

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

DISTRICT OF COLUMBIA

UNEMPLOYMENT COMPENSATION FUND

**Financial Statements and
Management's Discussion and Analysis
(with Independent Auditors' Report Thereon)
Years Ended September 30, 2008, and 2007**



**CHARLES J. WILLOUGHBY
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



June 11, 2009

The Honorable Adrian M. Fenty
Mayor
District of Columbia
The 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, Suite 504
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

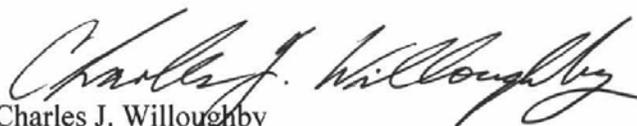
Dear Mayor Fenty and Chairman Gray:

As part of our contract for the audit of the District of Columbia's general purpose financial statements for fiscal year (FY) 2008, BDO Seidman, LLP (BDO) submitted the enclosed final report on the District of Columbia Unemployment Compensation Fund (Fund).

BDO opined that the financial statements present fairly, in all material respects, the financial position of the Fund, for the year ended September 30, 2008, and 2007, in conformity with accounting principles generally accepted in the United States of America. In accordance with *Government Accounting Standards*, BDO has also issued its report on consideration of the Fund's internal control over financial reporting.

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

Sincerely,


Charles J. Willoughby
Inspector General

Enclosures

CJW/ws

cc: See Distribution List

DISTRIBUTION:

Mr. Neil O. Albert, City Administrator and Deputy Mayor, District of Columbia (1 copy)
Ms. Valerie Santos, Deputy Mayor for Planning and Economic Development, District
of Columbia (1 copy)
The Honorable Mary M. Cheh, Chairperson, Committee on Government Operations and the
Environment, Council of the District of Columbia (1 copy)
The Honorable Marion Barry, Chairperson, Committee on Housing and Workforce
Development, Council of the District of Columbia (1 copy)
Mr. Andrew T. Richardson, III, General Counsel to the Mayor (1 copy)
Ms. Carrie Kohns, Chief of Staff, Office of the Mayor (1 copy)
Ms. Bridget Davis, Director, Office of Policy and Legislative Affairs (1 copy)
Ms. Mafara Hobson, Director, Office of Communications (1 copy)
Mr. William Singer, Chief of Budget Execution, Office of the City Administrator (1 copy)
Ms. Cynthia Brock-Smith, Secretary to the Council (13 copies)
Mr. Peter Nickles, Attorney General for the District of Columbia (1 copy)
Dr. Natwar M. Gandhi, Chief Financial Officer (4 copies)
Mr. Robert Andary, Executive Director, Office of Integrity and Oversight, Office of the
Chief Financial Officer (1 copy)
Ms. Deborah K. Nichols, D.C. Auditor (1 copy)
Ms. Kelly Valentine, Director and Chief Risk Officer, Office of Risk Management (1 copy)
Ms. Jeanette M. Franzel, Managing Director, FMA, GAO, Attention: Sandra Silzer (1 copy)
The Honorable Eleanor Holmes Norton, D.C. Delegate, House of Representatives,
Attention: Bradley Truding (1 copy)
The Honorable Edolphus Towns, Chairman, House Committee on Oversight and
Government Reform, Attention: Ron Stroman (1 copy)
The Honorable Darrell Issa, Ranking Member, House Committee on Oversight and
Government Reform (1 copy)
The Honorable Stephen F. Lynch, Chairman, House Subcommittee on the Federal Workforce,
Postal Service, and the District of Columbia, Attention: William Miles (1 copy)
The Honorable Jason Chaffetz, Ranking Member, House Subcommittee on the Federal
Workforce, Postal Service, and the District of Columbia (1 copy)
The Honorable Joseph Lieberman, Chairman, Senate Committee on Homeland Security and
Governmental Affairs, Attention: Holly Idelson (1 copy)
The Honorable Susan Collins, Ranking Member, Senate Committee on Homeland Security
and Governmental Affairs (1 copy)
The Honorable Daniel K. Akaka, Chairman, Senate Subcommittee on Oversight of
Government Management, the Federal Workforce, and the District of Columbia (1 copy)
The Honorable George Voinovich, Acting Ranking Member, Senate Subcommittee on
Oversight of Government Management, the Federal Workforce, and the District of
Columbia (1 copy)
The Honorable David Obey, Chairman, House Committee on Appropriations,
Attention: Beverly Pheto (1 copy)

