



**District of Columbia Public Schools’  
Budget Development and Execution  
Processes Were Not Sufficient to Avoid  
Divisional Over- and Under-Spending**

September 10, 2014

**Audit Team:**

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A Report by the Office of the District of Columbia Auditor  
Lawrence Perry, Acting District of Columbia Auditor



September 10, 2014

Included herein is the District of Columbia Auditor's report entitled "District of Columbia Public Schools' Budget Development and Execution Processes Were Not Sufficient to Avoid Divisional Over- and Under-Spending." This audit was conducted as the result of the D.C. Auditor's annual risk assessment which identified the D.C. Public Schools' (DCPS) School System Management division as a division that presented significant risk to the District government. The objectives of this audit were to determine whether DCPS' budget development and execution processes were (1) sufficient to avoid over- and under-spending and (2) transparent.

We would like to thank DCPS's staff for their assistance and cooperation during this audit. We also would like to thank representatives from the DCPS Office of the Chief Financial Officer that participated in our audit. All of their valuable time and efforts spent on providing us information were greatly appreciated.

Sincerely

Lawrence Perry  
Acting District of Columbia Auditor

September 10, 2014



## **District of Columbia Public Schools’ Budget Development and Execution Processes Were Not Sufficient to Avoid Divisional Over- and Under-Spending**

### **Why ODCA Did This Audit**

This audit was conducted as the result of the D.C. Auditor’s annual risk assessment which identified the District of Columbia Public Schools’ (DCPS) School System Management division as a division that presented significant risk to the District government.

### **What ODCA Recommends**

1. We recommend that DCPS work with the DCPS Office of the Chief Financial Officer to assess shortcomings in budget formulation and monitoring to prevent divisions from overspending their budgets.
2. We recommend that DCPS maintain evidence of monthly monitoring of divisional spending relative to the adopted budget.
3. We recommend that DCPS maintain transparency for stakeholders by continuing to align its budgetary divisions with its operational divisions.

### **What ODCA Found**

In fiscal year (FY) 2013, the District of Columbia Public Schools’ (DCPS) mission was to “educate all children in the District of Columbia and provide the knowledge and skills the children need to be a success in college and career.” DCPS’ School System Management (SSM) division was responsible for providing leadership, management, and operational support to DCPS schools. The FY 2013 proposed budget for the SSM division was \$60.6 million with a workforce of over 660.

Overall, DCPS budget development and execution processes were not sufficient to avoid over- and under-spending for the SSM division. In FY 2013, DCPS’ SSM division overspent its overall budget and three of the division’s five activities had budget overruns. Additionally, DCPS could not provide sufficient evidence that they regularly reported on and retained documentation on FY 2013 SSM division spending in relation to the budget. Also, in FY 2013 DCPS’ budget development and execution processes for the SSM division were not transparent for stakeholders.

**For more information regarding this report, please contact Anovia Daniels, Communications Analyst/ANC Outreach, at [Anovia.Daniels@dc.gov](mailto:Anovia.Daniels@dc.gov) or 202-727-3600.**

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## **Background**

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**The FY 2013  
proposed budget  
for the SSM  
division was \$60.6  
million with a  
workforce of over  
660**

In fiscal year (FY) 2013, the District of Columbia Public Schools' (DCPS) mission was to "educate all children in the District of Columbia and provide the knowledge and skills the children need to be a success in college and career." DCPS had a proposed budget of over \$811 million in FY 2013 with a workforce of over 7,550. Total enrollment in the public schools was more than 45,000 students in school year 2012-2013.

According to the FY 2013 proposed budget, DCPS' School System Management (SSM) division was responsible for providing leadership, management, and operational support to DCPS schools. This included the following five activities: providing support to school principals and assistant principals, providing support to school-based administrators, providing support to schools to improve operational efficiency, providing oversight and management of day-to-day operations, and providing instructional Superintendent services. The FY 2013 proposed budget for the SSM division was \$60.6 million with a workforce of over 660.

