

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL**

DISTRICT OF COLUMBIA

**MEMORANDUM OF
RECOMMENDATIONS
FISCAL YEAR 2007**



**CHARLES J. WILLOUGHBY
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



July 10, 2008

The Honorable Adrian M. Fenty
Mayor
District of Columbia
John A. Wilson Building
Mayor's Correspondence Unit, Suite 316
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

The Honorable Vincent C. Gray
Chairman
Council of the District of Columbia
John A. Wilson Building
1350 Pennsylvania Avenue, N.W., Suite 504
Washington, D.C. 20004

Natwar M. Gandhi, PhD.
Chief Financial Officer
Office of the Chief Financial Officer
John A. Wilson Building
1350 Pennsylvania Avenue, N.W., Suite 203
Washington, D.C. 20004

Dear Mayor Fenty, Chairman Gray, and Dr. Gandhi:

In connection with the audit of the District of Columbia's general purpose financial statements for fiscal year (FY) 2007, BDO Seidman, LLP (BDO) submitted the enclosed final Memorandum of Recommendations, in previous years known as the Management Letter. This report details certain control deficiencies that require continued management attention. In this regard, BDO Seidman, LLP set forth suggestions for improving existing internal controls. BDO did not consider these matters to be significant deficiencies or material weaknesses. Furthermore, these matters did not affect the fair presentation of the financial statements.

Mayor Fenty, Chairman Gray, and Dr. Gandhi
Issuance of FY 2007 Memorandum of Recommendations
OIG No. 08-1-27MA – Final Report
July 10, 2008
Page 2 of 4

While the Office of the Inspector General will continue to assess the District's implementation of recommendations, it is the responsibility of District government management to ensure that agencies correct the deficiencies noted in audit reports. This Office will work with managers, as appropriate, to help them monitor the implementation of recommendations.

If you have questions or need additional information, please contact William J. DiVello, Assistant Inspector General for Audits, or me at (202) 727-2540.

Sincerely,


Charles J. Willoughby
Inspector General

Enclosure

CJW/ws

cc: See Distribution List

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July 10, 2008
Page 4 of 4

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Government of the District of Columbia

**Memorandum of Recommendations
Year Ended September 30, 2007**

Government of the District of Columbia

Contents

Introductory Letter	1
City Wide Observations	
<i>Processes</i>	
General District Administration	3
Cash and Investments	4
Management of Grants	14
Health Care Safety Net	17
Management of the Postretirement Health and Life Insurance Trust	19
Management of the Disability Compensation Program	22
Revenue Generation and Collection	23
Fixed Assets	30
Budget and Planning	34
Loan Programs	37
Management of Debt Instruments	38
Journal Entries	39
Allocation of Indirect Costs	40
Anacostia Waterfront Corporation	41
National Capital Revitalization Corporation and Related Entities	42
<i>Information Technology Environment</i>	
General Controls	43
Hire to Pay	53

Government of the District of Columbia

Contents – (continued)

<i>Information Technology Environment – (continued)</i>	
Revenue Generation and Collection	56
Treasury	61
Status of Prior Year Observations	62



March 31, 2008

To the Mayor and the Council of the Government of the District of Columbia, Inspector General of the Government of the District of Columbia, and Management of the Government of the District of Columbia

During the course of our audit of the financial statements of the **Government of the District of Columbia** (the District) for the year ended September 30, 2007, we observed the District's significant accounting policies and procedures and certain business, financial, and administrative practices.

In planning and performing our audit of the financial statements of the District as of and for the year ended September 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. A material weakness is a significant deficiency or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control was for the limited purpose described in the second paragraph of this letter and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

We have prepared the following suggestions for improving existing internal controls. We did not consider these matters to be significant deficiencies or material weaknesses. Furthermore, they did not affect the fair presentation of the financial statements.

This report does not extend to the following entities or funds as their financial statements were audited separately:

- District of Columbia 529 College Savings Program.
- District of Columbia Housing Finance Agency.
- District of Columbia Police Officers and Firefighters' Retirement Fund.
- District of Columbia Teachers' Retirement Fund.
- District of Columbia Nursing Homes.
- District of Columbia Water and Sewer Authority.

The following entities or funds each receive separate reports; therefore, observations involving these entities or funds are also not included in this document.



- District of Columbia Tobacco Settlement Financing Corporation.
- University of the District of Columbia.
- Washington Convention Center Authority.
- District of Columbia Public Schools.
- District of Columbia Lottery and Charitable Games Control Board.
- District of Columbia Unemployment Compensation Fund.
- Sports and Entertainment Commission.
- Home Purchase Assistance Program.

Deficiencies in internal control that we considered to be significant deficiencies or material weaknesses, as defined above, are discussed in a separate report. We refer the Mayor, Council, and Inspector General to the *Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*. This report, dated March 31, 2008, describes in greater detail the following material weaknesses, significant deficiencies, and material noncompliance with laws and regulations as noted for the year ended September 30, 2007:

Material Weaknesses

- Office of Tax and Revenue.
- Management of the Medicaid Program.
- District of Columbia Public Schools.

Significant Deficiencies

- Investment Reconciliations and Activities.
- National Capital Revitalization Corporation and the Anacostia Waterfront Corporation.
- Management of Grants.
- Compensation.
- Management of the Disability Compensation Program.
- Management of the Unemployment Compensation Program.

Material Noncompliance with Laws and Regulations

- Noncompliance with Procurement Regulations.
- Noncompliance with the Quick Payment Act.
- Noncompliance with the Financial Institutions Deposit and Investment Amendment Act.

This report is intended solely for the information and use of the Mayor, the Council, the Inspector General of the District, management of the District, and others within the District government and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

BDO Seidman, LLP

BDO SEIDMAN, LLP

City Wide Observations

Process: General District Administration

Policies and Procedures Manual

We noted that the existing accounting procedures manual in use has not been updated for several years. This can lead to misunderstandings, errors, inefficient or wasted effort, duplicated or omitted procedures, and other situations that can result in inaccurate or untimely accounting records.

We recommend that management take the necessary steps in updating its accounting procedures manual. A well-devised accounting manual can help to ensure that all similar transactions are treated consistently, that accounting principles used are proper, and that records are produced in the form desired by management. A good accounting manual also aids in the training of new employees and possibly allows for delegation to other employees of some accounting functions management performs.

All changes in the accounting procedures manual, as well as existing internal controls, should be documented and communicated on a regular basis to all affected persons. Internal controls cannot work unless employees are aware of them. Further, a policy should be established for the manual's regularly scheduled review and update.

Management's Response:

The Office of Financial Operations and Systems is currently working on updating the policies and procedures.

Adequacy of Insurance Coverage

As a part of our audit procedures, we inquired into the adequacy of the District's insurance coverage. Coverage appears to be inadequate and should be reviewed as soon as possible in order to ensure proper and adequate means by which to preserve District assets. We based our conclusions on the results of inquiries where we were made aware that there is no workers compensation insurance, employer's liability insurance, stop-loss coverage, crime insurance, property insurance, excess liability insurance, auto insurance, fiduciary insurance, terrorism insurance, or bond insurance.

The District may consider negotiating the exclusion of the land value from its building insurance coverage. Since land is generally not destructible, the District may be able to save premium costs by negotiating its exclusion from the building coverage.

Management's Response:

As we move forward, gathering information to implement an excess property insurance program and crime coverage would be included for consideration in the program. How extensive the program is will largely depend on the budget.

* * * *

Process: Cash and Investments

Bank Reconciliation Process (BID 121)

Bank Account ID (BID) #121, a pooled cash account, is centrally managed by the Office of Finance and Treasury (OFT) and reconciled by the Office of Financial Operations and Systems (OFOS). Bank statements arrive approximately 10 working days after the close of each month. After all the reconciling items have been identified, the corresponding agency is contacted and reconciling transactions are forwarded to the appropriate personnel for resolution. With the exception of the month of September, the District's policy is that the cash reconciliation process for every other month span a 30-45 day period from the close of the general ledger for that respective month. The general ledger is closed approximately ten working days after the end of a month.

During our audit process over BID #121, we noted the following:

1. Our review of a sampling of the monthly reconciliations for this bank account revealed that the November 2006 bank reconciliation was not completed within the required 30-45 day time frame.
2. During our review of the year-end reconciliation, we noted that payroll checks for the period ended March 31, 2007 totaling \$760,215 were incorrectly included in the list of outstanding checks. A request to remove the aforementioned checks was initiated on August 22, 2007.

The year-end bank reconciliation was prepared on December 18, 2007 and on January 11, 2008, a revised bank reconciliation was prepared with a correction. In addition to the lack of timeliness in processing and adjusting this item, the revised bank reconciliation did not contain a reviewer's approval.

3. During our review of the year-end reconciliation, we noted that approximately 90% of the balance in the reconciling item entitled "bank debit memos" is over one year old and unresolved.
4. During our review of the year-end reconciliation, we noted that the reconciling item entitled "additions in SOAR not at bank" included a journal entry (JN7REBA1) which increased cash in the amount of \$1,077,251. This related to an accrual for the monthly WIC rebates and should have been recorded to accounts receivable instead, as the cash had not been received at year-end.

It was also noted that \$840,611 of this balance was received subsequently via checks dated October 11, 2007 and October 30, 2007. As indicated above, the entire balance was incorrectly recorded in fiscal year 2007 and accordingly, the year-end balance in cash was overstated. Management processed the appropriate adjusting journal entries during the audit process.

5. During our review of the year-end reconciliation, we noted that the reconciling item entitled "additions in SOAR not at bank" contained a journal entry (JACB0065) in the amount of \$817,947 which was posted to SOAR, the District's accounting system of record, but had not been approved nor were any supporting documents available for our review. The \$817,947 was subsequently deleted from SOAR in the final and revised bank reconciliation dated January 11, 2008.

Timely preparation of complete and accurate bank reconciliations is a key to maintaining adequate control over both cash receipts and disbursements. Not reconciling accounts on a periodic basis means that errors or other problems might not be recognized and resolved on a timely basis. Also, it is generally easier and less time-consuming to reconcile accounts while transactions are fresh in mind. Further, an unreconciled difference that appears immaterial can obscure significant but offsetting items (such as bank errors or improperly recorded transactions) that would be a cause for investigation if the items were apparent.

Process: Cash and Investments

We recommend that bank reconciliations be reviewed for accuracy and completeness on a timely basis. The review should include tests of mechanical accuracy and tracing of items on the reconciliation to the relevant source documents. The composition of unreconciled differences should be determined and followed up on, and any journal entries deemed necessary as a result should be recorded. We also recommend that all reconciliations be signed as an indication of approval.

Management's Response:

The following response was provided by Office of Financial Operations and Systems (OFOS) personnel:

It is very important to the District that the annual CAFR be prepared accurately and timely. As such, the CAFR has been prepared and issued by the February 1 due date for every fiscal year since 1999. Activities in support of the annual year end closing process are generally scheduled from September to December of each year. During this period, most analytical activities of OFOS staff are dedicated towards performing functions in support of the fiscal year end closing and preparation of the annual CAFR by February 1.

All daily and weekly operational activities continue to function as required during the year end closing process, while monthly analytical reviews may be delayed until the year end closing is completed. Generally, all monthly duties return to their regular schedule by February.

Preparation of the October (not cited in the audit finding) and November 2006 bank reconciliations were delayed beyond the 30-45 day time frame. This delay was directly related to the year end closing schedule which required all transactions affecting cash balances for September 30 to be entered by November 30. As a result, preparation of the October and November 2006 reconciliations within the 30-45 day time frame must have been suspended, since they could not be prepared without a completed September reconciliation.

The preparation of the September 2007 reconciliation was monitored daily by management, in conjunction with our review of year end adjusting entries affecting the District's cash balances. As adjusting entries are posted in SOAR, our draft of the reconciliation is continually modified to reflect the new cash balances and entries posted. Thus, the September 2007 reconciliation was finally dated January 2008. All monthly OFOS bank reconciliations are reviewed and approved by management. Management will ensure that the final version of the reconciliations reflect evidence of their review.

The following response was provided by Human Support Services personnel:

On October 24, 2007, journal entry # JN71WIC1 was entered into SOAR to recognize the accrual of WIC rebates using Bank ID 999. After conversation with OFOS, we were instructed to reverse the entry. The reversal was done on November 16, 2007, per journal entry #JN7WICA2 (copy attached). Subsequently OFOS requested that the entry be made utilizing Bank ID 121. This entry was done on November 28, 2007, per journal entry JN7REBA1. The last entry had the effect of treating the entry as a Cash transaction. Please note that the accrual was established to recognize rebate checks applicable to Appropriation Year 2007 that had not been received as of September 30, 2007. The rebates do not represent revenue, but a reduction of food expenditures for the WIC program and is reported to the USDA as rebates on Form FNS 798. The receivable that was established at year-end included the rebate accrual, accordingly no adjustment should have been made to the WIC Grant receivable.

Process: Cash and Investments

The following response was provided by Office of Finance and Treasury (OFT) personnel:

The "bank debit memo" items represent bank corrections in their system, often due to a check being improperly read by the bank's system. The communication regarding these items from the bank back to the District did not occur in a manner that facilitated timely resolution of the issue in the District's records. Going forward, OFT and OFOS will coordinate with the bank to ensure that such items are properly documented expeditiously.

OFT management does not concur with the premise that this entry was prepared by or within the purview of OFT. It appears that the entry was prepared by the Department of Human Services, and since the entry was deleted, we are unable to do further research regarding the document.

Cash Disbursements (BID 121)

As a necessary part of control over cash disbursements, adequate bank reconciliation procedures should be carried out. The following was noted during our audit process over Bank Account ID (BID) 121 which represents the District's main check-writing account:

1. The District's defined policy for disposition of uncashed checks to stale checks payable is 180 days. There were uncashed checks included in the outstanding checklist amounting to approximately \$4.1 million which had been issued from April 14, 2006 through March 31, 2007. Therefore, all of these checks were over 180 days old at September 30, 2007. Instead of a periodic review and removal of uncashed checks, we noted that a cumulative journal entry was made in the amount of \$3.9 million on September 30, 2007 in preparation for the annual audit.

Since stale dated or uncashed checks are not purged in a timely manner, the cash balance may be understated. We identified these stale dated checks from a sample of bank accounts selected for testing. Management should recognize that the potential exists for additional stale dated checks not being addressed in a timely manner. Research should be done periodically to eliminate large numbers of old items being carried from month to month.

2. Currently, two systems are used to track outstanding checks: the Account Reconciliation Program (ARP) function of the check writing system (automated system) and a manual system. The District is performing an off-line reconciliation to arrive at the outstanding check amounts and there are some immaterial differences between the two systems relating to unsettled items dating back to 1999-2005. In essence, there is no complete list of outstanding checks and errors may continue to accumulate.

We understand that the District is in the process of fully automating the reconciliation process for outstanding checks. We recommend that the District increase its efforts to ensure that a viable system is fully operational in the near future.

3. At September 30, 2007, the list of canceled checks included several items amounting to \$379,566 on which stop payments had been issued by the District. However, the bank had proceeded to cash these checks. We recommend that the appropriate District personnel follow through with bank representatives in order to minimize any potential liability. We understand that management has implemented an electronic process which will minimize the occurrence of such errors.

Process: Cash and Investments

Management's Response:

The following response was provided by Office of Financial Operations and Systems (OFOS) personnel:

It is the District's general policy that issued checks become void after 180 days. Starting in July of each year, we review the status of all outstanding checks as of December 31 of the prior calendar year (180 days outstanding or older). As a result of our review, an annual process is performed in our Accounts Reconciliation Program (ARP) after our September 30 reconciliation is completed, to flag all of the stale checks for purging. Due to the design of the ARP system, the flagged stale checks are actually purged from our outstanding file in the weeks subsequent to September 30.

Also, since ARP is programmed to flag stale checks as of December 31 of the prior calendar year, we must manually identify stale checks that exist with check issue dates of March 31 or earlier of the current year.

Consistent with our prior year practices, adjusting entries are posted to our year end September 30 balances, not in preparation of our annual audit, but instead, to properly state our cash balances to reflect the value of outstanding checks classified as stale. Management will explore conducting the annual purge process in ARP earlier than year end to allow sufficient time for the purge process to be completed by September 30.

