Mismanaged Special Education Payment System
Vulnerable to Fraud, Waste, and Abuse

September 27, 2002
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EXECUTIVE SUMMARY

PURPOSE

Pursuant to Section 455 of Public Law 93-198, the District of Columbia Auditor conducted an examination of expenditures by the District of Columbia Public Schools (DCPS) for services provided to special education students. This aspect of the examination focused specifically on payments for special education services made by the DCPS Office of the Chief Financial Officer (OCFO) through the Petties Automated Payment System (PAPS).

CONCLUSION

The District of Columbia Public Schools (DCPS) has paid millions of dollars to vendors participating in the Petties Automated Payment System without verifying the accuracy or legitimacy of charges. These unsubstantiated payments were made as a result of management in DCPS’ Office of Special Education and Office of the Chief Financial Officer failing to implement adequate and effective internal controls, policies and procedures, and systems of accountability. Poor communication, uncooperative intra-agency and inter-agency working relationships and the general absence of contracts with vendors exacerbated the mismanagement of transactions flowing through the Petties Automated Payment System.

The Petties Automated Payment System was designed to ensure timely payment to vendors of special education and related services to DCPS students with disabilities. The Auditor determined that DCPS paid approximately $67 million to PAPS vendors without: (1) reviewing and approving the accuracy of invoices; (2) verifying that services provided were authorized by DCPS through Individualized Education Programs; and (3) determining the eligibility of students for special education services. As a result, the Auditor found that DCPS paid $1.2 million to vendors for services provided to 567 individuals that were ineligible for special education services or whose eligibility could not be determined from information provided on vendors’ invoices.

The Auditor identified numerous previously undetected instances of billing irregularities during the review of PAPS invoices. For example, the Auditor found irregularities totaling $98,490 which consisted of repeated billings for services provided once to students.
The Auditor found that DCPS has a backlog of approximately $4 million in disputed invoices, some of which have already been paid. The likelihood of DCPS recovering funds already paid is substantially diminished due to timelines set forth within the PAPS Court Order.

The Auditor determined that DCPS failed to establish contracts with vendors providing education and related services to its students with disabilities. The lack of contracts hindered DCPS’ ability to: define and hold vendors accountable to specific performance criteria; prescribe the manner in which the delivery of services would be authorized; negotiate rates for services provided; establish a standardized format and content for vendor invoices, and require vendors to submit documentation for health-related services to support Medicaid reimbursement.

Finally, in reviewing the PAPS Court Order the Auditor found that it failed to establish sufficiently detailed criteria for vendor participation in the Petties Automated Payment System, and placed upon DCPS unrealistic and unachievable timelines for paying participating vendors. More importantly, the projection-based payment method imposed by the Court is inconsistent with sound financial management principles and practices.

DCPS must implement strong internal controls governing the payment of special education invoices through PAPS. Likewise, DCPS must seek to revise the current Court Order to accommodate a special education services payment system that is based upon sound financial management principles, specific criteria for vendor participation, and reasonable timelines to achieve Court ordered objectives.

MAJOR FINDINGS

1. DCPS’ internal controls governing the PAPS payment process were inadequate and ineffective.

2. DCPS OCFO paid approximately $67 million without OSE verifying the eligibility of students or accuracy of vendor invoices.

3. DCPS paid vendors $1.2 million for services provided to 567 persons ineligible for special education services or whose eligibility could not be determined.

4. DCPS paid $98,490 without resolving invoice irregularities.

-i-
5. DCPS presently has a backlog of approximately $4 million in disputed invoices, some of which have already been paid.

6. DCPS lacks a standard format for PAPS vendor invoices.

7. DCPS did not establish contracts with nonpublic schools and some related service providers participating in PAPS.

MAJOR RECOMMENDATIONS

1. DCPS’ OCFO should develop an effective system of internal controls to ensure that PAPS payments are accurate and timely and that employees are held accountable to the fullest extent permitted by applicable personnel rules for deviations from control policies and procedures.

2. DCPS’ Board of Education, Superintendent, and principal manager of the OSE must develop effective policies and procedures to ensure that PAPS invoices are properly reviewed, approved and paid only for authorized services delivered to eligible DCPS special education students and that employees and managers of OSE are held accountable to the fullest extent permitted by applicable personnel rules for deviations from established policies and procedures.

3. The principal managers of DCPS’ OSE and OCFO must clearly communicate PAPS policies and procedures to staff through formal written directives.

4. The principal managers of DCPS’ OCFO and OSE must develop detailed procedures to be followed by staff in handling PAPS vendor invoices and processing payments. The procedures should describe the actions that must occur during each phase from invoice review through reconciliation.

5. The Board of Education and Superintendent ensure that DCPS’ CFO and manager of the OSE immediately implement a rigorous data driven process for the review, certification, and payment of PAPS invoices. These managers should also establish a clearly articulated personnel policy that employees who fail to timely and thoroughly review PAPS invoices will be held accountable to the fullest extent permitted, including termination, under applicable personnel rules.
6. DCPS’ Superintendent and CFO seek the recovery of the $1.2 million paid to vendors for unauthorized services provided to individuals identified in this report.

7. The Board of Education and Superintendent ensure that OSE and the DCPS OCFO review PAPS vendor invoices at least for fiscal years 1998 and 1999 to identify and recover additional funds that may have been improperly paid to vendors for unauthorized services.

8. DCPS’ Board of Education, Superintendent, and Chief Financial Officer must ensure that effective procedures are developed and implemented that require OSE staff to timely and adequately review vendor invoices for services provided to special education students. The review process must require the use of SETS and SIS and other sources of information to determine the validity of transactions presented on vendors’ invoices.

9. The principal managers of the OSE and DCPS OCFO strictly enforce the policy of determining student eligibility during the review and approval of PAPS invoices.

10. DCPS’ Superintendent and CFO establish formal protocols and procedures for the communication of information and the exchange of demographic and other relevant data with District agencies, such as the Child and Family Services Agency, Department of Mental Health, and Medical Assistance Administration, pertaining to students whose education is the primary responsibility of DCPS.

11. The principal managers of the OSE and OCFO must develop an effective method of timely detecting billing irregularities during the PAPS invoice review process.

12. DCPS’ OSE and OCFO must develop and implement an appropriate tracking system that will identify students served, dates of service, and amounts paid on students’ behalf. The tracking system could be used in the PAPS invoice review process as well as to monitor and track students’ service information for reporting and analytical purposes.

13. DCPS Board of Education and Superintendent consider requesting the Court to revise PAPS from a projection-based payment system to one in which vendors are paid based on actual invoices for services rendered, which is in line with standard financial management principles and sound business practices.
14. DCPS Board of Education and Superintendent consider requesting the Court to revise the timetable for requesting additional information from PAPS vendors to allow DCPS adequate time to thoroughly review and validate billing projections and actual invoices.

15. The principal managers of DCPS’ OCFO and OSE should consider transferring the authority for disputing vendor invoices from the OCFO to OSE to ensure that the nature of disputes is adequately addressed and clearly articulated before disputed charges are paid.

16. DCPS’ CFO, in conjunction with the manager of the OSE, must define the PAPS vendor invoice format and require vendors to include appropriate identifiers and other critical information such as date of birth, address, or social security number on invoices prior to making payments to vendors.

17. DCPS’ OCFO must identify Medicaid reimbursable services and require vendors to submit encounter documentation for those services provided to DCPS students.

18. The OSE, with the assistance of DCPS’ Office of Contracting and Procurement, immediately establish contracts with all nonpublic schools and related service providers participating in PAPS. Executing contracts with vendors should allow DCPS to negotiate competitive rates for services, clearly define the roles and responsibilities of the parties, as well as implement a system of monitoring based on specific performance criteria.

19. The Board of Education and Superintendent consider requesting the Court to establish well defined criteria that special education service providers must meet in order to participate in PAPS, as well as minimum information standards that their invoices must meet in order to justify and support payment by DCPS.
PURPOSE

Pursuant to Section 455 of Public Law 93-198, the District of Columbia Auditor conducted an examination of expenditures by the District of Columbia Public Schools (DCPS) for services provided to special education students. This aspect of the examination focused specifically on payments for special education services made by the DCPS Office of the Chief Financial Officer (OCFO) through the Petties Automated Payment System (PAPS).

