

ALEXANDRIA CITY PUBLIC SCHOOLS
REPORT ON AGREED-UPON PROCEDURES
CIP PROJECT EXPENDITURES
JULY 1, 2010 THROUGH OCTOBER 31, 2011

Table of Contents

	<u>Page</u>
Independent Accountants' Report on Applying Agreed-Upon Procedures	1-7
<u>Exhibit 1</u> School CIP Budget Summary	8
<u>Addendum 1</u> Source Documents	9

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Accountants' Report on Applying Agreed-Upon Procedures

Alexandria City School Board
Dr. Morton Sherman, Superintendent
2000 North Beauregard Street, Suite 200
Alexandria, Virginia 22311

We have performed the procedures referenced below which were agreed upon by the Superintendent, through school division counsel solely to assist you in reviewing the Alexandria City Public Schools (ACPS) CIP Project expenditures to include budgetary and monetary transactions for the fiscal year beginning July 1, 2010 through October 31, 2011. This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of ACPS. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. The following describes the procedures we performed as well as our observations:

Procedures Performed

We were engaged to review CIP transactions related to the following schools for the aforementioned time period:

- James K. Polk Elementary School
- Patrick Henry Elementary School
- Charles Barrett Elementary School
- John Adams Elementary School
- Douglas MacArthur Elementary School
- William Ramsey Elementary School

Our procedures included conducting interviews of ACPS and City personnel involved in the budgetary controls and monetary transactions for CIP expenditures. Procedures also included review of internal financial reports and spreadsheets prepared by ACPS personnel, approved budgetary information, detail of expenditures recorded in the City's accounting system and related vendor invoices, vendor contracts, documentation of budget transfers, and other relevant documentation.

Observations - Available Budget

Exhibit 1 - School CIP Budget Summary

This exhibit reflects the available CIP budget for each school as of October 31, 2011 at an OCA code level summarized by location for the schools we were engaged to review. The information on the summary was included based on our review of various source documents. The sources of each individual column are summarized in Addendum 1.

The summary indicates that for the schools reviewed expenditures and amounts remaining on contracts exceeded budgeted amounts by a total of \$518,939.01 as of October 31, 2011.

When reviewing this exhibit it is important to note the following methodology and limitations:

- The School CIP Budget Summary includes the total amount approved in the budget for the year including division-wide funds which were allocated to the OCA code during the year.
- The summary only includes amounts which came from the identified source documents and does not include management's estimates of any additional amounts remaining on ongoing projects. In addition ACPS staff is in the process of verifying and approving additional change orders on certain projects and these amounts will be addressed by Management as they are verified.
- Various vendor invoices were split between different OCA codes within the same school. We cannot confirm whether the allocation between the OCA codes was appropriate or whether they were being coded to whichever OCA codes within that school had available budget. One example was a \$638,844 invoice from HITT for Polk Modular which was split between 200200 (Boiler Replacement), 200201 (Plumbing Upgrades), 200202 (Grounding Source Wells), and 200203 (Modular Classrooms).
- While we have reviewed selected vendor invoices included on the ACPS listing of unprocessed vendor invoices, we have not been engaged to verify the validity of work performed under these vendor invoices. It is our understanding that ACPS has contracted a engineering company to perform a review of these vendor invoices and determine that the work being invoiced has been performed.

Reconciliation to ACPS Prepared Spreadsheet

We have reconciled the School CIP Budget Summary (Exhibit 1) to the client prepared "CIP Financial Summary" spreadsheet prepared by ACPS personnel. The available budget by OCA code and location on the School CIP Budget Summary agrees with the total remaining balance on the ACPS spreadsheet with the exception of the following significant adjustments:

- The client prepared spreadsheet does not factor in the remaining on contract column included on the School CIP Budget Summary.
- The client prepared spreadsheet includes open purchase order amounts in the total amount of \$58,649.32 that have not been included on the School CIP Budget Summary.
- The remaining balance column on the client spreadsheet includes pending change orders in the total amount of \$750,883.00 that have not been included on the School CIP Budget Summary.
- The client has included additional items that have come to their attention in the unprocessed vendor invoices column on their CIP financial summary. These additional amounts were not included in the listing of unprocessed vendor invoices as of November 30, 2011.
- The client prepared spreadsheet includes an addition to the budget for OCA code 200154 in the amount of \$111,232.90 related to monies collected through the PTA. It is our understanding that these monies have not been subjected to the formal budgetary process. Accordingly these monies have not been included in the available budget on the School CIP Budget Summary.

