

Other Observations and Recommendations on Internal Control and Financial Operations

Process	Information Technology Management
Title	Improve Business Continuity Management
Observation	<p>Each District agency is currently responsible for developing its own business continuity plan. Business continuity plans should be updated, reviewed, and tested on a regular basis to ensure consistency of business operations. Improvements in this area are required at all levels, from the District-wide level to the agency level and finally to the data center level. We observed the following:</p> <ul style="list-style-type: none"> • The Office of the Chief Technology Officer's (OCTO) disaster recovery plans are not finalized and have not been tested. A business impact analysis has not been performed at the two data centers (ODC1 and ODC2) to determine the impact of interruptions to specific processes on the overall operation of each data center. Business continuity plans that incorporate recovery of business processes, as well as technology resources, are not in place. • The current disaster recovery strategy for the two OCTO data centers is mutual backup. OCTO is working towards having each data center provide a disaster recovery capability for the other. This mutual backup strategy is sound in every respect, except for the fact that the two data centers are less than four miles apart. We are concerned that both data centers could be vulnerable to a single event, or to a coordinated attack specifically directed at both data centers. In any other metropolitan area, except perhaps New York City, we would not be as concerned. OCTO does not have a fall-back plan or capability to recover data center operations at a secure disaster recovery site outside the Washington metropolitan area. If one data center was to be out of service for an extended period of time, the other data center is not prepared to provide a disaster recovery capability.
Recommendation	OCTO should develop a comprehensive business continuity plan that addresses each data center and the LAN/WAN environment. Once developed, this plan should be tested annually. Further, OCTO should secure an agreement with a commercial disaster recovery site outside the immediate metropolitan Washington area to ensure adequate backup facilities exist in the event of a major attack on the District that interrupts data center operations. Finally, OCTO should require those agencies with their own data processing capabilities to develop their own business continuity plans as soon as possible so that those plans can be coordinated into a District-wide plan.
Management's Response	Agency business continuity plans are not within the scope of control of OCTO. During the Y2K activities, OCTO worked with each major agency to develop functional business continuity plans. It has been the responsibility of each agency to maintain the currency of the agency's functional business continuity plans. OCTO will provide support for each agency to help exercise the systematic elements of the plans of the agencies.

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	<p>OCTO has designed a comprehensive disaster recovery plan for both the data centers and the WAN. It should be noted that OCTO has acquired a Capacity Backup (CBU) function that allows the mainframes at either data center to be upgraded (within 24 hours) to more processing power than the current combined power of both mainframes in the event of a disaster. This will allow full functionality for all District mainframe processing at either data center for as long as needed in the event of an extended outage at either data center.</p> <p>The current WAN network implementation is redundant, with a separate WAN core at each OCTO data center. DCNET, which will supply the WAN backbone connectivity for voice and data, is designed to be disaster-tolerant. Coupling the existing resilience of DCWAN with the redundancies inherent in DCNET provides impressive levels of support in case of disaster.</p>
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Process	Information Technology Management
Title	Improve Information Technology Governance Standards
Observation	<p>A comprehensive governance program for high-cost, high-exposure, and mission-critical IT projects in the District is not in place. With the absence of a strong IT governance program, large independent agencies, such as OTR and DOES, may not fully adhere to OCTO's current efforts to establish District-wide architectural standards and consistency. We have also observed resistance to OCTO's process improvement efforts in the data centers.</p>
Recommendation	<p>We recommend that a single <i>Project Management Office</i> (PMO) be established as the operational arm of an IT Steering Committee and an Architecture Committee of a comprehensive IT governance program. The PMO's role would be to gather information needed for decision making, provide the detail coordination necessary for implementation of Committee initiatives, and monitor and report progress. Components of a strong IT governance program should include:</p> <ul style="list-style-type: none"> a. <i>An IT Steering Committee</i> comprised of senior executives and business unit executives. The role of the steering committee is to identify key business processes and strategies to be supported by IT; perform risk/investment analysis of proposed high-dollar/high-risk/mission-critical IT projects; measure IT value; review IT sourcing, security, and architecture policies. The steering committee also monitors and evaluates ongoing IT projects for risk/value/cost; identifies shared service opportunities across business units, and evaluates and approves IT architecture. Such a committee does not exist in the District. b. <i>An Architecture Committee</i>, comprised of the CIO and direct reports. The role of the Architecture Committee is to create and enforce standards for IT across the enterprise and to assess exceptions to the rule. c. <i>Business Process Teams</i> comprised of business and IT personnel. These teams oversee IT initiatives dealing with their specific business areas. Such teams have been developed for some of the business areas in the District. For instance, the larger agencies at the District have established program offices, which operate on behalf of the functional business areas, prioritize IT services, and interface with OCTO and central business functions. Examples include OTR's Information Systems Administration, Department of Human Services' Income Maintenance Administration, and Office of Pay and Retirement Services' Enterprise Office.

