT AND CONTROL SYSTEM

PERIOD ENDING XX-XX-XX
RUN DATE XX-XX-XX

BUDGET DEVELOPMENT FOR OCTOBER 1, 1976 - SEPTEMBER 30, 1977 (1)
COST CENTER BUDGET

REPORT NO. 901
PAGE NO. 1

(2) COST CENTER-7001 DISTRICT NO 1 AFDC
REPORTS TO ORG-60300 DISTRICT OFFICE NO 1

OBJECT	DESCRIPTION	(3) ACTUAL REVENUES/ EXPENDITURES FY 1975	(4) PLANNED REVENUES/ EXPENDITURES FY 1976	(5) AGENCY/ MAYOR FY 1977	(6) CITY COUNCIL FY 1977	(7) CONGRESSIONAL APPROPRIATION FY 1977	(8) INCREASE/DECREASE- THIS YEAR EST. DOLLARS	PERCENT
		********** EXPENDITURES **********						
0110	FULL TIME SALARIES & WAGES	213,680	217,313	230,352	235,882		18,569	8.5
0120	PART TIME SALARIES & WAGES	1,100	1,300	1,378	1,378		78	6.0
0130	PER DIEMS	9,260	9,747	10,332	10,332		585	6.0
0140	FRINGE BENEFITS	680	380	402	402		22	6.0
	TOTAL PERSONNEL COSTS	224,720	228,740	242,464	247,994		19,254	8.4
0410	TRAVEL & TRANSPORTATION	1,150	1,410	1,410	1,515		105	7.5
0420	OFFICE EXPENSES	25,385	27,990	27,990	27,990		0	0.0
	TOTAL EXPENDITURES	2,741,237	2,850,112	3,001,962	3,010,789		160,677	5.6
		(9) ********** UNITS OF SERVICE **********						
	APPLICATIONS PROCESSED	7,900	8,600	8,900	8,900		300	3.5
	COST PER APPLICATION	346.99	331.40	337.29	337.29		5.89	1.8
	NUMBER OF PERSONNEL	77	83	87	87		4	4.8

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MONTHLY COST CENTER BUDGET

DESCRIPTION:

1. Budget Period--Fiscal year for which the budget is being prepared.
2. Object--District-wide Chart of Accounts object code.
3. Month--Monthly distributions are made on a detail object of expenditure level for each month of the year.
4. Yearly Budget--The summary of the monthly allocations represents the total budget requested for the object on the cost center budget reports.
5. Total Expenditures--The total expenditures budget for the cost center by month and year.
6. Cost Center--Describes the cost center number and name and the next organization level to which the cost center reports.
7. Units of Service--The appropriate productivity measures for the particular cost center. Multiple units of service may be budgeted for the same cost center. These units of service cannot necessarily be "rolled-up" to higher related organization or program levels because the units may be different at each level.

This report would be prepared after the cost center budget has cleared all approval levels and represents the actual fiscal year budget/appropriation. Organization and program monthly budgets would be automatically generated based on predefined relationships with the cost center budgets. In some cases the system would be capable of calculating the monthly amounts (e.g., divide annual budget by twelve), resulting in a reduction in clerical effort.

PURPOSE: To provide management with a monthly breakdown of next year's budget at the cost center level. Totals are developed by month for the cost center based upon user allocation. Total expenditures by month are summarized at the end of the report.

DISTRIBUTION: Cost Center/Agency Budget Personnel.

PERIOD ENDING XX-XX-XX
RUN DATE XX-XX-XX

DISTRICT OF COLUMBIA
FINANCIAL MANAGEMENT AND CONTROL SYSTEM
BUDGET DEVELOPMENT FOR OCTOBER 1, 1976 - SEPTEMBER 30, 1977 (1)
MONTHLY COST CENTER BUDGET

REPORT NO. 902
PAGE NO. 1

(6) COST CENTER-7001 DISTRICT NO 1 AFDC
REPORTS TO ORG-60300 DISTRICT OFFICE NO 1

(2) OBJECT	DESCRIPTION/TOTAL AMOUNT	(3) OCTOBER/ NOVEMBER	DECEMBER/ JANUARY	FEBRUARY/ MARCH	APRIL/ MAY	JUNE/ JULY	AUGUST/ SEPTEMBER
0111	FULL TIME PERM SALARIES & WAGES	19,655	19,655	19,655	19,655	19,655	19,655
	235,882	19,655	19,655	19,655	19,655	19,655	19,677
0121	PART TIME TEMP SALARIES & WAGES						
	1,378			1,378			
0130	PER DIEMS	861	861	861	861	861	861
	10,332 (4)	861	861	861	861	861	861
0140	FRINGE BENEFITS	402					
	402						
	TOTAL PERSONNEL COSTS	20,918	20,516	20,516	20,516	20,516	20,516
	247,994	20,516	20,516	21,894	20,516	20,516	20,538
0410	TRAVEL & TRANSPORTATION	126	126	126	126	126	127
	1,515	126	126	126	126	126	128
	COST CENTER TOTAL EXPENDITURES	250,676	250,999	250,626	250,901	250,661	251,480
	3,010,789 (5)	250,021	251,033	251,112	250,901	250,899	251,480
	********** UNITS OF SERVICE **********						
	APPLICATIONS PROCESSED	741	(7) 741	741	741	741	741
	8,900	741	741	741	741	741	749

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VOLUME IX
RETIREMENT SYSTEMS

DISTRICT OF COLUMBIA

RETIREMENT SYSTEMS

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DISTRICT OF COLUMBIA RETIREMENT SYSTEMS

INTRODUCTION

In recent months, there has been substantial publicity, several reports issued, and Congressional hearings regarding the District of Columbia government retirement systems. Since the early 1970's, there have been repeated reports and warnings by the District that the teachers and police and firemen's retirement systems were fiscally unsound.

In any retirement system, there are two separate and distinct financial issues: one, the determination of annual pension expense (including amortization of unfunded prior service costs) and the related accrued liability for financial reporting purposes, and two, the annual funding requirements for current and prior service costs. The purpose of this discussion is to address the financial reporting issues, although portions of the discussion may be equally applicable to the funding issue. Therefore, the primary objectives of this volume of our report are as follows.

1. To identify and describe the retirement plans that the District offers its employees.
2. To summarize the recommendations of previous studies.
3. To identify the objectives of and authoritative support for sound financial reporting.
4. To identify existing practices and recommend improvements.