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of the audit were to determine whether:

1. adequate internal controls exist over payments processed through PAPS;
2. invoices and related documentation submitted in support of payments processed through PAPS were properly reviewed and approved by the Office of Special Education (OSE) prior to payment; and
3. payments were made only for students eligible to receive special education and related services.

The scope of the examination covered fiscal years 2000 through 2002, as of January 30, 2002. In conducting the examination, the audit team reviewed relevant court orders and District and federal laws pertaining to special education, with particular emphasis on provisions under which DCPS is responsible for ensuring a free appropriate public education for all students with disabilities. The audit team examined 100% of all available PAPS expenditure data. Additionally, the audit team interviewed appropriate DCPS officials to document and evaluate internal processes of the OSE and the DCPS OCFO related to PAPS and the provision of special education and related services. Finally, we examined information systems maintained by DCPS containing specific student demographic and special education-related data to determine student eligibility for special education and related services. Tests of the documentation were conducted as deemed necessary under the circumstances.
BACKGROUND

In 1975, the U.S. Congress enacted Public Law 94-142, the “Education for All Handicapped Children Act,” to ensure that children with disabilities were afforded access to the same education as their nondisabled peers. Public Law 94-142 required states to develop and implement policies addressing the education of students with a broad range of disabilities. The Education for All Handicapped Children Act was amended and reauthorized in 1990 and 1997 and renamed the Individuals with Disabilities Education Act (IDEA).

IDEA also required states to enact policies to ensure that a free appropriate public education is available to children ages 3 through 21 with disabilities. Further, IDEA requires children with disabilities to be educated in the “least restrictive environment” possible. Public Law 105-17 (IDEA 97) strengthened policies governing the delivery of education and related services to children with disabilities. Some of these policies included:

1. improving teaching and learning, with a specific focus on the use of an Individualized Education Program (IEP) as the primary tool for maximizing each child’s learning capacity and measuring progress in the general curriculum;
2. ensuring that children with disabilities are included in general state and district-wide assessment programs;
3. ensuring that regular education teachers are required members of the IEP team; and
4. addressing the education of children placed in private schools by their parents.

DCPS Special Education Program

The District of Columbia Public Schools is responsible for the design and delivery of the special education program and related services to all children with special learning needs residing in the District of Columbia, including children who are “wards” of the District residing in surrounding jurisdictions. DCPS’ OSE administers the special education program. Responsibilities of the OSE include, but are not limited to, the following:

1 20 U.S.C. Section 1400
identifying, assessing, placing and monitoring the progress of students with disabilities;

- ensuring the development of IEPs for all students requiring specialized instruction;

- providing a comprehensive professional development program for school-level staff related to the education of students with disabilities; and

- reviewing and approving invoices submitted by private providers for special education and related services delivered to students with disabilities.

During the 2001-2002 school year, 11,492 students, or 17% of DCPS’ total student population, were enrolled in the special education program. The percentage of students enrolled in DCPS’ special education program reflected national trends in other urban school systems. For example, Baltimore City Public Schools, Patterson Public Schools (NJ), and Boston Public Schools had special education enrollments of 17%, 15%, and 20% respectively, of the total student population during the same time.

In accordance with IDEA’s least restrictive environment requirement, instruction is provided in a variety of settings, including regular classrooms, separate resource rooms, separate public day schools, nonpublic day schools, nonpublic residential schools, hospitals, and other settings. Students that DCPS cannot serve in a neighborhood school are placed in a nonpublic day school or residential facility to receive services specified in the student’s IEP. DCPS is also responsible for providing education and related services and monitoring the progress of students placed in nonpublic day schools and residential facilities by various District agencies such as the Child and Family Services Agency and the Department of Human Services’ Youth Services Administration. Additionally, DCPS is responsible for providing education and related services to students under the supervision of the Department of Mental Health, formerly the Commission on Mental Health Services.

Of the 11,492 students enrolled in the special education program, 9,582, or 83%, were serviced in neighborhood schools and approximately 1,910, or 16%, were serviced in nonpublic placements. Table 1 shows the number of students served, by disability, in DCPS’ special education program.
Table 1
Special Education Enrollment by Disability Categories
School Years 1999-2002

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Mental Retardation</td>
<td>1,494</td>
<td>1,363</td>
<td>1,519</td>
<td>2%</td>
</tr>
<tr>
<td>Hearing Impairments</td>
<td>26</td>
<td>96</td>
<td>92</td>
<td>254%</td>
</tr>
<tr>
<td>Speech and Language</td>
<td>641</td>
<td>1,140</td>
<td>1,243</td>
<td>94%</td>
</tr>
<tr>
<td>Visual Impairments</td>
<td>338</td>
<td>19</td>
<td>20</td>
<td>-94%</td>
</tr>
<tr>
<td>Emotional Disturbance</td>
<td>1,086</td>
<td>1,886</td>
<td>1,881</td>
<td>73%</td>
</tr>
<tr>
<td>Orthopedic Impairments</td>
<td>143</td>
<td>92</td>
<td>73</td>
<td>-49%</td>
</tr>
<tr>
<td>Other Health Impairments</td>
<td>693</td>
<td>186</td>
<td>185</td>
<td>-73%</td>
</tr>
<tr>
<td>Specific Learning Disabilities</td>
<td>3,942</td>
<td>5,126</td>
<td>5,779</td>
<td>47%</td>
</tr>
<tr>
<td>Deaf-Blindness</td>
<td>258</td>
<td>10</td>
<td>13</td>
<td>-95%</td>
</tr>
<tr>
<td>Multiple Disabilities</td>
<td>128</td>
<td>474</td>
<td>514</td>
<td>302%</td>
</tr>
<tr>
<td>Autism</td>
<td>65</td>
<td>119</td>
<td>143</td>
<td>120%</td>
</tr>
<tr>
<td>Traumatic Brain Injury</td>
<td>6</td>
<td>26</td>
<td>30</td>
<td>400%</td>
</tr>
<tr>
<td>Developmental Delay</td>
<td>1</td>
<td>22</td>
<td>0</td>
<td>-100%</td>
</tr>
<tr>
<td>All Disabilities (Age 3-5)</td>
<td>560</td>
<td>0</td>
<td>0</td>
<td>-100%</td>
</tr>
<tr>
<td><strong>ALL DISABILITIES</strong></td>
<td><strong>9,381</strong></td>
<td><strong>10,559</strong></td>
<td><strong>11,492</strong></td>
<td><strong>23%</strong></td>
</tr>
</tbody>
</table>

Source: DCPS Office of Special Education

DCPS Student Information Systems

All demographic, academic, and other descriptive information on students enrolled in DCPS, including those with disabilities, is maintained in DCPS’ Student Information System (SIS). The SIS is the official information system used by DCPS to capture key student demographic and academic data as well as report the official DCPS student enrollment. More detailed information on DCPS students with disabilities is maintained in the Special Education Tracking System (SETS). The SETS allows special education administrators, staff, and school-level personnel with the proper authorization to access information regarding the nature and severity of a student’s disability, student IEPs, and other information.
pertaining to the educational progress and status of students with disabilities. Additionally, SETS allows administrators to generate management reports for monitoring and analytical purposes. While SETS provides more detailed information pertaining to students with disabilities, information regarding all students, including students with disabilities, is maintained in DCPS’ SIS. Recently, DCPS acquired software which enables it to integrate records from SETS and SIS to ensure that the total population is reflected in each system. Table 2 provides an overview of information captured by SIS and SETS.

