GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General

January 6, 2009

The Honorable Adrian M. Fenty
Mayor
District of Columbia
Mayor's Correspondence Unit, Suite 221
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

Dear Mayor Fenty:

In our continuing effort to alert agency heads of issues requiring their attention, I am providing this Management Implication Report (MIR 09-A-01) to advise you of internal control weaknesses that the Office of the Inspector General (OIG) audits have disclosed concerning the District's payment process. The payment process encompasses payments made to vendors/providers for acquired goods and services; payroll payments made to District employees; third-party payments made on behalf of the District; tax refunds; refunds for other overpayments; and any other payments authorized by law or regulation.

BACKGROUND

Fiscal Year 2008 presented the city's leadership with significant fiscal challenges that we believe will continue into the foreseeable future, given the national downturn in the economy. The tightening of revenue streams due to falling real estate values, combined with increasingly higher demands on social and support services will place additional stress on the city's limited resources and heightens the importance of mitigating the risks of financial losses. Accordingly, agency heads should review existing controls to see that they are in fact in place or implement new controls that will ensure the integrity of the payment process, thereby maximizing revenues and eliminating unnecessary or wasteful expenditures. Collectively, the audits identified the following causes for the internal control deficiencies associated with the payment process:

- insufficient management oversight;
- ineffective supervision;
- lack of policies and procedures;
- poor file maintenance, including missing documentation;
- inadequate segregation of duties;
- disregard for or unawareness of rules and regulations; and
- unfamiliarity with standards of conduct and workplace ethics.

RESULTS

In assessing the various deficiencies associated with the payment process, the OIG classified the control deficiencies into 10 broad areas: (1) fraudulent payments; (2) approval process; (3) improper payments; (4) excessive profits; (5) anti-deficiency violations; (6) improper payment mechanisms; (7) duplicate payments; (8) false claims; (9) late payments; and (10) payroll/overtime payments. We also identified certain actions management can take to help strengthen controls. Examples follow.

1. Fraudulent Payments

Over the past year, employees within the Office of Tax and Revenue (OTR) and others were prosecuted for issuing and embezzling fraudulent, manually processed real property tax refund checks. The fraud occurred through the manual tax refund process at OTR. The audit disclosed that OTR did not have an effective anti-fraud program. The basic controls of an anti-fraud program include:

a. Prevention controls, which are designed to reduce opportunities for fraud to occur.

   - One example of a prevention control is updating background investigations of individuals as they are promoted to positions of trust.

b. Deterrent controls, which focus on the consequences of being caught (incarceration, penalties, fines, loss of employment, etc.) and discourage individuals from committing fraud.

   - The perception of the chance of getting caught generally persuades most individuals to not commit a fraud.

c. Detection controls, which are processes that will assist in the quick discovery of fraud.

   - One example is a 24-hour fraud hotline that is anonymous.

d. Creating a culture of ethical behavior in the workplace.

   - This process includes establishing and communicating the proper “tone at the top” and creating a positive work environment.

e. Implementing anti-fraud controls.

   - This process includes the internal development of a fraud risk assessment process.

f. Developing an oversight process.

- This process involves continuous management oversight and an active internal review program.

2. Approval Process

An audit of capital projects disclosed a serious control deficiency during a review of $22 million in invoices paid by the District for construction and management services from July 2002 through September 2007. Specifically, a breakdown of internal controls resulted in payment of approximately $16 million in invoices, which were neither approved by an authorized government official nor sufficiently verified by the financial officer prior to payment. We recommended certain corrective actions such as designating personnel as agency certifying officers and implementing written procedures that restrict authorization and approval of contractor invoices for payment to selected individuals.

3. Improper Payments

An audit of the District's Disability Compensation Program (DCP) found that the program was at risk for significant fraud, abuse, and payments of unnecessary costs. Specifically, our review found that claimants who returned to work, or who were collecting retirement benefits, continued to receive disability compensation payments. As a result, the District missed opportunities to return disability claimants to the workforce or remove them from the DCP and reduce its cost by as much as $3 million annually. This condition occurred because management did not have effective procedures to detect claimants who returned to work or were collecting retirement benefits. Our recommendations centered, in part, on improving oversight of the third-party administrator's management of the DCP and performing periodic verification checks of disability compensation recipients.

4. Excessive Profits

An audit disclosed that the Medicaid managed care program was fiscally mismanaged. The strategy for setting annual, renewable capitation rates was flawed when District officials did not adjust the capitation rates to levels that would have avoided payment of excessive managed care organizational profits and maximized dollar expenditures for potential care. As a result, excessive profits of about $97 million were paid over a 5-year period. Our recommendations centered on enforcing contract provisions, better coordination with the District's contracted actuary, and monitoring the performance of District managed-care program employees.