## **Objectives, Scope and Methodology**

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### **Objectives**

This audit was conducted as the result of the Office of the District of Columbia Auditor's annual risk assessment which identified the D.C. Public Schools' (DCPS) School System Management (SSM) division as a division that presented significant risk to the District government. The objectives of this audit were to:

1. Determine whether DCPS' budget development and execution processes were sufficient to avoid over- and under-spending for the SSM division.
2. Determine whether DCPS' budget development and execution processes were transparent for the SSM division.

### **Scope**

The audit period covered fiscal year (FY) 2013, which was October 1, 2012 through September 30, 2013.

### **Methodology**

To determine whether DCPS' budget development and execution processes were sufficient to avoid over- and under-spending for the SSM division, we conducted interviews with responsible individuals regarding the budget development and execution processes. We reviewed documentation on budget development processes at the individual school and central office levels and compared DCPS' budget development processes with recommended best practices. We analyzed DCPS budget execution processes and internal controls for non-personnel spending within the SSM division and compared them with recommended best practices. We reviewed the SSM division's FY 2013 monthly and annual budget-to-actual reports, adopted line-item budget, and all processed budget adjustments.

To determine whether DCPS' budget development and execution processes were transparent for the SSM division, we conducted interviews with DCPS and OCFO staff to gather insight on the transparency of the DCPS budget. We also reviewed the budget presentation of similar-sized jurisdictions to compare availability and transparency of information provided and budget-to-operations alignment.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Audit Results

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Overall, the District of Columbia Public Schools' (DCPS) budget development and execution processes were not sufficient to avoid over- and under-spending for the School System Management (SSM) division. In fiscal year (FY) 2013, DCPS' SSM division overspent its overall budget and three of the division's five activities had budget overruns. Additionally, DCPS could not provide sufficient evidence that they regularly reported on and retained documentation on FY 2013 SSM division spending in relation to the budget. Also, DCPS' budget development and execution processes were not transparent for stakeholders of the SSM division.

We believe the following three recommendations represent a path to improved budgetary operations for DCPS.

**1. We recommend that DCPS work with the DCPS Office of the Chief Financial Officer to assess shortcomings in budget formulation and monitoring to prevent divisions from overspending their budgets.**

The District of Columbia Anti-Deficiency Act<sup>1</sup> (the Act) does not allow agencies to overspend budgets by more than 5 percent. This requirement is applied at the agency level and is not legally applicable to spending by divisions within an agency; however, it is quite relevant as a standard that divisions should strive to attain.

DCPS provided a complete accounting of budgets and expenditures for every element of the SSM division for FY 2013. Using this data, we analyzed budget-to-actual performance for the SSM Division. Overall, the SSM division overspent its budget by 8.4 percent in FY 2013, more than 3 percentage points greater than the threshold of 5 percent in the Act. The expenditure data, provided by DCPS, indicated that the SSM division's year-end budget was \$59.5 million. Expenditures for the SSM division totaled \$64.5 million in FY 2013, which was approximately \$5 million over the budget.

We also examined the budget-to-actual performance of the SSM division's five activities. They were:

- School Leadership;
- School Administrative Support;
- School Operations Support;
- Management, Direction and Oversight; and
- School Transformation.

Two of the five activities came in under budget. School Leadership had the highest year-end budget of the five activities at \$28.8 million. Expenditures for School Leadership were \$27.7 million, which was 3 percent under budget. School Transformation had the lowest budget at \$656,792. Expenditures for School Transformation were \$198,006, which was 70 percent under budget.