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	<p>d. <i>District-wide Project Management Standards</i> should be developed, documented, and distributed for implementation on all mission-critical, high-risk, and large-budget IT projects. The standards should address all aspects of IT project management to include (but not limited to) the following:</p> <ol style="list-style-type: none"> 1. Project objectives and scope 2. Cost benefit analysis and justification 3. Procurement practices and vendor management 4. Task and deliverable definition (including dependencies) 5. Project organization and skill sets 6. Reporting and communications, e.g., actual vs. planned percent complete, expenditures, etc. 7. Automated project management tools
<p>Management's Response</p>	<p>For four and one half years, OCTO has maintained a single Project Management Office (PMO) whose responsibility is to provide review, approval, tracking and monitoring of all major District government IT capital projects.</p> <p><i>IT Steering Committee</i> – OCTO has such a function established. OCTO's certified agency CIO program is in place to provide this function. OCTO is in the process of certifying a CIO for each major city agency. One of the purposes of the program is to have the agency CIOs serve in the capacity of a IT Steering committee. The effort to fully staff the agency CIOs is well underway and should be complete by the end of the calendar year.</p> <p><i>Architecture Committee</i> – OCTO has established an in-house Architecture group, staffed by experienced IT architects. The OCTO Architecture group serves as the citywide Architecture Committee. Currently this group is being expanded.</p> <p><i>Business Process Teams</i> – For five years, OCTO has maintained an in-house Business Process group, staffed by experienced business process experts. The OCTO business process group provides their services to District agencies on a priority basis.</p> <p><i>District-wide Project Management Standards</i> – OCTO has developed a full set of project management standards. These standards are published and are available on the OCTO Web site. These standards address the full range of IT project life cycles.</p>

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Process	Various
Title	Improve Monitoring of Third-Party Service Organizations
Observation	<p>The District has increasingly contracted with outside service organizations to assist in the administration and processing of various routine transactions, such as workers' compensation claims, Home Purchase Assistance Loan Program loan disbursements and collections, Medicaid claims, Temporary Assistance for Needy Families claims, Food Stamps claims, and Lottery games sales and claims processing. While much of the administration may be outsourced, the financial responsibility and, ultimately, the risks inherent in the program administration remain with the District. Poor performance by a service organization can lead to insufficient or untimely management reporting. It can also lead to failure to adequately manage required future reserves for claims incurred.</p> <p>One way the District has chosen to monitor selected service organization controls is to obtain a SAS 70 report. In those instances where a SAS 70 report is obtained, it appears that District personnel do little to monitor the service organization's performance other than obtaining the report. We also observed that there is no policy requiring District agencies to obtain a type II SAS 70 report, which reports on the operating effectiveness of the service organization's internal controls, nor is there a policy requiring additional oversight of service organization operations.</p>
Recommendation	<p>We recommend the District require all agencies to identify all instances where third-party service organizations are performing key internal control functions upon which the District is relying for management decisions. Once identified, the contracts with these organizations should be reviewed, and amended if necessary, to ensure that the District is obtaining a type II SAS 70 report. We further recommend that District agencies document their specific plans for conducting service organization oversight during the year. All of this information should be provided to the OCFO's Office of Internal Audit/Internal Security so that that office can be involved in assessing how the agency is complying with the plan.</p> <p>We further recommend that the District agency engaging the third-party service organization be actively involved in the SAS 70 audit reporting process. The District should identify to the third-party servicer and its auditor the controls that the District is relying upon. This will ensure that the third-party servicer's auditor in the SAS 70 report addresses the design and operating effectiveness of these controls.</p>
Management's Response	<p>The Office of Integrity and Oversight (OIO) has taken actions to achieve the results recommended by the Auditors on this item. In 2001, OIO issued several letters to District procurement offices [Office of Contract and Procurement (under the Mayor) and the Office of Management and Administration (under the CFO)] to include a provision in all contracts to third-party service organizations (outsourced to perform administration and processing of various routine transactions) to obtain SAS 70 audits to assure that District key internal control functions are duly adhered to by the third-party vendors.</p>

