FROM: Stacey Johnson, Interim Chief Financial Officer

THROUGH: Morton Sherman, Ed.D., Superintendent of Schools

TO: The Honorable Sheryl Gorsuch, Chairman, and Members of the Alexandria City School Board

TOPIC: Response to the Capital Improvement Program (CIP) Audit

BACKGROUND: The CIP audit titled Report on Agreed-Upon Procedures CIP Project Expenditures was performed by Robinson, Farmer, and Cox (RFC) and examined budgetary and monetary transactions between July 1, 2010, and October 31, 2011 related to the following schools:

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

The full results of this audit report can be viewed using the following link: http://www.acps.k12.va.us/news2012/nr2012030801.php.

The report notes that over a period of years a process that fragments procurement, budget, facilities, and the City Office of Management and Budget has been present. This fragmentation and lack of transparency between departments have created significant internal control weaknesses in monitoring CIP financial transactions.

We concur with most of the instances noted in the body of the report, take full responsibility for addressing these issues, and are taking assertive actions to correct all problems found. In general, recommendations include the following key improvements:

- Adopt policies and procedures to strengthen the division's overall contract management and practices
- Establish a written contract development and approval procedure which requires communication between Financial Services and Facilities to ensure project authorization and the availability of funding for the entire project
- Create project management tools to allow for close monitoring of project progress, contract modifications, change orders, and contractor billings
- Improve communication and coordination between Financial Services, Facilities, and the City to ensure CIP transactions are reconciled and recorded appropriately
Other ACPS Engagements related to CIP Review

Third Party Work Verification

In addition to the agreed-upon procedures audit conducted by Robinson, Farmer, and Cox, ACPS worked with an independent, third party verification company to review invoices and validate the performance of work, reasonableness of costs, and contractual obligations as feasible. ACPS provided invoices and other procurement related documentation to APM that extended beyond the six schools under review by the RFC audit. By doing so, we were able to ascertain if there were any issues that did not reveal themselves in the CIP audit. A general summary of this review is below:

- In all cases, APM found that the work had been substantially performed or found no indication that the work had not been performed.
- In several cases, APM recommended ACPS hold invoice payments until the contractor provided additional billing details to support invoice tasks and amounts as well as any pending punch list or other warranty items. Most vendors have responded to these additional requests.
- In minor cases, APM denoted billing irregularities even though the work had been verified. For such instances and as applicable, ACPS contacted the respective architects of record to request certification of the payments requested.

APM is currently reviewing one additional set of invoices and results will be provided within two weeks. As a result of APM and ACPS’ review processes; we are now paying all of our uncontested obligations.

ACPS Legal Counsel

To provide a legal acknowledgement for the contractual and ethical obligations of ACPS to pay all vendors who performed work, whether appropriately authorized or not, ACPS engaged attorneys from Seyfarth and Shaw to establish legal payment vehicles for ACPS. In addition, Seyfarth and Shaw provided a review and complete update of ACPS’ contractual terms and conditions for all purchases. As required by new procurement procedures, legal counsel now reviews all contracts exceeding $200,000.

Beyond procurement and contractual reviews, ACPS has sought legal counsel from the Commonwealth Attorney for the City in reference to specific items of concern related to the findings of the CIP agreed-upon procedures review.

Policies and Procedures

ACPS staff has focused personnel resources on reviewing and updating School Board policies and operating procedures. Third party service providers including the National Institute of Governmental Purchasing (NIGP) and Robinson, Farmer, and Cox (RFC) have been contacted to discuss potential services related to policy and procedural reviews ensuring industry regulations and best practices are inherent in ACPS’ Board policies and standard procedures.
New Business Systems—Enterprise Resource Planning (ERP)

In June 2011, ACPS selected Tyler Technologies to replace our aging and inefficient financial, payroll, time-management, and human resources systems with a single, integrated business solution. The Tyler system, called MUNIS, will be implemented over the next three years and will drastically change how ACPS currently conducts business.

As a part of this system implementation, ACPS began a comprehensive business process analysis to ensure that the most effective and efficient processes are developed and assessed against best business practices, GAAP and GASB requirements, and Tyler-recommended internal controls.

ACPS is less than two months away from going live with the new system for all financial transactions. The system will be operational in May 2012, but will be rolled out in phases beginning with our core accounting and purchasing transactions. By early Fall 2012 and for the first time, CIP tracking and invoice processing will be handled through an integrated financial system.