DESCRIPTION OF RETIREMENT SYSTEMS

The District has the following pension and retirement plans for its employees.

1. Federal Civil Service Retirement System.
2. Metropolitan Police and Fire Retirement System.
3. Teachers Retirement System.
4. Judges Retirement System.
5. College Faculty.
6. Social Security.

The basic benefits and certain key data are summarized in Schedules 1 and 2.

SCHEDULE 1

BASIC RETIREMENT BENEFITS OF DISTRICT OF COLUMBIA RETIREMENT SYSTEMS

Plan	Service Requirement		Benefit for Service		Retirement Annuity Base	Employee Contribution
	Age	Service	Minimum (% of final salary)	Excess of Minimum (per year)		
Civil Service[a]	55 60 62	30 20 5	7.5% (5 years)	1.75-2%	Average of highest consecutive 3 years salary/wages	7%
Police and Fire[a]	None	20	50% (20 years)	3%	Highest basic salary for 12 consecutive months	7%
Teachers[a]	55 60 62	30 20 5	7.5% (5 years)	1.75-2%	Average of highest consecutive 3 years salary/wages	7%
Judges[b]	50 55	20 10	3.3% (per year)	-	Salary at retirement	3.5% (3% additional for survivors annuity option)

[a] See sources indicated on following pages.

[b] Obtained from District of Columbia Office of Budget and Management Systems, Summary of Major Retirement Provisions, pp. 6-7.

SCHEDULE 2

SUMMARY OF KEY DATA OF DISTRICT OF COLUMBIA RETIREMENT SYSTEMS

Plan	Employees Covered at December 31, 1975		Estimated Appropriations to Pay Benefits to Retired Employees and to Match Civil Service Employee Withholdings[b] (millions)			Trust Fund Balance (millions)	Unfunded Liability Estimated October 1, 1976 (millions)
	Active	Retired	FY76	FY77	FY78		
Civil Service[a]	29,965	6,847	$27.0	$29.0	$31.0	NA	$1,992[c]
Police and Fire	5,906	3,119	45.4	49.5	52.5	$ -	1,152
Teachers	7,774	2,303	10.8	14.7	15.2	62	614
Judges	52	6	0.4	0.5	0.6	1	7
	43,697	12,275	$83.6	$93.7	$99.3	$63	$3,765

[a]Obtained from District's Office of Budget and Management Systems.

[b]Obtained from Government of the District of Columbia, Multi-Year Financial Plan for FY 1977-81, pp.14-16 (except for Civil Service).

[c]District's share of Civil Service unfunded liability was estimated based on the "Board of Actuaries of the Civil Service Retirement System Fifty-Second Annual Report" on the retirement system.

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Federal Civil Service Retirement System

Approximately 60% of all District Government employees are covered under the Federal Civil Service Retirement System. Under this system, covered employees (full-time employees not covered by other retirement plans) are required to contribute 7% of their salaries through payroll withholdings and the District contributes an additional 7%, which is reported as an expense on the cash basis. These amounts are paid over to the U. S. Civil Service Commission, which is responsible for administering this system and disbursing benefits. As of December 31, 1975, there were 29,965 active District employees and 6,847 retired District members covered under this system. The basic features of this plan are as follows.[1]

1. Benefits are based on average salary for the highest 3 consecutive years of Federal/ District employment.

2. Eligibility for voluntary retirement occurs at age 55 with 30 years of service, at age 60 with 20 years of service or at age 62 with 5 years of service. Mandatory retirement at age 70 with 15 years of service.

3. The retirement annuity is earned at 1.5% per year for first 5 years, 1.75% per year for next 5 years and 2% per year thereafter, not to exceed 80% of salary (e.g., an employee with 30 years service would have a retirement stipend of 56.25% of the average of 3 highest years' compensation; an employee with 40 years service would have a stipend of 76.25%; etc.).

4. The disability benefit is equal to voluntary benefits discussed in item 3 above, generally with a minimum of 40% of salary base.

5. The surviving spouse and dependents of deceased employees automatically receive annuities.

6. If an annuitant elects to receive a reduced annuity, upon the death of the annuitant, the surviving spouse would receive 55% of the unreduced designated annuity. Eligible children receive an annuity in any event after the death of the annuitant.

7. Annuitants receive cost of living increases; if the Consumer Price Index (CPI) is at least 3% for three consecutive months, annuities are increased by the increase indicated plus an extra 1%.

Metropolitan Police and Fire Retirement System

The Metropolitan Police and Fire Retirement System was initially established by law in 1916 (39 Stat. 718) and amended from time to time thereafter. The most significant amendment was passed in 1970, P. L. 91-509 (84 Stat. 1136).[2] As of December 31, 1975, there were 5,906 active employees and 3,119 retired members covered under this System.[3] The basic features of this System are as follows.[4]

1. Mandatory contribution by participants is at 7% of salary.

2. The annuity is based on the highest basic salary for any 12 consecutive months.

3. Retirement with no minimum age is permitted after 20 years of service.

4. The retirement annuity is earned at 2.5% per year for first 20 years and 3% thereafter, not to exceed 80% of salary (maximum reached after 30 years).

5. The disability benefit varies from 66% to 70% of the highest basic salary for a period of 12 consecutive months. If disability occurs outside of the line of duty the benefits range from 40% to 70%.

6. The surviving spouse and dependents of deceased employees or annuitants automatically receive annuities.

7. An "equalization provision" requires that any increase in salary granted to active employees shall be applied proportionately to retired members.

8. Refunds of accumulated contributions are made without interest to an employee who resigns from active service prior to eligibility.

9. A Retirement Board, composed of the District Personnel Officer, the Director of Public Health, the Corporation Counsel, the Chief of Police and the Fire Chief, administers the system.

10. There is no provision for the establishment of a fund to pay future benefits. The total estimated unfunded liability as of October 1, 1976, will be approximately $1.152 billion.[5]

The System benefits are funded on a "pay-as-you-go" method. Benefit payments are paid out of appropriated funds. Employee contributions are not deposited in a trust fund, but are deposited in the general fund as revenue as required by Federal law since 1935 (Title 4, Section 4-502). These withholdings do not represent revenues to the District under generally accepted accounting principles since the employees are fully vested with respect to their pension contributions and at a minimum, any amounts withheld from payrolls and not paid to a trustee should be recorded as a liability to the pension funds.

Also covered under this plan are certain Federal law enforcement officers. The District is reimbursed for payments made to these Federal employees. At May 31, 1976 there were 1,580 active Federal officers and 573 retired members or survivors covered under this system.