Mayor Fenty and Chairman Gray
FY 2008 and 2007 Unemployment Compensation
Fund Financial Statements, Management's
Discussion and Analysis, (with Independent
Auditor's Report Thereon)
OIG No. 09-1-24BH – Final Report
June 11, 2009
Page 3 of 3

The Honorable Jerry Lewis, Ranking Member, House Committee on Appropriations (1 copy)
The Honorable José E. Serrano, Chairman, House Subcommittee on Financial Services and
General Government, Attention: Dale Oak (1 copy)
The Honorable Jo Ann Emerson, Ranking Member, House Subcommittee on Financial
Services and General Government (1 copy)
The Honorable Daniel K. Inouye, Chairman, Senate Committee on Appropriations,
Attention: Charles Houy (1 copy)
The Honorable Thad Cochran, Ranking Member, Senate Committee on
Appropriations (1 copy)
The Honorable Richard Durbin, Chairman, Senate Subcommittee on Financial Services and
General Government (1 copy)
The Honorable Sam Brownback, Ranking Member, Senate Subcommittee on Financial
Services and General Government (1 copy)
Mr. William D. Eisig, CPA, Office Business Line Leader, BDO Seidman, LLP (1 copy)

**GOVERNMENT OF THE
DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND**

**FINANCIAL STATEMENTS AND MANAGEMENT'S
DISCUSSION AND ANALYSIS
(WITH INDEPENDENT AUDITORS' REPORT THEREON)
YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND**

Financial Statements and Management's
Discussion and Analysis
(With Independent Auditors' Report Thereon)
Years Ended September 30, 2008 and 2007

Table of Contents

	Page
Independent Auditors' Report.....	2-3
Management's Discussion and Analysis	4-8
Basic Financial Statements	
Statements of Net Assets.....	9
Statements of Revenues, Expenses, and Changes in Net Assets.....	10
Statements of Cash Flows	11
Notes to Financial Statements.....	12-15
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 <i>Government Auditing Standards</i>	16-17
<i>Appendix A</i>	
Significant Deficiency in Internal Control Over Financial Reporting	18-20
<i>Appendix B</i>	
Status of Prior Year Significant Deficiencies, Material Weaknesses, and Material Noncompliance with Laws and Regulations.....	21



BDO Seidman, LLP
Accountants and Consultants

1250 Connecticut Avenue NW, Suite 200
Washington, D.C. 20036
Telephone: (202) 261-3565
Fax: (202) 261-3563

Independent Auditors' Report

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

We have audited the accompanying financial statements of the **Government of the District of Columbia Unemployment Compensation Fund** (the Fund) as of and for the year ended September 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Fund as of September 30, 2007, were audited by other auditors whose report dated February 27, 2008, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the **Government of the District of Columbia Unemployment Compensation Fund** and do not purport to, and do not, present fairly the financial position of the Government of the District of Columbia, as of September 30, 2008, and the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **Government of the District of Columbia Unemployment Compensation Fund**, as of September 30, 2008, and changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 6, 2009, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important in assessing the results of our audit.



BDO Seidman, LLP
Accountants and Consultants

Management's discussion and analysis on pages 4 through 8 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

BDO Seidman, LLP

Washington, D.C.
May 6, 2009

GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2008

Introduction

This section of the annual financial report of the Government of the District of Columbia Unemployment Compensation Fund (the Fund) presents a discussion and analysis of the financial performance of the Fund during the fiscal year ended September 30, 2008. This discussion has been prepared by management and should be read in conjunction with the financial statements and note disclosures. The financial statements, note disclosures, and discussion and analysis are the responsibility of management.

Reporting Entity

The financial statements report information about the Fund as a whole using accounting methods similar to those used by private-sector companies. The Fund was established by the Government of the District of Columbia (the District) to account for its unemployment compensation program. The Fund is administered by the Director of the District's Department of Employment Services. Substantially all administrative costs of the program are paid by a federal grant which is recorded in the District's General Fund. The Fund is included as a proprietary fund in the District's financial statements. These financial statements present only the revenues, benefits expense, and related assets, liabilities, and net assets of the Fund.