5. Anti-Deficiency Violations

A past audit disclosed that a District agency was in an over-obligated status based on commitments to consumers. Ultimately, in order to continue operations, it was necessary for District officials to augment this agency's budget by $18 million. Specifically, the agency was obligated financially to pay for services for its consumers without adequate funding. Also, the agency did not completely record valid obligations. Lastly, the agency did not submit required financial reports, either as a program within the Department of Human Services or as a separate agency (based on its current reporting structure) as required by the District's Anti-Deficiency Act of 2002. (*See* D.C. Code § 47-355.03 (2008)). Paying for services without the availability of adequate funding resulted in apparent violations of the District's and federal anti-deficiency laws.

6. Improper Payment Mechanisms

Three former District employees violated District personnel regulations by soliciting a business relationship with the District government while employed with a District agency and by entering into an arrangement with the same District agency before the required post-employment waiting period of at least 1 year had elapsed. In addition, program managers improperly used a training form (as a funding document) instead of a contract to obtain the services, which resulted in flawed contract administration. Further, financial officials improperly advanced and expended $2.9 million of federal funds based on the improper use of a training form. Improvement actions centered on:

- discontinuing payments to contractors for government employee travel, training, lodging, and subsistence;
- planning for procurement needs in advance;
- recovering government property in the possession of the contractor;
- taking appropriate action against employees for violations of District regulations, as necessary; and
- providing ethics training to all agency personnel.

7. Duplicate Payments

During an audit of selected disability programs, we identified duplicate payments made for client care. Specifically, when a consumer who is already receiving Medicaid services transfers to a Medicaid waiver program (Waiver), notification of the date the consumer became waiver eligible and the new rates that should be charged, should be timely relayed to providers so that providers do not continue to bill the District for the cost of services that are now billable to Medicaid. We reviewed documents that showed that the monthly amounts for three consumers did not change after the date of enrollment into the Waiver, even though the District was entitled to the 70 percent offset based on the consumer's status as a Waiver participant. Instead, duplicate payments from local and federal funds were made for several months after the consumer's Waiver enrollment date. The District needed to immediately identify the over-billings and establish controls to eliminate duplicate payments.

8. False Claims

During an audit concerning services provided to District senior citizens, we found that a contractor could not provide documentation to support claims for reimbursement of certain services. Specifically, approximately 90 percent of payments for counseling services and congregate meals made by the District to the contractor were not supported by adequate documentation. We recommended that the District recover, as appropriate, all funds paid to the contractor for claims unsupported by adequate documentation.

9. Late Payments

Mayor's Order 92-142, dated November 17, 1992, Policy and Standards for Agency Bill Paying Activities, requires that payments are to be processed consistent with the times established for various commodities and services in the District of Columbia Quick Payment Act of 1984. Past Comprehensive Annual Financial Reports for the District disclosed the need for District officials to better comply with certain provisions of laws, regulations, contracts, and grant agreements. The results of audit tests disclosed instances of non-compliance with the Quick Payment Act, which has a provision that allows vendors to assess an interest penalty when payments are not received before the required payment date. While, in most instances, the vendors have not enforced the 2/10 net 30 rule, which would cause the District to incur substantial additional costs for its purchases, continued noncompliance with this law leaves the District vulnerable in this area.

10. Payroll/Overtime Payments

Past reviews of overtime use in the District disclosed that improvements were needed in: (1) approving overtime; (2) training of payroll technicians, timekeepers, and supervisors; (3) maintaining documentation supporting overtime work; (4) justifying the need for overtime requested and paid; and (5) developing and implementing overtime policies and procedures. As a result of these weaknesses, there was no assurance that overtime payments were always valid, or that overtime was needed to fulfill genuine work requirements. We estimated that, through better management oversight, the District could reduce overtime costs by at least 10 to 15 percent resulting in savings of several million dollars.

CONCLUSION

Agencies that play an integral role in authorizing and making payments should work to tighten internal control processes. Our future audits will seek to probe deeper into recurring problems both from a structural and process basis, in order to identify ways to improve the efficiency and effectiveness of payment processes and compliance with laws and regulations.

This MIR provides agency heads with information about conditions that, if not managed, could occur in their agencies. It is imperative that agency heads have the information necessary to detect, correct, and prevent deficiencies should such conditions exist or arise in their own agencies. Therefore, we urge managers to consciously design operational strategies that maximize every dollar realized or spent, consistent with governing rules and regulations.

Should you have questions about this MIR, please call me or William J. DiVello, Assistant Inspector General for Audit, at (202) 727-2540.

Sincerely,

Charles J. Willoughby
Inspector General

CJW/cf

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