### Table 2

<table>
<thead>
<tr>
<th>Data</th>
<th>SIS</th>
<th>SETS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demographics (DOB, Race, Address, etc..)</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>School/Placement</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>Academic Information (e.g., grades, course schedules, etc..)</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Attendance</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>Disability (nature and intensity level)</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>LaShawn/DMH</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>IEPs</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Hearing Officer Determinations/Settlement Agreements</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>Management/Ad Hoc Reports</td>
<td></td>
<td>√</td>
</tr>
</tbody>
</table>

Source: DCPS Office of Special Education

### Special Education Funding

The education of students with disabilities in the public school system has become one of the most highly debated issues in the political arena. Spiraling costs of special education services in school systems across the nation have resulted in greater scrutiny of the delivery of services and expenditures related to special education programs. In a report issued March 2002, the United States Department of Education estimated that the 50 states and the District of Columbia spent approximately $50 billion on special education services during the 1999-2000 school year.²

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Funding to support DCPS’ special education program primarily comes from District appropriated funds and federal funds, including Medicaid (see Graph 1). During fiscal years 1999 through 2001, DCPS spent a total of approximately $600 million on special and related services. Expenditures for special education and related services are paid through either DCPS’ PAPS or the District’s regular payment process. Payments made to vendors through PAPS are pursuant to a court order requiring DCPS to pay vendors by a specific date based on vendors’ forecasts.

DCPS receives Medicaid reimbursement for students that: (1) meet Medicaid eligibility requirements; (2) are classified as special education; and (3) receive a health related service. Reimbursement from the Medicaid program is contingent upon DCPS’ ability to present documented evidence that a Medicaid enrolled special education student received an eligible health related service. Between fiscal years 1999 and 2002, through May 31, 2002, DCPS realized approximately $69 million in reimbursements from the Medicaid program for services provided to students with disabilities enrolled in the special education program.

Graph 1
DCPS Special Education Funding
FY’s 1999 through 2001

Source: DCPS OCFO

3 Non-public tuition is not a reimbursable expenditure under Medicaid.
Expenditures for DCPS’ special education program constituted approximately 24% of OCPS’ total expenditures during the audit period. According to the DCPS’ OCFO, special education program costs rose by approximately 52% from $163 million to $248 million between fiscal years 1999 and 2001.\textsuperscript{4} Graph 2 shows DCPS special education expenditures and related enrollment figures between fiscal years 1999 through 2001.\textsuperscript{5}

**Graph 2**

*Special Education Expenditures and Enrollment*

*FY 1999-2001*

\begin{center}
\begin{tikzpicture}
\begin{axis}[
    title={},
    xlabel={Years},
    ylabel={Expenditures (millions)},
    xtick={1,...,3},
    ytick={0,...,300000},
    xticklabels={1999, 2000, 2001},
    yticklabels={0, 50000, 100000, 150000, 200000, 250000, 300000},
    x tick label style = {rotate=45, font = \footnotesize},
    y tick label style = {font = \footnotesize},
    legend style={at={(0.5,0.1)},anchor=south},
]
\addplot coordinates{(1,163012) (2,191785) (3,247714)};\addlegendentry{Expenditures}
\addplot coordinates{(1,9381) (2,10580) (3,11492)};\addlegendentry{Enrollment}
\end{axis}
\end{tikzpicture}
\end{center}

\textbf{Source:} Office of Special Education and DCPS Office of the Chief Financial Officer

\textsuperscript{4} DCPS OCFO and FY 2000 DCPS CAFR, data used for special education expenditures for FY 1999 and 2001 are from draft DCPS CAFRs; DCPS never issued a final CAFR for 1999 or FY 2001.

\textsuperscript{5} OCFO, OSE, and the US Department of Education
In the District, one of the most significant variables contributing to the increase in special education costs is a 72% increase in the number of students enrolled in the special education program. During school years 1997-1998 to 2001-2002, special education enrollment grew from 6,679 to 11,492, or 72%. In contrast, DCPS’ general education enrollment decreased by 22% from 70,972 to 56,743 between the 1997-1998 and 2001-2002 school years. Although significant, this phenomenon of growth in special education enrollment outpacing growth in general education enrollment does not appear unique to the District. In fact, other school systems face a similar challenge. Between the 1985-1986 and the 1991-1992 school year, special education enrollment in the state of Florida grew twice as fast as regular education enrollment. Likewise, between 1999 and 2001, special education enrollment increased by 5% and regular education enrollment declined by 6% for Baltimore City Public Schools.

Graph 3 presents the growth rate in DCPS’ special education program compared to its general education program.

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7. FY 2003 Proposed Budget for Baltimore City Public Schools and 2001 Maryland School Performance Report Card developed by the Maryland State Department of Education.
Petties v. District of Columbia

IDEA requires state and local education agencies to use a variety of assessment tools and strategies to gather relevant functional and developmental information about a child referred to a special education program, and to conduct evaluations that are sufficiently comprehensive to identify all of the child’s special education and related service needs. Pursuant to D.C. Code, Section 38-2501, DCPS is required to assess students referred to the special education program within 60 days and assign them to an appropriate public, private, or residential placement within 60 days after assessment. To comply with both state and federal laws, DCPS must ensure that placements for special education students occur within 120 days of referral to the special education program, and that all procedures are in place to ensure disabled students a free appropriate public education. DCPS’ chronic failure to comply with time limits set forth in District and federal laws regarding the assessment, placement, and delivery of education and related services to students with disabilities has resulted in numerous legal actions against the District.

Petties v. District of Columbia is a class action lawsuit filed in the U.S. District Court for the District of Columbia in 1995 as a result of DCPS’ failure to timely and accurately pay for nonpublic placements of students with disabilities. In the original lawsuit, plaintiffs sought to compel DCPS to pay for tuition and related services provided by private organizations. The plaintiffs argued that DCPS failed to fulfill its statutory duty under IDEA to ensure that District students with disabilities receive a free appropriate public education. DCPS argued that its financial situation at the time prevented it from meeting its statutory obligation under IDEA. On March 17, 1995, the Court ruled in favor of the plaintiffs, granting class certification as well as a preliminary injunction, stating that:

Defendants have placed numerous DCPS students in private special education facilities pursuant to their obligation to provide an appropriate placement for these students. Similarly, defendants have entered into contracts or other agreements with private firms or other entities for the provision of special education related services to students attending public schools within the [DCPS] system. Defendants are required by law to maintain these students’ placements and related services by paying the costs thereof.

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20 USC 1412 and 1414.
DCPS was required to pay, within 14 days, all costs outstanding as of the date of the Court’s Order, including tuition for DCPS students placed in private special education programs and all costs of special education related services that private providers rendered to DCPS special education students. Further, DCPS was ordered to provide written assurances that they would make future payments on a timely basis and file reports with the Court regarding their compliance with the Court’s Order.

The Petties case resulted in numerous hearing requests regarding DCPS’ failure to make timely and full payments to nonpublic schools and related service providers. As a result of these hearings, numerous violations were found resulting in the Court ordering the implementation of an automatic payment system to ensure timely payment to private organizations providing education and related services to Petties class members.

**Petties Automated Payment System (PAPS)**

In March 1996, the United States District Court issued another order in the Petties case requiring the establishment of PAPS. The PAPS is designed to ensure that there is no interruption in the provision of special education and related services as a result of vendor payment issues. In response to the Court order, DCPS’ Chief Financial Officer (CFO) established a Special Education Payment Unit (SEPU) whose responsibilities included paying PAPS invoices by Court established deadlines. The CFO also established written policies and procedures governing the payment of PAPS invoices.