Teachers Retirement System

The Teachers Retirement System was created in 1920. The Act of June 4, 1957, set the current basic form of the system,[6] which covers only teachers and administrators whose activities relate directly to the teaching effort (i.e., assistant superintendents, principals, etc.). Accounting, clerical and custodial personnel are covered under the Civil Service Retirement System. As of December 31, 1975, there are 7,774 current school teachers and school administrators and 2,303 retired members covered under this system.[7] Some of the key points regarding the Teachers Retirement System are as follows.[8]

1. Participation in the plan is mandatory. Teachers contribute 7% of salary to the plan. Contributions are deposited in a trust fund.

2. A teacher or employee is eligible for voluntary retirement after age 55 with 30 years of service, after age 60 with 20 years of service, or after age 62 with 5 years of eligible service.

3. The annuity received is equal to the average high three consecutive salary years multiplied by 1.5% for each of the first five years of creditable service, 1.75% for each of the second five years, and 2% for each additional year up to 100%.

4. A teacher or employee is eligible for disability retirement after five years of eligible service. This stipend would be calculated at the same rate as the normal annuity with a minimum of 40% of salary.

5. Annuitants receive cost of living increases in the same manner as the cost of living increases given under the Civil Service Act, i.e., if the Consumer Price Index exceeds 3% for three consecutive months, annuities are increased by the CPI increase plus an extra 1% because of lag.

6. Refunds of accumulated contributions are made upon resignation prior to retirement eligibility with interest at 3%.

7. A separate "Retirement Fund" is established which is limited by law to the greater of the June 30, 1969, level of the Fund ($61.7 million par value) or the employees' aggregate contribution equity in the System. Currently, the employees' aggregate contribution equity in the System is less than the $61.7 million. The Fund's unfunded liability for this System at October 1, 1976, is estimated to be $614.4 million.[9]

Since the Teachers Retirement System is essentially unfunded, the System is basically on a "pay-as-you-go" cost method. Employees' contributions are deposited into the Retirement Fund, but because the Retirement Fund balance does not change from year to year (unless aggregate employee contributions raise above $61.7 million), the employee deposits plus earnings from the Retirement Fund must be supplemented by additional appropriations in order to pay the disbursements for annuities and refunds.

Judges Retirement System

The retirement plan for the District's judges was established by the Act of July 29, 1970, in connection with the creation of the independent court system for the District. This System is the smallest District retirement plan with 52 active judges, 2 retired judges, and 4 annuitant survivors.[10] In addition, there are 8 judges who retired under a predecessor retirement plan and who are not provided for under the current plan, because they are paid by direct

District appropriation of Congress. The System has a fund of approximately $1 million[11] and an estimated unfunded liability as of October 1, 1976, of approximately $7.5 million.[12]

Colleges and Social Security

In addition to the above retirement plans, part-time employees are under the Social Security System and public college faculty and administrators have their own private pension plan, which is administered by the Teachers Insurance and Annuity Association (TIAA) and College Retirement Equities Fund (CREF).[13] Under the TIAA/CREF plans, employer and employee contributions are fully vested and are transferable by the employees to other covered employers.

SUMMARY OF PREVIOUS STUDIES

Over the past several years, many studies have been performed and reports written on the District retirement systems. Most of these reports have addressed the issues of the unfunded liabilities and the alternative methods for future funding. A summary of certain of these reports, follows.

1. Nelsen Commission Report - In 1972, the Nelsen Commission, a Congressionally-appointed study group, reviewed in depth two of the District's retirement plans. It concluded that the Police and Fire and Teachers Retirement Systems are not currently financed on a sound actuarial basis because (1) neither plan now receives periodic actuarial studies and the provision for periodic actuarial review of the Teachers System is inadequate, (2) the Police and Fire System is not financed as a fund, (3) the Teachers System, although in a somewhat stronger financial position, is still dependent to a large degree upon appropriated funds to meet its current obligations, (4) the present level of unfunded accrued liabilities was dangerously high, and (5) there are no plans either for curtailment of the rate of

increase of these unfunded accrued liabilities or for their systematic reduction or amortization. The Commission also concluded that (1) the present disability retirements from the police and fire departments compared with optional retirements appear severely disproportionate, (2) the present organization and system for management and administration of the Police and Fire and Teachers Systems were substantially at variance with those widely approved and practiced elsewhere, (3) the District financial reporting system does not adequately disclose financial aspects of retirement plans to the public, police and fire employees and teachers, or beneficiaries on a regular and systematic basis, and (4) the U. S. Treasury Department is not required by law to perform periodic studies of the Police and Fire System.

2. District Office of Budget and Financial Management Report, November, 1972 - presented alternatives of various funding methods for the Police and Fire Retirement System and the cost of each. The pay-as-you-go method (currently being used by the District which does not provide for full funding of future benefits) would start with benefit

payments equaling 33% of the active payroll and increase to 110% of active payroll in the year 2040. The level percentage method would hold benefit payments to 61% of payroll throughout the System's existence. The normal cost plus interest method would be slightly higher with retirement payments of approximately 61% to 64% of active payroll. The unfunded liability of the Police and Fire Retirement System was estimated at $543.5 million. This study was undertaken due to the rapid growth taking place in retirement costs, which caused concern among top District officials. The conclusion reached in this report was that special funding would be required to fund the District's retirement plans on a sound actuarial basis.

3. District Office of Budget and Financial Management Report, April 25, 1974 - this report illustrated several options of financing the Police and Fire Retirement System, offering alternatives of Federal assistance in the funding. The financing options described were as follows: (a) level percentage approach with Federal assistance totaling $1.1 billion over a 27-year period; (b) normal cost approach with Federal liquidation of

initial unfunded liability - Federal assistance totaling $1.359 billion over a 30-year period; (c) normal cost approach with Federal and District liquidation of initial unfunded liability - Federal assistance totaling $763.9 million over a 30-year period.

4. Comer Coppie, Special Assistant to the Mayor, May 1974 - presented retirement financing alternatives (as outlined in the Office of Budget and Financial Management Report, April 25, 1974, above), for the Teachers Retirement System to the House District Committee, which included various alternatives for Federal assistance to help finance the unfunded liability.