OFOS does not maintain two systems to track outstanding checks. The ARP system provides, on a monthly basis, a detailed listing of outstanding checks. To validate the ARP listing, it is compared to and reconciled with the bank's outstanding list on a monthly basis. As an additional proof of the ARP outstanding list, we perform a mathematical calculation using the prior month's ending balance for outstanding checks and current month's activity to estimate the current month's outstanding list. These efforts to validate the ARP outstanding check listings are conducted to ensure our lists are complete and accurate. All significant variations are investigated and resolved. Management will review the format of our monthly account reconciliations to ensure that they properly present the reconciliation of our cash account balances with the balances as reflected by the bank statements.

The following response was provided by Office of Finance and Treasury (OFT) personnel:

Bank errors contribute to this finding, but management concurs with the recommendation of increased follow-up with bank representatives. As indicated in the recommendation, management has taken action to implement an electronic process to minimize the occurrence of this issue going forward.

Bank Reconciliation Process (BID 200)

Bank Account ID (BID) #200 is a pooled cash account used by various agencies but centrally maintained by the Office of Finance and Treasury (OFT) and then reconciled by the Office of Financial Operations and Systems (OFOS). Bank statements arrive approximately 10 working days after the close of each month. After all the reconciling items have been identified, the corresponding agency is contacted and reconciling transactions are forwarded to the appropriate personnel for resolution. With the exception of the month of September, the District's policy is that the cash reconciliation process for every other month span a 30-45 day period from the close of the general ledger for that respective month. The general ledger is closed approximately ten working days after the end of a month.

Process: Cash and Investments

During our audit process over BID #200, we noted the following:

1. We reviewed a sampling of the monthly reconciliations for this bank account and although we were advised that all pooled cash bank reconciliations are approved by a responsible employee, no indication of such a review was evident for the months of November 2006, April 2007, June 2007, and September 2007. Further, the November 2006, April 2007, and June 2007 bank reconciliations were not completed within the required 30-45 day time frame. We also observed that the ending September 30, 2007 balance per the reconciliation did not reconcile to the actual SOAR balance, the District's accounting system.
2. We noted that of the \$45,903,657 in the reconciling item entitled "unrecorded bank transactions" on the September 30, 2007 bank reconciliation, approximately 75% of the balance was made up of transactions that are older than 60 days. It is further noted that the reconciling item(s) have been identified by OFOS personnel. OFT personnel are not initiating the necessary reconciling and adjusting journal entries in a timely manner.
3. We noted that of the \$(24,217,652) in the reconciling item entitled "SOAR transactions not at bank" on the September 30, 2007 bank reconciliation, 61% of the balance was made up of transactions that were older than 60 days. It is further noted that the reconciling item(s) have been identified by OFOS personnel. OFT personnel are not initiating the necessary reconciling and adjusting journal entries in a timely manner.
4. There were also certain delays in the audit process as an original year-end bank reconciliation was provided by District personnel in mid-December 2007 and audit work was begun. Subsequently, a revised reconciliation was received in mid-January 2008 with a general ledger balance which differed from the original bank reconciliation by a net amount of approximately \$31,000,000.

Timely preparation of complete and accurate bank reconciliations is a key to maintaining adequate control over both cash receipts and disbursements. Not reconciling accounts on a periodic basis means that errors or other problems might not be recognized and resolved on a timely basis. Also, it is generally easier and less time-consuming to reconcile accounts while transactions are fresh in mind. Further, an unreconciled difference that appears immaterial can obscure significant but offsetting items (such as bank errors or improperly recorded transactions) that would be a cause for investigation if the items were apparent.

Further, the composition of unreconciled differences should be researched and resolved and any journal entries deemed necessary as a result should be recorded on a timely basis. One of the benefits of researching reconciling items is that errors do not accumulate but can be identified and attributed to a particular period, which makes it easier to perform future reconciliations and provides for a more accurate account balance. We also recommend that all reconciliations be signed as an indication of approval.

Communication between OFT and OFOS should be streamlined to allow for timely resolution of these outstanding issues. Steps should be taken to ensure that all employees maintain a clear understanding of how duties should be performed and the flow of responsibility. Each agency should update the other on the current status of items and changes being made. A forum may be necessary for suggestions or concerns and as a means for using a team-approach to resolving outstanding items.

Process: Cash and Investments

Management's Response:

The following response was provided by Office of Financial Operations and Systems (OFOS) personnel:

Management does not concur. All monthly OFOS bank reconciliations are reviewed and approved by management. Managers mark their review and approval on the final copy of the monthly reconciliation. Manager signed reconciliations for the months stated were available.

The final April and June 2007 bank reconciliations were completed beyond the 30-45 day time frame due to late adjusting entries posting to cash accounts. As entries are recorded in SOAR, we must continually update our reconciliations to reflect the revisions. As such our final reconciliation date may be dated beyond the 30-45 day time frame.

Preparation of the October (not cited in the audit finding) and November 2006 bank reconciliations were delayed beyond the 30-45 day time frame. This delay was directly related to the year end closing schedule which required all transactions affecting cash balances for September 30 to be entered by November 30. As a result, preparation of the October and November 2006 reconciliations within the 30-45 day time frame must be suspended, since they could not be prepared without a completed September reconciliation.

The final reconciliation for the September 2007 reconciliation does reflect the final SOAR cash balances for BID 200. This reconciliation was monitored daily by management, in conjunction with our review of year end adjusting entries affecting the District's cash balances. As adjusting entries are posted in SOAR, our draft of the reconciliation is continually modified to reflect the new cash balances and entries posted.

The following response was provided by Office of Finance and Treasury (OFT) personnel:

Regarding the comments above that "OFT personnel are not initiating the necessary reconciling and adjusting entries in a timely manner", to the best of our knowledge and according to staff, when notified of necessary reconciling or adjusting entries, OFT personnel has made such entries in a timely manner. We support the recommendation of a more systematic approach to the communication between OFOS and OFT to ensure and confirm that all such entries are executed in a timely manner.

Bank Reconciliation Process (Sampling of BIDs)

In addition to Bank Account ID #121 and #200, we selected other bank account IDs to test on a sample basis.

1. Although, we were advised that all pooled cash bank reconciliations are reviewed and approved by a responsible employee, no indication of such a review was evident on the September 30, 2007 reconciliations for BID #211 and #222.
2. The recording and reconciliation of a cash account under the exclusive control of a particular agency is the responsibility of that agency. Each agency is responsible for reconciling to the bank balance on a monthly basis. Before reconciliations are submitted to OFOS, the reconciliations are reviewed and approved by the agency's CFO.

Process: Cash and Investments

OFOS personnel review the submitted reconciliations to ensure completeness and that the agencies have recorded the balances to the correct bank account ID. In addition, OFOS ensures that the balance ties to the bank statement. If there are any variances, the agency is contacted.

We selected certain agency controlled bank account IDs to test on a sample basis. Although, we were advised that all bank reconciliations are reviewed and approved by a responsible employee, no indication of such a review was evident on the June and September 2007 reconciliations for BID #250 and #410 by the agency's CFO or by OFOS personnel.

3. We also selected agency controlled BID #996 which represents various District of Columbia Public Schools student activity fund accounts. While deemed insignificant, we noted certain unsupported amounts added in to the supporting worksheet in order to agree it to the overall control log.

The District is currently not in compliance with its own internal policies. We recommend that reconciliations be signed as an indication of approval. Doing so would take little additional time and might even prevent time from being wasted by inadvertent review of reconciliations that had already been reviewed. Reconciliations should also continue to be reviewed for accuracy and completeness.

Management's Response:

The following response was provided by Office of Financial Operations and Systems (OFOS) personnel:

All monthly OFOS bank reconciliations are reviewed and approved by management. Managers mark their review and approval on the final copy of the monthly reconciliation. Manager signed reconciliations for the months stated for BID 211 and 222 were available. OFOS reviewed the agency submitted reporting packages containing the reconciliations for BID 250 and 410. These reporting packages were received and logged by OFOS staff. No exceptions to the reconciliations or packages were noted by OFOS staff or the auditor.

The following response was provided by District of Columbia Public Schools (DCPS) personnel:

As the finding relates to DCPS, we concur with the finding. There were a few small accounts for Dunbar High School that should have been added to the worksheet provided to the auditors. Due to an oversight, this was not corrected before the closing package was completed. This has been brought to the attention of the appropriate staff along with the need to more closely review information prior to it being submitted.

Elimination of Unnecessary Accounts

During our audit, we noticed that there were a number of bank account IDs that had not been used in more than a year, had small balances, or were similar to other larger, more active accounts. In some cases, the transactions or events for which the accounts were established no longer exists or were discontinued, or have low volume.

1. Various bank account IDs (BID) are listed as pooled cash accounts and tie into certain internal reports (DAFRG100), but the corresponding bank accounts have been closed for over one year. The account balances at September 30, 2007 are the same amounts as they were on September 30, 2006 and are made up of outstanding and stale checks which have not been cleared out.

Process: Cash and Investments

2. Various bank account IDs (BID) are listed as agency cash accounts and tie into certain internal reports (DAFRG100), but the bank accounts have been closed for over one year. The account balances at September 30, 2007 are the same amounts as they were at September 30, 2006 and are made up of outstanding and stale checks and debit amounts which have not been cleared out.
3. Various investment accounts are listed on certain internal reports (DAFRG100), but the accounts have been closed for over one year. Management has represented that the majority of these variances are the result of converted balances into SOAR, the District's accounting system of record, with respect to several component units that now use other systems of record. While they are included on certain internal reports (DAFRG100), they are excluded in the uploading of SOAR into the year-end financial reporting model.

Management should recognize that retaining unnecessary accounts in the general ledger and chart of accounts, especially accounts that are similar to others, can lead to confusion and inaccuracy in posting transactions or creating journal entries. Also, undue time must be spent reconciling these small accounts. We recommend that the general ledger and chart of accounts be periodically reviewed and that unused or zero balance accounts be eliminated.

We also recommend that management periodically review the functions of all bank accounts to determine whether they are necessary. Only the minimum number of bank accounts consistent with operating requirements should be established. Numerous bank accounts result in complexity and inefficient administration. Time needed to record accounting transactions could be reduced if the District considered eliminating or combining bank accounts when possible. This can also result in improved internal controls and simplification of reconciliation procedures.

Management's Response:

If it is clear that the activity associated with a certain account has concluded, the Office of Finance and Treasury (OFT) does initiate closure of such bank account. However, for certain accounts related to agency activity, it is not always known or clear to OFT that such account is no longer needed.

Going forward, we will make the necessary inquiries to make that determination on a regular, periodic basis. OFT concurs that a systematic, periodic review of all bank accounts should be done to determine whether certain accounts can or should be closed. Office of Financial Operations and Systems (OFOS) concurs with the recommendation to periodically review the general ledger cash and investment accounts and eliminate those accounts that are unused or zero balanced.

Advisory Neighborhood Commission Bank Accounts

During our audit process, it was discovered that approximately 35 Advisory Neighborhood Commission bank accounts had not been presented on the Comprehensive Annual Financial Report (CAFR). The September 30, 2007 balances for these accounts totaled approximately \$1,500,000.

We recommend that internal control procedures be put into place to ensure that all authorized bank and investment account activity is monitored, reconciled, and reviewed regularly. In addition, it is the District's responsibility to ensure all cash and investment amounts are properly reflected in SOAR, the District's accounting system.

Process: Cash and Investments

Management's Response:

The following response was provided by Office of Finance and Treasury (OFT) personnel:

The Advisory Neighborhood Commission (ANC) bank accounts are established independently by each Commission, in accordance with DC Code 1-309.13. As a result, these bank accounts were not established through the Office of Finance and Treasury (OFT). Apparently, some of the ANCs established accounts with a Tax Identification Number (TIN) other than the District's TIN, while some established accounts with the District's TIN. Working in conjunction with the Office of the DC Auditor (which has certain responsibilities for monitoring the financial activity of ANCs), OFT has recently engaged in an effort to have all ANC accounts established under the District's TIN and have them all fall within the purview of OFT's management of all District bank accounts. OFT will work with the Office of Financial Operations and Systems and the Office of Budget and Planning to ensure that these accounts and all transactions associated with them are properly accounted for in SOAR.

The following response was provided by Government Operations personnel:

We concur with the finding. We have instituted measures in place that assure the proper recording and reconciling of transactions related to all District bank accounts. Additional corrective measures have been taken to assure that the ANC Bank accounts are properly recorded in SOAR and reconciled periodically in compliance with the already established practices.

Compliance with Investment Policy and its Parameters

The current investment policy establishes a set of broad guidelines within which the District's Office of Finance and Treasury (OFT) is to lawfully invest funds. The investment policy applies to all cash and financial investments of the various funds of the District of Columbia as identified in the District's Comprehensive Annual Financial Report (CAFR), with the exception of those financial assets explicitly excluded from coverage by this policy for legal or operational reasons. The policy also defines authorized investments, legal limits percentages, and other constraints.

The District has not been able to provide a supporting schedule as evidence that it was within the legal limit percentages and constraints at September 30, 2007.

We recommend that on a periodic basis, OFT consider a review of the current investment portfolio and document compliance with set policies. OFT should also ensure that the investment policy is current and reflects what is actually taking place with the District's investments.

Management's Response:

All investments were/are within the parameters established by the Deposit and Investment Act. OFT, with assistance from our financial advisors, recently developed a new Investment Policy document to provide further policy parameters for its investments in accordance with state-of-the-art industry standards and best practices, and that new policy document is being followed.

Process: Cash and Investments

Non-Compliance with Financial Institutions Deposit and Investment Amendment Act

For general deposit and investment requirements, the Financial Institutions Deposit and Investment Amendment Act, among other requirements, dictates the following:

The Mayor, or the CFO pursuant to Section 47-351.2(c), shall not allow the amount of District funds deposited or placed for the provision of financial services in a single eligible financial institution to exceed the lesser of either:

- a) Twenty-five (25) percent of the total assets of the eligible financial institution, exclusive of the District funds; or
- b) Twenty-five (25) percent of the total District funds available for deposit or investment as of the date of such deposit or placement and as of the end of each fiscal quarter thereafter.

Our compliance testwork revealed one (1) instance of non-compliance with the aforementioned provision where deposits held by a single institution exceeded 25% of all District deposits. This occurred in October 2006 with Wells Fargo Bank. We recommend that the Office of Finance and Treasury (OFT) closely monitor the District's deposit percentages with all financial institutions.

Management's Response:

For the one instance of noncompliance that was cited, the balance at Wells Fargo Bank was not in excess of 25% because the Wells Fargo total includes an investment that it should not, an investment with another institution (J.P. Morgan), with Wells Fargo as the investment custodian but not the institution with which the funds were actually placed. Taking this into consideration, the amount at Wells Fargo was not in excess of the 25% limit.

Inclusion of Accounts in Financial Reports

During our audit process, it was discovered that two Credit Union accounts, Hospitality Community Federal Credit Union and DC Employees Federal Credit Union CD, had not been presented on the Comprehensive Annual Financial Report (CAFR). It was also discovered that 2 Independence Bank accounts, DHCD IFSB Custodial account and IFSB Trustee for DHCD Multi Family, had not been presented on the Comprehensive Annual Financial Report (CAFR). The September 30, 2007 balances for these IFSB accounts totaled approximately \$3,100,000. We recommend that internal control procedures be put into place to ensure that all authorized bank and investment account activity is monitored, reconciled, and reviewed regularly. In addition, it is the District's responsibility to ensure all cash and investment amounts are properly reflected in SOAR, the District's accounting system.

Management's Response:

Management concurs and OFOS will work with OFT to review the List of Bank IDs and ensure all accounts are properly reflected in SOAR. Actions have been taken to ensure that this circumstance does not occur going forward. With respect to the IFSB accounts, the Department of Housing and Community Development (DHCD) believed that the IFSB accounts in question were custodial accounts not under direct control of the District of Columbia. Accounts in question have had Bank Identification Numbers assigned by OFT and are now properly reflected in SOAR.

* * * *

Process: Management of Grants

Administration of Refundable Deposits

When companies or private citizens perform work that affects public roads or rights-of-way, they must obtain a permit and pay a refundable deposit. These programs are administered by the District's Department of Transportation (DDOT) Transportation Policy and Planning Administration and Public Space Policy/Permit branches. During our review of deferred revenue accounts, we noted that DDOT had approximately \$28 million in its deferred revenue relating to these refundable deposits.

We also noted that this balance had grown significantly in the past few years due to increases in the amount of development; increases in the sizes of deposits required; nature of the development; difficulties in scheduling inspections required for refunds due to staffing constraints or public awareness of the need to request refunds; and "walk-away" permittees who pay the permit fee with no intention of requesting a refund as the cost of repairs to code would exceed the amount of deposit that would be returned.