To participate in PAPS, vendors need only fill out a form, requiring minimal data such as the vendor’s name and address, and submit it to the DCPS OCFO along with their monthly billing projections. The PAPS court order failed to provide specific criteria that vendors of education and related services must meet to participate in PAPS. Further, the court order failed to require the execution of written agreements or contracts between DCPS and education and related service providers. The court order only states that private organizations providing special education and related services to DCPS special education students can participate in PAPS. Currently, there are 70 vendors participating in PAPS. Of that total, 63 are nonpublic schools and 7 are related service providers.
Under the PAPS, vendors providing special education and related services to DCPS students with disabilities are required to submit projected average monthly billing amounts to DCPS’ OCFO. Each year, a court order is issued specifying the dates that billing projections must be received, a time line governing DCPS’ requests for additional information regarding the billing projection and disputing invoices, and a time line for vendors and DCPS to resolve disputes and respond to information requests. After projections are received from PAPS vendors, DCPS must submit a schedule to vendors indicating the amounts they will be paid each month based on the projections. DCPS is required to make payments to vendors based solely upon billing projections, not invoices for actual services rendered, no later than the 25\textsuperscript{th} day of each month. (Payments based on projected billings erroneously assumes that all vendors will provide a definitive amount of services to a definitive number of special education students each month. The Auditor found that during fiscal year 2001, DCPS paid vendors based on actual charges for services rendered instead of projections as stipulated in the Court order. The practice of paying PAPS vendors based on invoices submitted for actual services rendered more appropriately complied with sound financial management principles.) If vendors fail to submit projections, they can be removed from PAPS, provided that DCPS gives them written notification. DCPS’ failure to make payments by the 25\textsuperscript{th} day of each month may result in the Court imposing significant financial penalties. Table 3 shows the schedule of fines that DCPS may incur for noncompliance with this provision of the PAPS court order.

Table 3
Fines for Noncompliance with Payment Provisions of the PAPS Court Order

<table>
<thead>
<tr>
<th>Days Out of Compliance</th>
<th>Penalties</th>
</tr>
</thead>
<tbody>
<tr>
<td>First five days of noncompliance</td>
<td>$5,000 each day</td>
</tr>
<tr>
<td>Next five calendar days of noncompliance</td>
<td>$10,000 each day</td>
</tr>
<tr>
<td>Next five calendar days of noncompliance</td>
<td>$15,000 each day</td>
</tr>
</tbody>
</table>

Source: Petties Court Order

DCPS’ OCFO is required to reconcile payments made on billing projections with actual invoices to ensure that vendors are not over/under paid. DCPS is also required to submit to the Court and plaintiffs’ counsel a list of average monthly payments, based on projections, made to participating nonpublic schools and related service providers, along with reconciliation amounts from the previous cycle.
The DCPS OCFO and the OSE each have a critical role in ensuring that payments made to vendors under the PAPS are accurate and timely. The management of the OSE is primarily responsible for reviewing and verifying the accuracy of all invoices submitted by vendors for payment. Once the legitimacy of the invoice has been established, the DCPS OCFO’s Special Education Payment Unit is responsible for ensuring that payments are entered into the financial system and checks are generated by the 25\textsuperscript{th} of each month. Appendix 1 illustrates the PAPS process within DCPS and defines the respective roles of the DCPS OCFO and OSE in this process.
FINDINGS

DCPS’ INTERNAL CONTROLS GOVERNING THE PAPS PAYMENT PROCESS WERE INADEQUATE AND INEFFECTIVE

During the period examined, management within DCPS OSE and OCFO failed to establish adequate internal controls over the PAPS payment process and failed to adhere to existing policies and procedures established by the DCPS CFO. The Auditor found that internal accounting and administrative controls related to PAPS were inadequate and often not observed, which gave rise to a dysfunctional system of reviewing, approving, and paying vendor invoices. Further, the PAPS payment process was adversely affected by a weak internal control environment in which OSE and OCFO management did little or nothing to ensure the effective functioning of internal controls, adherence to applicable policies and procedures, and compliance with sound financial management principles and practices. As a consequence, there developed a high degree of risk in the PAPS because adequate, effective controls were not established and existing policies and procedures were not adhered to by the management and staff of the OSE and DCPS OCFO.

Internal control is defined as follows:

Internal Control

A process—effected by an entity’s board of directors, management, and other personnel—designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting, (b) effectiveness and efficiency of operations, and (c) compliance with applicable laws and regulations.\(^9\)

Internal controls are comprised of five components, each of which must function successfully in order for objectives to be achieved. The five elements of internal control are:

(1) the control environment - which comprises the attitudes, abilities, awareness, and actions of an entity’s personnel, especially its management, as they affect the overall operation and control of the business; [Auditor’s Emphasis]

(2) risk assessment - refers to management’s process of identifying, analyzing, and managing risks that affect the achievement of its objectives;

(3) control activities - which are the policies and procedures that help ensure necessary actions are taken to address risks to the achievement of the entity’s objectives;

(4) information and communication - encompasses the identification and flow of information within an entity that enables individuals to effectively perform their respective roles and to discharge their responsibilities; and

(5) monitoring - which relates to management’s process of assessing the quality of the entity’s internal control, the ultimate objective being to determine whether the internal controls are functioning as intended.

Internal controls function properly when management embraces them and regularly communicates this to staff at all levels. The quality of the control environment is directly related to the implementation and effectiveness of an organization’s control procedures and techniques. In addition to the above, management can also improve the control environment through the establishment of an effective, independent internal audit function.

The Auditor found that DCPS’ internal controls were inadequate and that DCPS program and financial managers failed to ensure the implementation of effective PAPS control policies, procedures, and techniques. Existing procedures failed to provide an effective system for reviewing, approving, and paying invoices only for authorized services delivered only to eligible special education students in a manner that complied with the PAPS court order. With particular regard to PAPS, DCPS must have effective internal controls and strong control policies and procedures in place to minimize the potential for financial fraud, waste, and abuse of scarce resources that the Court ordered system encourages.
The Auditor found that DCPS’ internal controls substantially failed to achieve the aforementioned internal control objectives. As a result, DCPS’ OCFO made significant payments to PAPS vendors: (1) without verification of the legitimacy of services rendered; (2) without verification of the eligibility of students serviced; and (3) without determining whether payments were accurate and appropriate.

The Auditor also found that the DCPS OCFO’s PAPS procedures did not:

1. specify in sufficient detail the steps that the OSE must perform in reviewing and approving the payment of PAPS vendor invoices in order to ensure the accuracy and integrity of payments;

2. specify in sufficient detail the actions that DCPS OCFO staff and the staff of the OSE must perform to timely resolve disputes with vendor’s invoices;

3. set forth a process for reconciling PAPS vendors’ billing projections with actual invoices;

4. clearly articulate the roles and responsibilities of OSE and the DCPS OCFO for each phase of the PAPS vendor payment process;

5. establish timetables for completing activities required in each phase of the PAPS payment process;

6. identify individuals in OSE and the DCPS OCFO who were accountable for performing required tasks during the PAPS invoice review, certification, and payment processes; and

7. communicate the purpose of the PAPS process and the objectives to be achieved by the system.
The Auditor found that the procedures governing the PAPS process were cryptic, lacked accountability, and were prone to noncompliance without immediate remedial consequences. Further, the procedures developed by the DCPS OCFO did not provide a sufficiently detailed description of the PAPS processes that were to be followed. Staff were provided inadequate guidance and instructions for processing PAPS invoices from the review and approval stages to the reconciliation process. In fact, there was no mention of the reconciliation process in the procedures reviewed by the Auditor. Further, the process for timely resolving disputed invoices was insufficient and did not protect the school system from paying for services that it was not obligated to pay. Weak internal controls, coupled with inadequate policies and procedures governing the PAPS process, created a significant risk to DCPS’ financial stability.

RECOMMENDATIONS

1. DCPS’ OCFO should develop an effective system of internal controls to ensure that PAPS payments are accurate and timely and that employees are held accountable to the fullest extent permitted by applicable personnel rules for deviations from control policies and procedures.

2. DCPS’ Board of Education, Superintendent, and principal manager of the OSE must develop effective policies and procedures to ensure that PAPS invoices are properly reviewed, approved and paid only for authorized services delivered to eligible DCPS special education students and that employees and managers of OSE are held accountable to the fullest extent permitted by applicable personnel rules for deviations from established policies and procedures.

3. The principal managers of DCPS’ OSE and OCFO must clearly communicate PAPS policies and procedures to staff through formal written directives.