5. Comptroller General's Review, 1974 General Accounting Office ("GAO") - performed a review of the Police and Fire Retirement System for Representative Thomas M. Rees. In the GAO report, the following items were noted.

   a. The employee historical data were generally accurate and the actuarial assumptions and calculations used in projecting the cost of police and fire retirement programs were reasonable.

   b. The percentage of disability retirements to total retirements have decreased from 98% in 1969 to 59% in 1973.

c. The GAO's review of twenty randomly selected retirees paid during 1972 showed that three were promoted within the last two years of service, four were promoted from three to four years, six were promoted during their last five to ten years, and seven had not been promoted for over ten years. (Thus, there did not appear to be a pattern of increasing salary via promotion immediately prior to retirement.)

d. The District did not have procedures for verifying the reported income earned, if any, by disabled retirees. (Such income could reduce the disability retirement stipend.)

6. Currently, Representative Thomas M. Rees has introduced legislation that would fund pension plans for District police, firemen, teachers and judges at a cost to the Federal government of more than $1 billion over approximately 25 years. This legislation was unanimously approved by the House District Subcommittee on Fiscal Affairs and has been sent to the full House District Committee for approval.

7. Senator Thomas Eagleton on March 16, 1976, began hearings in the Senate District Committee on the various funding alternatives.

8. Actuarial Report, Police and Fire Retirement and Teachers Retirement Systems - 6 years ended December 31, 1971 - by statute, the Treasury Department

of the Federal government has had the responsibility for making quinquennial evaluations and preparing appropriation estimates for the District Teachers Retirement System since 1946. In 1964, the Treasury Department was given the responsibility for periodic evaluations of the Judges Retirement System. The Treasury has never had statutory actuarial responsibilities in connection with the Police and Fire Retirement System, but, by tradition, has performed services for this System similar to those provided for the Teachers System. The latest actuarial reports for the Teachers and Police and Fire Systems were performed for the six years ended December 31, 1971, and contained the following items.

a. Actual experience of turnover, retirement age, years of service at retirement, etc., for the period 1966 through 1971 was used.

b. The six-year period had two significant trends for police personnel, one of high turnover and one of low turnover. Thus, the two different assumptions, one of high turnover and one of low turnover, were used in calculating the actuarial liability.

c. The ultimate number of active employees was set at 5,100 for the Police Department and 1,435 for the Fire Department, the approximate level at December 1971.

d. The report projects liability, normal cost, projected benefit payments and balance sheets based on three assumptions -- a static assumption (no salary or cost of living increases but a 5% interest rate assumption), a 3% dynamic assumption (3% annual salary increases with a 5% interest assumption) and a 6% dynamic assumption (6% annual salary increases with a 5% interest assumption).

In these actuarial studies, the actuary did not draw any definitive conclusions as to which assumption was preferable.

FINANCIAL REPORTING

In recent years there has been much publicity given to the serious financial condition of certain state and local governments, resulting in a decline of public confidence in their financial statements. Much of this publicity has been directed to disclosures by the news media that such governmental units may not be adequately reporting current pension costs or providing for future liabilities under existing retirement plans. This concern arises from two main problem areas: (1) how to determine present cost and funding requirements to meet present and future pension obligations and (2) how to obtain sufficient funds for the retirement plans.

The failure of the District to adhere to generally accepted accounting principles has made it very difficult for the District to properly control its costs and plan future programs effectively. In the area of pension plans, this weakness can be extremely hazardous since the problem can pass by undetected until it is too late to avoid crises. If retirement plans are not funded currently, then one of two possible inequities will occur - either future taxpayers will be forced to finance the pension plans at additional cost to themselves (thus, in effect, paying for public services rendered in prior years) or employees retiring in the future will not have adequate pension funds available.

The principal arguments against full accrual accounting for pensions rest upon the absence of legal liability and the fact that the provisions for pension expense frequently exceed the amounts of pension payments under the plan for a number of years to come. These arguments ignore the accrual basis of accounting. As is the case with certain other types of obligations (e.g., vacations, pensions and taxes) which accrue over a period of time before they become legal liabilities, pension expense should be accrued as the services are rendered.

If any one year is not charged with the total employement costs applicable to that year, including the present value of amounts to be paid in the future, then some later year must bear the burden of employment costs which are unrelated to the activities of that year. Thus, failure to recognize total employment costs in the proper year results in a misstatement of the results of operations of at least two years - the year of service and the later year (or years) in which the expense recognition is given.

Insofar as accounting recognition of the total cost of a pension plan is concerned, in many cases no valid distinction can be drawn between the amounts for prior service and current service, since these amounts are merely the result of actuarial computations in determining the total cost of a plan. The entire cost of a plan generally relates

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to the periods after the date of adoption of the plan or of subsequent revisions thereof. The cost of pension plans is an additional employment cost incurred during the period worked by the employees covered and should be accounted for on the accrual basis of accounting as an element of compensation.

Each year should bear its appropriate charge for the cost of accruing pensions during that year, and usually adjustments of pension costs arising from changed circumstances should be accounted for over the remaining service life of the employees covered.

Although improved accounting for pension costs will not solve the funding problem, it will bring potential problems, e.g., unfunded liabilities, to light at an earlier date and thus increase the probability of finding a viable funding solution.

In recent years, considerable progress toward the proper financial reporting disclosures has been accomplished with the following events.

Accounting Principles Board - Opinion No. 8[14]

The Accounting Principles Board, in November 1966, issued Opinion No. 8 entitled "Accounting for the Cost of

Pension Plans." This Opinion concluded that a "pay-as-you-go" method of reporting pension costs, the method used by the District, is not acceptable. The criteria set forth in this Opinion required that the annual provision for pension costs should not be less than the total of normal costs, plus the lower of (a) interest on the unfunded prior service costs, plus an additional amount equal to 5% of the actuarial value of vested benefits not funded or otherwise provided for at the beginning of the year, or (b) amortization of prior service costs over a period not to exceed 40 years plus interest on the difference between amounts provided for in the accounts and amounts funded. The annual provision permitted by the Opinion must not exceed normal costs plus 10% of any prior service costs and interest on the difference between amounts provided in the accounts and amounts funded.

The Opinion also requires that the financial statements contain disclosure of various information concerning the pension plans in existence, including a statement of accounting and funding policies being followed, the provision for pension costs for the period, and the excess, if any, of the actuarially-computed value of vested benefits over the total of the pension fund and amounts provided for in the balance sheet at that date. There is no requirement to disclose the amount of any unfunded prior service cost.

However, in practice this disclosure has become commonplace and we encourage it. Further, companies subject to the jurisdiction of the Securities and Exchange Commission are required to disclose this information.