Observations - Internal Controls

During the course of our interviews it became evident that ACPS has operated in a dysfunctional environment in relation to CIP related activities. It should be noted that over a period of years a process that fragments procurement, budget, facilities, and City Office of Management and Budget has been present. This fragmentation and a lack of transparency between departments have created significant internal control weaknesses in monitoring CIP financial transactions. During the interview process the presence of this fragmentation and corresponding internal control weaknesses were consistently reinforced by ACPS staff interviewed. Further, it should be noted that while the School Board and Superintendent were not apprised of the internal control weaknesses discussed in this report before budget and vendor payment problems were discovered, some of these issues had earlier been brought to the attention of certain upper-level management for consideration of corrective action.

ACPS does not record budgetary or financial transactions within its accounting system (FMS). The City of Alexandria finance department maintains both budgetary and expenditure controls for ACPS CIP expenditures within their accounting system (Performance Accounting). This fragmentation creates inconsistencies in the monitoring of ACPS CIP transactions both budgetary and expenditures. It was noted that staff in Facilities and Budget independently maintain separate spreadsheets to monitor CIP activities. Access by ACPS personal to the City's accounting system is limited making it difficult to reconcile CIP projects by OCA code.

Additional internal control observations are presented herein by functional area (Procurement, Budget and Facilities).

Procurement

Contracting For Services

It was noted that ACPS CIP contracts are not being reviewed by ACPS legal counsel prior to being awarded nor is there a policy in place requiring School Board approval of the awarding of contracts over a specified dollar amount.

Recommendation

A policy should be developed for CIP contracts exceeding a specified dollar amount that requires review by ACPS legal counsel. Subsequent to legal counsel's review, the awarding of these contracts should be approved by the School Board.

Contract Change Orders

During the course of our interviews it became evident that there is a lack of a formal process for the approval of contract change orders. In at least one instance a change order was included in the contract sum to date on an application for payment prior to the receipt and approval of the actual change order by ACPS.

Recommendation

Contract change orders should be forwarded to Procurement along with a detailed explanation of the reasons for the change order. Procurement should communicate with budget staff to ensure the availability of funds prior to approving the change order. Contract change orders exceeding a specified amount should be approved by the Superintendent or their designee. Facilities should notify the contractor that services related to the change order may be performed only after receiving these approvals.

Budget

Communication with Procurement

Vendor invoices, Payment Vouchers and Purchase Orders are sent from Facilities to the ACPS Budget office. Budget staff determines if funds are available in the OCA code for which Facilities has coded the expenditure. In making this assessment of available funds, budget staff utilizes an independent excel spreadsheet which they maintain. When this spreadsheet reflects no available budget in a given OCA code the invoice is then sent back to Facilities. However, this spreadsheet only includes expenditures for which vendor invoices have been received from Facilities. This spreadsheet does not account for remaining contract balances that would indicate an OCA code may not have sufficient available budget for the total project expenditures.

Recommendation

Procurement should notify the Budget office when all CIP contracts are awarded so that these contracts can be monitored from award to completion and possible budgetary overages can be identified.

Communication with Facilities

It was noted that contracts were not consistently awarded based on available budget in a given OCA code. The budget office should approve that funds are available for contracts awarded by the procurement office including contracts under \$50,000 and other task order contracts.

Recommendation

A determination of which OCA code a contract will relate to should be made prior to awarding a contract. An assessment of the available budget should be made to determine if funds are available prior to the awarding of the contract. If it is determined that a given OCA code will not have sufficient budget available, the contract should not be awarded or ACPS staff should go through the proper process to obtain a transfer of available budget from another OCA code.

Budget Transfers

School Board policy requires that all budget transfers over \$50,000 be approved by the School Board. A budget transfer in the amount of \$1,255,229 was approved by City Council on May 24, 2011 at the direction of ACPS Facilities staff members. This transfer was not presented to the School Board for approval.

Recommendation

School Board policy related to budget transfers should be followed at all times. The policy states that budget transfers greater than \$50,000 that cross projects must be approved by the School Board. Additionally we recommend that School Board policy be amended to require that transfers less than \$50,000 be approved by the Superintendent or their designee.

Monitoring

Budget staff utilizes an independent excel spreadsheet which they maintain. During our review it became evident that this spreadsheet was not reconciled to the City's accounting system and did not accurately reflect available budget amounts. Furthermore, the School Board is not being provided accurate and timely reports related to CIP budgetary and financial transactions.

Recommendation

The excel spreadsheet should be reconciled to the City's accounting system on a monthly basis. Further, the School Board should be updated on CIP budgetary and financial transactions on a quarterly basis. A report reflecting contract, budget and expenditures to date by CIP project should be provided to the School Board.