4. The principal managers of DCPS’ OCFO and OSE must develop detailed procedures to be followed by staff in handling PAPS vendor invoices and processing payments. The procedures should describe the actions that must occur during each phase from invoice review through reconciliation.
DCPS OCFO PAID APPROXIMATELY $67 MILLION WITHOUT OSE VERIFYING THE ELIGIBILITY OF STUDENTS OR ACCURACY OF VENDOR INVOICES

The Auditor found that the DCPS OCFO paid approximately $67 million to PAPS vendors even though the Office of Special Education failed to perform its responsibility of reviewing and approving the accuracy of invoices for special education and related services vendors claimed to have provided to special education students. The Auditor reviewed PAPS payments made between fiscal years 2000 and 2002 through January 31, 2002. Of the $69 million in payments reviewed, the Auditor found that the OSE failed to review and approve the accuracy and validity of approximately $67 million, or 97%, of PAPS invoices prior to payment.

According to current DCPS procedures for the payment of PAPS invoices, the OCFO is required to forward to OSE’s Fiscal Office, within 2 days of receipt, copies of all invoices and a transmittal letter indicating the types of bills being forwarded (PAPS/NonPAPS), the vendors’ names, amounts, dates received, and due date. The OSE Fiscal Office is to forward this information to appropriate OSE supervisors. OSE supervisors in turn are to assign the invoices to nonpublic, residential, or other special education staff for review and approval. If OSE disputes a charge on a vendor’s invoice or the entire invoice, OSE must initiate the dispute process immediately and forward a sufficient description of the dispute on a contested billing information sheet to the DCPS OCFO. This form should specify the bill or specific portion of the bill that is disputed and a complete justification for the dispute. The DCPS OCFO should then prepare and submit a dispute letter to the vendor. Invoices not disputed are forwarded directly to the DCPS OCFO for payment.

Within the PAPS framework, there appears to be no accountability for failure to adhere to PAPS policies and procedures. The Auditor found several instances where policies and procedures were not adhered to by either OSE or DCPS’ OCFO staff. For example, OSE staff failed to properly review and approve all invoices prior to payment by the DCPS OCFO as stated in the current policies and procedures. In some cases, DCPS’ OCFO staff failed to submit copies of the invoices to the OSE staff for review and approval within the required 2-day period, which did not allow sufficient time for OSE staff to review and approve invoices prior to payment. These and other deficiencies can be attributed to an ineffective working relationship between OSE and the DCPS OCFO, an ineffective system of internal controls, and a weak internal control environment governing the PAPS process. The existing system failed to ensure: that duties and responsibilities were clearly communicated and understood by all parties; that individuals were held
accountable for performing their responsibilities consistent with established policies and procedures; that sound financial management practices were applied; and that resources were efficiently and effectively managed and safeguarded.

RECOMMENDATION

The Board of Education and Superintendent ensure that DCPS’ CFO and manager of the OSE immediately implement a rigorous data driven process for the review, certification, and payment of PAPS invoices. These managers should also establish a clearly articulated personnel policy that employees who fail to timely and thoroughly review PAPS invoices will be held accountable to the fullest extent permitted, including termination, under applicable DCPS personnel rules.

DCPS PAID VENDORS $1.2 MILLION FOR SERVICES PROVIDED TO 567 PERSONS INELIGIBLE FOR SPECIAL EDUCATION SERVICES OR WHOSE ELIGIBILITY COULD NOT BE DETERMINED

The Auditor found that DCPS was billed for, and the DCPS OCFO paid, $1,184,478 to vendors for education and related services provided to 567 individuals that were ineligible for special education services or whose eligibility could not be determined due to a lack of sufficient information provided on vendor invoices.¹⁰

During the review and approval process, OSE staff are required to examine invoices to ensure that vendors bill only for students that have been classified as special education eligible and have been provided the specific services prescribed in the student’s IEP. OSE’s examination should include verifying student information in the SETS and SIS to determine whether students are active or inactive in DCPS.

¹⁰ As a result of time constraints, the Auditor’s examination of documentation did not include a test to determine whether related services billed by vendors were actually required by students’ Individualized Education Programs.
In reviewing PAPS invoices, the Auditor found that DCPS made payments:

1. for individuals who could not be found in SIS or SETS and therefore were not officially enrolled in DCPS and appeared to be non-residents of the District of Columbia;

2. for students who were classified as general education students and therefore were not eligible for special education services at the expense of DCPS;

3. for students who received services after the date of withdrawal from DCPS and transfer to another jurisdiction;

4. for services provided to students who had transferred to public charter schools prior to the service date indicated on invoices or who withdrew from DCPS for unstated reasons;

5. for students who had graduated and did not have diagnosed disabilities while attending a D.C. public school;

6. for students that had exited the special education program prior to the date of service listed on vendor invoices; and

7. for individuals that lacked sufficient identifying information on invoices, such as a date of birth or address, to determine their eligibility for special education and related services at the expense of DCPS.
Table 4 provides a breakdown of payments made by DCPS for services to individuals who appeared not eligible or whose eligibility could not be determined.

**TABLE 4**
Payments Made for Students That Were Not Eligible for Special Education and Related Services Or Whose Eligibility Could Not be Determined

<table>
<thead>
<tr>
<th>Student Status</th>
<th>Number of Students</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not in SIS/SETS</td>
<td>274</td>
<td>$711,144</td>
</tr>
<tr>
<td>General Education</td>
<td>140</td>
<td>249,994</td>
</tr>
<tr>
<td>Transferred From DCPS to Other Jurisdictions</td>
<td>32</td>
<td>50,880</td>
</tr>
<tr>
<td>Transferred From DCPS to a Charter School, Left for Unknown Reasons, or Graduated</td>
<td>69</td>
<td>90,882</td>
</tr>
<tr>
<td>Exited From the Special Education Program Prior to Date of Service</td>
<td>10</td>
<td>18,225</td>
</tr>
<tr>
<td>Students Whose Eligibility Could Not Be Determined with Available Information</td>
<td>42</td>
<td>63,353</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>567</strong></td>
<td><strong>$1,184,478</strong></td>
</tr>
</tbody>
</table>

Source: Office of the D.C. Auditor based on review of PAPS Vendor Invoices

During the review of invoices, the Auditor found 274 individuals listed on vendor invoices that could not be found in DCPS’ SIS or SETS. According to a written confirmation provided to the Auditor by the DCPS Office of Management and Information Services, these individuals were not in the SIS database, and therefore were not officially enrolled in DCPS at the time services were rendered. The Auditor found no other evidence to suggest that these 274 individuals were enrolled in DCPS at the time of our review or at the time services were provided, thereby rendering them ineligible for special education services at the expense of DCPS. Yet, invoices containing discrepancies such as these were promptly paid by the DCPS OCFO through PAPS.

The Auditor sought additional information regarding these 274 individuals from other District agencies such as the Department of Human Services’ Mental Retardation and Developmental Disabilities Administration and Youth Services Administration, the Child and Family Services Agency, the Department of Mental Health, and the Department of Health’s Medical Assistance Administration. Also, the Auditor
submitted a request to two vendors for specific information about 234 individuals listed on one vendor’s invoices and 13 listed on another vendor’s invoices that were paid by DCPS. According to information provided by one D.C. based vendor, 88 of the individuals not identified as DCPS enrolled students were residents of other jurisdictions and, therefore, were not eligible to have their education and related services paid for by DCPS. The Auditor found that these individuals were referred to the vendor by a number of non-governmental sources such as hospital emergency rooms, private physicians, HMOs, homeless shelters, parents or guardians, as well as public and private schools. This vendor has indicated that no matter where a child resides, the cost of educational services provided by the vendor is billed to DCPS. Currently, DCPS has no contracts with the vendor that provided services to these individuals. Thus, there is no scope of work, no standard procedures setting forth how DCPS students requiring services are to be referred to the vendor, and how services rendered to eligible students are to be billed to DCPS. Within the context of this undefined, unregulated relationship, this vendor has unilaterally assigned financial responsibility to DCPS for services it has rendered to non-residents and other individuals unknown to DCPS. As a consequence of program and financial management deficiencies within the PAPS payment process, the vendor was paid for questionable services without any concerns being raised by accountable DCPS managers regarding the legitimacy of the charges.