Next Steps and CIP Process Follow-up

In addition to all of the above reviews and other measures taken to ensure greater efficiency, transparency, and accountability, ACPS will release information obtained during the aforementioned procedural and transactional reviews to the audit firm selected for the upcoming annual financial audit for FY 2012. This communication will ensure these risk areas are given greater consideration and significance in identifying any weaknesses in controls as a part of the annual audit.

In addition, the ACPS Interim CFO and City’s Acting CFO, under the direction of the Superintendent and City Manager, have agreed that the scope of the new audit firm selected by the City will include a provision for ACPS to secure performance audits or other operational reviews which includes more thorough assessments of program effectiveness and efficiency, internal controls, and compliance as well as any investigative/forensic reviews to address any specific instances of financial irregularities.

Staff has been asked to focus their efforts on moving the division forward by establishing and enhancing systems, processes, and procedures. However, as we near the final review of contracts, invoices, and payments, we will continue to refer specific concerns to the Commonwealth’s Attorney. Depending on the Commonwealth Attorney’s acceptance of these referrals, the need for an investigative/forensic audit is still under consideration.

Responses to Recommended Changes

Each of the auditors recommendations are shown below along with a general management response with regards to our concurrence and the status of improved processes.

**Procurement and Budget (Financial Services) — Preliminary Response**

*Recommendation: Contracting For Services*

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.
ACPS Response: We concur. A procedure has been established which requires the procurement office to submit all contracts exceeding $200,000 to legal counsel for review. Contracts exceeding $500,000 must be approved by the School Board after review by the Board Budget and Audit Committee.

**Recommendation: Contract Change Orders**
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.

ACPS Response: We mostly agree. In many cases, authorization for project changes must be made on the spot during project implementation and the appropriate authorization must be given to Facilities staff. Establishing a policy that requires approval for all change orders may adversely impact project timelines and deliverables. Current Board policy specifies that construction contract change orders exceeding 10% of the contract value must be approved by the School Board. Procedures regarding change orders are currently under review.

**Recommendation: Communication with Procurement**
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.

ACPS Response: We concur. Procedures have been updated to clearly require this notification.

**Recommendation: Communication with Facilities**
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.

ACPS Response: We concur. Procedures have been updated to clearly require the OCA assignment to contracts by facilities staff. Funding verification will be made by the budget office.

**Recommendation: Budget Transfers**
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.

ACPS Response: We concur. The established policy has been reinforced to all relevant staff as well as to the City. In addition and as communicated to the City, we are requiring the signatures of the Director of Facilities, Assistant Budget Director, and Interim Chief Financial Officer on all budget transfers.

**Recommendation: Monitoring**
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.

ACPS Response: We concur and enhancements to this spreadsheet are in progress. Financial Services staff has revamped the CIP tracking sheet to allow for automatic updates of CIP account balances as invoices are received. Expenditures are reconciled on a weekly basis. Discrepancies are forwarded to City financial staff and resolved for a complete reconciliation between ACPS and the City’s accounting system.

**Educational Facilities—Preliminary Response**

*Recommendation: Purchase Orders*

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.

ACPS Response: We concur. Facilities will coordinate with procurement and budget to ensure that purchase orders are prepared for a contract at the time of award. The purchase order will be issued for the full contract amount. A copy of the purchase order will be submitted with each invoice and payment voucher at the time of payment.

*Recommendation: Prompt Payment of Vendor Invoices*

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.”

ACPS Response: We concur. The ACPS Procurement Manual currently addresses the prompt payment of vendor invoices. These requirements are reinforced for CIP payment processing and have been included in the CIP procedures.

*Recommendation: Recording of Expenditures in the Proper Accounting Period*

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.

ACPS Response: We concur. While the accounting period for CIP invoices is classified by the City of Alexandria, ACPS has updated internal CIP procedures to require all invoices be submitted directly to the Financial Services department and not held by the Facilities
department for any reason. This will ensure allow for more efficient invoice processing and greater communication with the City in the event invoices arrive that must be coded to the prior accounting fiscal year. ACPS will further collaborate with the City to adhere to year-end deadlines and other requirements.

**Recommendation: Potential Conflict of Interest**
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.

ACPS Response: We concur. Through our policy committee, ACPS will continue to evaluate and update policies that ensure ethical protocol in dealing with all aspects of financial management.

