



KPMG LLP  
2001 M Street, NW  
Washington, DC 20036

To the Mayor and Council of the  
Government of the District of Columbia

November 17, 2005

Ladies and Gentlemen:

We have audited the Government of the District of Columbia's (District) compliance with the requirements applicable to its major federal awards programs for the year ended September 30, 2004, and have issued our report thereon dated October 10, 2005. Our audit was conducted in accordance with Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. In planning and performing our audit, we considered internal control in order to determine our auditing procedures for the purpose of issuing our report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133. Our audit did not include examining the effectiveness of internal control and does not provide assurance on internal control. We have not considered internal control since the date of our report.

However, we noted certain matters involving internal control and its operation that we consider reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions are matters coming to our attention that, in our judgment, relate to significant deficiencies in the design or operation of internal control and could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions.

A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited, or that noncompliance with the applicable requirements of laws, regulations, contract, and grants that would be material in relation to a major federal program being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. During the performance of our OMB Circular A-133 audit, we noted certain reportable conditions and material weaknesses that were reported to management in our *Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133*.

A condensed summary of selected reportable conditions and material weaknesses related to the following matters, which we believe to be pervasive throughout the administration of the District's federal awards programs, is presented in Exhibit I:

- Payroll Time and Effort Reporting
- Matching, Level of Effort, and Earmarking Monitoring
- Subrecipient Monitoring
- Procurement, Suspension and Debarment Monitoring



Although not considered to be reportable conditions, we also noted the following matters related to internal control that we would like to bring to your attention. These matters, all of which have been discussed with District management, are presented in Exhibit II:

- Development of Indirect Cost Plans
- Timeliness of Cash Draw Downs under the District's Treasury State Agreement

Our audit procedures are designed primarily to enable us to report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133, and therefore might not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the ACPS organization gained during our work to make comments and suggestions that we hope will be useful to you.

This report is intended solely for the information and use of the Mayor, Council, the Inspector General of the District, District agencies, federal awarding agencies, the U.S. General Accounting Office and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**KPMG LLP**

**Government of the District of Columbia  
Comments and Recommendations  
Selected Reportable Conditions  
September 30, 2004**

**1. Strengthen Procedures and Documentation over Payroll Time and Effort Reporting**

Employees' salaries are identified by agency codes. Employees working on federal programs complete a timesheet each pay period that is reviewed by supervisors and processed for payment by agency timekeepers. However, the time sheets do not contain any information on the daily effort expended by the employees on specific federal programs. Each pay period, all payroll expenditures are charged to local funds. Periodically, the payroll charged to the local funds is reclassified to federal funds based on an allocation methodology that is not federally approved.

OMB Circular A-87 Attachment B Section II. Paragraph h. requires the following:

1. Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with the generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.
2. No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.
3. Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.
4. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:
  - 1) More than one Federal award,
  - 2) A Federal award and a non-Federal award,
  - 3) An indirect cost activity and a direct cost activity,
  - 4) Two or more indirect activities which are allocated using different allocation bases, or
  - 5) An unallowable activity and a direct or indirect cost activity.
5. Personnel activity reports or equivalent documentation must meet the following standards:
  - 1) Reflect an after-the-fact distribution of the actual activity of each employee,
  - 2) Account for the total activity for which each employee is compensated,
  - 3) Be prepared at least monthly and must coincide with one or more pay periods, and
  - 4) Be signed by the employee.

**Government of the District of Columbia  
Comments and Recommendations  
Selected Reportable Conditions  
September 30, 2004**

6. Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:
  - 1) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;
  - 2) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and
  - 3) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

Several departments have instituted policies and procedures to improve compliance with these A-87 requirements. Several departments instituted policies to prepare a semi-annual listing of all employees working 100% of their time on a particular grant, and noting managerial approval on that listing. However, we observed that the preparation of that listing was incomplete, with instances of employees that should be on the listing not be listed, and employees being listed that should not be. We recommend that the District enhance the preparation and review of this employee listing to ensure its accuracy.