AICPA - Audits of State and Local Governmental Units[15]

The AICPA position with respect to all areas of governmental accounting is summarized in the Industry Audit Guide "Audits of State and Local Governmental Units," which was released by the American Institute of Certified Public Accountants (AICPA) in September 1973.

Since APB Opinion No. 8 is concerned with the determination of the amount of pension cost for accounting purposes, the Guide concludes that the Opinion is applicable to the cost of pension plans to governmental units.

Therefore, in our view, if the District is to prepare financial statements in accordance with generally accepted accounting principles, pension expense for all pension plans must be provided for on the basis of current year's cost, plus amortization of unfunded prior service costs over a reasonable period, all as determined by a competent actuary.

Municipal Finance Officers Association

The Municipal Finance Officers Association ("MFOA"), an authoritative body in the field of municipal accounting, has recently proposed disclosure guidelines[16] for public offerings of securities by state and local governments. The proposed guidelines call for the furnishing of appropriate financial statements of the issuer, prepared and presented in accordance with generally accepted accounting principles as recommended in the AICPA Industry Audit Guide, "Audits of State and Local Governmental Units." Thus, the MFOA apparently agrees that APB Opinion No. 8 should be applied to municipal financial reporting. In addition, MFOA recommends that such financial statements be audited by independent public accountants.

ERISA

Congress passed the Employee Retirement Income Security Act of 1974 ("ERISA") in order to protect employees from abuses in handling pension plans. Basically, ERISA imposes reporting, vesting and funding requirements on most pension plans and provides for an insurance fund to protect participants and beneficiaries if there are not sufficient assets in the fund to liquidate their liabilities. As a result of ERISA, pension plans in the private sector are required to be adequately funded on an actuarial basis. In

addition, ERISA requires most plans to be audited annually by independent certified public accountants.

However, this law only applies to the private sector. Title I, Section 4(b)(1) of ERISA specifically states, "The provisions of this title (the Act) shall not apply to any employee benefit plan if such plan is a governmental plan." Title I, Section 3(32) defines a "governmental plan" as "a plan established or maintained for its employees by the Government of the United States, by the government of any state or political subdivision thereof, or by any agency or instrumentality of the foregoing." Thus, governmental units are not required by law to comply with the strict provisions of ERISA with respect to accounting for, funding of and reporting by pension plans.

PERSA

In April 1976, the "Public Service Employees Retirement Income Security Act of 1976" ("PERSA") was introduced in the House of Representatives (H.R. 13040), which, if enacted, will require the preparation of an extensive annual report on all state and local government employee benefit plans to be filed with the Secretary of Labor. In addition, annual information will be provided to each plan participant and the plan would be required to be audited.

Significant changes have been mandated in pension plans as a result of ERISA in the private sector. The proposed PERSA legislation will extend many of these concepts to public employee plans. While the scope of our review did not extend to vesting, participation, eligibility and, most importantly, fiduciary responsibilies, we believe that each of these areas will require substantial changes in the operations of the police and fire, teachers and judges plans.

CURRENT REPORTING BY THE DISTRICT

At present, the District includes in its annual financial report only the following references to its retirement plans.

1. The cash disbursements for annuity payments for policemen, firemen, teachers and judges.

2. The amount of contributions paid to the Civil Service Commission during the year which equals 14% of an employee's salary (7% withholdings and 7% paid by the District).

3. The disbursements, investment holdings and balances of the Teachers' Retirement and Annuity Fund and the Judges' Retirement and Annuity Fund.

There is no summarization of the total amount of retirement benefits paid, no description of the plans and no disclosure of the normal costs of the plans and the unfunded liability. Thus the District presently makes no attempt in its financial statements to comply with APB Opinion No. 8 with respect to pension plan accounting disclosures.

The District, under P. L. 93-198, Section 443 of the D. C. Self Government and Government Reorganization Act of 1973, is required to disclose certain actuarial information in its multi-year financial plan. In this five-year financial plan report,[17] the District reflects the amount of anticipated disbursements over the next six years for pension benefits along with the method of funding these disbursements.

In addition, the estimated total liability for pension benefits at the end of each fiscal year is also presented. Although the normal cost of the pension benefits is not disclosed, this amount can be calculated by using the data presented. However, the information available from the multi-year report, which is a source other than the annual financial report, is not all the data required by APB Opinion No. 8.

COMMENTS AND RECOMMENDATIONS

Existing general accounting principles were established by the Accounting Principles Board and were based on a thorough consideration of the major divergent views concerning the preferable way to recognize pension costs.

State and local governmental units should provide for pension costs currently, the same as any other labor cost. The total cost of a pension plan should be accrued on some reasonable basis over the period from the inception of the plan or from the time that employees become eligible under the plan to the time that the pensions are payable. In other words, the annual charge to expense usually should cover current service costs and a provision for prior service costs over a reasonable period.

Additional pension costs arising from liberalizations of pension benefits and adjustments of pension costs arising from changed conditions should be spread over the remaining service life of the employees covered.

Actuarial Reviews -- Police and Fire, Teachers and Judges Systems

As indicated above, the Treasury Department of the Federal government has had the responsibility for making

quinquennial evaluations and preparing appropriation estimates for the Teachers Retirement System since 1946 and the Judges Retirement System since 1964. The Treasury has never had statutory actuarial responsibilities in connection with the Police and Fire System, but, by tradition, has performed services for this system similar to those provided for the Teachers System.[18] The latest actuarial reports for the Teachers and Police and Fire Systems were performed for the six years ended December 31, 1971.[19]

To be in a position to properly report on the accrual basis, the District would first have to have actuarial studies performed on an annual basis on the Police and Fire, Teachers and Judges Retirement Systems, which presently are required to be evaluated every 5 years.

This annual evaluation is necessary due to changing circumstances, such as percentage of disability retirements, age at retirement, number of employees covered, rate of inflation being experienced, turnover statistics, etc. Prior to 1971, 88.4% of all retirees under the Police and Fire System had retired under the disability provision (in 1970, 241 of the 247 or 97.6% of all retirees were under the disability provision).[20] Since 1971 the number of disability retirements has declined significantly with 74%

of employees retiring on disability in 1972 and 54% in 1975.[21] Two changes in the disability retirement provisions of the Police and Fire System contributed significantly to the reduction in such retirement. Since enactment of Public Law 93-407 in September 1974, a police officer or fire fighter seeking disability retirement without the recommendation of the Board of Police and Fire Surgeons must bear the burden of proof of disability. In addition, improved control has been provided by the requirement of a current medical evaluation to be presented at the hearing of the Police and Fireman's Retirement and Relief Board so that the Board may base the decision on up-to-date information concerning the disability of the applicant for retirement.[22]

Since total benefits paid to retirees under a disability retirement are approximately 30% higher than under optional retirement,[23] the significant shift in the percentage of disability and retirements would have a significant impact on the liability of the Police and Fire Retirement System. In addition, in 1970, the new liberalized optional retirement formula was introduced which eliminated any minimum age requirement for retirement.