The three remaining activities were all over budget, sometimes significantly so. School Administrative Support had a budget of \$17.3 million. Expenditures were \$22.5 million, which was 30 percent over budget, far greater than the 5 percent threshold of the Act. School Operations Support, with a budget of \$3.2 million, had expenditures of \$4.0 million, exceeding its budget by 25 percent. Management, Direction, and Oversight had a budget of \$9.6 million. Expenditures

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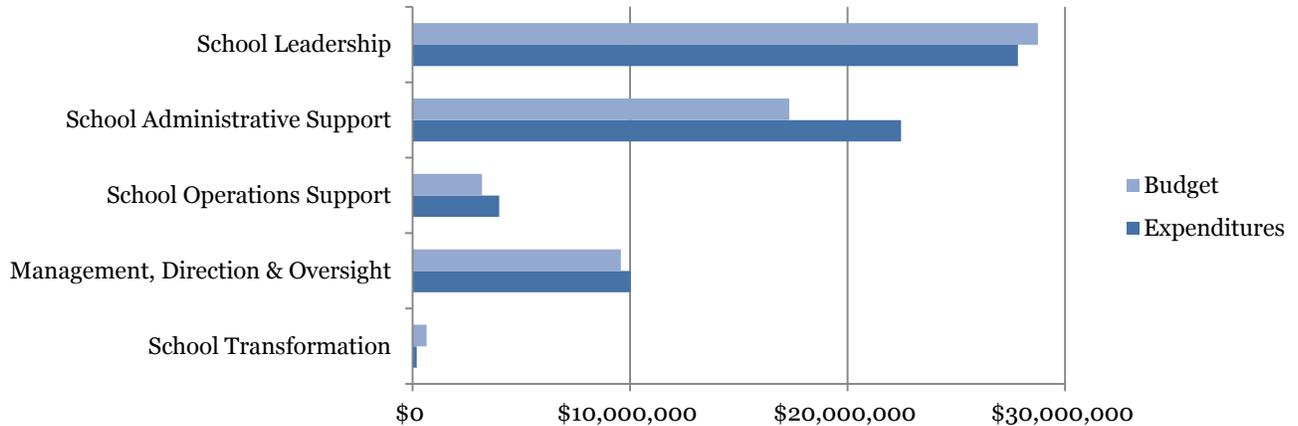
<sup>1</sup> District of Columbia Official Code §47-355.02

**The SSM division overspent its budget by 8.4 percent in FY 2013**

for this activity were \$10.0 million and just under 5 percent over budget.

Figure 1 presents a visual representation of DCPS’ SSM budget-to-actual spending for its five activities.

**Figure 1 Budget-to-Actual Spending for the Five Activities within DCPS’ School System Management Division**



Representatives from DCPS stated that the budget overrun was partially due to the application of administrative premium pay to salaries in the SSM budget in FY 2013. The administrative premium pay was not included in the original budget for the SSM division and the budget wasn’t modified to account for it. The omission of known and predictable costs from the budget, such as administrative premium pay, indicates a shortcoming either in DCPS’ original budget formulation, the monitoring and adjustment of budget allocations as necessary throughout the fiscal year, or perhaps both.

The effect of the significant disagreement between the SSM division budget and spending is that the budget did not provide a realistic expectation of SSM division expenditures to stakeholders. A complex budget, such as the SSM division budget, is never perfect and adjustments are to be expected. However, the significance of the deviations, from both the original budget and the final year-end budget, created a serious lack of transparency for parents, elected officials, and other interested parties.

**2. We recommend that DCPS maintain evidence of monthly monitoring of divisional spending relative to the adopted budget.**

GAO Standards for Internal Control states that "Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives...such as approvals, authorizations, verifications, reconciliations... and *the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation* (Auditor's emphasis)."

**DCPS stated that they could not provide evidence of consistent financial reporting because they had deleted all FY 2013 reports**

DCPS could not provide sufficient evidence indicating that they regularly reported on and retained documentation on FY 2013 SSM division spending in relation to the budget. DCPS was able to provide one quarterly expenditure report for FY 2013; however, there was no supporting documentation for the aggregated totals that appeared in the report. They provided nothing for the other three quarters in FY 2013. Therefore, we could not conclude as to whether DCPS monitored, measured and evaluated actual expenditures relative to the adopted budget on a routine basis.

DCPS stated that they could not provide evidence of consistent financial reporting because they had deleted all FY 2013 reports.

If DCPS did not sufficiently monitor financial activity, it's possible that DCPS did not analyze changes to the original budget or compare budget to actual spending for both personnel and non-personnel services. In a worst-case scenario, DCPS may not have known whether the SSM division was over or under-spending in any given area, putting at risk the department's ability to meet overall budgetary needs throughout the year.