Facilities

Purchase Orders

Facilities staff prepares purchase orders for various CIP expenditures. However, the purchase orders are frequently completed subsequent to the receipt of vendor invoices, if at all.

Recommendation

Purchase orders should be prepared when the contract for goods or services is awarded. For CIP projects the purchase order should reflect the contract amount. The purchase order should be updated after each progress payment to reflect the available balance remaining on the purchase order. The updated purchase order should accompany the invoice and payment voucher that are sent to the Budget office for the approval of available funds.

Prompt Payment of Vendor Invoices

CIP vendor invoices are received by various staff in Facilities. The vendor invoices are reviewed and approved by Facilities staff. Subsequent to Facilities approval the vendor invoices are forwarded to the ACPS budget office. During the period tested vendor invoices were retained in Facilities and not promptly forwarded to the budget office for processing. In October 2011 over \$3 million of unprocessed vendor invoices were forwarded to the budget office which had been retained by Facilities. Several of these vendor invoices had been retained by Facilities for a significant period of time including two vendor invoices from a contractor totaling \$1,531,212 for work completed as of July 31, 2011.

Recommendation

Vendor invoices should be received by finance staff prior to forwarding to Facilities for processing and approval. Subsequent to Facilities review and approval, vendor invoices should be forwarded to the budget office in a timely manner to ensure that vendor invoices are paid in accordance with the *Code of Virginia*. Section 2.2-4352 of the *Code of Virginia* states that the required payment date for goods and services obtained by local governments shall be "either: (i) the date on which payment is due under the terms of the contract for the provision of the goods or services; or (ii) if a date is not established by contract, not more than forty-five days after goods or services are received or not more than forty-five days after the invoice is rendered, whichever is later."

Recording of Expenditures in the Proper Accounting Period

In the review of vendor invoices for the selected schools the following vendor invoices were recorded to the wrong accounting period:

- Invoice in the amount of \$835,000 for the period to 6/30/10 from HITT Contracting for John Adams Phase 2, recorded in the accounting system in fiscal year 2011. This expenditure should have been recorded as fiscal year 2010 expenditure.
- Invoice in the amount of \$1,206,028 for the period to 6/30/10 from HITT Contracting for Polk Phased Modern recorded in the accounting system in fiscal year 2011. This expenditure should have been recorded as fiscal year 2010 expenditure.

- Invoice in the amount of \$423,405 for the period to 7/1/11 from HITT Contracting for Polk Phased Modern recorded in the accounting system in fiscal year 2012. This expenditure should have been recorded as fiscal year 2011 expenditure. This was application number 10 and it was noted that application number 9 was for the period ended 2/28/11.
- Invoice in the amount of \$638,844 for the period to 7/1/11 from HITT Contracting for Polk Modular recorded in the accounting system in fiscal year 2012. This expenditure should have been recorded as fiscal year 2011 expenditure.
- Invoice in the amount of \$107,487 for the period to 7/1/11 from HITT Contracting for John Adams Phase 2 recorded in the accounting system in fiscal year 2012. This expenditure should have been recorded as fiscal year 2011 expenditure. This was application number 10 and it was noted that application number 9 was for the period ended 1/31/11.
- Invoice in the amount of \$187,480 for the period to 7/1/11 from HITT Contracting for John Adams Phase 2 recorded in the accounting system in fiscal year 2012. This expenditure should have been recorded as fiscal year 2011 expenditure. This was application number 11 and it was submitted for processing at the same time as application number 10 in the amount of \$107,487 aforementioned which was for the same project and was also identified as being for the period to 7/1/11.
- Invoice in the amount of \$120,015.11 for the period to 6/16/11 from Harry Braswell, Inc. for John Adams Ceiling recorded in the accounting system in fiscal year 2012. This expenditure should have been recorded as fiscal year 2011 expenditure. Further, documentation indicates that the contractor was asked to bill ACPS in July.

Recommendation

All expenditures for goods and services should be recorded in the proper accounting period. Expenditures for goods should be recorded in the accounting period in which they are received and expenditures for services performed should be recorded in the accounting period in which those services were performed. Rather than budget returning the expenditure documents to Facilities, these documents should be forwarded to ACPS finance staff. ACPS finance staff should ensure that the expenditure is identified to the proper accounting period prior to forwarding the vendor invoice and all related documents to the City to be recorded in their accounting system.