The Auditor also found that DCPS paid vendors for related services provided to 140 students that were classified as general education students. General education students that have not been diagnosed as having a particular disability are not eligible to receive education and related services under the special education program. Instead, those students receive any needed supplementary services, intervention, or instruction in the general education program.

Further, the Auditor found that DCPS paid for services provided to 111 students that had transferred from DCPS to other jurisdictions, withdrew, or exited from the special education program prior to the date of service indicated on vendor invoices. Students who are enrolled in public charter schools, in school systems outside the District, have exited the special education program, have graduated, are over age 21, or have no record of having a disability are not eligible to receive special education or health related services at the expense of DCPS. Again, payments made for these services could have been avoided if OSE program managers and staff had ensured that the invoices were timely and adequately reviewed before payment.
Additionally, the Auditor identified 42 names on PAPS vendors’ invoices that contained insufficient information to substantiate whether each individual was a DCPS special or general education student. If sufficient data is not provided on invoices to determine a students’ eligibility, DCPS should suspend payments to the vendor for these students and consider them ineligible until the vendor provides additional, appropriate information substantiating the identity of the student, authorization for services, and the actual services rendered.

Finally, the Auditor found many specific instances where DCPS’ OSE and OCFO staff failed to adhere to current policies such as the requirement to determine student eligibility for special education and related services, and identify student enrollment status (active or inactive) before certifying payment for services. The Auditor found that some OSE and OCFO staff: (a) lacked a clear understanding of their roles and responsibilities; and (b) followed inconsistent processes for reviewing and approving invoices for payment. The Auditor also found that DCPS’ OCFO and OSE management failed to establish an effective system of communication and cooperation with other District agencies to ensure the integrity of services rendered and the validity of payments made to vendors. One critical deficiency noted was DCPS’ failure to periodically determine whether the Child and Family Services Agency (CFSA), Department of Mental Health (DMH), and Medical Assistance Administration (MAA) held records of individuals whose education was the responsibility of DCPS. At the same time, however, the Auditor also found that these same agencies failed or refused to provide DCPS with regularly updated lists of students under their authority.

Based upon the above findings, it is evident that DCPS did not have a rigorous system for the review and certification of PAPS invoices, nor did it hold staff accountable for failure to properly and timely review and approve invoices. The lack of a strong internal control environment, effective internal controls, and detailed policies and procedures has resulted in DCPS making vendor payments that were not fully substantiated. In fact, the Petties Automated Payment System and the system of controls reviewed by the Auditor encourages and facilitates fraud, waste, and abuse.

OSE’s failure to review and approve vendor invoices during the audit period led to DCPS improperly paying at least $1.2 million to vendors at the expense of DCPS students and taxpayers of the District of Columbia for 567 persons that were ineligible to receive special education and related services or whose eligibility could not be determined.
RECOMMENDATIONS

1. DCPS’ Superintendent and CFO seek the recovery of the $1.2 million paid to vendors for unauthorized services provided to individuals identified in this report.

2. The Board of Education and Superintendent ensure that OSE and the DCPS OCFO review PAPS vendor invoices at least for fiscal years 1998 and 1999 to identify and recover additional funds that may have been improperly paid to vendors for unauthorized services.

3. DCPS’ Board of Education, Superintendent, and Chief Financial Officer must ensure that effective procedures are developed and implemented that require OSE staff to timely and adequately review vendor invoices for services provided to special education students. The review process must require the use of SETS and SIS and other sources of information to determine the validity of transactions presented on vendors’ invoices.

4. The principal managers of the OSE and DCPS OCFO strictly enforce the policy of determining student eligibility during the review and approval of PAPS invoices.

5. DCPS’ Superintendent and CFO establish formal protocols and procedures for the communication of information and the exchange of demographic and other relevant data with District agencies, such as the Child and Family Services Agency, Department of Mental Health, and Medical Assistance Administration, pertaining to students whose education is the primary responsibility of DCPS.
DCPS PAID $98,490 WITHOUT RESOLVING INVOICE IRREGULARITIES

The Auditor found numerous billing irregularities during the review of PAPS invoices. Specifically, the Auditor found instances where a vendor billed DCPS repeatedly for services provided only once to a student. For example, a provider billed $15,665 for one student for one service date over 8 consecutive months. These invoices were paid more than once. For another student, the vendor billed DCPS $13,965 for one service date that was billed 7 consecutive months. In each of the identified instances, DCPS’ OCFO paid the bills more than once, apparently without recognizing the billing irregularity. As a result of OSE’s failure to review and approve the accuracy of these invoices prior to payment, the duplicate bills were paid and the billing irregularities went undetected. In total, DCPS paid $98,490 in billing irregularities on invoices reviewed by the Auditor. The presence of irregularities such as these further indicates the absence of or a breakdown in internal controls, as well as the potential for fraud, waste and abuse in DCPS’ financial operations.

RECOMMENDATIONS

1. The principal managers of the OSE and OCFO must develop an effective method of timely detecting billing irregularities during the PAPS invoice review process.

2. DCPS’ OSE and OCFO must develop and implement an appropriate tracking system that will identify students served, dates of service, and amounts paid on students’ behalf. The tracking system could be used in the PAPS invoice review process, as well as to monitor and track students’ service information for reporting and analytical purposes.
In addition to processing PAPS and regular invoices, DCPS’ OCFO is also responsible for handling disputed invoices. Disputed invoices represent amounts billed by vendors that are contested by OSE for various reasons, including but not limited to:

1. students or services not eligible for special education;
2. students who exited the program;
3. non-attendance issues resulting from hospitalizations or incarcerations;
4. services not authorized on students’ IEP; and
5. lack of approved placement notices.

At the time of the Auditor’s fieldwork, DCPS had a backlog of approximately $4 million in disputed invoices, some of which date back to the 2000-2001 school year. Some of these disputed invoices were paid in full without a resolution of the dispute. Under court-ordered PAPS guidelines, DCPS must request any additional information needed to support data presented on monthly projected billings within 10 days of DCPS’ receipt of the projections. If DCPS fails to adhere to this timetable, the court order stipulates that the projection is understood to be accepted by DCPS.

According to procedures governing PAPS, the DCPS OCFO was to receive from OSE a Contested Billing Information Sheet specifying the bill or portion of the bill disputed and a justification for the dispute within 14 days of an invoice being received. Based on the receipt of this information, DCPS OCFO staff was then responsible for preparing and transmitting dispute letters to vendors. The Auditor observed that in some instances the dispute letters were received in the DCPS OCFO after the vendors had already been paid. Given that, in most cases, DCPS has failed to adhere to the Court’s timetable for disputing information on vendor’s invoices, it appears likely that DCPS will not recover any money it has paid on disputed invoices without Court intervention.
In other instances, the Auditor found that DCPS’ OCFO staff disputed invoices without the benefit of sufficient information provided by OSE. For example, the Auditor observed an instance in which OSE staff indicated the following regarding an invoice being reviewed: “This student is unknown to me and the placement officer. May have been unilaterally placed.” With this limited information, it appears that the DCPS OCFO’s staff had difficulty addressing the nature of the dispute and drafting the dispute letter for submission to the vendor.

DCPS’ internal timeline for review of vendor invoices conflicts with the PAPS Court ordered time line. For example, DCPS has only 10 days under PAPS to request additional information from a vendor, however, the OCFO allows OSE 14 days to review vendor invoices. Under this system, DCPS will never officially comply with the Court ordered timetable which unnecessarily increases the likelihood of not being able to recover funds paid on disputed invoices.

The responsibility for resolving disputed PAPS invoices appears to be organizationally misplaced. Resolving invoice disputes for special education services is a program function rather than a finance function. The OSE staff has extensive knowledge of special education students, their needs, their authorized services, and therefore can more accurately articulate service discrepancies on invoices than can OCFO staff. The OSE should be responsible for contacting vendors regarding contested information in invoices. Likewise, the OSE should continue to submit clearly articulated contested billing sheets to the DCPS OCFO staff so that they can maintain a record of invoices received and the status or disposition of each invoice.