**3. We recommend that DCPS maintain transparency for stakeholders by continuing to align its budgetary divisions with its operational divisions.**

Recommended budget practices published by the National Advisory Council for State and Local Budgeting (NACSLB) state that “budget documents should include information that provides the reader with a guide to the programs the government operates and the organizational structure in place.”

For the FY 2015 budget cycle, which is beyond the scope of this audit, DCPS revamped its budget presentation, making it far more transparent for stakeholders. However, in FY 2013, DCPS' budgetary divisions did not align with DCPS' operational divisions as described in a FY 2013 Budget Guide published by DCPS. Figure 2 presents the inconsistencies between the DCPS budgetary and operational divisions.

**Figure 2 Comparison of DCPS' Budgetary and Operational Divisions**

FY 2013 Budget Divisions	FY 2013 Operational Divisions
Agency Management Program	Office of Communications
Agency Financial Operations	Office of Data and Accountability
School System Management	Office of Family and Public Engagement
Instructional Programs	Office of Human Capital
Special Education Local	Office of Special Education
Instructional Support Services	Office of the Chief Academic Officer
Student Support Services	Office of the Chief Advisor to the Chancellor
Non-Instructional Support Services	Office of the Chief Financial Officer
Other State Functions	Office of the Chief of Schools
Non-Programmatic Departments	Office of the Chief of Staff
No Activity Assigned	Office of the Chancellor
	Office of the Chief Operating Officer
	Office of the General Counsel
	Direct School Allocations
	Other School-Based Costs

**To have a complete understanding of how DCPS funds were allocated in FY 2013, a stakeholder would have had to review and interpret three separate and complex sources of information**

In FY 2013, DCPS published a 37-page Budget Guide to help stakeholders understand the FY 2013 budget given that its structure had no resemblance to the operational units within DCPS. In it, DCPS stated that “this budget guide, published independently of, but aligned to, the DCPS Agency Budget Chapter, presents a breakdown of the proposed FY13 DCPS budget. While the guide will not resolve all outstanding financial questions, in conjunction with school specific data available... on our website, it shows what resources go into providing a high quality education for our students.” Therefore, to have a complete understanding of how DCPS funds were allocated, a stakeholder would have had to review and interpret three separate and complex sources of information: (1) the DCPS FY 2013 budget; (2) the FY 2013 DCPS Budget Guide; and (3) school specific data on the DCPS website.

The SSM division was the original focus of this audit; however, we quickly realized that this division had no single operational counterpart. Instead, the SSM division’s budget was allocated to seven different operational divisions. When asked about the SSM division, several DCPS employees were unfamiliar with what the SSM budget division was designed to achieve. Figure 3 presents a breakdown of the seven operational divisions to which DCPS allocated the SSM division budget.

**Figure 3 Operational Allocation of the SSM Division Proposed FY 2013 Budget**

<p style="text-align: center;"><b>School System Management Division</b> \$60.6 million</p>	Office of Human Capital 0.1%
	Office of the Chief Academic Officer 6.3%
	Office of the Chief Advisor to the Chancellor 0.002%
	Office of the Chief of Schools 13.3%
	Office of the Chief of Staff 5.0%
	Office of the Chancellor 0.9%
	Direct School Allocations 74.4%

**The District-wide budget structure required DCPS to allocate funds to specific cost centers which did not correspond to DCPS' FY 2013 operational structure**

DCPS' FY 2013 proposed budget lacked transparency because its design conformed to the District-wide budget structure used by all other District agencies. The District-wide budget structure required DCPS to allocate funds to specific cost centers which did not correspond to DCPS' FY 2013 operational structure. Additionally, DCPS employees stated that changing the budget presentation was a very complex undertaking because it required buy-in from many stakeholders.

Without transparent budgetary information in FY 2013, DCPS' stakeholders, including parents and elected officials, had little context for the allocation of resources or how DCPS intended to meet its core priorities involved in educating the students of the District of Columbia. As noted above, we are pleased to note that DCPS significantly changed the structure of its proposed FY 2015 budget, making the budget divisions consistent with the operational divisions.