We recommend that DDOT implement the following improvements for the administration of refundable deposits:

1. Implement a policy in which old amounts are investigated to determine if the projects have been completed and refunds made;
2. Implement a time limit for requesting the refunds after completion of the project and assign someone to monitor the amounts on an on-going basis; and
3. Implement a policy in which amounts in deferred revenue are monitored by someone at the Office of the Chief Financial Officer (OCFO) to ensure agency compliance with policies.

Management's Response:

DDOT and OCFO staff is meeting to review the program and revise policies to ensure inspections and refunds are timely. The recommendations will be considered with the limits of current legislation. A legal review of the current legislation is underway.

Lack of Supporting Documentation – Income Maintenance Administration

The Department of Human Services' Income Maintenance Administration (IMA) is responsible for determining eligibility for the Temporary Assistance for Needy Families (TANF) program. IMA uses the Automated Client Determination System (ACEDS) to evaluate the eligibility of an applicant. During our review, we noted the following:

1. In 4 of the 45 cases reviewed, the customers failed to recertify foodstamps and the TANF benefits continued.
2. In 1 of the 45 cases reviewed, the supervisor did not sign the required recertification form.
3. In 1 of the 45 cases reviewed, we noted that the income was not verified.
4. In addition, 2 of the 132 cases which had been selected for testing under the Medicaid program had TANF benefits also. These TANF benefits continued after the applicants failed to recertify their benefits.

Process: Management of Grants

We also noted that TANF benefits do not automatically terminate at the end of the specified six-month period or when the participant becomes ineligible. We noted that at the end of the eligibility period, ACEDS does not automatically send a recertification letter to the participant notifying him/her to recertify for TANF benefits. TANF benefits continue to be provided until IMA manually processes the request for the participant to recertify. Therefore, since TANF benefits continue after the period of eligibility, it is very possible that there are participants receiving TANF benefits, who are not eligible for the benefit.

Adequate internal controls to monitor TANF benefits are essential to ensure that TANF benefits are only paid to eligible participants. IMA does not appear to have adequate internal controls to ensure that TANF benefits are paid only to eligible participants. We recommend that IMA improve internal controls to ensure that documentation is maintained to support eligibility decisions and properly maintain and secure such documentation in participant files.

Management's Response:

Of the 4 cases cited for continuing benefits after the recertification, District Law requires that TANF customers be given adequate and timely notice of actions. Currently, reports are generated and monitored to schedule appointments for cases due for review. For TANF customers who also receive food stamps (FS), a notice is generated to alert the customer that TANF will be reviewed when the FS is reviewed. If the customer fails to recertify the FS, IMA staff initiates a timely notice to also close TANF. It should be noted that over 90% of TANF households receive FS.

In the instance where the supervisor did not sign the recertification form, the benefits were approved by the supervisor and appropriate notices mailed to the customer.

IMA issued its latest clarification on case record management procedures on August 28, 2007. This memorandum stressed the importance of retaining and securing needed documentation. Also, IMA Program Managers have been tasked with completing the assessment of all files to ensure the safeguarding and proper filling of case documents. In addition, IMA has proposed the purchase of automation to begin document imaging (scanning) of all documents. This innovation will enhance IMA's efforts to adequately manage case records.

Lack of Supporting Documentation – Office of City Administrator

During our testing of disbursements for a Department of Homeland Security Grant as administered by the City Administrator's Office, we noted the following:

1. 4 of 45 sampled items (which included 39 non-payroll samples and 6 payroll samples) were missing documentation. Invoices and other documentation for expenditures were not provided.
2. 1 of 6 payroll sampled items (there were 45 samples in total, of which 6 were payroll samples) was not approved by the immediate supervisor.
3. In 2 of 6 payroll sampled items tested by us, we noted that the timesheet information was keyed in, reviewed, and approved by the same person.

This poses the risk that invalid expenses were paid and unauthorized time is charged to the grant which could lead to a possible grant disallowance.

Process: Management of Grants

We recommend that a review and approval process be implemented to provide for better controls in this area. We recommend that the program supervisor always ensure that an appropriate approval is given before disbursements are made to vendors or salaries are paid to employees. We also recommend that at the agency level, there be proper segregation of duties since this could lead to a possible override of controls or increased fraud risks.

Management's Response:

Corrective measures have been implemented to ensure that all federal expenditures are properly documented and that invoices are properly filed. There are now spot audits being performed of all files to determine that all expenditure files have the proper documentation that match all grants that are entered in the financial management systems. As it relates to payroll and timesheet approvals, we concur with the finding and the necessary steps have been taken to segregate the approval and the sign-offs on all payroll time sheets. There will be more careful monitoring of the payroll expenditures to identify instances where there may be missing approvals or documentation.

Approval of Timesheets

The Department of Housing and Community Development (DHCD) administers the Community Development Block Grant (CDBG). During our review of 37 sampled items, which included 4 payroll samples, we noted that 1 of the payroll samples did not have the required supervisory signature on the timesheet. The timesheet was provided to us; however, no evidence of review was noted. This poses the risk that unauthorized time may be charged to a program, which could lead to possible grant disallowances. While the amount in question was insignificant, we recommend that a review and approval process be implemented to provide for enhanced controls in this area. We recommend that the program supervisor should always ensure that an appropriate approval is made on a timesheet so as to avoid possible future grant disallowances.

Management's Response:

The timesheet in question was the electronic copy provided. The actual signed copy erroneously was not provided. DHCD does ensure that all employee timesheets are signed by both the employees and their supervisors.

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Process: Health Care Safety Net

Participant Eligibility

The Department of Human Services' Income Maintenance Administration (IMA) is responsible for determining participant eligibility for the District of Columbia Healthcare Alliance Program (the Program) and uses the Automated Client Eligibility Determination System (ACEDS) to evaluate the eligibility of a participant.

The IMA Policy Manual, Part VII Chapter 4, establishes residency requirements for the Program and the IMA Policy Manual states that, "To be eligible for program benefits, a person must be a presently living in the District of Columbia voluntarily and not for a temporary purpose and have no current intention of moving out of the District."

The Code of District of Columbia Municipal Regulations, Title 22 Chapter 33 - *Health Care Safety Net Administration*, further sets forth the policy and requirements for enrollment in the Program. Specifically, the Code's section 3304.3 states that, "In verifying an applicant's eligibility, IMA shall accept any form of proof that reasonably attests to District residency, income, and resources." This language in the Code appears to be very vague and provides loopholes for applicants to apply for and be accepted in the Program.

During our review of the eligibility for 45 participants, we noted that IMA did not verify residency for 13 of the 45 participants. We identified these items from a sample of transactions which were selected for testing; management should recognize that there is potential for additional discrepancies.

1. 10 of the 13 participants provided written letters from relatives, friends, family, or charitable organizations to justify residency. However, we noted no evidence that residency for these 10 applicants was verified.
2. 1 of the 13 participants claimed that the participant is homeless even though the same participant presented a valid driver's license from another state.
3. 1 of the 13 participants presented an expired lease to support residency.
4. 1 of the 13 participants provided no documentation to support District residency.

Ineligible participants may be receiving Program benefits that they are not entitled to receive. In addition, the District may be incurring unnecessary expenditures for medical care to non-District residents. We recommend that the Department of Human Services' IMA review its Policy Manual to include procedures to verify that the applicant is a District resident. In addition, we recommend that IMA review current participants in the Program and discontinue benefits for participants identified to be non-District residents.

The District should also review and revise the Code of Municipal Regulations where areas in participant eligibility appear too vague or lax.

Management's Response:

1. Written letters are sufficient to verify District residency as noted in the Code's section 3304.3 which states that, "In verifying an applicant's eligibility, IMA shall accept any form of proof that reasonably attests to District residency, income, and resources."
2. Evidence has not been presented to determine that when the individual was enrolled that the customer was not a bona fide resident of the District.

Process: Health Care Safety Net

The Code's Section 3304.7 states that, "IMA shall not routinely require further verification of residency for homeless applicants if the applicant attests that he or she: (a) Is homeless; (b) Lives in the District of Columbia; and, (c) Intends to remain in the District of Columbia. The customer attested that he is homeless and plans to remain in the District.

3. For recertifications, a customer is not required to present verification of residence unless the residence has changed from the residence which was verified previously.
4. This consumer applied simultaneously with her husband. Verification of residence was established for both participating customers through a utility bill in her husband's name.

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Process: Management of the Postretirement Health & Life Insurance Trust

Participant Data and Retiree Folders

The District's contributions are based on an actuarial valuation, which takes into consideration the demographic characteristics of participants, assets, and estimated liabilities of the Plan. Inaccurate or incomplete participant information can result in incorrect contribution estimates. During our review of the participant data for retirees under the District of Columbia 401(a) Defined Contribution Plan administered by the District of Columbia Department of Human Resources (DHR), we noted that participant data was incomplete. Specifically, data fields such as retirement date and date of birth were missing for a number of retirees. In addition, DHR did not have available personnel folders for all retirees.

Since the Plan Document has not been completed, the responsibilities and roles of administering the Plan participants is not formal. At present, enrollment and participant data for all the retirees under District of Columbia 401(a) Plan is administered by the Benefits Division, Benefits and Retirement Administration, D.C. Department of Human Resources.

Incomplete and inaccurate participant data can result in inaccurate actuarial valuations. It also increases the risk of fictitious retiree records. We recommend that DHR ensure that data relating to retirees under the District of Columbia 401(a) Defined Contribution Plan are accurate and proper supporting documentation is maintained.

Management's Response:

DHR believes that required participant data was on file and is available in the CAPPS or PeopleSoft payroll systems, and thus disagrees with this finding.

Plan Governance

For any retirement and other employee benefits plan, the Plan Document serves as a legally binding document which defines the benefits, eligibility, and administration of the Plan's activity. A Plan Document further defines the responsibilities of the Plan Sponsor and Administrator.

The District as the Plan Sponsor the OPEB Trust has not yet completed a Plan Document. The Plan currently has 453 teachers, police officers, and firefighter retirees and 41 regular District retirees. Teachers, police officers, and firefighter retirees are administered by the District of Columbia Retirement Board (DCRB) and others are administered by the Department of Human Resources (DHR).

Due to the lack of a Plan Document, the responsibilities of the administration of the Plan are not clearly defined and retirees may not be fully aware of the postretirement benefits that are available to them. In addition, the lack of a Plan Document results in unclear processes and administration responsibilities within the District. It can also increase the risk of disputes over benefit entitlements, enrollment eligibility, and participants' responsibilities. We recommend that a comprehensive Plan Document be prepared and implemented as soon as possible.

Management's Response:

Management concurs in part, and disagrees in part, with this finding. The District does have a basic Plan Document that indicates the features of the Plan. A primary reason that a more extensive, comprehensive Plan Document has not been completed is that the level of post-employment benefits has been under review and consideration by the City Administrator and the Department of Human Resources (DHR).

Process: Management of the Postretirement Health & Life Insurance Trust

This review should be completed this year, and once the level of benefits is confirmed or revised, a formal Plan Document can and will be developed. However, the D.C. Code outlines eligibility requirements, the level of post employment health and life insurance benefits and the respective portions of the cost of these benefits to be covered by the District and the former employee. In addition, employees complete an application to continue or discontinue their benefits at the end of their employment tenure. Those who elect to continue benefits into post-employment receive a letter from DHR outlining the benefits selected, the cost, and the procedure they should follow to make premium payments.

Administrative and investment responsibilities are divided between the Office of Finance and Treasury (OFT) and DHR. OFT is responsible for the investment and management of trust fund assets as stated in the written trust agreement. Trust fund assets are invested in accordance with a written Investment Policy and are reviewed on a regular basis with an investment consulting firm and the fund's investment managers. DHR works with employees transitioning to retirement status and provides them with the counseling and information needed to maintain their benefits.

Plan Investments

Common Collective Trust Funds are considered hard to value investments since their market values are not readily available. The District is required to comply with a number of specified requirements if it invests in such alternative investments.

During our review of the District of Columbia Postretirement Health and Life Insurance Trust's (OPEB Trust) investment portfolio, we noted that approximately \$43 million or 20% of the assets are invested in a Fund which is not publicly traded and is generally categorized as a Common Collective Trust investment. As a result, the District should consider the following:

1. The Trust's current investment policy allows for a maximum of 3% of holdings to be invested in alternative investments through a single fund manager. Management is in violation of set policy as it has significantly exceeded the 3% threshold.
2. The District also did not have the appropriate financial and accounting reporting mechanisms in place to properly and adequately determine the fair value and disclosures related to these alternative investments.

Management must maintain a clear understanding of alternative investments along with the nature of the underlying investments, the portfolio strategy of the alternative investments, and the methods and significant assumptions used by the fund manager to value the underlying investments.

As part of fulfilling its responsibility, management should establish an accounting and financial reporting process for determining the fair value measurements and disclosures, select appropriate valuation methods, identify and adequately support any significant assumptions used, prepare a valuation, and ensure that the presentation and disclosure of the fair value measurements are in accordance with generally accepted accounting principles.

The District is in the process of defining its responsibilities over the OPEB Trust. As part of this process, we recommend management ensure adequate controls are in place over investments.

Process: Management of the Postretirement Health & Life Insurance Trust

Management's Response:

Management disagrees with this finding. We consider the common trust fund held by the OPEB Trust Fund as an equity investment and not an alternative investment. We believe adequate controls are in place to review this asset.

Section VIII D of the OPEB Trust Fund's Investment Policy defines Alternative Investments as private equity funds, buy out funds, and hedge funds. The common trust fund we hold, the BlackRock Large Cap Growth Fund, does not fit this criterion.

The use of common trust funds is specifically permitted under section VIII E of the investment policy. This equity investment is within our established guidelines and we are not in violation of the investment policy. We can, however, amend the Investment Policy to clearly state that we can use Mutual Funds, Unit investment trusts, and Pooled Investment Vehicles, which includes collective and common trust funds, to access the asset classes outlined in our policy.

The underlying assets of the common fund are readily marketable large capitalization common stocks. We receive monthly performance and valuation reports. We also receive the annual report for the common fund that lists a substantial amount of financial data for the fund.

The annual report was audited by the independent accounting firm of Deloitte & Touche. The auditors concluded that the financial statements and the financial highlights contained in the annual report presented fairly, in all material respects, the financial position of the BlackRock Large Cap Growth Fund.

Our independent financial consultant, Evaluation Associates, reviews the assets held in the common fund on a monthly basis. During this review, the consultant makes an independent valuation of the assets held in the common trust fund and compares it to the asset valuations provided by BlackRock. Any discrepancies are resolved. The consultant also provides us with a quarterly report that includes the market value of the fund and an analysis of its performance.

We believe there are adequate controls in place to review this investment. We can, however, add additional criteria that will be used to evaluate common and collective investment funds held by the OPEB Trust Fund.

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Process: Management of the Disability Compensation Program

Third Party Administrator (TPA) Database

Certain information and data is loaded on a TPA's software at an offsite location. Past history has led to DCORM struggling to have a proper database of disability claims. For instance, in a previous year, DCORM lost its claims data because the prior TPA did not return the agency's data over a dispute. This problem hampers DCORM even today. DCORM needs to carefully analyze the current contract and all addendums on an annual basis to ensure that it has complete access to the database and software at all times even in the event of any dispute(s). The contract must provide DCORM the ability to obtain back-ups of the database on an ongoing basis.

Management's Response:

There are two conditions in the current contract that address this finding. Section C.5.22 of the TPA's contract specifies the data will be available 24 hours a day. The TPA provides this access by way of a secured site called ViaOne. As an enhancement to the current contract DCORM has requested the TPA provide backup data on a monthly basis. Section I.6.63 further requires the TPA to provide back up copies of the data base and copy computer programs for (archives) safekeeping.

Indemnity Payments

During testing of indemnity payments, we noted one instance, out of a sample of forty-three open claims, where the claimant had been receiving an indemnity check as well as a payroll check for the same period of time. DCORM indicated that this was an instance of the individual being fraudulent.

We performed additional testing on open claims, and noted two additional instances, out of a sample of seventy-seven additional selected items, where claimants had received indemnity checks as well as payroll checks for the same period of time.

Employees must not receive payroll checks for the duration of the time they are also getting a disability compensation payment. DCORM must implement a system so that whenever a disabled employee re-joins work at any District agency, the system alerts DCORM to this fact, and the system automatically ensures that disability payments are stopped.