Potential Conflict of Interest

During the course of our interviews it became evident that there was a potential conflict of interest in relation to a staff member of Facilities. Information provided during the interview process indicated that this staff member had at least one ACPS contracted vendor perform work on the staff member's personal residence and also that the staff member was previously employed by an ACPS contracted vendor. Also, it should be noted that this staff member owns and/or operates a design/build company (the website for this company has subsequently been removed from the web).

Recommendation

Procedures should be developed to identify any potential conflicts of interests as they relate to staff members involved in the procurement, approval, and other aspects of financial transactions.

Expenditure Classification

In a review of vendor invoices \$317,092.90 was identified which was paid to a vendor for work performed at Douglas MacArthur and was processed and coded to OCA codes related to William Ramsey. Included in this amount was a payment in the amount of \$165,505 for which a contractor's application for payment was submitted indicating work was performed at Douglas MacArthur and subsequently a one page invoice was submitted indicating the work was done at William Ramsey (Building Envelope Repair) in this same amount. The payment was processed and recorded to William Ramsey. Further, it should be noted that during the interview process ACPS staff members indicated that Facilities staff members had requested that vendors submit vendor invoices under a project different than the one for which services were actually performed.

Recommendation

All vendor invoices should be reviewed to ensure that all aspects of the vendor invoice are correct including ensuring that the project identified on the vendor invoice is accurate and is not a duplicate vendor invoice.

Allocation of Vendor Invoices

Various vendor invoices were split between different OCA codes within the same school. In many instances there was no documentation supporting the allocation between OCA codes.

Recommendation

The methodology for the allocation of expenditure amounts assigned to more than one OCA code should be documented to support the basis for this allocation.

Small Contracts and Task Orders

Currently Facilities staff is awarding contracts under \$50,000 and other task order contracts.

Recommendation

Contracts under \$50,000 and other task order contracts should be approved by the Superintendent or their designee prior to award.

We were not engaged to, and did not perform an examination, the objective of which would be the expression of an opinion on the accompanying information. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Alexandria City Public Schools, and is not intended and should not be used by anyone other than these specified parties.

Robinson, Tamara, Cox Associates

Fredericksburg, Virginia
February 6, 2012

OCA Code	Location	Description	1 Remaining Budget FY 10	2 Budget FY 11	3 Expenditures FY 11	4 Budget Transfer	2 Budget FY 12	3 Expenditures FY 12	5 Unprocessed Invoices FY 12	6 Remaining on Contract	7 Expenditure Reclass	Total Available Budget
200105	John Adams	Renovations	6,951,025.97	380,770.00	(7,102,950.18)	(228,846.00)	1,161,917.00	(834,935.19)	(440,910.91)	-	-	(113,929.31)
200106	John Adams	Ceiling Tiles	-	-	(82,775.00)	-	1,151,684.00	(232,784.12)	-	-	-	836,124.88
200107	John Adams	Traffic Control	-	-	-	-	80,000.00	(4,680.00)	-	-	-	75,320.00
200113	Charles Barrett	Renovations	-	142,800.00	(84,257.44)	-	242,520.00	(97,834.20)	(51,515.90)	-	-	151,712.46
200130	Patrick Henry	Renovations	-	-	-	-	476,166.00	(301,098.42)	(41,308.70)	-	-	133,758.88
200154	Douglas MacArthur	Renovations	1.40	120,000.00	(63,781.32)	-	87,223.00	(139,430.61)	(198,297.41)	-	(317,092.90)	(511,377.84)
200200	James Polk	Boiler Replacement	3,721,283.32	-	(4,710,414.51)	1,222,245.00	-	(63,495.00)	(23,376.19)	-	-	146,242.62
200196	James Polk	Renovations	0.31	-	-	-	-	-	-	-	-	0.31
200201	James Polk	Plumbing Upgrades	-	435,121.00	(432,525.28)	-	1,412,950.00	(1,334,164.00)	(109,965.91)	-	-	(28,584.19)
200202	James Polk	Ground Source Wells	-	849,400.00	(659,565.35)	-	-	(189,834.00)	-	-	-	0.65
200203	James Polk	Modular Classrooms	-	1,177,200.00	(1,124,088.84)	-	-	(45,528.00)	(1,409,749.56)	(71,880.00)	-	(1,474,046.40)
200204	James Polk	Term Vent Units	-	-	-	-	637,697.00	(324,987.50)	(43,011.00)	-	-	259,186.50
200210	William Ramsey	Renovations 2012	-	-	-	-	513,329.00	(448,174.68)	(22,995.47)	-	317,092.90	359,251.75
200212	William Ramsey	Ventilator/Asbestos	-	-	-	-	620,000.00	(576,063.90)	-	-	-	43,936.10
200211	William Ramsey	ADA Project	-	-	-	-	1,317,864.00	-	-	-	-	1,317,864.00
200386	William Ramsey	Renovations	-	120,000.00	(95,865.28)	-	-	(9,784.03)	-	-	-	14,350.69
200650	Charles Barrett	Classroom Addition	-	1,285,200.00	(1,083,231.46)	-	-	(113,879.59)	(1,474,379.90)	(45,497.00)	-	(1,431,787.95)
200761	Patrick Henry	Modulars	-	2,616,000.00	(2,222,522.18)	-	-	(392,253.00)	(268,731.84)	(28,499.00)	-	(296,006.02)
200394	Patrick Henry	Renovations	1.88	-	-	-	-	-	-	-	-	1.88
200762	John Adams	Modulars	-	1,144,000.00	(150,600.20)	(993,399.00)	-	-	(958.81)	-	-	(958.01)
Total			10,672,312.88	8,270,491.00	(17,812,577.04)	-	7,701,350.00	(5,108,926.24)	(4,085,201.61)	(156,388.00)	-	(518,939.01)