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	<p>In addition, we plan to enhance this procedure by assisting agencies to alert third-party vendors and their auditors on the controls the District is relying upon. These District agencies will also be tasked to be actively involved in the SAS 70 audit reporting process.</p> <p>Moreover, as recommended, OIO will take a more active role to assure that the procurement provision is included in third-party contracts, and oversight monitoring and related documentation are adequately met by District agencies.</p>
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Other Observations and Recommendations on Internal Control and Financial Operations

Process	Human Resources Process
Title	Remove Terminated Employees from UPPS Timely
Observation	The District does not always remove terminated employees in a timely manner from the UPPS payroll database. We observed that 8 out of the 60 employees we selected for testing were terminated but had not been removed from the database. District policy does not allow for the payment of health benefits for terminated employees. Since District internal controls do not ensure that terminated employees are removed from UPPS in a timely manner, the District may be paying for benefits for terminated employees. This will cause the District's overall costs for employee benefits to be higher than necessary.
Recommendation	Standard procedures should be developed to ensure that all terminated employees are removed from UPPS timely.
Management's Response	<p>The Office of Personnel is responsible for terminating employees in the UPPS system. In an effort to assist DCOP and District agency financial staff in identifying these employees, the Office of Pay and Retirement Services produces a report each pay period. This report identifies employees who are active in the UPPS system but receiving no pay.</p> <p>The Office of Personnel cannot terminate employee records without the required authorizing agency personnel actions. The Office of Personnel conducts monthly HR advisers meetings for liaisons from all District agencies. Each adviser receives a terminated employee report for review and to ensure personnel actions are generated and entered into TransTrak to terminate employees.</p>

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Process	Human Resources
Title	Improve Employee Personnel File Maintenance
Observation	We observed that Official Personnel Files (OPFs) for 7 of the 60 employees we selected for testing could not be located. We also observed that 6 of the 60 employee files selected did not contain an employee health insurance deduction authorization form. Further, we observed that OPFs at the Reeves center were maintained in an unsecured area, exposing them to unauthorized individuals and possible theft/loss. Lack of internal controls and compliance with OPF maintenance regulations increases the risk that OPFs are misplaced, incomplete, or stolen. This increases the risk of possible employee fraud or litigation as a result of privacy issues.
Recommendation	We recommend that the District enhance its internal controls to ensure that policies and procedures set forth in the Personnel Manual related to the integrity, security, and confidentiality of personnel records be maintained. Further, this will help ensure that the District maintains the administrative, technical, and physical controls to protect personnel records from unauthorized access, use, modification, or disclosure.
Management's Response	Management concurs with the findings and has incorporated new functional and operational procedures in October 2003 for staff and the OPUS32 SQL records management system at both the Reeves Center and One Judiciary Square locations.