These changes could have significant impact on the annual pension cost to the District. Only through an annual evaluation would the proper costs be determined.

The annual evaluation would not necessarily have to be a complete update of all actual experience and assumptions. However, it should consist of adequate work to insure that any material assumptions used continued to be valid, in order to properly calculate the normal cost of the plans.

Actuarial Review -- U. S. Treasury Department

There has also been a question raised concerning the need for an outside actuary to perform the review in lieu of the U.S. Treasury Department.

From an independence standpoint, the issue is whether affiliations or influencing factors might affect the exercise of good judgement. Since the Federal government controls a substantial part of the District's revenues through the Federal payment and through Federal grants to the District and since the U. S. Treasury issues checks for the District, there would at least appear to be a lack of true independence between the Treasury Department and the District.

However, an actuarial study is an exacting procedure. Therefore, by utilizing one set of facts (i.e., number of employees, benefits, ages, etc.) and one set of assumptions (i.e., future interest rates, salary rates, inflationary

rates, etc.), only one answer can result. The auditor cannot rely entirely on the actuary who computes the retirement costs whether the actuary is independent or not. The assumptions used in calculating the pension expense, along with the actual calculation, have to be reviewed by the independent public accountant to satisfy himself as to its reasonableness.

The Treasury Department's actuary is a respected member of the American Academy of Actuaries. As such, he appears well qualified to perform the actuarial studies for the District, if such services would continue to be provided by the Treasury Department. However, the District should employ the services of its own independent consulting actuary to review the assumptions and calculations of the Treasury Department's actuary and to be available to discuss the impact of various management decisions (i.e., wage negotiations, etc.) on retirement liabilities. In addition, because pension expense and liability is such a material amount, an independent public accountant for the District would probably consider it necessary for at least the first year or two to utilize its own consulting actuary in its review of the retirement plan and calculations.

It should be emphasized that, in order to have financial statements prepared in accordance with generally

accepted accounting principles, the District must record the normal cost under APB Opinion No. 8 of retirement benefits of District employees covered by the Federal Civil Service Retirement System and by the Teachers, Police and Fire, and Judges Systems, as well as report the various disclosures set forth in APB Opinion No. 8.

Pension Reporting

Areas of governmental affairs outside of pension plans are subject to public scrutiny in terms of delivery of services, review of proposed expenditure budgets, review of taxation policies, maintenance of bond covenants, and similar matters. However, few citizens have sufficient grasp of actuarial science to immediately assess the impact of inadvertent or deliberate errors in management judgment in the pension area. Mistakes in other areas of government generally become quickly known when service is reduced or curtailed, taxes are increased, defaults are created, etc. However, damage done by improper administration of pension funds may take many years to surface.

However, if financial statements are prepared in accordance with generally accepted accounting principles and pension plan disclosure is followed in accordance with APB Opinion No. 8, there at least will be the opportunity for

full disclosure of pension plan data. In addition, if such financial statements are examined and reported on by an independent public accountant, changes in actuarial assumptions, inappropriate actuarial assumptions, questionable transactions, and other significant items will be commented upon by the auditor either in his report or will be covered in the footnote describing the various pension plans. As indicated above, both the AICPA, through its Industry Audit Guide "Audits of State and Local Governmental Units," and the MFOA, through its endorsement of the AICPA Audit Guide in the November 18, 1975, publication "Disclosure Guidelines for Offerings of Securities by State and Local Governments," require or endorse full disclosure of pension plan arrangements in financial statements of state and local governmental units.

Before estimating the proper pension expense for the District's systems, the difference between pension expense and pension funding should be explored. The calculation of pension expense for any particular period attempts to match the liability incurred over the period that the services are rendered. The actual funding of the liability, on the other hand, involves payment of cash to an independent trustee. Although improved accounting for pension costs will not solve the funding problem currently

being postponed by the District and Congress, it will bring potential problems to light at an earlier date and thus increase the probability of finding a viable solution on a timely basis.

If the District properly calculated its pension expense for police, fire, teachers and judges, in accordance with prescribed accounting methods of APB Opinion No. 8, the District would report pension expense for FY 1976 as $266.0 million instead of the $56.6 million reported by the unacceptable "pay-as-you-go" method. The following is a calculation of the actual cost for FY 1976.

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CALCULATION OF NORMAL COST FOR FY76

Plan	Estimated FY76 Active Payroll[a] (millions)	% Normal Cost[b]	Normal Cost[c] (millions)	Amortization of Unfunded Past Service Liability[d] (millions)	Interest on Unfunded Liability[e] (millions)	Total Cost FY76[f] (millions)	Less Employees' Contributions[g] (7%)	FY 76 Net Cost		Unfunded Liability Estimated October 1, 1976[b] (millions)
								GAAP (millions)	"Pay-as-You-Go"[h] (millions)	
Police and Fire	$ 90.8	53.5%	$48.6	$57.6	$80.6	$186.8	$6.4	$180.4	$45.4	$1,152
Teachers	129.0	19.7%	25.4	24.6	43.0	93.0	9.0	84.0	10.8	614
Judges	2.0	49.9%	1.0	.2	.5	1.7	.1	1.6	.4	7
								$266.0	$56.6	

[a]Obtained from Cedric W. Kroll, Hearings before the Senate Committee on the District of Columbia on the District of Columbia Retirement Systems, 94th Cong., 2nd Sess., pp. 8-10.

[b]See footnote a above, p. 3.

[c]Estimated payroll x % normal cost.

[d]Computed by Arthur Andersen & Co. as "Unfunded Liability ÷ 20 years for Police or 25 years for Teachers and Judges."

[e]Computed by Arthur Andersen & Co. as "Unfunded Liability x 7%."

[f]Normal cost + amortization of unfunded past service liability + interest on unfunded liability.

[g]Computed by Arthur Andersen & Co. as "Estimated payroll x 7%."

[h]Obtained from Government of the District of Columbia, Multi-Year Financial Plan for FY 1977-81, pp. 14-16.