## Audit Results Summary

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Our audit identified three recommendations that could strengthen DCPS' budget development and execution processes. In order to ensure adherence to best practices, we recommend that DCPS:

Recommendation	Finding
<p>1. Work with the DCPS Office of the Chief Financial Officer to assess shortcomings in budget formulation and monitoring to prevent divisions from overspending their budgets.</p>	<ul style="list-style-type: none"> <li>DCPS' School System Management (SSM) division overspent its budget by 8.4% in fiscal year (FY) 2013. Two of the SSM division's five activities came in under budget and three of the activities came in over budget.</li> </ul>
<p>2. Maintain evidence of monthly monitoring of divisional spending relative to the adopted budget.</p>	<ul style="list-style-type: none"> <li>DCPS could not provide sufficient evidence that they regularly reported on and retained documentation on FY 2013 SSM division spending in relation to the budget.</li> </ul>
<p>3. Maintain transparency for stakeholders by continuing to align its budgetary divisions with its operational divisions.</p>	<ul style="list-style-type: none"> <li>In FY 2013, DCPS' budgetary divisions did not align with DCPS' operational divisions as presented in the DCPS organizational chart.</li> </ul>

## Conclusion

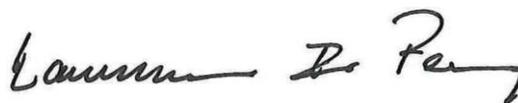
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Overall, we found that the District of Columbia Public Schools' (DCPS) School System Management (SSM) division overspent its budget by 8.4 percent in fiscal year (FY) 2013. Two of the SSM division's five activities came in under budget and three of the activities came in over budget. Also, DCPS could not provide sufficient evidence that they regularly reported on and retained documentation on FY 2013 SSM division spending in relation to the budget. Additionally, in FY 2013, DCPS' budgetary divisions did not align with DCPS' operational divisions as presented in the DCPS organizational chart.

We formulated three recommendations to address these weaknesses and strengthen DCPS' budget development and execution processes.

On August 29, 2014, we received written comments from DCPS on a draft version of this report. After reviewing DCPS' comments, we are pleased that DCPS has taken our recommendations into consideration. DCPS revamped its budget presentation in FY 2015 and we agree with DCPS's assertion that the current budget should help to resolve some of the issues noted in this report. However, DCPS felt that representatives from the DCPS Office of the Chief Financial Officer (OCFO) should play a role in the resolution of the findings identified in this report. To address this, we made a minor modification to one recommendation to note that DCPS should work with the DCPS OCFO to assess shortcomings in budget formulation and monitoring to prevent divisions from overspending their budgets.

Sincerely,



Lawrence Perry  
Acting District of Columbia Auditor

## **Agency Comments**

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On August 14, 2014, the Office of the District of Columbia Auditor submitted the draft report titled, “District of Columbia Public Schools’ Budget Development and Execution Processes Were Not Sufficient to Avoid Divisional Over-and Under-Spending” for review and comment to the District of Columbia Public Schools (DCPS).

The Auditor received written comments from DCPS on August 29, 2014. The DCPS response is included with this report.



August 29, 2014

Lawrence Perry  
Acting District of Columbia Auditor  
717 14<sup>th</sup> Street NW, Suite 900  
Washington DC, 20005

Mr. Perry:

Thank you for providing DCPS, and particularly DCPS OCFO, with The Office of the District of Columbia Auditor's analysis of DCPS' School System Management (SSM) activity code. This memo serves as DCPS' response to the management recommendations included in that report.