Using This Annual Financial Report

This annual financial report consists of a series of financial statements, prepared in accordance with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. One of the most important questions asked about the Fund's finances is whether or not the Fund has improved as a result of the year's activities. The key to understanding this core question is the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. These statements present financial information in a form that is similar to that used by corporations.

The Fund's net assets (the difference between assets and liabilities) are one indicator of the improvement or erosion of the Fund's financial health. The Statement of Net Assets includes all assets and liabilities. It is prepared under the accrual basis of accounting, whereby assets are recognized when employer taxes and contributions are due and liabilities are recognized when the liability to provide benefits to claimants has occurred.

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or non-operating.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2008**

Another important factor to consider when evaluating financial viability is the Fund's ability to meet financial obligations as they mature. The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, noncapital financing, and investing activities and its primary purpose is to provide relevant information about the cash receipts and cash payments of an entity during a period. The Statement of Cash Flows is also used to assess:

- An organization's ability to generate future net cash flows;
- Its ability to meet its obligations as they become due; and
- The entity's needs for external financing.

Financial Highlights

At September 30, 2008, net assets were \$374.3 million, a decrease of \$.9 million from September 30, 2007. This .24% decrease from fiscal year 2007 was primarily the result of an increase in accounts payable. The cash and deposits balance in the Fund is restricted for future payments. Benefits payments have increased this year due to higher unemployment rates.

At September 30, 2007, net assets were \$375.2 million, an increase of \$27.3 million from September 30, 2006. This 7.8% increase was primarily the result of an increase in cash and deposits.

Table 1: Summary of Net Assets (in millions)

	<i>2008</i>	<i>2007</i>	<i>2006</i>
Total Assets	\$ 430.4	\$ 412.8	\$ 389.0
Total Liabilities	<u>56.1</u>	<u>37.6</u>	<u>41.1</u>
Net Assets	\$ 374.3	\$ 375.2	\$ 347.9

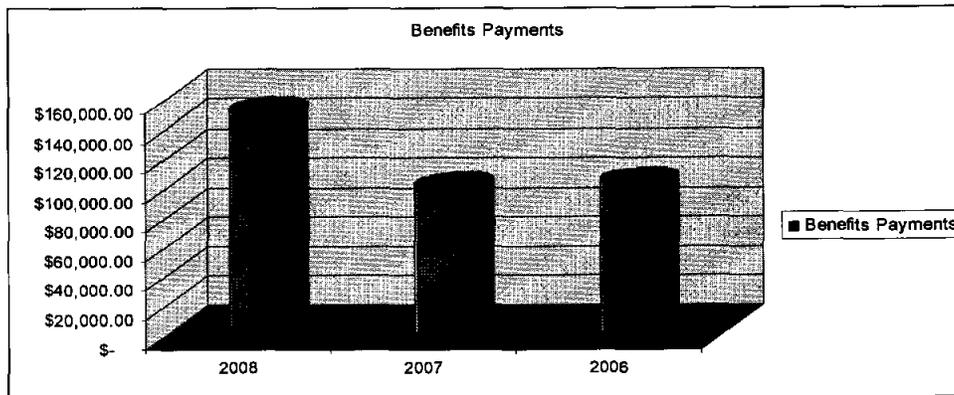
Table 2: Summary of Revenues, Expenses, and Changes in Net Assets (in millions)

	<i>2008</i>	<i>2007</i>	<i>2006</i>
Operating Revenues	\$ 113.9	\$ 108.4	\$ 110.7
Operating Expenses	<u>150.2</u>	<u>99.9</u>	<u>102.8</u>
Operating (Loss) Income	(36.3)	8.5	7.9
Non-operating Revenues	<u>35.4</u>	<u>18.6</u>	<u>17.1</u>
Change in Net Assets	\$ (0.9)	\$ 27.1	\$ 25.0

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2008**

In fiscal year 2008, the Fund's operating expenses increased by \$50.3 million from \$99.9 million to \$150.2 million. In fiscal year 2007, the Fund's operating expenses decreased by \$2.9 million.