Management's Response:

In September 2007, DCORM established a linkage between the disability compensation payroll system and the District payroll system to eliminate duplicate payments to employees. The establishment of this linkage has immediately allowed us to match employee social security numbers against all District payroll lists, thereby eliminating the possibility of an employee getting both a disability compensation benefit and a regular payroll check after returning to full time duty. This process is instituted every payroll cycle and, as such, we are able to insure that no duplicate payments are made. To date, we have uncovered \$1,058,060 in duplicate payments and we will continue to conduct training at all District agencies. A weekly report is generated which matches employee social security numbers against all District payroll lists. The TPA also provides copies of notification letters to the agency supervisors regarding the acceptance of claims and the effective dates for payment under the Disability Compensation Program. This information is utilized in the preparation of time tracking documents submitted to payroll.

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Process: Revenue Generation and Collection

Lack of Supporting Documentation

Tax Sale Registrations:

A tax sale registration is required to be completed before participation in the tax sale is formalized. It is also at this stage that the bidder is required to make a deposit/payment to the District cashier. To indicate receipt of payment, the District cashier will stamp the registration. During our procedures, the agency was unable to provide tax sale registration documents for 1 out of 10 items that had been selected for testing. We identified this discrepancy from a sample of transactions that were selected for testing. Management should recognize that the potential exists for additional discrepancies.

Tax Bills from Taxpayers – Real Property Tax Refunds:

We identified that 17 out of 45 sampled real property tax refunds did not have tax bills in the corresponding files. Tax bills reflect the real property tax liability which the taxpayer, along with the payment, submits to the District. It is important to maintain proper controls over cash receipts and management should implement certain procedures to accumulate information about cash receipts and maintain proper support.

It is also important to produce certain detailed reports and records at specific time periods, and to maintain these records for possible analysis by users such as management, independent auditors, or other governmental bodies. An effort should be undertaken to ensure that all supporting documentation is located, properly filed, and retained.

Management's Response:

The Assessment Services Division (ASD) of the Real Property Tax Administration is aware of the need to maintain better records regarding the District's annual Tax Sale and the related redemption and deed process. ASD has implemented controls on Tax Sale Registrations and is reconciling the Tax Sale Records by year for 2003 forward as to properties redeemed, still outstanding, or on which deeds have been issued to the Tax Sale Buyer.

Exemption from Real Property Tax

Pursuant to D.C. Official Code 47-1007, each owner of real property that is exempt from taxation under the provisions of subsections (4) to (20) of the D.C. Official Code 47-1002 must submit to the Office of Tax and Revenue an "Exempt Property Use Report" (Form FP-161) on or before April 1st of each year. If the report is not filed by the deadline (including any extensions granted by the Deputy Chief Financial Officer), the property shall immediately be assessed and taxed until the report is filed. In addition, a \$250 late penalty will be assessed.

Per discussion with the Exempt Specialist and Acting Director of the Real Property Tax Assessment Division, these assessments and penalties are not being strictly enforced. Failure to identify property owners not complying with this law could result in potential loss of revenue to the District. We recommend that the Office of Tax and Revenue implement stronger controls over monitoring the annual filing of Form FP-161.

Process: Revenue Generation and Collection

Management's Response:

Assessment Division (AD) of the Real Property Tax Administration is implementing internal controls on monitoring the mailing and filing, including non-filing and completeness of the filing, of Form FP-161. AD will work with Assessment Services Division (ASD) and Information Systems Administration on implementation of the \$250 late penalty assessment.

Approval of Homestead Applications

During the testing of controls over the Homestead and Senior Citizen Tax Relief program, we noted the following:

1. No consistent audit trail or evidence of review of the Homestead Applications, specifically for applications received prior to 2004 and processed outside of the Homestead Unit within the Real Property Tax Administration (RPTA) of the Office of Tax and Revenue.
2. Currently, homestead applications are processed and approved either by the Homestead Unit or Recorder of Deeds. There is a lack of a centralized approval process for homestead applications and senior tax citizen relief credits.

Failure to properly review and approve applications can result in employees granting improper tax deductions and credits to taxpayers which can result in lost revenue to the District. We recommend that management consider centralizing the approval process and ensure that only eligible homeowners are allowed these credits. In addition, we recommend that evidence of review be properly documented to provide a better audit trail.

Management's Response:

The granting of Homestead is the responsibility of the Homestead Unit in the Assessment Services Division (ASD) of the Real Property Tax Administration (RPTA) not the Recorder of Deeds (ROD) or the Maps and Titles Unit of the Assessment Division (AD).

When a property is sold, the new owner in recording the sale (deed and mortgage, if applicable) with ROD may indicate on their FP-7 that they are also claiming Homestead. The FP-7 after recording at ROD is sent to AD for Maps and Titles to change the ownership and mailing address, to end the date of the Homestead of the prior owner (if applicable) and to forward the Homestead application to ASD.

To improve the processing of Homestead applications and periodic audits of properties claiming Homestead and senior or disabled benefits, RPTA has been working with the Information Systems Administration (ISA) to implement an automated method to grant, review, audit, and revoke such benefits.

The automated system will provide the centralization recommended and notes/coding in the Integrated Tax System as to when these benefits were granted and/or removed and which employee or program took the action.

Redeemed Properties – Tax Sale Process

During our process over Redeemed Properties, we noted the following:

Process: Revenue Generation and Collection

1. 6 out of 10 sampled items did not have a SOAR Revenue Refund Voucher as supporting evidence.
2. 2 out of 10 sampled items did not have a Real Property Tax Sale Registration attached.

The SOAR Revenue Refund Voucher is approved by the Revenue Accounting and Administration (RAA) within the Office of Tax and Revenue. This is essential in the process to ensure that postings to SOAR, the District's accounting system of record, are valid and properly approved. The tax sale registration is required from the tax sale purchaser to be filled out and signed before his/her participation in the tax sale is formalized. It is also at this stage that the tax sale purchaser is required to make payment to the District cashier. The District cashier will stamp the registration indicating that the tax sale purchaser made the payment.

Absence of the above documents may increase the risk of payments to fraudulent individuals and refunding of amounts to those not actually eligible to receive refunds. We identified these discrepancies from a sample of transactions that were selected for testing. Management should recognize that the potential exists for additional discrepancies. A significant effort should be undertaken to ensure that all supporting documentation is located, properly filed, and retained. This information is of the utmost importance to the accounting process, and its loss or misplacement simply should not occur and should not be tolerated.

Management's Response:

The Assessment Services Division (ASD) of the Real Property Tax Administration is aware of the need to maintain better record keeping and controls regarding the District's annual Tax Sale and the related redemption, deed and refund processes. ASD has implemented controls on Tax Sale Registrations, implemented as apart of the OTR Refund Directive in coordination with the Revenue Accounting Administration (RAA) stricter requirements for documentation that must accompany refund requests, and is reconciling the Tax Sale Records by year for 2003 forward as to properties redeemed, still outstanding, with subsequent tax payments, or on which deeds have been issued to the Tax Sale Buyer.

Reconciliation of the Tax Sale Ledger

There is no proper audit trail of transactions recorded in the tax sale ledger. The District uses the tax sale ledger to account for tax sale receipts, which are applied to outstanding tax liabilities of the original property owner. This ledger shows the net balance per tax sale purchaser's account which may later be refunded depending on whether the tax sale was successful or not or when a purchaser deposits amount(s) in excess of the total liabilities owed by the property owner.

Due to this gap, copies of cancelled checks for redeemed properties selected for testing were not obtainable as the voucher numbers necessary to trace to check payments were not available.

We recommend that the District maintain a proper audit trail of transactions and reconcile the tax sale ledger with the District's accounting system (SOAR) periodically to ensure completeness and accuracy of amounts to be recognized as revenue or amounts that need to be refunded to the tax sale purchasers. In addition, we recommend that the Real Property Tax Administration & Adjustment Unit within the Office of Tax and Revenue assign a specific individual who can record transactions in the tax sale ledger and ensure that this can be agreed to a related SOAR transaction.

Process: Revenue Generation and Collection

Management's Response:

The Assessment Services Division (ASD) of the Real Property Tax Administration (RPTA) is in the process of reconciling the Tax Sale Records by year for 2003 forward as to properties redeemed, still outstanding, with subsequent tax payments, or on which deeds have been issued to the Tax Sale Buyer. Once this multi-year reconciliation is complete as part of the Tax Sale Closing, a comparable reconciliation will be done annually. In February, RPTA requested the Revenue Accounting Administration (RAA) provide RPTA monthly a listing of real property tax refunds generated in the prior month. Effective with March, RAA began forwarding this information. As part of the reconciliation process, procedures will be developed and implemented as to who should record the information regarding any Tax Sale refund (date, amount, and check number) in the District's Tax Sale Ledger. These procedures will ensure that internal controls are maintained and not compromised.

Policy and Procedures

We observed that there have been no updates to the following policies and procedures at the Office of Tax and Revenue:

1. Compliance Administration Collection Division – Training Manual – not updated since September 2001.
2. Homestead Policies and Procedures – not updated since June 1, 2005.

It is recommended that the District annually review its policies and procedures. Components of internal controls, accounting, and the financial reporting system should be regularly updated and documented in writing to provide employees a clear picture of the District's controls, accounting procedures and practices. Outdated policies and procedures may result in unjustified or inconsistent transaction processing, increased risk of errors, and possibly, loss and misuse of assets.

Management's Response:

The Collection Division manual has been updated on a continuous basis. Homestead Policies and Procedures were updated in 2006, 2007, and 2008 in conjunction with the development and implementation of the automated Integrated Tax System Homestead Module. The Office of Tax and Revenue agrees with the need to review and update the various administration policies and procedures annually.

Revenue Processes at the Department of Insurance, Securities, and Banking Regulations

The Department of Insurance, Securities, and Banking (DISB) regulates all financial service businesses in the District of Columbia by administering District of Columbia insurance, securities, and banking laws, rules, and regulations. During our procedures over revenue processed at this agency, we noted the following:

Process: Revenue Generation and Collection

1. The licensing specialist has conflicting duties. This individual currently receives some payments mailed to the agency, and processes the various applications received. Although, we understand that checks received through the mail are minimal, allowing these functions to be controlled by the same person increases the potential risk that errors or misappropriation could occur and go undetected.
2. When a check is sent by an applicant to the lockbox, the licensing specialist processes the license application (new or renewal) based on an attached copy of the respective check and application. However, there is no verification that the check was actually sent by the applicant to the bank (i.e. review of a listing of cancelled checks received from the lockbox to match the applications before license can be issued). The risk exists that licenses may be issued to companies who have never paid.

One of the basic elements of internal control is separation of duties so that no one person controls all phases of an operation. We recommend that management consider the implementation of appropriate measures to maintain the desirable separation of duties. Further, we recommend that licenses only be issued when payments are verified from the lockbox report.

Management's Response:

Moving forward, all incoming checks will be batched and send to the lock box for processing by the Office of Chief Financial Officer accountant. The licensing unit will only process applications after the payments have been made and validated by the bank. There is a monthly reconciliation done to determine the amount received by the bank and the number of licenses issued.

Licensing Revenue at Department of Insurance, Securities, and Banking Regulations

During our specific procedures over licensing revenue, we noted the following:

1. For 2 out of 6 insurance licenses which had been selected by us for testing, the agency was unable to provide any supporting documents which attested to the respective revenue recognized.
2. During our transaction testing over insurance premium taxes and insurance license revenues, we noted that the detailed program department records did not agree with SOAR, the District's accounting system.

While these discrepancies may be categorized as insignificant to the overall operations of the District, management should recognize that such a system does not permit the preparation of accurate and reliable financial statements. Without adequate financial and supporting records, management may be basing its decisions on incomplete and/or inaccurate information during the year. Management should ensure proper support for cash receipts and assure completeness of deposits. Management should also develop procedures to ensure that any differences in subsidiary ledgers are identified, researched, and resolved on a timely basis.

Management's Response:

Management is committed to improving the overall document maintenance and filing systems. Management policy is now in place to reconcile on a monthly basis, premium taxes and insurance license revenues with SOAR, the District's accounting system.

Process: Revenue Generation and Collection

Revenue Processes at the Department of Consumer & Regulatory Affairs

The Department of Consumer and Regulatory Affairs protects the health, safety, economic interests, and quality of life of residents, businesses, and visitors in the District of Columbia by issuing licenses and permits, conducting inspections, enforcing building, housing, and safety codes, regulating land use and development, and providing consumer education and advocacy services. During our procedures over revenue processed at this agency, we noted the following:

1. Revenues from Corporation Recordation and Building Permits are recorded in SOAR, the District's accounting system, based on bank statements. Currently, there is no reconciliation performed to the separate program databases which are maintained (i.e. the Corporate Tracking System and the Hansen Information Technology database).
2. Complete proof of payment is not filed with the processed application(s) for building permits or for corporation recordation(s). Some payments are mailed directly to the lockbox. Although the bank forwards copies of cancelled checks, the agency does not include this supporting evidence in the respective files; the cancelled check support is destroyed daily after processing. Other payments are processed by the cashier's office and the program staff obtains vouchers stamped by cashiers as proof of receipt of payment. This documentation is also destroyed and not retained after processing of the respective transactions.

We recommend that the agency consider a policy requiring monthly reconciliation of all revenue types recorded in SOAR to the respective program schedules or databases in order to ensure the accuracy of the monthly financial reports and the underlying program schedule or databases. Any reconciling differences should be corrected before the close for the month-end. In addition, we recommend the reconciliations be reviewed for accuracy and completeness on a timely basis by a responsible employee. It is important to produce certain detailed reports and records at specific time periods, and to maintain these records for possible analysis by users such as management, independent auditors, or other governmental bodies. We recommend that the agency consider the establishment of a policy specifying which records should be retained permanently and which records should be kept only for a given period before being destroyed and how long that period should be. The agency should also decide on when records should be removed from more accessible files to other storage areas.

Management's Response:

The agency is prepared to do monthly reconciliations of all revenue types recorded in SOAR. We will reconcile revenue recorded in SOAR to the various program schedule or databases. This will be done monthly.

Process: Revenue Generation and Collection

Transaction Testing at the Department of Consumer & Regulatory Affairs

During our specific procedures over revenue transactions processed at the agency, we noted the following:

1. For corporation recordations, certain payment details are not reflected in program databases. As such, we were unable to completely vouch 2 payments, which had been selected for testing, to the corresponding bank details in an effort to verify that they were actually received. The same was noted for a building permit receipt which has been selected for testing.
2. 5 out of 6 sample items pertaining to building permits issued in FY 2007 had no documentation on file with respect to signed applications and support of receipt. Therefore, we were unable to determine whether revenue was actually collected and accurately recorded.

It is important to maintain proper controls over cash receipts and management should implement certain procedures to accumulate information about cash receipts and maintain proper support.

It is also important to produce certain detailed reports and records at specific time periods, and to maintain these records for possible analysis by users such as management, independent auditors, or other governmental bodies. We recommend that the agency consider the establishment of a policy specifying which records should be retained permanently and which records should be kept only for a given period before being destroyed and how long that period should be. The agency should also decide on when records should be removed from more accessible files to other storage areas.

Management's Response:

New procedures will be developed to accumulate information about cash receipts and maintain proper backup documentation. The agency will also look into a records retention policy.

* * * *

Process: Fixed Assets

Inventory of Fixed Assets

The District has an investment of approximately \$6 billion in depreciable and nondepreciable assets and we recommend that controls be strengthened in this area. Most fixed assets, except items classified as personal property, have not been physically inventoried in recent times.

A physical count of property should be periodically taken, compared to the items carried on the detailed subsidiary records of property and equipment, and significant differences investigated. The establishment of updated subsidiary records will assist the District in maintaining control over individual assets, and provide a means whereby information pertinent to the property and equipment assets can be kept up to date. Such physical counts will also help detect the loss or unauthorized use of valuable property.

Management's Response:

Of the \$6 billion in depreciable and non-depreciable assets, \$2 billion are Land and Construction in Process (CIP) assets; \$3.5 billion are Infrastructure and Building assets; and \$500 million are Personal Property assets. The District conducts physical inventories of its Personal Property at a minimum every two years. Inventory professionals perform a wall to wall count at each location. The results are reconciled with the subsidiary records in the Fixed Asset Subsystem. All exceptions are brought to the attention of Agency and Office of Chief Financial Office (OCFO) management for resolution.