Further, we recommend that the District consider modifying its existing timesheets to require the employee to document specifically on which federal award program the employee worked during the period covered by the timesheet. This would allow for the required after the fact time distribution discussed above. The timesheet codes documenting the specific federal award program should be designed to map directly to general ledger expense codes established in SOAR. This would allow payroll timekeepers to easily keypunch this information.

Finally, those employees at agencies who charge their time to multiple federal awards, the District should consider performing federally approved time studies to allow for an allocation of their time to the appropriate grants. These time studies are already performed at the Department of Human Services and could be performed at several other agencies, such as the Department of Health and the Department of Housing and Community Development. If time studies are utilized, this process could be coordinated with the indirect cost plan preparation discussed below.

**Government of the District of Columbia  
Comments and Recommendations  
Selected Reportable Conditions  
September 30, 2004**

**2. Improve Matching, Level of Effort, and Earmarking Monitoring**

Many federal awards programs require the District to provide a certain amount of local funding to maximize the federal participation in the program (matching). Additionally, awards program may specify certain minimum or maximum percentages of expenditures that must be maintained (level of effort). Finally, awards programs may also specify that a certain level of funding be spent in a specific area (earmarking). The District's program managers are generally aware of these various requirements, and design and submit their annual budgets to ensure that the budget is in compliance with these requirements. However, we saw little evidence that program managers are monitoring compliance with the requirements throughout the year. Additionally, we were informed that, in some instances, compliance with matching, level of effort, or earmarking requirements could not be determined because SOAR or other computerized programs were not programmed to provide the necessary information to make these determinations.

We recommend that the District identify all federal awards in which it participates that have matching, level of effort, and earmarking requirements. We further recommend that the District require program managers to prepare, at least quarterly, the required calculations to ensure the District is in current compliance with these requirements, and to project spending on these federal awards through year end to ensure annual compliance. These calculations could be submitted to either the Office of Budget and Planning (OBP) or the Office of Research and Analysis (ORA) in order for those offices to monitor compliance.

Additionally, where information necessary to calculate compliance with these requirements is not available, the program managers should work with the appropriate information technology specialists within the District to either write the programs needed or provide assistance in using the report writing function of the computer to extract the necessary information to calculate and monitor compliance.

**3. Improve Controls over Subrecipient Monitoring**

A significant amount of the federal awards received by the District are passed through to subrecipients. Although the District does not expend these awards at the individual participant level, under OMB Circular A-133, it is responsible for monitoring its subrecipients to ensure that they are expending the federal awards in compliance with applicable laws and regulations. Further, as required by OMB Circular A-102, the Common Rule (.40), "Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity." We also observed that many District agencies had difficulty distinguishing between its subrecipients and its vendors. Failure to make such distinctions can lead to incomplete or inefficient subrecipient monitoring.

**Government of the District of Columbia  
Comments and Recommendations  
Selected Reportable Conditions  
September 30, 2004**

A **subrecipient** may have some or all of the following characteristics:

- Performance is measured against meeting the objectives of the program;
- Has authority and responsibility for administrative and/or programmatic decision-making;
- Provides on-going service for the life of the program;
- Carries out its own program as compared to providing services for a program of the prime recipient; and
- Has responsibility for applicable program compliance requirements.

A **vendor** has the following characteristics:

- Provides the service reimbursed with grant funding as part of its normal business operations;
- Provides a similar service to many different purchasers;
- Operates in a competitive environment (i.e. competes with others who can provide a similar service); and
- Program compliance requirements do not pertain to the service provided.

In summary, a subrecipient serves as a partner with the primary grant recipient, and is responsible for achieving program results equally with the pass-through entity where federal funds are being passed through to another entity. By definition, a subrecipient relationship can only be established where federal funds are involved. A vendor is responsible for providing ancillary goods or services, as determined by the primary grant recipient. A vendor is not responsible for program results.