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Process	Cash Management
Title	Improve Reconciliation Controls over Imprest Funds at CFSA
Observation	The Child and Family Services Agency (CFSA) does not follow the District's Policies and Procedures for control over imprest funds. During our test work, we found that the CFSA does not perform monthly reconciliations. Furthermore, CFSA used the imprest fund to pay approximately \$154,000 for Contracted Consultant fees, \$393,000 for BankCard fees (used for Social Worker travel that may include food and meals) and \$122,000 for SOAR Vendors. Using imprest funds to make vendor payments outside the normal course of business, and failure to reconcile the imprest funds timely, increases the risk of unauthorized payments being made without being detected.
Recommendation	We recommend the District formally and thoroughly train those responsible for imprest funds in their proper use and management. The training should emphasize the District's policies and procedures regarding allowability of disbursements chargeable to these funds and the requirement and procedures for monthly reconciliation and reimbursement.
Management's Response	This account was originally set up during the Receivership period as an operating fund. Petty Cash (Imprest) was a small portion of this fund's intent. On or about June 2003, when a new financial team came on board, it was noted that the intent and the utilization of this Agency Controlled Cash Account/Imprest Fund was inconsistent with the District's Policies and Procedures for operating an Imprest Fund. However, there are numerous outstanding transactions that needed to be processed through this account and the expenditures recorded in SOAR. Steps have been taken so that the Agency will no longer utilize this account as an operating account. As a result, it is anticipated that the account will be closed by the end of the 2nd quarter FY 2004. During FY 2004, a new Imprest Fund will be established and operated in accordance with the District's Policies and Procedures for Imprest Fund.

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Process	Fixed Assets
Title	Maintain Property Disposal Forms
Observation	The Metropolitan Police Department (MPD) has disposed of items of fixed assets without maintaining proper documentation in accordance with District policies. For 3 out of 15 items selected for test work, no property disposal action forms were available for our review (i.e., no evidence of authorization for the disposal of the assets.) The District's policies and procedures for fixed assets disposal require that request for disposals be prepared on a Property Disposal Form (Form DC 2630-8, PDA Form) and submitted to the Department of Administrative Services for approval. Alternatively, approval can be obtained from the agency Director or designee.
Recommendation	MPD should prepare and authorize the applicable property disposal forms prior to disposing of fixed assets. Failure to properly dispose of fixed assets could result in noncompliance with the terms of federal regulations regarding the disposal of fixed assets acquired with federal funds.
Management's Response	The MPD concurs that the Fleet Division was unable to provide supporting documentation for three items of fixed assets disposed of in FY 2003. It is the policy of MPD to prepare disposal actions for all fixed asset items and to ensure that they be available for review and or audit upon request. To correct this deficiency, the OCFO has notified the Executive Director of Corporate Support for MPD of the audit finding. He was also provided with a copy of the District's policy for disposing of assets. Periodically, the OCFO will follow up to ensure that the District's policy is being met.

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Process	Property Management
Title	Improve Controls over Accounting and Reporting of Lease Transactions
Observation	<p>During our review of the financial statement closing packages relating to commitments and contingencies, we observed that current year lease expenditures and future lease payments reported by some Agencies were duplicated. These agencies include the DCPS, Child and Family Services Administration, and the MPD. Further, the District could not provide lease agreements to support two operating leases selected for testing, and the related financial statement lease disclosure was not properly reported. The disclosure was based on the current cash payments increased by 5%.</p> <p>Finally, we noted that the District entered into two lease arrangements for rental of facilities without following the established procurement guidelines. The closing instructions included in the closing manual specify that leases that are procured and paid through the Office of Property Management (OPM) must be reported as part of the closing package of OPM. All relevant supporting documentation must be maintained in a filing system to facilitate easy retrieval. These rules apply to leases with future cash flows in excess of \$1,000,000 and would therefore require Council approval prior to payment.</p>
Recommendation	We recommend that OPM implement controls over the recording of lease transactions including the determination of the future minimum lease payments at the inception of the lease. Measures should be put in place to ensure that all supporting documentation is retained and is easily accessible. The OPM should review its procurement practices to ensure that contracts with cash flows that meet the established guidelines, are submitted for approval by the Council prior to executing a lease transaction.
Management's Response	A Real Estate Review Committee was enacted in FY 2004 by Mayor's Order. The purpose of this Committee is to institute controls and checks and balances in the District's real estate transaction processes. In addition, OPM is in the final stages of hiring a Deputy Director for Portfolio Management who will establish and enforce standard operating procedures for the Division to include such actions as procurement and legislative compliance. Another major area of focus for the Deputy Director will be document management.