The District is currently investigating the feasibility and logistics of a District-wide Real Property inventory.

Personal Property

During our procedures over personal property additions and the related depreciation calculations, we noted the following:

1. For a confiscated property selected in our sample, the cost was incorrectly reflected on the books and records.
2. The same was noted for another 2 items selected in our sample as used by the Department of Public Works.
3. We further noted that 2 items were received by MPD in FY 2006 but were actually recorded in FY 2007. These assets had been delivered directly to a third-party (i.e. for painting) but title had passed to the District.

The miscalculations noted in the audit process were mainly due to record-keeping or unintentional errors of assigning data in the system. However, District agencies should have proper controls in place to ensure that the values (e.g. cost, useful life, in service date, asset class, etc.) are entered into the system accurately. We recommend that District personnel perform a periodic review of existing and newly entered information and implement policies to improve and strengthen controls over recording of fixed assets in the respective systems.

Management's Response:

Agencies have been reminded of their obligation to provide documentation supporting the valuation of assets entered into FAS.

Process: Fixed Assets

This is particularly true when the valuation is based on methods other than historical cost/invoice. In the case of purchases made under the Master Lease Agreement, we will no longer rely on the payment transmittal as the source document for valuation purposes. Instead, we will reconcile the payment transmittal to the actual payment record to insure complete accuracy. Lastly, MPD has implemented a process of confirming all properties out on consignment beginning with FY 2008.

Process over Capital Expenditures

Current District policy dictates that before releasing checks that are held for pick up, staff has to obtain a signature of the receiver, inspect a form of identification and make a copy to keep on file, and receive communication from the vendor confirming the identity of the representative authorized for check pick-up.

During our procedures, we noted that complete support for 2 such checks (one issued at Office of the Chief Technology Officer and the other issued at District of Columbia Public Schools) in our sample was unavailable. Therefore, we were unable to confirm if the receivers were authorized to pick-up said checks.

It is important to produce certain detailed reports or records at specific time periods and to maintain these records for possible analysis by users such as management, independent auditors, or other governmental bodies.

We recommend that District personnel perform a review of existing records retention policies and the related compliance with those policies and implement steps to improve and strengthen overall controls to minimize the risk of misappropriation.

Management's Response:

The following response was provided by Office of the Chief Technology Officer (OCTO) personnel:

While management concurs with the finding, we would like to offer the following clarification that may have contributed to the finding. Checks are sometimes held for pick up, because the vendor's address maybe incorrect in the vendor database, and instead of holding up payment while the address is corrected, the check is held for pick up and then placed in a separate envelope and mailed to the vendor's correct address. Management has taken the necessary steps going forward to ensure that checks that are held for pick up are properly documented and copies are filed for vendors that are picking up checks or the checks that need to be mailed because of an incorrect address.

The following response was provided by District of Columbia Public Schools (DCPS) personnel:

The item identified did not have a photocopy of the party picking up the check. This was an oversight. Staff has been instructed to be sure to adhere to the policies at all times.

Classification of Capital Expenditures

According to District policy, all expenditures must be evaluated and properly classified on the Closing Package either as an Expense, Construction in Progress, or Fixed Assets.

Process: Fixed Assets

During our testing of capital expenditures, we noted a transaction recorded by the Office of Chief Technology Officer (OCTO) as a construction in progress addition during FY 2007. However, upon further review of this item, it was noted that this was an intra-district agency transaction relating to the repayment of debt service which should have been expensed as a period cost and not capitalized. We also noted 2 transactions at the District of Columbia Public Schools (DCPS) which should have been recorded as construction in process, but were incorrectly expensed as period costs.

The miscalculations noted in the audit process were mainly due to record-keeping or unintentional errors of assigning data in the system. However, District agencies should have proper controls in place to ensure that the values (e.g. cost, useful life, in service date, asset class, etc.) are entered into the system accurately. We recommend that District personnel perform a periodic review of existing and newly entered information and implement policies to improve and strengthen controls over recording of fixed assets in the respective systems. These reconciliations and adjustments will ensure meaningful and accurate financial statements.

Management's Response:

The following response was provided by Office of Financial Operations and Systems (OFOS) personnel:

OFOS will remind all agency fiscal personnel of the need to properly classify transactions accurately and to have the proper management-level approvals.

The following response was provided by Office of the Chief Technology Officer (OCTO) personnel:

The auditor recommends that District personnel perform a review of existing information and implement policies to improve and strengthen controls over recording of fixed assets. We concur, and the agency will explore the possibility of an implementation of approval policies for the budget section of OCTO to adhere to as well. Also in the future we will develop criteria of what expenditures should be internally audited for accuracy.

Disbursement Approval Process

We noted that District agencies such as the Department of Transportation, the Department of Mental Health, and the Department of Parks and Recreation, who tend to make large fixed asset purchases, were lacking evidence of internal controls over the levels of voucher approval(s). All authorized voucher approvers in various agencies are granted full authority to approve vouchers regardless of any dollar amount.

We also noted that while agencies such as the Department of Property and Management and the Office of the Chief Technology Officer have a formal policy covering voucher approval thresholds, it is not consistently followed and the authorized voucher approvers are still granted full authority to approve vouchers regardless of the amount.

The adoption of a formal policy of voucher approval should specify the dollar limits of approval authority at each managerial level to assure that larger purchases come to the attention of higher levels of management before disbursements are made. In addition, we recommend that this be defaulted into the PASS system in order to limit access or approval rights of certain authorized approvers to the respective threshold(s) assigned.

Process: Fixed Assets

Management's Response:

The controls on voucher amount exist earlier in the procurement process, during approval of the requisition and purchase order (PO) phase. The invoice manager cannot approve an invoice in excess of the purchase order amount; system controls prevent more than a 5% deviation. While a voucher results from an approved invoice, a PO results from an approved requisition. The PO amount has been validated first by insuring the funds are available at the time the requisition was created. Once funds availability has been verified and committed, the requisition is approved by the individuals authorized in the agency's approval path. Requisition amounts are approved based upon the approver's management level. Management levels range from 1 through 9, with 1 representing the highest approval authority. Once the requisition has been approved by everyone in the agency's approval path, the District is obligated to purchase goods/services from the vendor in the amount of the PO. The role of the invoice manager is to insure that a PO exists, that a receiving report has been entered and validated, and that the invoice does not exceed either the amount received or the PO. If a PO exists, and the goods or services have been received, the invoice/voucher must be paid. System controls prevent approval of an invoice amount in excess of the PO. Imposing additional spending controls during the voucher stage would duplicate controls already in place, while potentially delaying payments thus placing the District in violation of the Prompt Payment Act.

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Process: Budget and Planning

Reprogrammings

During our verification test of whether reprogrammings were entered correctly into SOAR, the District's accounting system, we found several entries that had variances. This was noted in 5 of the 45 sample items which had been selected for testing.

1. For one item, the estimated needs changed and this was properly reflected in SOAR; however, no approval was evident or noted. An approval was only noted for the original reprogramming.
2. Another reprogramming selected for testing was approved but was never entered into SOAR. A substitute reprogramming, based on a revised calculation, was reflected in SOAR and The Office of Planning and Budget (OBP) was not aware that this change had been made.
3. In two cases, we noted that budget authority had been increased in one agency but had not been decreased at the other corresponding agency on a timely basis.
4. We noted that one item selected for testing was never reprogrammed. Eventually, a larger amount was processed as part of another reprogramming.

In order to protect against possible misunderstandings, we recommend that the District maintain a complete record of its reprogrammings, from the initial request to the final entry in SOAR. This will also help increase the dependability and accuracy of the information and will help ensure that all users are working from the same information in order to make informed decisions in their respective responsibilities.

OBP should consider requiring written communication and management review when amounts need to be changed. Also, a review process should be put in place at OBP to ensure the agencies involved complete both sides of any given transaction. Further, communication between OBP and various agencies should be streamlined and each agency should update the other on the current status of items and changes being made.

Management's Response:

1. Expenditures reduced the amount available for the reprogramming. Under these circumstances, OBP has historically allowed agencies to adjust the request downward within a range determined case-by-case – provided that they can prove an unforeseen fiscal hardship would result if the reprogramming was processed as requested.
2. OBP was aware of each request. The agency made a programmatic decision to submit a reprogramming of a similar amount and location in its budget shortly after the reprogramming was transmitted to Council. Once the request is transmitted, it is sometimes difficult for the agency to request that the Mayor withdraw the request from Council. Since the request was not processed into the District's accounting system, OBP made a decision to process the subsequent request to avoid a potential deficit situation within the agency. We will, however, request agencies make a formal request to withdraw reprogramming requests if they cannot be processed.
3. While every effort is made by OBP to process reprogramming requests expeditiously, we must sometimes wait for agencies to make accounting or other expenditure modifications to avoid potential deficits. In each of these requests OBP determined, with consultation with the agency and legal staff, to wait until certain expenditure-specific changes were made to avoid a potential deficit.

Process: Budget and Planning

4. Expenditures reduced the amount available for the reprogramming. Under these circumstances, OBP has historically allowed agencies to adjust the request downward within a range determined case-by-case – provided that they can prove an unforeseen fiscal hardship would result if the reprogramming was processed as requested.

Intradistrict Transactions

The Office of Planning and Budget (OBP) has no oversight over intra-district transactions which occur within a cluster. It was noted that OBP has the ability to run certain query reports to view the activity for such transactions. However, we could not determine whether a formal or periodic review was performed during the year.

We recommend that a central database be maintained for all intra-district transactions. Alternatively, OBP should consider establishing a procedure to ensure routine queries on intra-district transactions are run and reviewed periodically. A sample of the transactions processed for the period could be selected and supporting documentation could be reviewed to ensure that proper procedures were followed.

This will aid in proper monitoring of all intra-district transactions, agreement of information at all levels of the District, and an accurate database which is covered by the District's internal controls.

Management's Response:

The Chief Financial Officer delegated the responsibility for intra-cluster intra-district budget and accounting activity to the Associate CFOs (ACFOs). OBP will provide a report for the auditors of all Intra-District budget activity so that the audit sample may include both items that OBP approves and items that the ACFOs approve and that do not require OBP approval.

OBP will also run a preliminary report and forward it to the ACFOs to ensure that they are aware of what will be provided to the auditors at year-end and that they should be ready to provide supporting documentation for the intra-cluster intra-district budget activity.

Capital Budget Corrections

Our review of the capital budget process identified various items where management should consider developing policies and procedures for better coordination, communication, and internal controls. Out of 25 projects selected for testing, we noted several which had a series of budget/technical corrections. These entries were to correct past data input errors and were processed in an effort to match remaining project budgets with data reported in SOAR, the District's accounting system.

Specifically, two corrections were to remove budget authority for projects which had no activity for at least two years. Another correction was to align the SOAR budget with the remaining federal budget. However, in this case, the current budget still did not correlate with data reported in SOAR.

While management has begun to address these issues, we continue to recommend that OBP-Capital focus on getting these items resolved and processed effectively and efficiently and ensure that data in SOAR is a current and reasonable presentation of the capital program.

Process: Budget and Planning

Management's Response:

The Office of Planning and Budget (OBP) is working to resolve these issues, many of which date back a number of years. We have completed a full review comparing authorized budgets to what is in SOAR, and we are correcting budgets in SOAR to align with authorized budgets. The selected items included some of these budget corrections. We anticipate more corrections going forward. Our goal is that budgets in SOAR fully reflect all authorized budget levels by project.

Lack of Written Policies and Procedures

In the prior year, we noted that the capital program did not have a written policies and procedures manual. Management has represented that a manual is in process but has not yet been completed.

Written procedures, instructions, and assignments of duties will prevent or reduce misunderstandings, errors, inefficient or wasted effort, duplicated or omitted procedures, and other situations that can result in inaccurate or untimely accounting records. A well-devised procedures manual can also help to ensure that all similar transactions are treated consistently and that records are produced in the form desired by management. Further, a good procedures manual can also aid in the training of new employees and possibly allow for delegation to other employees. We recommend that management continue its efforts towards the completion of such a manual.

Management's Response:

The Office of Planning and Budget (OBP) agrees that a manual for capital budget policies and procedures is very important, and we plan to publish portions, if not an entire manual, in FY 2008.

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Process: Loan Programs

Reconciliation of the Loan Portfolio

The Department of Housing and Community Development (DHCD) contracts with a financial institution to perform the loan servicing function. It has also entered into an agreement with a community based organization to perform community outreach, loan application, and loan approval and disbursements. Both of these organizations provide DHCD with monthly reports detailing loan collections.

As in the prior years, DHCD records cash activity related to loans (i.e. collections and loan disbursements) each month as they occur. However, loan balances are only reconciled to SOAR, the District's accounting system, and adjusted at year-end. As a result, it is possible that cash collection and disbursement transactions may be recorded to another program, which has occurred. Therefore, balances in SOAR may be out-of-balance each month until corrected after completion of the year-end reconciliation.

DHCD management should ensure that the accounting department has the appropriate amount of staff to assist with accounting operations and ensure that adjustments are made timely, thus reducing the chance of assets and expenses being misstated.

Management's Response:

DHCD is processing quarterly loan reconciliations for FY 2008 effective April 1, 2008.

Loan Collections

The Department of Housing and Community Development (DHCD) had previously contracted with a financial institution, Independence Federal Savings Bank (IFS) to perform the loan servicing function on its loan portfolio. Due to service issues, the IFS contract was terminated in 2006 and a new service provider was in place in 2007.

Due to a dispute with IFS, over \$2 million of collections in the 1st quarter of FY 2007 have not been remitted to the District. Loan repayments are used by the District to repay federal loans (i.e. CDBG and HOME programs) and provide funds for future loans to be given to District residents. The District has not aggressively pursued collection of these funds that have been with IFS for over 1 year.

Management's Response:

DHCD has been in discussions with the Office of the Treasurer and Office of Contracting and Procurement to resolve the impasse between DHCD and Independence Federal Savings Bank, and to have District funds returned.

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Process: Management of Debt Instruments

Recent Developments in the Credit Market

Part of the District's debt strategy is to have a diversified portfolio of fixed and variable-rate instruments in order to maximize returns. In an effort to effectively manage exposure to interest rates, the District has entered into certain interest rate swap agreements in connection with existing or proposed debt issuances. As of September 30, 2007, the District has several interest rate swap agreements with notional amounts of approximately \$646 million.

Due to the recent developments in the credit market, there have been significant changes in interest rates. As a result, the swap agreements may result in a significant increase in financing costs in future years and this may unfavorably affect the bond ratings of the District.

We recommend that the District immediately reassess the effect of the current changes in interest rates on its interest rate swap agreements in order to avoid potential significant financial losses in the future.

Management's Response:

The District's interest rate swap agreements are all variable-to-fixed rate swaps (including one that is variable-to-variable, but, in conjunction with another swap, has the net result of being variable-to-fixed). The recent developments in the credit markets do not produce a situation in which there are changes in the interest rates on the District's interest rate swap agreements. The District pays a fixed swap rate in accordance with these swaps, at rates that are lower than the rates the District pays on its fixed-rate bonds. The recent developments in the credit markets have affected the interest rates on certain District variable-rate bonds, including some of those that have swaps attached to them, but the District has taken action to convert those bonds to another type of security, resolving the issue.

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Process: Journal Entries

Review and Approval Process

The District has a procedure in place by which the person authorizing a journal entry document must be distinct from the person preparing the respective document. However, our review of journal entries revealed that in 7 out of 255 sample items selected, either the reviewer was the same person as the preparer of the document, or it had not been documented who had reviewed and authorized the journal entry.

Internal controls are designed to safeguard assets and help or detect losses from employee dishonesty or error. A fundamental concept in a good system of internal control is the segregation of duties. The District should enforce its policies which are set up to improve existing internal control without impairing efficiency. Further, all entries should be initialed by the preparer and the individual approving them in order to attribute responsibility to the appropriate individuals.

Management's Response:

The 7 instances noted relate primarily to entries from the District's central reporting agencies (Office of Budget and Planning (OBP), Office of Financial Operations and Systems (OFOS), and Office of Finance and Treasury (OFT)). In many instances the central reporting agencies are required to assist agencies or record transactions that are voluminous, complex, or urgent.

Three (3) of the journal entries reported in this finding were voluminous. Two (2) entries were specific agency requests that included over 200 transaction lines each. In both of these instances, OFOS only facilitated the input of the entry into SOAR, but the information was prepared by the agency. The third entry is 227 lines and simply reclassified balances within agencies in order to clear the Journal Entry Clearing Account (2955) in SOAR. This transaction had no financial impact on the overall CAFR.