Before responding to the individual recommendations, it is worth reviewing the conversations DCPS, DCPS OCFO, and the DC Auditor's office had during the entrance conference for this audit. From the outset, DCPS was clear that, while SSM is part of the chart of accounts presented in the FY 2013 budget presentation, SSM is not an organizational division, nor is it a unit that DCPS or DCPS OCFO uses for budget analysis. This points to a broader problem – one related to your third recommendation – of DCPS' chart of accounts not appropriately reflecting DCPS' organizational structure. Frankly, the SSM activity code example is considerably less troubling than the fact that the FY 2013 budget presentation makes it impossible to review any one school's budget. The units of analysis in the budget book simply did not match the organizational structure utilized in effectively managing school operations and school budgets.

As we noted to the auditor, DCPS OCFO implemented a revised chart of accounts for FY 2015. In this chart of accounts, the activities match to schools and program offices. This new chart of accounts will make both budget formulation and monitoring more transparent both for DCPS staff and for stakeholders.

It is also worth noting that the audit report does not make a distinction between DCPS and DCPS OCFO. Given that these are two separate agencies with two separate sets of responsibilities, recommendations should delineate the responsibility of each agency. As currently written, the audit report prescribes responsibility for monitoring spending and adjusting budgets to DCPS. By itself, DCPS does not have access to the information required to monitor effectively and does not have the authority to make budget changes independently. The casual reader of the audit would be misled into believing that the recommendations are directed to DCPS, when most are more appropriately addressed to OCFO.

**Recommendation #1 – We recommend that DCPS assess shortcomings in budget formulation and monitoring to prevent divisions from overspending their budgets**

As mentioned above, the SSM activity is not reflective of a division within DCPS. DCPS develops its budgets and works with OCFO to monitor spending at the school and office level. This ensures that there is a single individual (the principal or the office chief) who is responsible for each budget. While it

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is true that DCPS and DCPS OCFO do not monitor spending for the SSM activity, this is more a function of a flawed chart of accounts than of lax oversight.

**Recommendation #2 – We recommend that DCPS maintain evidence of monthly monitoring of divisional spending relative to the adopted budget.**

DCPS would invite monthly monitoring of spending for schools and offices and continues to work with OCFO to improve the quality of information available for decision-making throughout the fiscal year. In an agency with over 100 schools and many non-school-based cost centers, we expect to make considerable modifications to each annual budget between the time of its formulation and the completion of this fiscal year, 18 months later. As we strive to ensure that all available funds are spent in the service of our students, we frequently must make mid-year adjustments to ensure that spend appropriately.

**Recommendation #3 – We recommend that DCPS maintain transparency for stakeholders by continuing to align its budgetary divisions with its operational divisions.**

The auditor’s report appropriately notes that DCPS has, over the past three years, taken increasing steps to provide stakeholders with clear information regarding DCPS’ annual budget. Working within the constraints of the established system, DCPS produced annual school-level budget data and a budget guide to supplement the confusing display in the official budget transmittal.

Beginning in FY 2015, OCFO realigned DCPS’ budget to ensure that the chart of accounts was more reflective of the organizational structure. This led to an improved budget presentation in FY 2015. This change also addresses most of the recommendations raised in this audit. For example, with an improved chart of accounts, DCPS will monitor expenditures based on the budget categories that are reflective of the actual organization structure.

In the end, this audit effectively noted the mismatch in DCPS’ chart of accounts and organizational structure. The other conclusions of the audit – that DCPS wasn’t monitoring spending and that there was no evidence of monitoring – are more symptoms of this broader shortcoming. DCPS and DCPS OCFO have addressed the underlying shortcoming. While DCPS would invite continued improved monitoring of spending across the agency, this change to the chart of accounts will address most concerns raised in the audit.

Sincerely,



Kaya Henderson  
Chancellor

## **Auditor's Response to Agency Comments**

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The Auditor appreciates the comments provided by the District of Columbia Public Schools (DCPS). We are pleased that DCPS' efforts to revamp their budget in fiscal year 2015 will help to resolve some of the findings and recommendations presented in the report. However, DCPS felt that representatives from the DCPS Office of the Chief Financial Officer (OCFO) should play a role in the resolution of the findings identified in this report. To address this, we made a minor modification to one recommendation to note that DCPS should work with the DCPS OCFO to assess shortcomings in budget formulation and monitoring to prevent divisions from overspending their budgets.