Figure 1: Total Operating Expenses



The number of initial claims rose by 13% from fiscal year 2007 to fiscal year 2008; this is due to the worsening employment situation and the increase in the unemployment rate from 5.9% at September 30, 2007 to 7.1 % at September 30, 2008 (See Figures 2 and 3). Additionally, the duration of benefits received increased, due to individuals needing unemployment benefits for a longer period. Finally, the benefits increase in unemployment is driven by the EUCO8 program, which increased the amount that eligible claimants could receive by up to 50%.

Figure 2: Average Unemployment Rate by Month for the Year Ended September 30, 2007

Year	Period	Labor Force	Employment	Unemployment	Unemployment Percent
2006	Oct	322,258	305,052	17,206	5.3
2006	Nov	321,132	303,454	17,678	5.5
2006	Dec	322,298	303,449	18,849	5.8
2007	Jan	321,369	302,108	19,261	6.0
2007	Feb	323,480	305,070	18,410	5.7
2007	Mar	324,035	306,591	17,444	5.4
2007	Apr	323,953	307,417	16,536	5.1
2007	May	323,204	305,755	17,449	5.4
2007	Jun	326,810	307,397	19,413	5.9
2007	Jul	332,660	312,466	20,194	6.1
2007	Aug	327,825	308,985	18,840	5.7
2007	Sep	325,360	306,109	19,251	5.9
2007 Fiscal Year Average					5.7

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2008**

Figure 3: Average Unemployment Rate by Month for the Year Ended September 30, 2008

Year	Period	Labor Force	Employment	Unemployment	Unemployment Percent
2007	Oct	325,075	307,243	17,832	5.5
2007	Nov	327,125	308,479	18,646	5.7
2007	Dec	325,845	306,969	18,876	5.8
2008	Jan	325,813	303,967	21,846	6.7
2008	Feb	328,991	309,905	19,086	5.8
2008	Mar	332,842	311,572	21,270	6.4
2008	Apr	329,576	311,991	17,585	5.3
2008	May	329,336	307,917	21,419	6.5
2008	Jun	332,371	310,216	22,155	6.7
2008	Jul	340,370	315,914	24,456	7.2
2008	Aug	337,335	313,865	23,470	7.0
2008	Sep	331,631	308,045	23,586	7.1
2008 Fiscal Year Average					6.3

Financial Analysis of the Fund, as a Whole

At September 30, 2008, total assets were \$430.4 million. The Fund's largest asset is restricted cash and deposits. Restricted cash and deposits totaling approximately \$422.8 million accounted for 98.23% of total assets. Restricted cash and deposits increased by \$17.5 million or 4.3%. The other asset held by the Fund is accounts receivable, which totaled \$7.6 million as of September 30, 2008, as compared to \$7.5 million at the close of fiscal year 2007. These receivables are comprised of payments due from employers in the District and from other states.

Fund liabilities totaled \$56.1 million as of September 30, 2008, which consisted of \$45 million for benefit payments due to unemployed residents of the District and \$11.1 million due to the District of Columbia.

The Fund's current assets of \$430.4 million were sufficient to cover current liabilities of \$56.1 million, a ratio of 7.7 dollars in assets for every dollar in liabilities.

The Fund's sole operating expense is for unemployment compensation benefits to individuals separated from employment through no fault of their own. In fiscal year 2008, operating expenses were \$150.2 million compared to \$99.9 million in fiscal year 2007.

In fiscal year 2008, operating revenue totaled \$113.9 million compared to \$108.4 million in fiscal year 2007. Operating revenue increased by 5%.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2008**