The remaining four (4) journal entries were complex or urgent and required central assistance. The entries were as follows: budget entry to reduce FY 2007 budget and rollover remaining available budget to the next FY; reclassification of balances within agencies between grants in order to clear the Journal Entry Clearing Account (2955); transfer of balances to the Housing Production Trust Fund (HPTF); and reconciliation of intra-district activity between 2 agencies. The entries were complex and in many instances impacted several agencies. None of the entries listed had a financial impact on the overall CAFR.

Though we agree in principle that the reviewer and preparer should not be the same person, we acknowledge that in some instances, central agency personnel are often required to prepare and approve financial reporting journal entries. We uphold that those personnel responsible for recording operating transactions are not primarily responsible for financial reporting, thus there is a separation of duties.

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Process: Allocation of Indirect Costs

Cost Recovery

The cost allocation plans (CAP) for fiscal years 2003, 2004 and 2005 were approved by the District's cognizant agency, the Department of Health and Human Services (DHHS), with the exception of \$49 million in general obligation bond interest, which was disallowed due to the lack of adequate supporting documents. Because of these previous disallowances, the District decided to exclude applying for the interest expense on the FY 2006 CAP proposal which was submitted on April 2, 2007.

The primary reason for the District not being able to get reimbursed from the Federal government is the fact that it is not able to support the interest expense since it has not had a system in place to systematically allocate interest since 2002.

Per a calculation provided to us by the District of Columbia, this systematic handicap has resulted in the District Government potentially losing approximately \$1,676,000 in federal grant revenues during the years 2003, 2004, and 2005. We recommend that management should strengthen its efforts to ensure that a proper tracking system is installed and functions properly to address this long outstanding issue.

Management's Response:

The District implemented a tracking system to allocate the interest expense to District agencies as of September 30, 2007. The tracking system is in the process of being presented to the Federal government for review and approval of the District's system. Once the Federal government approves the District's tracking system, interest expense for FY 2003, 2004, 2005, and 2006 will be incorporated in the respective year's cost plan and the revised cost plans will be re-submitted to the Federal government requesting the reimbursement of the interest expense.

The FY 2007 Central Services Indirect Cost Allocation Plan will include interest expense totals.

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Process: Anacostia Waterfront Corporation

Payroll Records

Standard personnel practice dictates that personnel files are maintained. These files typically contain information on employment application, pay rates, changes in pay rates, W-4 forms, authorization to work in the U.S (Form I-9), termination data, etc.

During our review of payroll, we noted that Form I-9s for 3 out of 21 employees were not available for our review. Failure to maintain an I-9 Form for each employee may subject the Corporation to the imposition of various penalties.

Management's Response:

The Corporation, as an entity, has been dissolved. The former employees have been absorbed into the District's Human Resource System. The I-9 forms for each employee will now be maintained by the appropriate district agency.

Lack of Supporting Documentation

The District's Financial Policies and Procedures Manual, requires the Division Director, to approve invoices and forward the original to the finance department for payment, while retaining a copy. During our review of purchasing and disbursements, we noted that supporting documentation for a payment in the amount of approximately \$120,000 was not available for our review.

Without sufficient documentation to support payments, the basis of expenditure cannot be fully justified. There is a risk that AWC may pay for goods or services not provided. While this appears to be an isolated incident, we still recommend that the Corporation strengthen controls over payment documentation to prevent reoccurrence.

Management's Response:

The Corporation, as an entity, has been dissolved. Moving forward, all the payment activities including the RFS will be handled within the District's payment system.

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Process: National Capital Revitalization Corporation and Related Entities

Payroll Records

Standard personnel practice and National Capital Revitalization Corporation (NCRC) personnel policy dictates that personnel files are maintained. These files typically contain information on employment application, pay rates, changes in pay rates, W-4 forms, authorization to work in the U.S (Form I-9), termination data, etc. During our review of payroll, we noted that Form I-9s for 3 out of 40 employees were not available for our review. Failure to maintain an I-9 Form for each employee may subject NCRC to the imposition of various penalties.

Management's Response:

NCRC, as an entity, has been dissolved. The former employees have been absorbed into the District's Human Resource System. The I-9 forms for each employee will now be maintained by the appropriate district agency.

Contracts

NCRC procurement policies require a Request for Services (RFS) Form to be properly completed and approved prior to a contract being awarded to a vendor. The RFS form outlines the scope of services to be provided and is approved by both NCRC and the vendor.

During our review of contracts, we noted that the RFS Form was not available for 17 out of 150 contracts over the period reviewed. The RFS form avoids any misunderstandings regarding the services to be provided. It also provides an indication of cost. Without such a form being properly completed, the services provided might not be those requested. We recommend that NCRC monitor and enforce stricter adherence to set policy.

Management's Response:

NCRC, as an entity, has been dissolved. Moving forward, all the contractual activities including the RFS will be handled by the District's Office of Contracts and Procurement.

Governance

We noted that board minutes at the Economic Development and Finance Corporation (EDFC) were not available for most of the period reviewed. We were also informed that no Board meetings have been held since 2005. We recommend that periodic meetings be held to indicate governance throughout any given fiscal year. Further, the meetings should be documented in written minutes in order to provide verification of the actions and decisions relating to EDFC's policies, procedures, intentions, or actions. Historical summarization of these decisions is critical, not only as a guide for EDFC, but also as evidence in any legal proceedings or other examinations.

Management's Response:

EDFC, as an entity, has been dissolved.

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Information Technology Environment: General Controls

Child and Family Services Agency

During our procedures, we noted the following:

1. Minimum password complexity controls are weak as there is no lockout policy for failed logon attempts in place for the FACES system.
2. FACES data tapes are not stored in a fire proof safe while waiting to go offsite.
3. FACES user administration: Access requests are submitted via phone by the new employees' manager to the Security Administrator.

The following is recommended:

1. Where possible, strong password controls should be implemented to strengthen the integrity of significant systems and financial applications. Some computer specialists have estimated that as much as 80% of network security breaches occur from within the network rather than from outside hackers. Security could be improved if an "intruder lockout" feature were added to the system so that three or more incorrect log-in attempts would suspend the account. A network help desk would have to reset the account.
2. One of the main reasons for creating backup files is to be able to recover data in the event of a disaster, such as fire or water damage. This objective is not served if backup files are not kept separate and secured. We recommend that data backup tapes for financial applications should be stored in a secure and fireproof safe while onsite to ensure that data is recoverable in the event of a disaster
3. This could result in unauthorized entries or adjustments being made. We recommend that management adopt better controls over computer access such as the use of written requests which are signed by the individual's manager.

Management's Response:

1. The FACES.NET password controls are the same as the Office of Chief Technology Officer's password policy for Outlook (in fact for D.C. Government FACES.NET users, the passwords are synchronized). Passwords must meet the following requirements:
 - Not contain the user's account name or parts of the user's full name that exceed two consecutive characters.
 - Be at least 6 characters in length.
 - Contain characters from three of the following four categories:
 - i. English uppercase characters (A through Z)
 - ii. English lowercase letters (a through z)
 - iii. Base 10 digits (0 through 9)
 - iv. Non-alphabetic characters (for example, !, \$, #, %)

There are two main reasons for maintaining a "non-lockout" policy. First, the complexity of the password controls makes it difficult to guess a user's password even with multiple tries. Second, access to FACES.NET is required 24/7 for CFSA to continue business critical operations. However, CFSA does not maintain a 24/7 Help Desk which would be necessary in order to assist workers who were locked out of the application. Given these facts, CFSA does not concur with the finding.

Information Technology Environment: General Controls

2. CFSA contracts with Iron Mountain to store backup tapes. Iron Mountain supplies CFSA with a fire resistant container to store the tapes that are awaiting pickup.
3. Access requests are not submitted by phone. In order to access FACES.NET workers must submit a Security and Demographics form which is signed by the worker's supervisor. Additionally, new users must complete the appropriate FACES.NET training before access is granted. Given these facts, CFSA does not concur with this finding.

Department of Health

During our procedures, we noted the following:

1. Minimum password complexity controls are weak as the eCura application is not configurable with password requirements, lockouts, and expiration.
2. An appropriate methodology has not been implemented for systems development, acquisitions, and change management for the ACEDS application.
3. The entire Development team has access to use the ACEDS software, can promote code changes into the Production environment for ACEDS, and the programming manager is the security administrator.
4. User acceptance testing and approval to move program changes to production were not documented during this audit period for ACEDS.
5. There is no re-certification process for MMIS users.
6. MMIS Program Change Management: Although it is policy that internal CSRs are considered maintenance CSRs and therefore do not require the District's sign off or approval letters, all changes should have written approval.

We recommend the following:

1. Where possible, strong password controls should be implemented to strengthen the integrity of significant systems and financial applications. Some computer specialists have estimated that as much as 80% of network security breaches occur from within the network rather than from outside hackers. We have the following recommendations for using passwords: passwords should be a combination of letters, numbers, and a symbol; passwords should not be obvious; and periodically, the system should automatically request that the user reset the password. Security could be further improved if an "intruder lockout" feature were added to the system so that three or more incorrect log-in attempts would suspend the account. A network help desk would have to reset the account.
2. DC IT organizations should implement formal, documented change management methodologies, policies, and standard operating procedures to support all significant financial applications. There should be common guidance for all application teams that includes, but is not limited to, formal documentation of the various stages of the program change lifecycle such as initial request and analysis, testing, change authorization, migration, and technical and user documentation requirements.

Information Technology Environment: General Controls

3. Computer controls over the District's information systems should be adequate to allow the reliable preparation of financial statements. In order to ensure adequate control over the District's information systems, proper segregation of duties is necessary. We recommend that developers or individuals in the developer role should be restricted to "read-only" access rights to the Production libraries for all of the significant financial applications. If proper segregation is not possible, adequate independent monitoring controls should be implemented to mitigate the risk.
4. A formal process with adequate audit trails should be implemented to ensure that all ACEDS program changes are tested and approved by the Business User. Management may consider the provision of a report to the appropriate departments or individuals.
5. MMIS should be recertified on a periodic basis by the process owners to ensure access is kept current.
6. At the present time, there are varying degrees of formality of controls over changes to existing programs or systems. We recommend that certain controls be established and management should consider the following: the request should follow preparation guidelines established by the IT department; should be approved by the user department manager; at a minimum, the request should include the purpose of the revision, the programmer assigned to make the revision, the date the change is tested, and the date the revised program becomes operational.

Management's Response:

The Department of Mental Health (DMH) concurs with the findings and related recommendations on finding #1 and plans the following actions:

Interimly, DMH will utilize the eCura communications feature to remind users to update their password on a quarterly basis. Over the next three to six months, we will work with our network engineers and software vendor to implement a robust password security system that will meet specified recommendations. At a minimum, this security shall include automatic password update notification, forced update if password is not changed as specified and require passwords to be comprised of a minimum number of and characters to ensure security. Strong password controls will be implemented in eCura on or before 9/30/2008.

The Department of Human Services (DHS) does not concur with the finding and related recommendations on finding #2 for the following reason:

We have not started the ACEDS Business Development Analysis. We are waiting for the final approval from Federal Agencies. We believe that approval will be received February 2008 and the project will finally begin, 30 days later, in March 2008. The Business Analysis is still planned to provide requirements and methods for future development and identify new change management procedures. The change management requirements, as stated last year, are defined by the Office of the Chief Technology Officer (OCTO) and District regulations. We continue to follow the 1977 and 1986 procedures provided by Computer Associates (CA) for internal development and change management. We continue to use PanAPT software procedures. Hardware acquisitions are handled by OCTO (owners of the mainframe computer). If software upgrades are required they are purchased by DHS. We follow established District purchasing procedures using the District automated purchasing system (PASS) and submitting the required documentation. We follow the District's required purchasing procedures for IT purchases and do not have or need our own internal purchasing process.

Information Technology Environment: General Controls

The Department of Human Services (DHS) does not concur with the finding and related recommendations on finding #3 for the following reason:

The development teams continue to have access and use of the software. It is still their job. The position requirements have not changed. A team may be called anytime during a 7 day period (available 7 X 24) to meet the everyday needs and any emergency requirements of the system. Each of the development teams has a lead person in charge of code promotion. Everyone on the teams has daily responsibility, emergency coverage responsibility, and is given the authority during their emergency hours to promote codes as required. Three people on team 1 have responsibility as part of their duties and two people on team 2 are responsible for promoting codes. Team 2 is responsible for the Vital Records application only.

The Department of Human Services (DHS) does not concur with the finding and related recommendations on finding #4 for the following reason:

The programming teams continue to follow Computer Associates (CA) documents for code development and code modifications. They check out codes from the production environment. They move the codes to the development (DEV) region to do their work and then move the codes to the testing (TEST) region. The users test the codes and applications then accept or reject the codes. The process continues until accepted. The code is then moved to the production (PROD) region and the person on daily or emergency call promotes the code. This process has not changed since the initial installation of the software.

The Medical Assistance Administration (MAA) does not concur with the finding and related recommendations on finding #5 for the following reason:

The MMIS system automatically locks out any user ID that goes unused for (60) days. The policy is that the user account gets suspended after 60 days of inactivity and terminated after 90 days. Suspended means the user cannot login but can call the helpdesk to be reactivated. If the account is terminated, the user must submit a new application.

The Medical Assistance Administration (MAA) does not concur with the finding and related recommendations on findings #6 for the following reason:

ACS, as the fiscal agent, has its own internal maintenance work on the system which is akin to oil changes on a motor vehicle. As such, regular system maintenance is kept current at all times. Any systems changes or programmatic changes that impacts MAA policy of reimbursements requires the approval and signature of authorized MAA personnel.

Metropolitan Police Department

During our procedures, we noted the following:

1. Minimum password complexity controls are weak as TACIS passwords are set to allow a one character password.
2. Employee access levels are not being reviewed regularly for appropriateness and segregation of duties for the TACIS application.

Information Technology Environment: General Controls

3. There is no formal documentation for test procedures performed. For 4 out of 8 program changes tested, there was no evidence of authorization approval by the payroll manager and testing by the programmer.
4. Backup tapes for TACIS data are not being secured in an offsite location.
5. Audit trails do not exist to verify that the TACIS data backup results are reviewed on a daily basis.
6. Periodic data backup tapes restores are not being performed for the TACIS data.

We recommend the following:

1. Where possible, strong password controls should be implemented to strengthen the integrity of significant systems and financial applications. Some computer specialists have estimated that as much as 80% of network security breaches occur from within the network rather than from outside hackers. Employees should be instructed to avoid obvious passwords that could be associated with them personally and they should be encouraged to make their passwords more robust, for instance, by creating a password of sufficient length and consisting of a combination of letters and numbers.
2. Under these conditions, it is possible for unauthorized program and data file changes to be made. Thus, the existing procedures do not reasonably limit the exposure to unauthorized changes of production programs and data files. Further, one of the basic elements of internal control is separation of duties so that no one person controls all phases of an operation. We recommend that management consider a periodic (semi-annual) re-certification of accounts on financial applications be implemented to ensure the appropriateness and segregation of duties of users.
3. A formal process with adequate audit trails should be implemented to ensure that all TACIS program changes are tested and approved by the Business User. Management may consider the provision of a report to the appropriate departments or individuals.
4. While backup copies of computer data files, programs, and operating systems are made, these backup copies are kept onsite. One of the main reasons for creating backup files is to be able to recover data in the event of a disaster, such as fire or water damage. This objective is not served if backup files are not kept separate from the regular files. We recommend that data backup tapes for financial applications should be rotated and stored in a secure offsite location to ensure that data is recoverable in the event of a disaster.
5. Formal audit trails should be implemented to validate that the daily review of backup logs and exceptions are in place. Management may consider the provision of a report to the appropriate departments or individuals.
6. Data backup tapes for financial applications should be tested periodically to ensure that data is recoverable in the event of business need.

Management's Response:

1. We concur with this finding. On February 13, 2008, the password controls were modified to require passwords of with a minimum of six (6) characters, including one (1) special character. In addition, the system modification incorporates mandatory changing of the password every 90 days.