This calculation is based on several assumptions. First, annual wage and annuity increases would average 4% per year and the investment interest rate would average 7% per year. These rates were adopted by the Treasury's actuary. His reasons for adopting these assumptions were as follows.[24]

1. The District's retirement plans provide for increases in annuities based either on salary increases of the active participants or on increases in the Consumer Price Index (CPI).

2. The President's budget shows the CPI projected to be 4% in 1981.

3. Actively traded Treasury securities maturing in mid-1978 and later currently yield 7 to 8%.

4. The most critical factor regarding the economic assumptions used is the excess of the interest rate over the inflation rate and not the absolute levels. In this regard, the Treasury actuary noted that "the view is widely held that over the long run the interest rate will exceed the inflation rate by 2.5 to 3.5% points."

The validity of these rates at present appears questionable inasmuch as the increase in the CPI has averaged approximately 9.5% from 1973 through 1975. Based on these facts, the auditor would have to take a critical look at the basis for the assumptions and satisfy himself as to the correctness of the long-range rates to be used. To illustrate the importance of the correct assumptions, a 1% increase in the assumed inflation rate would increase

the reported pension cost in FY 1976 as previously calculated, by approximately $30 million or 14%. This 1% increase in assumed salary inflation rate would also increase the unfunded liability for the District's Police and Fire, Teachers and Judges Systems from $1,774 million to $2,040 million, or $266 million.[25]

Another assumption used in the calculation of pension cost for FY 1976 was the amortization period used for the unfunded prior service costs. APB Opinion No. 8 does not allow for a restatement of previous years' financial statements for prior service costs. Instead, it requires that the effect of prior service costs be accounted for prospectively.[26] Basically, APB Opinion No. 8 allows the amortization of prior service cost over a range of 10 to 40 years. The number of years to be used should generally be equal to the average working life of the employees in service.

The average working life of District employees covered under the retirement plans varies. The December 31, 1971, actuarial reports disclosed the following facts.

	Average Years of Service of Active Force	Average Years of Service at Disability Retirement	Average Years of Service at Normal Retirement
Police and Fire System	7.0	21.8	25.4
Teachers System	8.6	25.1	35.1

Since approximately 60% of police and firemen retire under the disability provisions, the average working life for these employees would probably be about 23 to 24 years. Most teachers retire under normal retirement and thus an average working life for teachers would be 35 years.

Another question which needs to be explored is whether or not the amortization period should be reduced to the average remaining years of service of the present active employees, as the prior service costs being amortized relates directly to them. For police and firemen, the amortization period should be in the range of 17 years (24 - 7 years), and for teachers, the amortization period should be in the range of 26 years (35 - 9 years). However, under APB Opinion No. 8, it would be acceptable for the amortization period to be the average working life of the employees without reducing it by the average years of service of the present active employees, if the District and its actuary agreed.

Based on the facts presented, one acceptable period of amortization would be approximately 20 years for the police and firemen's prior service costs and 25 years for the teachers' prior service costs.

Funding vs. Financial Reporting

As mentioned previously, the actual funding of a pension plan might differ from the financial reporting of

pension expense, although in many cases the amounts are the same.

The funding proposal currently being considered by the House District Committee is a level percentage financing method. This method calls for the funding of the annual normal cost plus interest on the unfunded liability at a level percentage of payroll costs. It does not attempt to amortize the unfunded liability, only to stabilize it at the present level. The District and the Treasury actuary feel that this would result in actuarially sound funded plans for the District. On the other hand, financial reporting in accordance with generally accepted accounting principles requires the amortization of prior service costs (in this case the same as the unfunded liability) and ERISA requires the funding of the prior service costs. Although ERISA, which imposes reporting and funding requirements on most pension plans, does not apply to governmental plans, Congress passed ERISA in order to protect employees from abuses in handling pension plans by requiring them to be adequately funded on an actuarial basis. Therefore, the guidelines of ERISA should be considered in the establishment of proper funding for the District's plans.

ERISA requires an employer's contribution to a defined benefit plan to consist of the normal cost of the plan for the year, plus the amount necessary to amortize in equal installments the initial past service liability of the plan plus interest over a 30- to 40-year period.

Federal Civil Service Retirement System

In addition to the normal pension information disclosure as required by APB Opinion No. 8, another item must be considered for proper disclosure under accrual accounting. The District is compelled by the Home Rule Charter for its employees, other than those covered under another retirement system, to participate in the Federal Civil Service Retirement System at least until the District adopts its own merit system. Approximately 60% of the District employees are covered under this system. Under this plan, the employees are required to contribute 7% of their salaries, with the District contributing an additional 7%. This amount is forwarded annually to the Civil Service Commission which is responsible for administering this System and disbursing the benefits. However, in doing this, the Federal Civil Service Retirement System is contributing any shortfall between the amount of contributions and the actual amount needed to pay future benefits.

From an economic standpoint, the District is substantially benefiting by having the Federal government pay part of the cost of District employees' benefits. If the District could not participate in the Federal plan, a similar plan would probably have to be adopted and funded by the District to make benefits comparable to those offered by the Federal government in order to compete in the hiring of qualified employees. Based on the economic substance of this transaction, the District should be reporting the portion of pension liability being assumed by the Federal government as equivalent to a Federal subsidy and correspondingly as an employee benefit expense.

It should be pointed out that the District has been following the Federal government's funding and reporting requirements regarding its participation in the Civil Service Retirement System.

In its report to Congress in July 1975 on the actuarial status of the Civil Service Retirement System at June 30, 1972, the Board of Actuaries of the System estimated the normal cost for all employees (Federal and District) covered using three different assumptions; that of static, (no inflation), dynamic with 3% Consumer Price Index (CPI) increase, and dynamic with 4% CPI increase. The following table summarizes the report's findings.[27]

	Static		3% Dynamic		4% Dynamic	
	$ (millions)	% of Salary	$ (millions)	% of Salary	$ (millions)	% of Salary
Annual normal cost for employer	$2,007	6.64%	$4,401	14.56%	$6,571	21.74%
Employee contributions at 7%	2,116	7.00%	2,116	7.00%	2,116	7.00%
Interest on unfunded liability	3,822	12.64%	7,470	24.71%	9,368	30.99%
Net unfunded liability divided by 30 years	2,548	8.43%	4,150	13.73%	5,204	17.22%
		34.71%		60.00%		76.95%

This table utilizes the Board's calculation of net unfunded liability for the entire Civil Service System of $76 billion under the static assumption, $124 billion under the 3% dynamic assumption and $156 billion under the 4% dynamic assumption.