**Recommendation: Expenditure Classification**
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.

ACPS Response: We concur. ACPS will provide additional training to all staff handling invoices with regards to the required components and completeness of review prior to approval and payment authorization. In addition, files are now shared between Financial Service and Facilities staff to improve coordination and allow for checks and balances.

**Recommendation: Allocation of Vendor Invoices**
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.

ACPS Response: We concur. ACPS will require supporting documentation to justify the allocation of vendor invoices to multiple account codes. The requirements for this procedure are still under review.

**Recommendation: Small Contracts and Task Orders**
Contracts under $50,000 and other task order contracts should be approved by the Superintendent or their designee prior to award.

ACPS Response: This recommendation and associated policy is still under review. ACPS will adhere to the requirements of the Virginia Public Procurement Act (VPPA) in review of all procurement policies and procedures.

**CONTACT PERSON:** Stacey Johnson, 703-824-6644

**ATTACHMENT:**
1. DRAFT CIP Procedures as of March 1, 2012
2. Internal CIP Authorization Form
3. DRAFT CIP Process Flowchart
Alexandria City Public Schools
Financial Services Department

DRAFT and IN PROGRESS: CIP Procedures
Updated: 03-01-12

The following procedures have been established in response to the CIP audit. These procedures will allow ACPS to pay vouchers that comply with ACPS policy, Virginia Code, and GAAP standards.

Project Estimates and Management
1. Independent, third party cost estimates are required for all capital improvement projects projected to exceed a value of $200,000. The appropriate contingency values must be carried in the cost of the project depending on the nature of the project as well as the impact of scheduled timelines. Contingency amounts should not exceed 10%, unless justified and approved by the Superintendent, or designee.
2. All approved construction contracts exceeding $500,000 will require independent, project management to be solicited in accordance with the Virginia Public Procurement Act (VPPA).

Contract Development
3. Following Virginia Public Procurement Act (VPPA) requirements for bids and quotes, contracts must be signed by the Superintendent, or approved designee (ACPS Procurement Officer or Interim Chief Financial Officer) upon meeting the following criteria:
   a. Compliance with all applicable VPPA requirements is documented
   b. Funding availability has been confirmed with the Budget Office for the entire amount of the contract
   c. All contracting requirements as defined in the ACPS procurement manual apply to all business relationships funded through the CIP including legal counsel review for all contracts exceeding $200,000 and School Board approval for all contracts exceeding $500,000.
4. All work must be authorized in writing. No work may be authorized verbally. All procurement documents including purchase orders must be completed by Facilities and approved by Financial Services before any work may begin.
5. Facilities staff must assign the CIP account code (OCA) prior to the issuance or negotiation of any contract. Funds must be verified through the budget office for the entire cost of the project.
6. Facilities staff must prepare a purchase order request for the total, approved contract amount and submit to financial services for approval. Both financial services and facilities staff are required to track payments made against purchase orders.

Payment Processing
7. CIP vouchers may be processed upon meeting the following criteria:
   a. The appropriate contracting vehicle is in place, per the requirements of the VPPA including ratification of contracts as prepared and approved by David Mancini, School Board Attorney, and the ACPS Procurement Officer.
   b. If the VPPA does not require a contract for the work to be performed, bids and quotes must still comply with VPPA requirements.
   c. Funding is available in the CIP account/City OCA code, as verified by Financial Services
d. The work as indicated by the invoice has been validated by ACPS Department of Facilities or Advanced Project Management, Inc. (APM), the third party firm selected to verify work on behalf of ACPS, and the invoice is not under “further investigation” as advised by APM.

8. All vendors must submit invoices directly to Financial Services, to the attention of the ACPS Budget Office. If invoices are submitted to Facilities, they should be date stamped on the day received, logged into the incoming mail log, and forwarded immediately to Financial Services.

9. Once received by Financial Services (either from vendors directly or from Facilities), invoices must be date stamped, logged into the CIP outstanding invoices tracking file, scanned to the electronic filing system, and routed to Facilities with the internal authorization sheet attached (item 6 below).