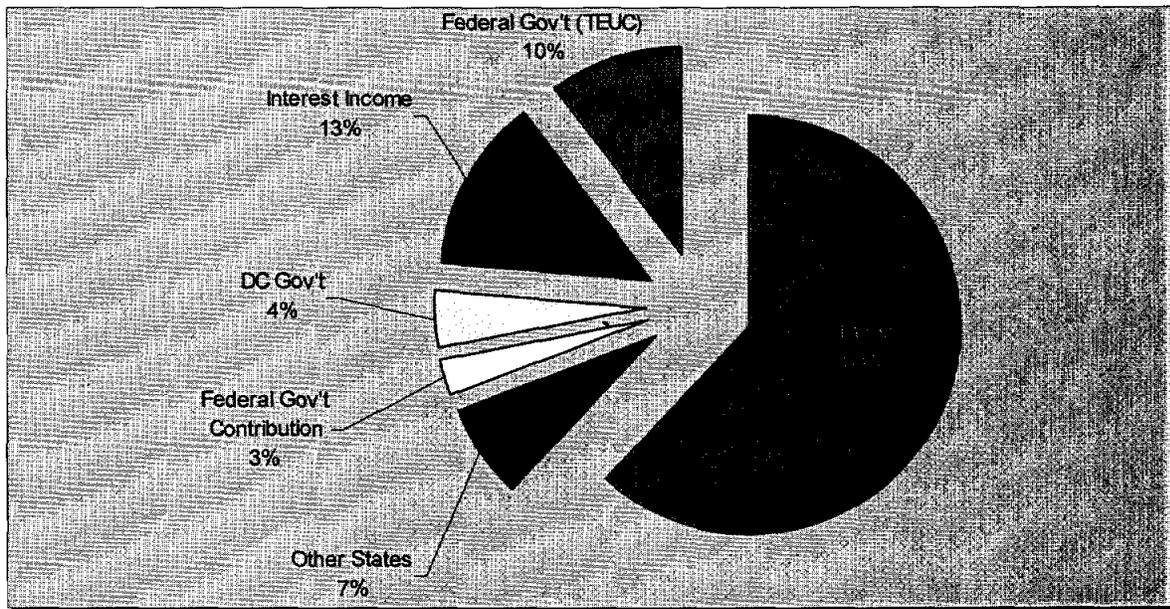
The sources of operating revenue for the Fund in fiscal year 2008 included:

- \$95.3 million from employment taxes;
- \$7.8 million from other states' contributions;
- \$4.3 million from the Federal government (contribution); and
- \$6.5 million reimbursed from the District government. The District government reimburses the Fund for unemployment compensation payments made to former District employees.

The Fund's sources of non-operating revenue are interest income and extended benefits. Total non-operating income for fiscal year 2008 was \$35.4 million compared to \$18.6 million in fiscal year 2007. The increase in fiscal year 2008 was a result of the Federal Government authorizing all states to provide extended benefits of 13 weeks to claimants due to the weakening economy.

Revenues from all sources (operating and non-operating) totaled \$149.3 million in fiscal year 2008 compared to \$127.0 in fiscal year 2007.

Figure 4: Total Revenues (Operating and Non-Operating) for the Year Ended September 30, 2008



Contact Information

This financial report is designed to provide a general overview of the Fund's finances. Questions concerning any information provided in this report, or requests for additional financial information, should be addressed to the Office of the Chief Financial Officer, Government of the District of Columbia, 1350 Pennsylvania Avenue NW, Washington, D.C. 20004.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
 UNEMPLOYMENT COMPENSATION FUND
 STATEMENTS OF NET ASSETS
 SEPTEMBER 30, 2008 and 2007
 (Dollar Amounts in Thousands)**

	2008	2007
ASSETS		
Current assets:		
Restricted cash and desopits	\$ 422,799	\$ 405,244
Accounts receivable, net	7,608	7,549
Total assets	430,407	412,793
 LIABILITIES		
Current liabilities:		
Accounts payable	44,987	26,028
Due to the District of Columbia	11,138	11,618
Total liabilities	56,125	37,646
 NET ASSETS		
Restricted for unemployment compensation benefits	\$ 374,282	\$ 375,147

The accompanying notes are an integral part of these financial statements.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2008 and 2007
(Dollar Amounts in Thousands)**

	<u>2008</u>	<u>2007</u>
OPERATING REVENUES		
Taxes	\$ 95,298	\$ 90,117
Other states' contribution	7,868	7,629
Federal contribution	4,300	5,478
District of Columbia contribution	6,459	5,250
Total operating revenues	<u>113,925</u>	<u>108,474</u>
OPERATING EXPENSES		
Unemployment benefits	<u>150,237</u>	<u>99,920</u>
OPERATING (LOSS) INCOME	(36,312)	8,554
NON-OPERATING REVENUES		
Interest and investment revenue	19,918	18,655
Federal extended benefit contribution	15,529	-
Total non-operating revenues	<u>35,447</u>	<u>18,655</u>
Change in net assets	<u>(865)</u>	<u>27,209</u>
Total net assets - beginning of year	<u>375,147</u>	<u>347,938</u>
Total net assets - end of year	<u>\$ 374,282</u>	<u>\$ 375,147</u>