Information Technology Environment: General Controls

2. We disagree with this finding. Only the OCFO programmer and the contractor have access to TACIS applications. The Agency employees have view only access with the exception of Roll Call Officers and Timekeepers.
3. We concur with this finding. We are developing a change request form to formally document TACIS program changes, including the appropriate testing and approval by the Payroll Operations Manager. The change form will be operational as of March 3, 2008. The change request form has been documented and is fully operational.
4. Backup copies of the computer data files are provided to the Metropolitan Police Department (MPD) IT Division for off-site storage. It is our understanding that the backup files are submitted to the Office of Chief Technology Officer (OCTO) for off- site storage, which would include our data files.
5. We disagree with this finding. Proof of the audit trails was provided last fiscal year for TACIS data backup results, which include two (2) months of data being stored. We will consider implementing a plan to provide verification of the daily review of backup logs.
6. We concur with this finding. We will work with the MPD IT staff to coordinate periodic testing of the data backup tapes. Testing will be conducted on a quarterly basis starting June 30, 2008.

Office of Budget and Planning

There is no database level security for the Modification, Re-programming, and Adjustments database. Users are required to gain access to the network folder where the database is stored and then will have full access to the database. One of the best ways to prevent errors when posting transactions is to limit access to specified users. We recommend that the security of the network be reviewed. Only those employees with responsibility to track or use particular information should have access to the various relevant spreadsheets that are stored on the network drives. The reliability of information will be increased if only authorized employees have access to them.

Management's Response:

The Modification, Re-programming, and Adjustments database is a tool for Office of Budget and Planning (OBP) analysts to enter agency reprogramming for tracking/informational purposes. The databases are on a secure local network where access to the folders is controlled. The numbers in these databases are not necessarily the ones entered into SOAR, the financial system of record. Stringent security controls surround the viewing, entering, and modification of data in SOAR. OBP works closely with the Office of Financial Operations and Systems (OFOS) to ensure each re-programming entered in SOAR is correct.

Office of the Chief Financial Officer

During our procedures, we noted the following:

1. Minimum password complexity controls are weak as password parameters for the ARP system are not set appropriately based on best practices. This includes a one character password and no password expiration.

Information Technology Environment: General Controls

2. Backup tapes for DBC data and SunGard data are not being secured in an offsite location.
3. Periodic data backup tapes restores are not being performed for DBC data.
4. An appropriate methodology has not been implemented for systems development, acquisitions, and change management for the DBC application.
5. The SOAR Support team acts in a dual role including support and development causing a segregation of duties conflict.

We recommend the following:

1. Where possible, strong password controls should be implemented to strengthen the integrity of significant systems and financial applications. Some computer specialists have estimated that as much as 80% of network security breaches occur from within the network rather than from outside hackers. Employees should be instructed to avoid obvious passwords that could be associated with them personally and they should be encouraged to make their passwords more robust, for instance, by creating a password of sufficient length and consisting of a combination of letters and numbers.

In order to reduce the risk of access to computer files by unauthorized personnel, we recommend that the District institute a policy that requires passwords to be changed on a regular basis. The District may also wish to investigate building into its software automatic expiration of passwords to ensure that they are changed periodically.

2. While backup copies of computer data files, programs, and operating systems are made, these backup copies are kept onsite. One of the main reasons for creating backup files is to be able to recover data in the event of a disaster, such as fire or water damage. This objective is not served if backup files are not kept separate from the regular files. We recommend that data backup tapes for financial applications should be rotated and stored in a secure offsite location to ensure that data is recoverable in the event of a disaster.
3. As timely and accurate information is essential to the effective functioning of the District and as there is always the risk of loss through hardware malfunction and/or failure, we recommend that data backup tapes for financial applications be tested periodically to ensure that data stored on them is recoverable in the event of a business need.
4. D.C. IT organizations should implement formal, documented change management methodologies, policies, and standard operating procedures to support all significant financial applications. There should be common guidance for all application teams that includes, but is not limited to, formal documentation of the various stages of the program change lifecycle such as initial request and analysis, testing, change authorization, migration, and technical and user documentation requirements.
5. One of the basic elements of internal control is separation of duties so that no one person controls all phases of an operation. While significant changes to the SOAR application were not noted during the fiscal year, in order to maintain the desirable separation of duties, we recommend that developers or individuals in the developer role should be restricted to "read-only" access rights to the Production libraries for all of the significant financial applications.

Information Technology Environment: General Controls

If proper segregation is not possible, adequate independent monitoring controls should be implemented to mitigate the risk. In addition, security monitoring at the RACF level may be used to mitigate the risk.

Management's Response:

1. The legacy ARP application was written decades ago before present day best practices were established. This antiquated application is in maintenance mode with no plans to revamp it. Rather, an effort to replace it is underway. One of the requirements of the modern day replacement will be that it has appropriate security including password complexity controls.
2. On a monthly basis full backups of Sungard and DBC are now being sent to an offsite location.
3. Full backups of DBC are performed daily. The restoration process has been performed on numerous occasions including the recent upgrade from the Windows 4.0 operating system to Windows 2003. In addition, the precautionary step of running monthly restores is scheduled.
4. Office of Finance and Treasury (OFT) system developers/computer specialists perform software maintenance and integration and produce corresponding documentation.
5. The internal control of segregation of duties is in place. The SOAR PMO Technical team performs in a support/maintenance role. Services of an outside contractor are used for the SOAR software development activities. The contractor is restricted to "READ ONLY" access of the production libraries and datasets. Attempts to violate security are detected by RACF and reported to the SOAR Security Administrator and the SOAR PMO Director for appropriate action. Documented migration procedures state "No changes are moved into production by the same individual who made the software change."

Office of the Chief Information Officer

Evidence of the Director's approval of selected change request in ARP was not found. The approval is made through either a phone call or an e-mail. A phone call is not an acceptable means of approval which should be evidenced in writing.

At the present time, there are varying degrees of formality of controls over the development of new systems and programs and changes to existing ones. We recommend that certain controls be established and management should consider the following: the request should follow preparation guidelines established by the IT department; should be approved by the user department manager; and at a minimum, the request should include the purpose of the revision, the programmer assigned to make the revision, the date the change is tested, and the date the revised program becomes operational.

Management's Response:

ARP Software Program Change Procedures have been developed, documented, and are being followed. The procedures include controls of the software revisions, requestor, and implementation. Approvals are required of the user requestor, the Project Manager, and the PMO Director.

Information Technology Environment: General Controls

Office of the Chief Technology Officer

During our procedures, we noted the following:

1. Based on a review of mainframe security, it was noted that:
 - There were approximately 80 user profiles on RACF identified with special attributes whose purpose was not identified or needs to be deleted based on non-use.
 - Two user profiles on RACF used for the conversion of the mainframe had not been disabled.
2. Based on a review of client server security, it was noted that 2 HP/UX accounts associated with terminated users remained active.
3. Minimum password complexity controls are weak or not implemented for the following operating systems:
 - With respect to security over UNIX, we believe that the passwords' ages on the AIX/Solaris systems should be reduced to ensure stronger controls.
 - We also noted that the password aging configuration on the HP/UX system was disabled.
4. There is no re-certification process for Windows IDs users.

We recommend that the security of the mainframe/client server environment be reviewed. Accounts not used should be evaluated periodically and then disabled/deleted appropriately. Further, an annual re-certification of accounts should be implemented to prevent this from recurring in future periods.

Where possible, strong password controls should be implemented to strengthen the integrity of significant systems and financial applications. To reduce the risk of access to computer files by unauthorized personnel, we recommend that the District institute a policy that requires passwords to be changed on a regular basis. The District may also wish to investigate building into its software automatic expiration of passwords to ensure that they are changed periodically.

Windows IDs should be recertified on a periodic basis by the process owners to ensure access is kept current.

Management's Response:

The report, provided with this response, shows that there are only 5 ids with the security administration privileges granted via the Special attribute. The two "user profiles" cited are not User Profiles (IDs). They are Groups. One cannot log onto a Group and those Groups have been deleted.

The AIX/Solaris systems have stringent password complexity controls implemented. Alpha and numeric characters, in both upper and lower-case, with a minimum number of characters and rules preventing replication of characters or passwords are in place. The maximum password age is currently more stringent than is required by current policy. However, we will reduce the password aging for non-system IDs monthly to match that of the system IDs.

Server Operations does not manage HP/Unix systems. A windows ID recertification policy will be implemented.

Information Technology Environment: General Controls

Office of Tax and Revenue

There is no formal documented procedure being performed for the addition and deactivation of user accounts from E-Star and CAMA and employee access levels are not being reviewed regularly for appropriateness and segregation of duties.

To prevent unauthorized entries or adjustments, we recommend that management consider that a formal process with adequate audit trails be implemented to ensure that all E-Star and CAMA users are authorized and access rights are modified accordingly.

Under these conditions, it is possible for unauthorized program and data file changes to be made. Thus, the existing procedures do not reasonably limit the exposure to unauthorized changes of production programs and data files.

Further, one of the basic elements of internal control is separation of duties so that no one person controls all phases of an operation. We recommend that management consider a periodic (semi-annual) re-certification of accounts on financial applications be implemented to ensure the appropriateness and segregation of duties of users.

Management's Response:

RPTA in coordination with ISA will formally document the processes currently in place to allow access to the CAMA and E-Star programs and data sources. Semi-annually user profiles for these two systems will be reviewed and updated to ensure appropriate segregation of duties. RPTA managers will be responsible for verifying quarterly the access rights and employee usage in CAMA and E-Stars. RPTA managers will timely notify ISA of employees to be granted access rights and employees whose access rights should be deactivated. RPTA will work with ISA to review the existing audit trails in CAMA and E-Stars and identify and correct any deficiencies.

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Information Technology Environment: Hire to Pay

Lack of Supporting Documents

Even in this age of computerized data, significant volumes of paper documents and records are generated related to the District's payroll process. During the audit we noticed that accounting records frequently could not be located when needed. The District was unable to provide certain Personnel Action Forms and employees' completed benefits forms. We also noted that the Official Personnel Folders (OPFs) were not consistently filed and readily available. Certain agencies retained their own files while others were filed at the Department of Human Resources (DCHR) and responsibility for filing was constantly changing.

The lack of consistent records may cause logistical problems when looking for information and the constant reorganizing and switching of responsibilities for filing OPFs may cause loss of personnel records during the transition(s). Further, employees spent nonproductive time searching for needed documents. This condition could also present problems when documents are needed in support of tax returns and other reports subject to audit.

We recommend the adoption of procedures to review and evaluate recordkeeping requirements and the adherence thereto on a periodic basis. We recommend that a quality review be performed to ensure all documents are in the individual's OPF prior to filing. A follow up should be made to ensure that documents/forms are obtained, processed, and filed into each OPF. The District should also consider a common filing system for all employees and the possibility of scanning documents for easy access. Policies should be adhered to by all locations or agencies because the reconstruction of records is costly and time consuming.

Management's Response:

The D.C. Department of Human Resources is in the process of migrating the records currently housed in the centralized DCHR records room, (to include employee OPF's) to a scanned file processing system. Documents which need to be filed in an OPF will be sent to the records room for scanning into the employee record. As files are needed, scanned versions will be supplied to authorized parties for review, eliminating the need to physically remove the file and thereby limiting the opportunity to misplace documents. As the files are scanned, they will be reviewed for completeness. Documented filing procedures will be adhered to and monitored for compliance.

Agencies with delegated independent authority will continue to house their employee files until such time as said authority would be rescinded. DCHR will continue to maintain all Official Personnel Folders for covered agencies under the Mayor's authority.

Logical Access

As part of our audit, we performed an evaluation of the PeopleSoft, Unified Payroll Processing System (UPPS), and Comprehensive Automated Payroll Personnel System (CAPPS) users' logical access to ensure that human resources (HR) and payroll functions were properly segregated within the respective systems. We noted the following:

- 3 users had access to both HR and Payroll functions in PeopleSoft.
- 26 users had access to both HR functions in PeopleSoft and Payroll functions in UPPS.
- 50 users had access to both HR and Payroll functions in CAPPS.

Information Technology Environment: Hire to Pay

One of the basic elements of internal control is separation of duties so that no one person controls all phases of an operation. The aforementioned lack of segregation of duties combines to weaken the existing internal control and it increases the risk that an error or irregularity could occur and go undetected. We recommend that the District consider performing a periodic review of user access to ensure that access remains appropriate and to maintain the desirable separation of duties.

Management's Response:

Based on the way data is housed in the human resources and the payroll modules of UPPS, CAPPs, and the PeopleSoft systems, it is sometimes necessary that some employees have access to both modules in order to carry out the functions of their duties. However, access is limited to view only and does not provide them with update capabilities to both. In other words, while a human resource specialist would have access to input personnel actions, they would have view only access to payroll data which might be necessary to process rehires. In contrast, while a payroll technician would have update capability to input benefits and/or deductions, the same employee might have access to view only HR data to validate eligibility for these benefits and/or deductions.

While the auditors noted three users had access to both HR and payroll functions in PeopleSoft, they did not have update access to both modules. While the auditors found twenty six (26) users had access to both HR functions in PeopleSoft and Payroll functions in UPPS, their security profile did not allow update access in both application systems. While the fifty users had access to both HR and payroll functions in CAPPs, their security profile would have limited them to specific screens and not full update access to both. For example, the update to the W4 screen is housed in the HR module but updated by payroll technicians. These payroll technicians' security profile limits their update to that specific screen in HR with views only for the remainder screens in HR.

Finally, the Office of Pay and Retirement Services (OPRS) does not believe that view only capability increases the risk of compromised data. Therefore, we believe that adequate controls are in place to adequately secure the HR and payroll data.

Payrates

During our procedures, we verified whether employees were paid the correct rate based on approved level/grade and union rates as documented in the respective personnel files. For 1 out of the 45 sampled employees, we noted that the individual's pay rate could not be verified with the authorized rate as maintained in the personnel file.

Management should periodically review the payroll master file and compare pay rates to the authorized rates contained in personnel files to determine that the current rates are appropriate. In addition, since payroll is a major expense of the District, management should continue to approve rate changes and on a regular basis, the appropriate level of management should determine that the current pay rates agree with the approved rates.

Management's Response:

While management concurs with the finding, the Office of Pay and Retirement Services (OPRS) believes that the recommendation should be to periodically compare the position data for active employees with the current master pay plans.

Information Technology Environment: Hire to Pay

The one employee salary discrepancy noted was detected during a period prior to conversion to the PeopleSoft (PS) Payroll. During this period, salary was housed in both the PS Human Resources and the UPPS Payroll. Now that the District has converted to the integrated PeopleSoft Human Resources and Payroll systems, employees' salaries are only housed in the human resources module, and therefore a discrepancy would not occur between payroll and HR.

Nevertheless, OPRS management recommends a periodic review of the current master pay plans with current position data.

Supplemental Payments

For a sample of employees receiving supplemental checks, we noted the following during our procedures:

1. For 3 out of the 45 supplemental payments selected, the supporting supplemental forms could not be located.
2. For 1 out of the 45 supplemental payments selected, the supplemental payment had no evidence of approval.

We identified these discrepancies from a sample of transactions that were selected for testing. Management should recognize that the potential exists for additional discrepancies. We recommend the adoption of procedures to review and evaluate recordkeeping requirements and the adherence thereto on a periodic basis. In addition, management should enforce approval processes by individual(s) who are knowledgeable about the authenticity of the respective supplemental payment.

Management's Response:

Office of Pay and Retirement Services (OPRS) management will provide copies of its recordkeeping and retention policies to all managers periodically to ensure compliance. We will also reinforce the importance of maintaining proper supporting documentation in files.

In addition to this effort, management is currently in the process of procuring scanning hardware and software which will allow us to make images of original documents making them readily accessible to be printed upon request.

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User Access and Segregation of Duties

During our review of the Integrated Tax System (ITS), the following was noted:

1. 2 terminated users still had access to the ITS application.
2. 1 of the 2 terminated users could not be identified by the various Directors within the Office of Tax and Revenue or by Human Resources.
3. Access profiles for new employees are created by copying an existing profile of an individual who is in a similar position. Therefore, if the existing profile had unauthorized or excessive access to the ITS system, these errors were copied to the new employee's profile.
4. When current employees change position within the Agency, access levels may not be adjusted as per the employee's new job responsibilities. Management indicated that usually when existing employees change positions within the Agency, additional access is granted based on the new job requirements; however, old access which is no longer required is not removed. Therefore, if an individual moves from the Customer Service Administration to the Collections department, the access granted to the individual under the Customer Service Administration may not be deactivated.
5. Management has not performed a complete review of the employee's access levels to ensure that access granted to employees is based upon the employee's job responsibilities.
6. Revenue Officers within the Collections department have the ability to create taxpayer accounts within the ITS system.
7. The audit trail within ITS does not maintain a record of all individuals who have made changes within the system. The audit trail is limited to the last individual who recorded a change in the system.