10. The attached internal tracking and authorization sheet must be completed in its entirety and attached to each invoice. The tracking sheet includes the following items that must be verified before payment can be processed:
   a. verification of work performed, as noted in item 7 below, and verification of sufficient funds remaining on the associated purchase order, signed by the Director of Planning, Construction, and Design Services, and the Director of Facilities
   b. verification of the contract or other legal procurement vehicle, signed by the ACPS Procurement Officer
   c. verification of budget and availability of funds in the CIP account code assigned by the Facilities office, budget verification signed by ACPS Budget Analyst
   d. based on individual invoice amounts, verification of compliance with ACPS policies, acknowledged by all of the signatures in items a – c noted above, signed by the Director of Accounting, Interim CFO, or Superintendent

11. Invoices will be reviewed by Financial Services for completeness and sent to Facilities for logging in their records and verification of goods received, services and/or work performed. Authorized signers for Facilities are Tamika Puckett, Acting Director of Facilities and Monika Szczepaniec, Acting Director of Planning, Construction, and Design Services. In some cases other individuals may be required to initial/cosign to verify work performed.

12. Facilities will complete the appropriate sections of the internal Payment Processing form including assigning the appropriate OCA code and prepare the City of Alexandria Payment Voucher form.

13. Once payment vouchers and invoices are certified by Facilities they will be returned to Financial Services along with all supporting documentation for final authorization of payment. Once authorized by Financial Services, payment vouchers and all supporting documentation will be sent to the City for processing. Facilities department staff are not permitted to hand carry payment vouchers to the City for processing.

14. Authorized signatures in Financial Services are as follows:
   a. Invoices under $100,000: Michael Covington, Director of Accounting
   b. Invoices between $100,000 and $500,000: Stacey Johnson, Interim Chief Financial Officer
   c. Invoices above $500,000: Dr. Morton Sherman, Superintendent of Schools
15. To the extent possible, invoices and payment vouchers should be completely processed by ACPS and sent to the City for payment within 15 business days of receipt. This will allow sufficient time for the City to complete its review and payment process within the 45-day required payment period.

Project Monitoring

16. Change orders are created to effect any change in delivery, price or terms of contract after review of the circumstances and a determination that the change is authorized. Requests are subject to the requirements of ACPS policy FEG. Change order requests will be completed by the Facilities Department and signed by the Acting Director of Facilities and submitted to Financial Services for verification and approval. If the change order causes the cumulative increase in the contract to exceed 5% of the contract value or $50,000, whichever is lower, it must also be approved by the Interim CFO.

17. Requests for budget transfers must follow School Board policy FEG. The process for review and approval for all transfers is 1) preparation by Facilities staff; 2) review and signature by the Acting Director, Facilities; 3) review and signature by the Budget Director, 4) review and signature by the Interim CFO. For all transfers with a one-sided value less than $50,000 no further review is required and transfers may be transmitted to the City.

If the one-sided value of the transfer exceeds $50,000 or if deemed necessary by the Interim CFO, additional approvals are required as follows: 1) review and signature by Superintendent; 2) approval by the School Board by majority vote; 3) transmission to the City through City financial staff for approval by City Council.

18. The Director of Facilities, Financial Services staff and Interim CFO will meet monthly to review the CIP budget, expenditures, encumbrances, cash balances and remaining budgetary balances by project. Project completion against cash expenditures will also be reviewed for all projects that exceed an annual budget of $100,000.

19. On a quarterly basis, a CIP financial and project status report will be prepared for the Superintendent and the School Board.

20. On a quarterly basis, annual and/or project life cycle cash flow projections will be prepared by the Facilities department and presented to the Interim CFO. Any projected cash flow variance compared to budget by project (as defined by City OCA code) that will require a budget transfer will be discussed with the Superintendent.
# CIP Payment Certification

## Facilities Office:

<table>
<thead>
<tr>
<th>Vendor Name</th>
<th>Invoice Amount</th>
<th>Invoice #</th>
<th>Invoice Date</th>
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<table>
<thead>
<tr>
<th>Work Location(s)</th>
<th>OCA Code</th>
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<tr>
<th>Project Name/Description</th>
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<tr>
<th>PO Number</th>
<th>PO Date</th>
<th>Original PO Amount</th>
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<table>
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<tr>
<th>Current PO Balance</th>
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<th>PO Change Order Requested</th>
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<tr>
<th>Work Validated</th>
<th>No</th>
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<tr>
<th>Yes</th>
<th>No</th>
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<table>
<thead>
<tr>
<th>Invoice Amount</th>
<th>Remaining PO Balance</th>
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</table>

(Remaining balance after processing of attached invoice)

We, the undersigned have reviewed the attached invoice, referenced above, for accuracy and completeness of goods received, and that the services and/or the work performed are within the terms of the existing contract. We also certify that the project complies with all School Board policy requirements, as specified in the Facilities policies.