The accompanying notes are an integral part of these financial statements.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2008 and 2007
(Dollar Amounts in Thousands)

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers/contributions	\$ 113,864	\$ 109,690
Cash payments to employees/claimants	<u>(131,756)</u>	<u>(103,349)</u>
Net cash (used in) provided by operating activities	<u>(17,892)</u>	<u>6,341</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts of interest and dividends	<u>19,918</u>	<u>18,655</u>
Net cash provided by investing activities	<u>19,918</u>	<u>18,655</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Federal extended benefit contribution from intergovernmental grants	<u>15,529</u>	<u>-</u>
Net cash provided by noncapital financing activities	<u>15,529</u>	<u>-</u>
Net increase in restricted cash and deposits	17,555	24,996
Restricted cash and deposits, beginning of year	<u>405,244</u>	<u>380,248</u>
Restricted cash and deposits, end of year	<u><u>422,799</u></u>	<u><u>405,244</u></u>
RECONCILIATION OF OPERATING (LOSS) INCOME TO NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES:		
Operating (loss) income	<u>(36,312)</u>	<u>8,554</u>
Adjustments:		
(Increase) decrease in accounts receivables	(59)	1,216
Increase (decrease) in accounts payable and due to the District of Columbia	<u>18,479</u>	<u>(3,429)</u>
Net cash (used in) provided by operating activities	<u><u>\$ (17,892)</u></u>	<u><u>\$ 6,341</u></u>

The accompanying notes are an integral part of these financial statements.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008 AND 2007
(Dollar Amounts in Thousands)

NOTE 1: ORGANIZATION AND PURPOSE

Pursuant to federal law, the Government of the District of Columbia (the District) maintains an unemployment compensation program that is accounted for in the Unemployment Compensation Fund (the Fund). The Fund pays up to 26 weeks of statutory benefits to eligible unemployed former employees of the District or the Federal government, and private employers of the District.

The Fund is administered by the Director of the District's Department of Employment Services. Substantially all administrative costs of the program are paid by a federal grant which is recorded in the District's General Fund. The Fund is included as a proprietary fund in the District's financial statements. These financial statements present only the revenues, benefits expense, and related assets, liabilities, and net assets of the Fund, and are not intended to present the financial position and results of operations of the Government of the District of Columbia taken as a whole.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Measurement Focus and Basis of Accounting

The Fund uses the economic resources measurement focus and the accrual basis of accounting, whereby revenues and assets are recognized when taxes and contributions are due, and expenses and liabilities are recognized when an obligation to provide benefits has occurred, regardless of when cash is exchanged.

The Fund has elected, as allowed in paragraph 7 of Governmental Accounting Standards Board (GASB) *Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, not to follow Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principle Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued subsequent to November 30, 1989.

The Fund applies all applicable FASB pronouncements issued on or prior to November 30, 1989 in accounting for and reporting its operations, unless these pronouncements conflict with GASB pronouncements.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008 AND 2007
(Dollar Amounts in Thousands)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Restricted Cash and Deposits

The cash and deposit balance is restricted for future benefit payments. The funds are held at the U.S. Department of Treasury in a trust fund in the District's name. Pursuant to the Social Security Act, the funds held at the U.S. Department of Treasury earn interest quarterly based on the interest rates of the U.S. Department of Treasury's Certificates of Indebtedness. The quarterly interest rates ranged from 4.70% to 4.81% for the year ended September 30, 2008. The quarterly interest rates ranged from 4.63% to 4.75% for the year ended September 30, 2007.

c) Accounts Receivable

Accounts receivable represent amounts due from private employers for unremitted payroll taxes and from Federal and District governments for unemployment benefits paid. Receivables are stated net of estimated allowances for uncollectible amounts, which are based upon past collection experience and current economic conditions. As of September 30, 2008, the Fund believes that the allowance for uncollectible amounts is adequate. However, future write-offs might exceed the recorded allowance.

d) Accounts Payable

This amount consists of the following:

- Amounts due to other jurisdictions for claims paid to individuals by other states under the combined wage agreement among the states and U.S. territories. Individuals who earn wages in the District and another state or U.S. territory are eligible to file for, and receive unemployment benefits in either the District or other states or U.S. territories. When an individual chooses to file outside of the District, the District, through the Fund, reimburses the other state or U.S. territory for its pro rata share of the claim amount;
- Amounts due to the employers of the District who overpaid their tax contributions; and
- Amounts due to claimants for the remaining periods of eligibility on claims incurred prior to year-end, but not due and payable until the following fiscal year.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008 AND 2007
(Dollar Amounts in Thousands)**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Operating Revenues

Private employers are required to make quarterly contributions to the Fund, calculated as a percentage of payroll costs. This contribution percentage is adjusted for each private employer based on claims experience. However, the District and Federal governments reimburse the Fund only for actual benefits paid to their respective former employees. Nonprofit private employers also have the option of reimbursing the Fund instead of making quarterly contributions. All other revenues are considered non-operating revenues.

f) Operating Expenses

This amount represents benefits paid and an estimate of amounts to be paid (based on average length of unemployment) to eligible unemployed former employees of the District or Federal government, other jurisdictions, and private employers of the District. All other expenses are considered non-operating expenses.

g) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3: ACCOUNTS RECEIVABLE

The accounts receivable and applicable allowance for uncollectible amounts at September 30, are as follows:

	<u>2008</u>	<u>2007</u>
Accounts receivable	\$ 19,245	\$ 20,395
Less: Allowance for uncollectible amounts	<u>(11,637)</u>	<u>(12,846)</u>
Accounts receivable, net	<u>\$ 7,608</u>	<u>\$ 7,549</u>

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
 UNEMPLOYMENT COMPENSATION FUND
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2008 AND 2007
 (Dollar Amounts in Thousands)**

NOTE 4: DUE TO DISTRICT OF COLUMBIA

This amount represents the following at September 30:

	<u>2008</u>	<u>2007</u>
Refund of employer taxes paid by the District	\$ 3,754	\$ 2,228
Systems modernization and enhancements	10,279	10,211
Less: Benefits paid to former District employees	<u>(2,895)</u>	<u>(821)</u>
Due to District of Columbia, net	<u>\$ 11,138</u>	<u>\$ 11,618</u>



**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***

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

We have audited the accompanying financial statements of the **Government of the District of Columbia Unemployment Compensation Fund** (the Fund) as of and for the year ended September 30, 2008 and have issued our report thereon dated May 6, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Fund as of September 30, 2007, were audited by other auditors whose report dated February 27, 2008, expressed an unqualified opinion on those statements.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting 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 Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 Fund'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 Fund's financial statements that is more than inconsequential will not be prevented or detected by the Fund's internal control. We consider the deficiency described in Appendix A to be a significant deficiency in internal control over financial reporting.

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 Fund's internal control.



Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of the Fund in a separate letter dated May 6, 2009. The status of prior year instances of significant deficiencies, material weaknesses, and material noncompliance is presented in Appendix B.

The Fund's response to the finding identified in our audit is included in Appendix A. We did not audit the Fund's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Mayor, the Council, the Inspector General, management of the Fund, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BDO Seidman, LLP

Washington, D.C.
May 6, 2009

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND**

Significant Deficiency in Internal Control Over Financial Reporting

Management of Employer Refunds

Refunds Paid

All liable employers must file the Employer's Quarterly Contribution and Wage Report (Form UC-30) within 30 days after the end of every quarter and pay the required unemployment insurance tax. A refund of unemployment tax can occur in the following situations:

- If the employer pays an assessed amount which turns out to be higher than the actual;
- Both the employer and the third party payroll administrator send a payment for a particular quarter; or
- The tax rate may have been reduced but the employer and/or third party administrator paid based upon the old rate.

We noted the following during our procedures over 45 items selected for test work:

- 1) In 1 instance, the Fund could not provide the UC-30 form or other source documentation to validate the overpayment made.
- 2) In 3 instances, the Fund could not provide supporting documentation that a check had been issued or a payment had been made for the respective refund amount reflected in the accounting system.
- 3) In 32 instances, the Fund could not provide supporting documentation to indicate a review and approval of the amounts paid.