Summary by Location:	Remaining Budget FY 10	Budget FY 11	Expenditures FY 11	Budget Transfer	Budget FY 12	Expenditures FY 12	Unprocessed Invoices FY 12	Remaining on Contract	Expenditure Reclasses	Total Available Budget
John Adams	6,951,025.97	1,524,770.00	(7,336,325.38)	(1,222,245.00)	2,393,601.00	(1,072,399.31)	(441,869.72)	-	-	796,557.56
Charles Barrett	-	1,428,000.00	(1,167,488.90)	-	242,520.00	(211,713.79)	(1,525,895.80)	(45,497.00)	-	(1,280,075.49)
Patrick Henry	1.88	2,616,000.00	(2,222,522.18)	-	476,166.00	(693,351.42)	(310,040.54)	(28,499.00)	-	(162,245.26)
Douglas MacArthur	1.40	120,000.00	(63,781.32)	-	87,223.00	(139,430.61)	(198,297.41)	-	(317,092.90)	(511,377.84)
James Polk	3,721,283.63	2,461,721.00	(6,926,593.98)	1,222,245.00	2,050,647.00	(1,958,008.50)	(1,586,102.66)	(82,392.00)	-	(1,097,200.51)
William Ramsey	-	120,000.00	(95,865.28)	-	2,451,193.00	(1,034,022.61)	(22,995.47)	-	317,092.90	1,735,402.54
Total	10,672,312.88	8,270,491.00	(17,812,577.04)	-	7,701,350.00	(5,108,926.24)	(4,085,201.61)	(156,388.00)	-	(518,939.01)

Addendum 1

Source documents:

1 - Remaining Budget FY10: This information was taken from a report obtained from the City Accounting System showing the available budget as of July 1, 2010 by OCA Code.

2 - FY11 and FY12 Budget: These amounts were taken from the Final ACPS Budget document for each fiscal year and are included in the summary as allocated by the City Budget Department. In addition, division-wide funds allocated to the OCA codes being reviewed were included based on a review of the related allocation requests.

3 - FY11 and FY12 Expenditures: This information was derived from the expenditure detail obtained from the City Accounting System as of October 31, 2011. Related contracts, payment vouchers and invoices were reviewed for selected expenditures in each year. In total we reviewed invoices representing 89.43% of the FY11 expenditures and 92.58% of the FY12 expenditures for the schools subject to our review.

4 - Budget Transfer: Budget transfer approved by City Council on May 24, 2011 at the direction of ACPS Facilities Department staff members. The amounts are allocated in accordance with the manner in which the transfer was recorded in the City Accounting System.

5 - Unprocessed Invoices: ACPS staff compiled a listing of invoices which were unprocessed as of November 30, 2011. This information is included in the summary. Further a review of selected invoices supporting the amounts included on the listing has been performed. In total we reviewed invoices representing 85.06% of the total unprocessed invoices for the schools under review.

6 - Remaining on Contract: Balance to finish including retainage as reported on the latest processed or unprocessed invoice for significant contracts as available for review.

7 - Expenditure Reclassification: This represents an expenditure reclassification which is needed. \$317,092.90 which was paid to a vendor for work performed at Douglas MacArthur was processed and coded to OCA codes related to William Ramsey. Included in this amount was a payment in the amount of \$165,505 for which a contractor's application for payment was submitted indicating work was performed at Douglas MacArthur and subsequently a one page invoice was submitted indicating the work was done at William Ramsey (Building Envelope Repair) in this same amount. The payment was processed and coded to William Ramsey.