More critically, this process does not comply with sound financial management principles and practices. The court imposed requirement that DCPS pay PAPS vendors only on the basis of billing projections, coupled with the abbreviated timeline the Court imposed on DCPS to dispute information presented in the vendors’ billing projections, does not allow DCPS to verify the accuracy and legitimacy of charges.
RECOMMENDATIONS

1. DCPS Board of Education and Superintendent consider requesting the Court to revise PAPS from a projection-based payment system to one in which vendors are paid based on actual invoices for services rendered, which is in line with standard financial management principles and sound business practices.

2. DCPS Board of Education and Superintendent consider requesting the Court to revise the timetable for requesting additional information from PAPS vendors to allow DCPS adequate time to thoroughly review and validate billing projections and actual invoices.

3. The principal managers of DCPS’ OCFO and OSE should consider transferring the authority for disputing vendor invoices from the OCFO to OSE to ensure that the nature of disputes is adequately addressed and clearly articulated before disputed charges are paid.

DCPS LACKS A STANDARD FORMAT FOR PAPS VENDOR INVOICES

During the examination of PAPS invoices, the Auditor found that there did not appear to be a standard format required by DCPS for invoices submitted by vendors. As a result, some vendors failed to provide critical data such as a student’s date of birth, social security number, or address on invoices submitted for payment. In these instances, there was no evidence to suggest that DCPS’ OCFO or OSE staff demanded additional information from these vendors before payment. The lack of critical information on invoices prevents program and finance officials from distinguishing among students during the review and approval process and verifying the eligibility of the student to receive the services rendered. For example, one vendor billed for related services provided to several students with common names. Further, the invoice contained only names with no other identifiers. There were several students included on the invoice with the same name in the DCPS SIS. The reviewer would not have a means of linking the specific student with the services provided, nor could the reviewer determine if the services provided were required by the student’s IEP.
The Auditor also noted that many vendor invoices did not include other critical data such as the specific services provided to students. In many instances, the invoices submitted by vendors listed a summary of services provided, but failed to link those services to a particular student, which could then be linked to the student’s IEP. Additionally, on some invoices vendors provided a rate but failed to identify specific services provided to students that related to the rate.

Ideally, each invoice should list the names of students served, provide an appropriate identifier (DCPS uses date of birth), and identify dates and types of services rendered. In turn, each invoice submitted to OSE for review should be examined thoroughly against student records, IEP data, court and administrative hearing records, and DCPS’ records of programs operated by other District agencies, prior to validating the authenticity of data contained in vendor invoices. The absence of unique student identifiers, information regarding actual services rendered, dates that services were provided, and other critical data lacking on an invoice impedes and substantially weakens the review and approval process.

The lack of critical information on invoices also impacts DCPS Medicaid revenues. DCPS receives reimbursement from Medicaid for health related services provided to Medicaid eligible students. Without critical information identifying students and services provided on invoices, DCPS cannot identify Medicaid eligible students and Medicaid reimbursable services. As a result, DCPS may be risking its ability to recover Medicaid revenues by tolerating the submission of deficient vendor invoices.

The absence of a standardized format for vendor invoices has led to many of the deficiencies noted above. These deficiencies indicate that basic internal controls designed to prevent payments not supported by adequate documentation were non-existent, ignored, or circumvented.

RECOMMENDATIONS

1. DCPS’ CFO, in conjunction with the manager of the OSE, must define the PAPS vendor invoice format and require vendors to include appropriate identifiers and other critical information such as date of birth, address, or social security number on invoices prior to making payments to vendors.
2. DCPS’ OCFO must identify Medicaid reimbursable services and require vendors to submit encounter documentation for those services provided to DCPS students.

**DCPS DID NOT ESTABLISH CONTRACTS WITH NONPUBLIC SCHOOLS AND SOME RELATED SERVICE PROVIDERS PARTICIPATING IN PAPS**

During the audit period, seventy (70) nonpublic schools, private organizations, and individual service providers participated in the PAPS program. The existing Court Order sets no standards or requirements for participation as a special education service provider and no minimum standard for invoicing DCPS for services rendered. As mentioned previously, participation in PAPS only requires vendors to complete an enrollment form, which requires minimal data such as a vendor’s name and address. Further, the court order contains no specific criteria that vendors must meet to participate in PAPS. The Auditor found that DCPS has not established contracts with any of the nonpublic schools providing special education and related services to DCPS students with disabilities. The Auditor also noted that DCPS had not established contracts with all related service providers participating in the PAPS program.

Contracts are legally binding agreements between parties. They set forth important terms and conditions related to the scope of work, procedures for authorizing services, service rates, invoice and payment procedures, and duration of the contractual relationship. The lack of a contract with vendors on the PAPS system hinders DCPS’ ability to define and hold vendors accountable to specific performance criteria, provides no mechanism for authorizing the delivery of services, does not provide a means to determine agreed upon rates for services provided, and does not provide for standardizing the format and content of vendor invoices.

Additionally, without a written contract DCPS is limited in its ability to require nonpublic schools and related service providers to complete and submit documentation for health-related services provided to DCPS’ Medicaid eligible students. DCPS uses Medicaid funds to support special education program operations, and has experienced significant problems obtaining Medicaid revenue, in part, because of its inability to require most nonpublic institutions to provide DCPS with documentation of services rendered which is necessary to justify and support reimbursement from the Medicaid program. This deficiency has
resulted in potential disallowances in the annual cost settlement audit for costs associated with services provided to students in nonpublic institutions, and adversely affects DCPS’ ability to recover revenue from the Medicaid program.

Although DCPS does not have contracts with nonpublic schools, it does have contracts with some related service providers. For service providers under contract, DCPS’ Office of Contracting and Procurement (OCP) has negotiated rates for services to be provided and included provisions that spell out contractor responsibilities. Additionally, the contracts contain specific requirements that vendor invoices must meet. Those requirements include the following:

- the contract number and purchase order number;
- the name, address, and telephone number of the contractor;
- the period in which services were provided;
- the name of student(s) and date of birth;
- the name of the school where services were provided;
- the dates of service provided per student and its cost;
- the DCPS Encounter Data Tracking Form; and
- the signature of an authorized official of the contractor.

OSE management indicated to the Auditor that it has already performed research regarding the establishment of contracts with nonpublic schools. In particular, OSE leadership has begun to observe practices used by the Maryland State Department of Education to establish contracts and monitor nonpublic schools. The OSE has also collected data regarding rates charged by various nonpublic schools and related service providers in the Washington Metropolitan Area for various educational and related services. DCPS leadership must expeditiously initiate the critical step of establishing agreements with special education and related service providers.
Establishing contracts with vendors would likely yield the following benefits:

- competitive pricing, based on market rates, for each type of service provided;
- measurable performance criteria and a system of monitoring and evaluation;
- clearly defined roles and responsibilities for DCPS and contractors;
- standard format and content requirement for all invoices;
- the ability to establish minimum qualifications for participation by vendors and gain a measure of certainty that the vendor is qualified to perform the services; and
- increased opportunities to maximize revenues related to the Medicaid program as a result of vendors timely providing required information.

As a result of the lack of contracts with private vendors, DCPS pays varying rates for the same services provided to special education students. For example, DCPS paid one vendor $105 for educational services and $69 for the same services provided by a similar vendor. Further, DCPS accepts vendor-determined formats for invoices that often lack critical information necessary to justify and support payments. This has led to an unnecessary waste of scarce financial resources that DCPS desperately needs to support the education of District public school students.

RECOMMENDATIONS

1. The OSE, with the assistance of DCPS’ Office of Contracting and Procurement, immediately establish contracts with all nonpublic schools and related service providers participating in PAPS. Executing contracts with vendors should allow DCPS to negotiate competitive rates for services, clearly define the roles and responsibilities of the parties, as well as implement a system of monitoring based on specific performance criteria.