The static assumption, assuming no inflation, is unrealistic and therefore should not be considered further in a reasonable evaluation. The dynamic assumptions, however, indicate that the Federal government is subsidizing the District pension benefits by anywhere from 46.00% to 62.95% of salaries of District employees covered by the Federal plan. The following is a calculation of the value of benefits not being recognized by the District.

ANALYSIS OF ACTUAL COST OF FEDERAL CIVIL SERVICE RETIREMENT SYSTEM

FOR DISTRICT OF COLUMBIA FOR

	6% Interest Rate Assumption			
	3% Inflation Assumption (% of salary)	$ (millions)	4% Inflation Assumption (% of salary)	$ (millions)
Normal Cost	21.56%	$ 83.2	28.74%	$110.9
Interest on Unfunded Liability	24.71	95.3	30.99	119.5
Amortization of Unfunded Liability (30 years)	13.73	53.0	17.22	66.4
Total Actual Cost of Benefits	60.00%	$231.5	76.95%	$296.8
District and Employee Contributions	(14.00)	(54.0)	(14.00)	(54.0)
Portion of Benefit "Paid" by Federal Government	46.00%	$177.5	62.95%	$242.8
% of Estimated Federal Payment of $254 million in 1976		70%		96%

Note: This table is derived by recalculating all numbers based on 14% District and employee contribution and utilizing percentages obtained in previous table on page 43, for the overall Civil Service Retirement System (Warning - This table is based on the overall experience of the System and not on the experience of District employees, which is not available.)

Therefore, the District is not reflecting an expense for services it has incurred that is equal to approximately 96% of the total Federal payment to the District and 22% of the District's 1976 appropriated budget of approximately $1.1 billion.

In this regard, three important facts should be brought out. First, the District is currently compelled by law to participate in this plan. Second, if the District was forced to leave the Civil Service System and seek to establish a private plan, it would have to determine the cost impact of such a high percentage of benefits and thus would have to consider whether such benefits could be afforded. Also, the percentages and numbers used in the foregoing projections were based on the Civil Service Retirement System's overall statistics of which the District is a relatively small portion. To properly evaluate the actual normal cost for the District, a separate actuarial study must be performed so that only actual District employee experience is considered. In addition, the inflation rates (which have averaged 9.5% over the past 3 years) and long-term interest rates would need to be currently reevaluated.

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

If the District properly reported the amount of pension expense as earned by its employees over their working life, the District would have reflected pension expense for FY 1976 of approximately $536 million instead of the $84 million disclosed. The $536 million consists of the following.

	Million
Police and Fire	$180
Teachers	84
Judges	2
Civil Service	270
	$536

This would have increased the District's appropriated expenditures from approximately $1.10 billion to approximately $1.55 billion or 41%. This is a serious omission from the budget (and financial statements) and is actually a deficit position which will have to be financed through future revenues, to the extent not absorbed by the Federal government.

The following is a summary of conclusions and recommendations on the District's pension and retirement plans.

1. All pension and retirement plans should be reported in the District's financial statements in conformity with generally accepted accounting principles, which includes the amortization of the unfunded

prior service costs over an acceptable period. Failure to do so appears to be so material that this fact alone--no other problems being present--would result in a qualified auditors' report or possibly a disclaimer of opinion.

2. The District should reflect in its financial statements the benefit it is receiving from the Federal Government for assuming the pension liability for the District's employees covered under the Civil Service Retirement System. In order to properly make the calculation, an actuarial study on District employees covered under the Civil Service Retirement System must be made.

3. An acceptable period for amortization of unfunded prior service costs should approximate the working period of the respective employee groups. Failure to resolve this problem of funding could possibly result in a recorded liability in the District's financial statements so large that the District's financial stability would be questioned. This also could result in a qualified or disclaimed auditors' report.

4. Actuarial reviews should be performed on all pension and retirement plans on an annual basis.

5. The District should consider using a consulting actuary in the determination of actuarial assumptions.

FOOTNOTES

(1) Board of Actuaries of the Civil Service Retirement System Fifty-Second Annual Report, 94th Cong., 1st Sess., pp. 11-12 (1975).

(2) Letter from Elmer B. Staats, Comptroller General of the United States, to Representative Thomas M. Rees, Washington, D. C., April 10, 1974.

(3) Comer S. Coppie, Hearings before the Senate Committee on the District of Columbia on the District of Columbia Retirement Systems. 94th Cong., 2nd Sess., p. 5 (1976).

(4) District of Columbia Office of Budget and Financial Management, Summary of Major Retirement Provisions, pp. 1-2.

(5) Cedric W. Kroll, Hearings before the Senate Committee on the District of Columbia Retirement Systems, 94th Cong., 2nd Sess., p. 3 (1976).

(6) Report of the Commission on the Organization of the District of Columbia, 92nd Cong., 2nd Sess., vol. II, p. 528 (1972).

(7) See footnote 3 above, p. 5.

(8) See Footnote 4 above, pp. 3-4.

(9) See footnote 5 above, pp. 3-4.

(10) See footnote 5 above, p. 1.

(11) Government of the District of Columbia, Multi-Year Financial Plan for FY 1977-81, p. 15 (1976).

(12) See footnote 5 above, p. 3.

(13) See footnote 6 above. p. 525.

(14) American Institute of Certified Public Accountants Accounting Principles Board, Opinion Number 8 - Accounting for the Cost of Pension Plans, New York, New York (1966).

(15) American Institute of Certified Public Accountants Committee on Governmental Accounting and Auditing, Audits of State and Local Governmental Units, New York, New York (1973).

(16) Municipal Finance Officers Association, Regulation of the Municipal Securities Market and Its Relationship to the Governmental Issuer, November 18, 1975.

(17) See footnote 11 above.

(18) See footnote 5 above, p. 1.

(19) U. S. Dept. of the Treasury Office of Debt. Analysis, District of Columbia Metropolitan Policemen and Firemen Retirement System - Actuarial Valuation as of December 31, 1971 (1973).

(20) See footnote 6 above, p. 532.

(21) See footnote 3 above, p. 6.

(22) See footnote 3 above, p. 6.

(23) See footnote 5 above. p. 3.

(24) See footnote 5 above, pp. 5-6.

(25) See footnote 5 above, pp. 8-10.

(26) See footnote 1 above, para. 48.

(27) See footnote 1 above, p. 9.