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**Monika Szczepaniec, Acting Director of Planning, Design and Construction**

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**Amina Maddox, Temporary Contracts Specialist**

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**Richard Patino, Temporary Business Data Analyst**

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**Payment Authorization**

I, the undersigned, authorize the attached invoice, referenced above, to be submitted to the City of Alexandria for payment.

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**Michael Covington, Director of Accounting**

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**Stacey Johnson, Interim Chief Financial Officer**

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**Dr. Morton Sherman, Superintendent**

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**Board Memo CIP Audit Response**

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**Vendor**

- Prepare maintenance and asset replacement needs with 3rd Party (EMG)
- Through collaborative process: Identify priorities and constraints
- Develop resource-constrained recommendations
- Present proposed CIP Budget to School Board
- Present Project Mgmt Tool to track line-item detail by project (under development)
- Identify CIP accounts for all approved CIP projects
- Submit cash allocation request for the plan year to City
- Request new accounts as necessary
- Populate CIP financial system with approved budget by project
- Communicate recommendations to stakeholders:
  - PTA
  - school staff
  - community

**Facilities**

- Prepare enrollment projections for capacity
- Prepare maintenance and asset replacement needs with 3rd Party (EMG)
- Through collaborative process: Identify priorities and constraints
- Develop resource-constrained recommendations
- Present proposed CIP Budget to School Board
- Present Project Mgmt Tool to track line-item detail by project (under development)
- Identify CIP accounts for all approved CIP projects
- Submit cash allocation request for the plan year to City
- Request new accounts as necessary
- Populate CIP financial system with approved budget by project
- Communicate recommendations to stakeholders:
  - PTA
  - school staff
  - community

**Financial Services**

- Provide school-based maintenance and asset replacement
- Communicate recommendations to stakeholders:
  - PTA
  - school staff
  - community

**Schools**

- Provide City mandates for building code and certifications
- Communicate recommendations to stakeholders:
  - PTA
  - school staff
  - community

**City**

- Adopt City’s final budget
- Review proposed CIP Budget School Board
- Adopt CIP Budget School Board
- Present Approved CIP Budget to City Council School Board
- Adopt Final Combined Funds Budget School Board
- Review bids and do completeness review Legal & BAC
- Approve contract School Board

**Other ACPS**

- Procure vendors/contractors in accordance with School Board policy and State regulations, incl:
  - Quotes
  - Bids
  - RFP
  - Contract
- Verify available funding and identify OCA account
- Send to School Board for approval
- Over $200K
- Under $200K
- Issue award letter Proc Board Memo CIP Audit Response
1. Start project based on PROJECT TRACKING DOC.
2. Identify potential change order:
   - Owner-directed errors & omissions
   - Unforeseen conditions
   - Sequencing errors
   - Materials costs
   - Allowances
3. Validate:
   - Yes: Evaluate the scope and cost of change order and identify funding
   - No: Revise PO and Direct
4. Is funding available?
   - Yes: Recommend funding source
   - No: Over or under X1?
5. Over or under X1?
   - Yes: Revise PO
   - No: Validate funding with Budget Dept. and review change order
6. X2 or X3?
   - Yes: Accept change order?
   - No: Return to Facilities with explanation
7. Approve or reject change order by Admin Specialist or Designee.
8. Accept change order?
   - Yes: Approve Change Order and send PO CHANGE FORM to Admin Specialist. Update PROJECT TRACKING DOC and CIP PAYMENT TOOL.
   - No: Over or under X2 or X3?
9. Over or under X2 or X3?
   - Yes: Approve Change Order and send PO CHANGE FORM to Admin Specialist. Update PROJECT TRACKING DOC and CIP PAYMENT TOOL.
   - No: Revise PO
10. Confirm project changes with Facilities.
11. Create CHANGE ORDER PROPOSAL and send to Facilities.
12. Inform stakeholder(s) re. decision.
13. Over or under X?
   - Yes: Validate?
   - No: Evaluate the scope and cost of change order and identify funding
14. Recommend funding source.
15. Approve Change Order and send PO CHANGE FORM to Admin Specialist. Update PROJECT TRACKING DOC and CIP PAYMENT TOOL.
16. Validate?
   - Yes: Evaluate the scope and cost of change order and identify funding
   - No: Revise PO