Under these conditions, it is possible for unauthorized changes to be made. Thus, the existing procedures may not reasonably limit the District's exposure. To prevent unauthorized entries or adjustments, we recommend that management consider a formal process with adequate audit trails be implemented to ensure that all ITS users are authorized, that all access rights are modified accordingly, and that users are removed from the system on a timely basis upon termination. Further, one of the basic elements of internal control is separation of duties so that no one person controls all phases of an operation. We recommend that management consider a periodic (semi-annual) re-certification of accounts on financial applications be implemented to ensure the appropriateness and segregation of duties of users. These added controls will strengthen the integrity of significant systems and financial applications.

Management's Response:

The Office of Tax and Revenue (OTR) will review the current policies and procedures for removing terminated users access to the ITS applications and implement procedures to confirm terminated users' access to ITS is removed. OTR has begun a comprehensive analysis/review of security related to on-line ITS taxpayer adjustments. In this analysis each OTR director will be responsible for examining their administrations' positions as well the current ITS user classes related to these positions to:

Information Technology Environment: Revenue Generation and Collection

1. Ensure each ITS user class is accurately defined to include only those job tasks appropriate to the related OTR position; and
2. Ensure that all individuals given access to on-line ITS functionality are assigned to the appropriate ITS user class or classes based on their position.

It is expected that each director will request the removal of specific access for those employees having inappropriate on-line rights as well as request the modification of ITS security user classes to better enforce on-line adjustment security. Upon completion of this analysis, the corresponding modifications will be made to the ITS On-Line Security Tables.

A complete review of the operating procedures related to requesting new ITS user classes and assigning or removing system users from new and existing users classes will also be performed.

Policies and procedures will be implemented to ensure maximum ITS access security when ITS users change position within the agency. The administration losing the ITS user will be required to eliminate all ITS access privileges for that user before the user's new administration is allowed to assign his/her new privileges. For ITS users changing positions within an administration, the Application Security Administrator for that administration (see below) will be required to review and modify the ITS user's ITS access privileges to accurately reflect the changes in the user's responsibilities.

After completion of the analysis/review of security related to on-line ITS access and the resulting re-association of existing users to the appropriate user classes and the removal of those users who no longer need access to ITS as stated above, OTR will give those remaining users who previously received a recycled ITS User ID, a new User ID that has never been used before.

OTR will also review and address the duties and responsibilities of managers to ensure effectiveness and integrity of the adjustment process and the administration of ITS security user classes going forward.

It is not viable to maintain a record of all changes made within the system. OTR will review the changes that individuals are allowed to make and ensure an audit trail is implemented to permanently record the critical changes made to taxpayer accounts within the system.

As described in the responses above, OTR will implement a formal process to ensure all ITS users are authorized, that all access rights are modified accordingly, and that users are removed from the system on a timely basis upon termination.

To ensure separation of duties related to ITS security, OTR will establish separate security roles. These roles are as follows:

An Application Security Administrator (ASA) to be employed within each applicable OTR administration. The ASA will be responsible for maintaining ITS online security access for the personnel in his administration.

A System Administrator (SA) to be employed within the Information Systems Administration (ISA). The SA will be responsible for creating the User ID for each ITS online user.

A CIO Security Officer. This person is responsible for all technical aspects of security within the OCFO/CIO including OTR.

Information Technology Environment: Revenue Generation and Collection

OTR will conduct a periodic (semi-annual) re-certification of accounts on financial applications to ensure the appropriateness and segregation of duties of users.

Segregation of Duties – Collections Department

Adequate segregation of duties does not exist within the collections department. The Revenue Officers responsible for collecting on delinquent taxpayer accounts receive check and money order payments from the taxpayers and have access to post credit adjustments to taxpayer accounts. In addition, they are able to change the taxpayer balance recording various adjustments such as abate penalty and/or interest and transfer payments from one year to another. Only a periodic manual review of the credit adjustments is performed by the collections managers.

Therefore, a risk exists that taxpayer payments can be diverted and a credit posted to the taxpayer accounts to reflect the account balance to be current. To ensure adequate segregation of duties, revenue officers should not have access to or receive taxpayer payments. An exception report should be created to monitor the adjustments to the taxpayer accounts in the Integrated Tax System (ITS) system. Unusual adjustments or pattern of adjustments should be reviewed by the supervisors of the collection department. The individuals responsible for performing this review should not have access to post adjustments to the taxpayer accounts in the ITS system.

Management's Response:

Securing payment is a Revenue officer's duty, responsibility, and main mission. A Revenue officer is also responsible to determine the correct amount of tax for the taxpayer account. In order to ensure adequate separation of duties, the Compliance Administration will implement a centralized function to review and post adjustments to taxpayers' accounts initiated by Revenue Officers.

Segregation of Duties – Returns Processing Department

Adequate segregation of duties does not exist within the returns processing department. The individuals within this department receive taxpayer payments and are responsible for depositing the payments and posting the payments to the taxpayer accounts within the Integrated Tax System (ITS). There is no reconciliation of taxpayer payments posted in the ITS system to the cash deposited in the bank and cash recorded as received in the general ledger.

Therefore, a risk exists that taxpayer payments can be diverted and a fictitious payment posted to the taxpayer accounts to reflect the account balance to be current. To ensure adequate segregation of duties, individuals who have access to the taxpayer payments and/or are responsible for preparing the deposit should not have access to post payments or adjustments to the taxpayer accounts. In addition, reconciliations should be performed of payments recorded in the ITS system, cash deposited per the bank, and cash recorded in the general ledger.

Management's Response:

The current ITS system does provide some safeguards to prevent fictitious payments (creating money). During the processing of payments, ITS requires a deposit number. If the deposit number has been used before, the batch of payments will be treated as an unprocessed batch resulting in research to determine why the deposit number was used more than once.

Information Technology Environment: Revenue Generation and Collection

Once a payment is posted to an account, if the money is transferred to another account, the ITS audit trail information will reflect who made the transfer as well as, the account information to which the money was moved.

As a general rule, employees that work on payment processing, payment scanning, and/or the deposit activity are not called upon to work adjustments to taxpayer's accounts. Only limited staff, currently on the manager of the accounting unit has ITS "rights" to adjust taxpayer's accounts. During peak processing, the only staff detailed to work on payment processing, payment scanning, and/or the deposit activity, already work within the Branch and do not have taxpayer account access thru ITS. Employees within the Data Perfection Branch, Suspense/Review unit have ITS rights to transfer money between taxpayer's. However, this ITS access level is shared throughout the Office of Tax and Revenue (OTR), such as Customer Service, Audit, and Collection to name a few. As outlined above, when money is transferred from one period or account to another, the system does maintain an audit trail of the employee who moved the money. Employee's from the Data Perfection Branch are generally not detailed to assist in the payment processing, payment scanning, and/or deposit activity and would not have immediate access to incoming remittances.

The Office of Financial Operations and Systems (OFOS) is responsible for performing a monthly reconciliation of cash deposit per the bank and cash recorded in the general ledger. The accounting unit of the Revenue Accounting Administration performs monthly reconciliations between ITS and the general ledger.

Processing of Individual Income Tax Returns

All individual income tax returns with a valid social security number, name, and reasonable wage information can be processed through the Integrated Tax System (ITS) system without further review. There is no match of withholding payments received by the District by the taxpayer to the tax payment reported on the taxpayer's tax return.

Therefore, a refund may be issued to the taxpayer without determining if the taxpayer has in fact made tax payments to the District. In addition, the District does not have a process to match the withholding information received from the employers to the tax returns submitted by the taxpayer. Management has represented that in October – November of 2008, it is planning to start matching the payments for tax year 2006.

Management's Response:

The Office of Tax and Revenue (OTR) cannot use current year withholding information to process current year returns because employers are not required to provide withholding information for the tax year until the end of February and that information cannot be entered into the system until after April 15th, well after the overwhelming majority of current year refunds have been paid. In order to provide assurances against fraudulent returns, OTR will make use of the data warehouse to verify taxpayer information as returns are processed. In addition, it will utilize the information currently being gathered from employer provided W-2's to identify instances of noncompliance on a post-filing basis.

Processing of Void and Cancelled Checks

The following weaknesses were noted with respect to recording a check as "VOID or CANCEL" in the Integrated Tax System (ITS) system.

Information Technology Environment: Revenue Generation and Collection

1. There are no controls to ensure that a tax refund check has not been cashed at the bank prior to "voiding" the check in the ITS system.
2. There is no system control to prevent a refund check to be "VOID or CANCEL" in the ITS system multiple times.
3. A change report is not created for manager review when a check is recorded as VOID in the system. This report could be used to identify unusual transactions or patterns when checks are recorded as VOID or CANCEL.

Management's Response:

1. The processing of VOID or Cancellation of checks is a series of steps involving 3 different departments [(Revenue Accounting Administration (RAA), Customer Service Administration (CSA), and the Office of Finance and Treasury (OFT)]. In order to prevent timing differences from the time a check is VOID or Cancelled, controls must be put in place to identify these adjustments. As a result, a standard reconciliation between checks VOID and Cancelled in the ITS system and compared to the general ledger (SOAR) has been developed, and will be prepared on a monthly basis. This reconciliation will also include undelivered checks that were cancelled in ITS and recorded as revenue back to the general ledger. Reconciling items that are found at the end of each reporting period will be discussed with the appropriate parties in CSA and OFT, in order to work towards clearing the reconciling items. The formal reconciliations should eliminate the conditions as set forth in the management letter comment
2. A formal reconciliation should identify and eliminate timing differences that can occur between fiscal years. As checks are VOID and Cancelled in ITS, they will be tracked via the reconciliation for delivery to OFT for cancellation in the Check Write system, as well as subsequent journalizing to the appropriate SOAR revenue agency objects. All activity should occur within the same fiscal year in order to have a balanced reconciliation.
3. A monthly change report will be created and reviewed by the RAA Manager. This will assist with identifying any unusual transactions or patterns when checks are VOID or Cancelled.

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Information Technology Environment: Treasury

Wire Transfers

Monetary transaction restrictions do not exist for approving wire transfers within the District's banking systems. To minimize the risk of unauthorized transactions, we recommend management consider establishing limits requiring additional approvals of wire transfers over certain pre-established dollar amounts. This would allow additional oversight over significant transactions.

Management's Response:

Monetary transaction restrictions do exist in that existing controls require an additional level of approval for non-repetitive wires, i.e., wires to non-pre-approved recipients. However, management concurs with the recommendation that controls would be additionally strengthened by establishing additional approval requirements for wires with dollar amounts exceeding certain pre-established levels.

Investment Transactions

During our procedures, we noted that on the occasions when the Investment Manager performed the duties of the Investment Officer, there was a lack of adequate oversight of investment transaction activity. Internal controls are designed to safeguard assets and help or detect losses from employee dishonesty or error. A fundamental concept in a good system of internal control is the segregation of duties. We recommend that management consider alternatives to this process which would ensure adequate segregation of functions and improve existing internal control without impairing efficiency.

Management's Response:

Investment transactions are executed through an investment custodial bank, which will only transfer District investment funds to valid investment vehicles or to the District's pre-established custodial account. As such, even on occasions which the manager solely performed such duties, an inherent level of control existed. However, management will implement the recommendation to require the sign-off by another official in the event that the Investment Manager performs investment duties in the absence of the Investment Officer.

User Access and Segregation of Duties

Within the review of SunGuard user access and segregation of duties, we noted that business users have access to administrative functions such as User Table Restriction Setup. We recommend that management remove such access and limit the administrative functions to only appropriate individuals. In addition, management should review the user access rights and authorizations granted and ensure access has been granted to only those functions required for an individual's job responsibilities. These access rights should also be periodically reviewed to ensure that they remain appropriate.

Management's Response:

Office of Finance and Treasury (OFT) management instructed IT staff several months ago to ensure that access rights for all employees is commensurate with and limited to each employee's job functions. However, only a certain small number of authorized employees have access to funds-movement functions in the system.

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Status of Prior Year Observations

Process, Entity, or Fund	Nature of Prior Year Comment	Current Year Status*
Medicaid	Maintenance of Supporting Documents	Material Weakness
Medicaid	Provider Eligibility at the Medical Assistance Administration Program Operations (MAAPO)	Material Weakness
Payroll Related Disbursements	Authorization of Overtime Hours	Significant Deficiency
Payroll Related Disbursements	Payment of Overtime Hours to Ineligible Personnel	Significant Deficiency
Payroll Related Disbursements	Payment of Bonuses	Significant Deficiency; Partially Resolved
Disbursements (Other than Payroll)	Direct Voucher Payments	Not Repeated
Cash and Investments	Noncompliance with Financial Institutions Deposit and Investment Amendment Act (25% requirement)	Control Deficiency
Cash and Investments	Stale Dated Checks	Control Deficiency
Budget and Planning	Capital Budget	Control Deficiency; Partially Resolved
Budget and Planning	Reconciliation of Grant Modifications	Not Repeated
Budget and Planning	Reprogrammings	Control Deficiency
Budget and Planning	Intra-District Transactions	Control Deficiency; Partially Resolved
Revenue Generation and Collection	Real Property Assessment Appeals	Not Repeated
Revenue Generation and Collection	Homestead and Senior Citizen Tax Relief	Control Deficiency
Revenue Generation and Collection	Tax Exempt Properties	Control Deficiency
Loan Programs	Reconciliation of Loan Balances	Control Deficiency
Fixed Assets	Calculation of Depreciation Expense	Not Repeated
Fixed Assets	Transactions with Related Parties	Not Repeated

Process, Entity, or Fund	Nature of Prior Year Comment	Current Year Status*
Disability Compensation Program	Actuarial Analysis	Significant Deficiency
Disability Compensation Program	Workers' Compensation - Civilians	Significant Deficiency
Disability Compensation Program	General and Automobile Claims	Significant Deficiency
Disability Compensation Program	Case Loss Reserve Computations	Not Repeated
Disability Compensation Program	Database Ownership, Possession, and Control	Control Deficiency
Allocation of Indirect Costs	Approval of Cost Allocation Plans (CAP)	Control Deficiency
IT Environment – General Controls	Strategic Plan	Not Repeated
Information Technology Environment – General Controls	Segregation of Duties	Control Deficiency
Information Technology Environment – General Controls	ACEDS Application	Control Deficiency
Information Technology Environment – General Controls	PASS Application	Not Repeated
IT Environment – Application Controls	Processes at Office of Tax and Revenue	Control Deficiency
IT Environment – Application Controls	Transactions at Office of Tax and Revenue	Not Repeated
IT Environment – Application Controls	Processes at Office of Finance and Treasury	Control Deficiency
IT Environment – Application Controls	Transactions at Office of Finance and Treasury	Not Repeated
IT Environment – Application Controls	Health Care Safety Net	Not Repeated
Lottery and Charitable Games Control Board	Disaster Recovery Plan	See Stand-Alone Report
Lottery and Charitable Games Control Board	Physical Environment in the Data Center	See Stand-Alone Report
Lottery and Charitable Games Control Board	User Account Management	See Stand-Alone Report

Process, Entity, or Fund	Nature of Prior Year Comment	Current Year Status*
Lottery and Charitable Games Control Board	Oversight of Functions	See Stand-Alone Report
Unemployment Compensation Fund	Employer Payroll Audits	Significant Deficiency
Unemployment Compensation Fund	Claimant File Management	See Stand-Alone Report
Unemployment Compensation Fund	Reconciliation between DUTAS and SOAR	Significant Deficiency
Anacostia Waterfront Corporation	Review of Bank Reconciliations Fixed Assets Inventory Approval of Timesheet Alterations Distribution of Purchase Orders Contract Award System Procurement Board Resolutions Approval of Journal Entries Separation of Duties Fixed Assets Not Reconciled	Anacostia Waterfront Corporation is repeated in the Yellow Book report as a significant deficiency. The entity is now part of the primary government, effective October 1, 2007.
Washington Convention Center Authority	Fixed Assets Not Reconciled	See Stand-Alone Report

* The terminology and classification of the current year findings is based on Statement on Auditing Standards No. 112.

Note: "Not Repeated" status does not necessarily equate to the issue being resolved; it was just not noted in the audit process this year.

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