2. The Board of Education and Superintendent consider requesting the Court to establish well-defined criteria that special education service providers must meet in order to participate in PAPS, as well as minimum information standards that their invoices must meet in order to justify and support payment by DCPS.
CONCLUSION

The District of Columbia Public Schools (DCPS) has paid millions of dollars to vendors participating in the Petties Automated Payment System without verifying the accuracy or legitimacy of charges. These unsubstantiated payments were made as a result of management in DCPS’ Office of Special Education and Office of the Chief Financial Officer failing to implement adequate and effective internal controls, policies and procedures, and systems of accountability. Poor communication, uncooperative intra-agency and inter-agency working relationships and the general absence of contracts with vendors exacerbated the mismanagement of transactions flowing through the Petties Automated Payment System.

The Petties Automated Payment System was designed to ensure timely payment to vendors of special education and related services to DCPS students with disabilities. The Auditor determined that DCPS paid approximately $67 million to PAPS vendors without: (1) reviewing and approving the accuracy of invoices; (2) verifying that services provided were authorized by DCPS through Individualized Education Programs; and (3) determining the eligibility of students for special education services. As a result, the Auditor found that DCPS paid $1.2 million to vendors for services provided to 567 individuals that were ineligible for special education services or whose eligibility could not be determined from information provided on vendors’ invoices.

The Auditor identified numerous previously undetected instances of billing irregularities during the review of PAPS invoices. For example, the Auditor found irregularities totaling $98,490 which consisted of repeated billings for services provided once to students.

The Auditor found that DCPS has a backlog of approximately $4 million in disputed invoices, some of which have already been paid. The likelihood of DCPS recovering funds already paid is substantially diminished due to timelines set forth within the PAPS Court Order.
The Auditor determined that DCPS failed to establish contracts with vendors providing education and related services to its students with disabilities. The lack of contracts hindered DCPS’ ability to: define and hold vendors accountable to specific performance criteria; prescribe the manner in which the delivery of services would be authorized; negotiate rates for services provided; establish a standardized format and content for vendor invoices, and require vendors to submit documentation for health related services to support Medicaid reimbursement.

Finally, in reviewing the PAPS Court Order the Auditor found that it failed to establish sufficiently detailed criteria for vendor participation in the Petties Automated Payment System, and placed upon DCPS unrealistic and unachievable timelines for paying participating vendors. More importantly, the projection-based payment method imposed by the Court is inconsistent with sound financial management principles and practices.

DCPS must implement strong internal controls governing the payment of special education invoices through PAPS. Likewise, DCPS must seek to revise the current Court Order to accommodate a special education services payment system that is based upon sound financial management principles, specific criteria for vendor participation, and reasonable timelines to achieve Court ordered objectives.

Respectfully submitted,

Deborah K. Nichols
District of Columbia Auditor
Review and Certification

Office of the Chief Financial Officer
- Office of the Chief Financial Officer receives invoice from PAPS Vendor
  - Transmittal letter identifying invoices to be reviewed is forwarded to the OSE (2 days)

Office of Special Education
- Fiscal Office separates invoices by departments (Nonpublic/Residential Interagency)
  - Transmittal letter prepared and distributed to OSE Supervisors
  - Supervisors assign invoices to the appropriate Placement Specialist for review and approval

Invoice Dispute Process
- Vendor response to dispute letter is logged in by SEPU and forwarded to Program Supervisors for review
  - SEPUs prepares a dispute resolution letter and sends it to the vendor for response (10 days)
  - Supervisors submit dispute documents to the SEPU identifying bills or portions of bills being disputed
  - Placement Specialist completes Contested Billing Information Sheet justifying dispute

- Dispute Resolved?
  - If dispute is resolved at this point, there is no documented process in place
  - If dispute is not resolved at this point, there is no documented process in place

Payment of Invoices
- The undisputed invoices or portions thereof are processed by the SEPU for payment no less than 2 weeks prior to due date

- If dispute is not resolved, the undisputed invoices or portions thereof are processed by the SEPU for payment no less than 2 weeks prior to due date

- Certified invoices are forwarded to the SEPU for processing via transmittal letter

- Program Director provides final decision to the SEPU regarding adjustments

- Program Director provides final decision to the SEPU regarding adjustments
AGENCY COMMENTS
AGENCY COMMENTS

On August 28, 2002, the Office of the District of Columbia Auditor submitted this report, in draft, for review and comment to the following agency officials: President, District of Columbia Board of Education; Superintendent, District of Columbia Public Schools; Chief of Staff, District of Columbia Public Schools; Chief Operating Officer, District of Columbia Public Schools; Chief of Special Education Reform, Division of Special Education, District of Columbia Public Schools; Assistant Superintendent, Division of Special Education, District of Columbia Public Schools; Chief Financial Officer, District of Columbia Public Schools; General Counsel, District of Columbia Public Schools; Interim Corporation Counsel, Office of the Corporation Counsel; Chief Financial Officer, Office of the Chief Financial Officer; and Senior Deputy Director, Medical Assistance Administration.

Written comments were received from the Chief Financial Officer, District of Columbia Public Schools, on September 12, 2002 and from the Senior Deputy Director, Medical Assistance Administration, on September 16, 2002. Where appropriate, changes to the final report were made to reflect the comments. The comments, in their entirety, are included with this final report.
DISTRICT OF COLUMBIA
PUBLIC SCHOOLS

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September 12, 2002

Ms. Deborah K. Nichols
District of Columbia Auditor
Office of the District of Columbia Auditor
717 – 14th Street, N.W., Suite 900
Washington, DC 20005

Dear Ms. Nichols:

Thank you for the opportunity to respond to your August 28, 2000 Draft Report entitled "Review of DCPS Special Education Expenditures Made Through the Petties Automated Payment System."

I concur with the findings and recommendations identified within the Draft Report. It is obvious from your report that there are weaknesses in our internal controls as it relates to the Special Education Petties Automated Payment System (PAPS). I am committed to improving those internal controls.

The DCPS Office of the Chief Financial Officer, in coordination with Office of Special Education (OSE), has begun to implement a new process to ensure our control objectives are being met. For instance, we no longer pay vendor invoices unless they are approved by OSE. Also, we have implemented a database that tracks invoices and monitors the invoice dispute process. It is my understanding that DCPS is engaged in a negotiation with plaintiff’s counsel in the Petties case to extend the timeline to pay invoices. This will allow time for a more clearly defined procedure for disputing invoices, and establish a standard invoice format.

The DCPS Office of the Chief Financial Officer will continue to closely collaborate with Office of Special Education to implement your recommendations. We must ensure payments to vendors are properly reviewed and approved and that payments are made only for students eligible to receive special education and related services.

Sincerely,

Robert A. Morales
Chief Financial Officer

[Signature]
Senior Deputy Director
for Health Care Finance

September 16, 2002

Ms. Deborah K. Nichols
District of Columbia Auditor
Office of the District of Columbia Auditor
717 14th Street N.W., Suite 900
Washington D.C. 20005

Dear Ms. Nichols:

Re: DCPS Special Education Expenditures Made Through the Petties Automated Payment System

Members of my staff have reviewed your draft report captioned above and provide the following response:

The Medical Assistance Administration (MAA) concurs with the general theme of the report; namely, the overall lack of internal controls surrounding the operations, accounting and reporting of expenditures pertaining to the administration of DCPS’s Special Education Program.

MAA is not sure from the report whether the encounter data generated by the special education unit is captured by SETS and a Medicaid claim made for special educational services. Apart from claims for transportation services, what other services are rendered under the Petties Payment System? If so, how? Appendix 1 is not legible for us to determine the answer to these questions.

MAA stands ready to help DCPS correct the deficiencies sighted and we appreciate the opportunity to review the report.

Sincerely,

Herbert H. Weldon, Jr.
Senior Deputy Director for Medical Assistance Administration

cc: Wanda Tucker, Deputy Director
    Imeh Jones, Ph.D., CFO
    Calvin Kearney, Chief, Programs & Operations
    Heather McCabe, Chief, Office of Children & Families
    Steve Lutzky, Chief, Office of Disabilities & Aging
    Ganayswaran Nathan, Chief, Finance & Audit