The District has made strides in improving its subrecipient monitoring as we observed several departments have recently instituted and executed subrecipient site visit plans. However, we noted that these monitoring visits were inconsistently applied and often were undocumented.

We recommend that the District ensure that the agencies implement the current standard policies and procedures manual to be used for performing subrecipient monitoring.

We further recommend the District ensure that all subrecipient agreements include the catalog of federal domestic assistance number (CFDA) to ensure that its subrecipients know they are participating in a federal awards program. Additionally, the District should include standard language in its subrecipient agreements to ensure that its subrecipients are aware of the requirement to have an OMB Circular A-133 audit performed if they expend over \$500,000 in total federal awards from all sources. Such a reminder should improve the likelihood that the District will obtain annual Single Audit reports from entities required to provide them.

**Government of the District of Columbia  
Comments and Recommendations  
Selected Reportable Conditions  
September 30, 2004**

**4. Procurement, Suspension and Debarment Monitoring**

Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Covered transactions include procurement contracts for goods or services equal to or in excess of \$100,000 and all non-procurement transactions. Contractors receiving individual awards for \$100,000 or more and all subrecipients must certify that the organization and its principals are not suspended or debarred. The non-Federal entities may rely upon the certification unless it knows that the certification is erroneous. Non-Federal entities may, but are not required, to check for suspended and debarred parties, which are listed in the *List of Parties Excluded From Federal Procurement or Nonprocurement Programs*, issued by the General Services Administration (GSA).

We observed that it is unclear to program managers whether the Office of Contracts and Procurement or the agency procuring goods and services is responsible for monitoring compliance with these procurement rules. We recommend that the District establish a policy clearly identifying that it is the responsibility of the procurement officer to document whether the vendor is suspended or debarred. We further recommend that the District require its vendors to certify that they are not suspended or debarred from providing the goods and services to be procured. On multi-year contracts, the procurement officer should obtain evidence yearly that the vendor or subrecipient was not suspended or debarred during the year. Finally, we recommend that the agencies ensure that the contracting officers are maintaining the suspension and debarment information prior to approving the procurement.

We also observed that in the recent migration to a more automated procurement documentation system, Procurement Administrative Support System (PASS) it is unclear how all documentation relating to the contract award should be maintained. Some documentation is retained in paper form and other information is retained electronically. However, the procurement policies and procedures do not clearly specify which documents need to be retained and in what form (electronically or in hard copy). We recommend that the District modify its existing procurement policies and procedures to clearly document all procurement information that must be retained and in what format in order to demonstrate compliance with federal and local procurement regulations.

**Government of the District of Columbia  
Other Comments and Recommendations  
September 30, 2004**

**1. Development of Indirect Cost Plans**

OMB Circular A-87 permits states to charge indirect costs to federal awards. Indirect costs are those: (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved. The term "indirect costs" applies to costs of this type originating in the grantee's program departments, as well as those incurred by other departments in supplying goods, services, and facilities. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect costs. Indirect cost pools should be distributed to benefited cost objectives on bases that will produce an equitable result in consideration of relative benefits derived. Under the Circular, there are three types of indirect cost plans: central service cost allocation plans, public assistance cost allocation plans, and indirect cost rate proposals

Central Service Cost Allocation Plan - Most governmental units provide certain services, such as motor pools, computer centers, purchasing, accounting, etc., to operating agencies on a centralized basis. Since federally-supported awards are performed within the individual operating agencies, there needs to be a process whereby these central service costs can be identified and assigned to benefited activities on a reasonable and consistent basis. The central service cost allocation plan provides that process. Formal accounting and other records that will support the propriety of the costs assigned to Federal awards should support all costs and other data used to distribute the costs included in the plan.

Public Assistance Cost Allocation Plans - Federally financed programs administered by State public assistance agencies are funded predominately by the Department of Health and Human Services (HHS). In support of its stewardship requirements, HHS has published requirements for the development, documentation, submission, negotiation, and approval of public assistance cost allocation plans in Subpart E of 45 CFR Part 95. All administrative costs (direct and indirect) are normally charged to Federal awards by implementing the public assistance cost allocation plan.

Indirect Cost Rate Proposals - Indirect costs are those that have been incurred for common or joint purposes. These costs benefit more than one cost objective and cannot be readily identified with a particular final cost objective without effort disproportionate to the results achieved. After direct costs have been determined and assigned directly to Federal awards and other activities as appropriate, indirect costs are those remaining to be allocated to benefited cost objectives. A cost may not be allocated to a Federal award as an indirect cost if any other cost incurred for the same purpose, in like circumstances, has been assigned to a Federal award as a direct cost. Indirect costs include (a) the indirect costs originating in each department or agency of the governmental unit carrying out Federal awards and (b) the costs of central governmental services distributed through the central service cost allocation plan and not otherwise treated as direct costs. Indirect costs are normally charged to Federal awards by the use of an indirect cost rate. A separate indirect cost rate(s) is usually necessary for each department or agency of the governmental unit claiming indirect costs under Federal awards.



**Government of the District of Columbia  
Other Comments and Recommendations  
September 30, 2004**

We observed that the District is not taking full advantage of its ability to charge and obtain reimbursement for eligible indirect costs chargeable to federal programs. There are no current District-wide central services cost allocation plan used to charge indirect costs to federal awards. Further, for those agencies that do maintain a public assistance cost allocation plan or an indirect cost rate proposal, the calculated rates are sometimes several years old and may not reflect the current indirect costs incurred.

We recommend that the District's Office of the Chief Financial Officer (OCFO) establish procedures to ensure that indirect cost plans are appropriately developed each year. The OCFO should analyze which departments may benefit from having a separate indirect cost plan versus participation in a District-wide central services plan. The objective of this analysis is to maximize the District's reimbursement for its indirect costs. We believe that the preparation of these indirect cost plans timely could lead to significant additional revenues for the District.

**2. Timeliness of Cash Draw Downs under the District's Treasury State Agreement**

When entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government. When funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement. When advance payment procedures are used, recipients must establish similar procedures for subrecipients. Pass-through entities must establish reasonable procedures to ensure receipt of reports on subrecipients' cash balances and cash disbursements in sufficient time to enable the pass-through entities to submit complete and accurate cash transaction reports to the Federal awarding agency or pass-through entity. Pass-through entities must monitor cash drawdowns by their subrecipients to assure that subrecipients conform substantially to the same standards of cash management as those that apply to the pass-through entity.

Treasury regulations at 31 CFR part 205, which implement the Cash Management Improvement Act of 1990 (CMIA) (Pub. L. No. 101-453), require State recipients to enter into agreements, which prescribe specific methods of drawing down Federal funds (funding techniques), for selected large programs. The agreements also specify the terms and conditions in which an interest liability would be incurred. Programs not covered by a Treasury-State Agreement are subject to procedures prescribed by Treasury in Subpart B of 31 CFR part 205 (Subpart B).

We observed that the District does not fully take advantage of the cash draw down provisions of its Treasury-State Agreement. We noted numerous programs where reimbursement of local funds expended were only drawn down from the U.S. Treasury one or two times during the fiscal year. We believe this situation results from improper coding of federal expenditures to local funds in SOAR, with draw downs occurring only after reclassification of expenditures from local to federal funds, which may not occur until late in the year.

We recommend that OFOS institute additional training for personnel involved in federal awards programs to ensure that they understand how to code federal expenditures to the proper SOAR accounts as they occur. We further recommend that OFOS identify a central point of contact at each agency to be responsible for ensuring that federal funds for all federal awards programs at the agency

**Government of the District of Columbia  
Other Comments and Recommendations  
September 30, 2004**

are drawn down timely. By drawing down federal funds more timely, we believe the District could earn significantly higher interest revenues on its invested local funds each year.