Transactions should always be supported by appropriate documentation. Good documentation serves as an accounting record and facilitates future follow-up as well as additional insight for other users. We recommend that the personnel in charge of authorizing payments or recording transactions should comply with established internal controls to ensure that documentation is complete before authorization of payments. Further, the availability of records is critical and management should institute certain procedures and decide on a systematic manner of filing and retaining documents.

Management's Response:

- 1) Although, the Department of Employment Services (DOES) was unable to locate the file at the time of request, the file in question was later located and is available for review.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND**

Significant Deficiency in Internal Control Over Financial Reporting

- 2) For one employer, Unemployment Insurance (UI) Tax Staff recommended a refund. The approving officer denied the refund request because the employer did not meet the District's taxable wage base. This was a refund reversal; therefore no refund request was forwarded to the Office of Chief Financial Officer (OCFO). For the second employer in question, UI Tax Staff did an exhaustive review of the employer's files. Upon further review, the check number was located. The check number could not be identified initially because the amount of the refund did not match the amount of any checks issued to this employer. UI Tax records show that multiple refunds were approved for this employer and the amounts consolidated into one check.

- 3) As a result of the fiscal year 2007 Comprehensive Annual Financial Report, in August 2008, the Tax Division, in conjunction with the OCFO, implemented a new refund application and approval process. As part of this change, DOES now submits refund requests electronically to the OCFO; the OCFO issues a refund check, and then sends a transmittal to DOES providing the check number, the amount of the refund, and the date of issuance. This can be tracked in the District Unemployment Tax Accounting System (DUTAS), SOAR, the District's accounting system of record, and UI Tax intranet. The 32 refund requests referenced in this finding were submitted prior to August 2008 and the initiation of this new process. Prior to the implementation of the new system and process, all hard copies of refund approvals, in the form of a voucher, were forwarded to the OCFO. Supporting documentation was not provided during the period for completing test work because the 32 items in question were handled as part of an automated batch process.

Refunds Payable

We noted the following during our procedures over 45 items selected for test work:

- 1) In 3 instances, the refund payable was categorized as an item to write-off as no payment would be required; however, we noted that the payable had been reestablished in error.

- 2) In 23 instances, the payable dated back to 2 years or older and these items had not been used up by charges or paid to the employer(s).

To improve controls, we suggest that past-due balances be reviewed monthly. Any outstanding balances should be resolved and appropriately cleared from the books of account. Prompt payment action should be pursued when it is believed that amounts are valid and due to be paid.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND**

Significant Deficiency in Internal Control Over Financial Reporting

Management's Response:

- 1) DOES does not concur with this finding. The Tax Division's policy is to write-off credits for employers that have no documented activity for 3 years. Unemployment Insurance (UI) Tax also withdraws accounts when they are established in error. One of the three accounts referenced was established in error. The employer had 3 accounts with UI Tax. The accounts were established in 1999. Two accounts were withdrawn in 2000. The third account was inactivated in 2005 when the employer ceased paying wages. The second account was established in 1997 and was withdrawn in 2001. The third account was established in 1983 and was withdrawn in 2003. At the time the accounts were withdrawn, a refund should have been issued to the employer or a reversal should have been applied to the correct account. These employers were written off in error on November 7, 2007. The lack of activity led UI Tax staff to establish a write-off. Upon further review, the withdrawal was discovered, and a write off was not allowable. The write-off was reversed on November 28, 2007. The reversal indicates that DOES' internal controls function as designed.

- 2) DOES concurs with this finding. There are 3 reasons UI Tax has not issued refunds: it falls outside the statute (51-104) for refunds, the employer has delinquent reports, and/or the employer's location cannot be verified. District of Columbia Code 51-104 allows employers to request refunds within 3 years of the credit being established. Twelve of the 23 credits were established over three years prior to the audit period and fall outside the statute. The remaining 11 employer credits date from 2005 and 2006. At that time UI Tax was not consistently notifying employers of credits. In 2006, UI Tax created a set of new procedures and an automated application to identify credits and notify employers of their credits. UI Tax's current practice is to routinely review all accounts to verify credits. When a credit is verified and is "good," UI Tax has 2 procedures:
 - For credits under \$100, a check is issued to the employer.
 - For credits over \$100, a credit memorandum is sent to the employer giving the employer the option of applying the credit to future payments or requesting a refund check.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND**

**Status of Prior Year Significant Deficiencies, Material Weaknesses, and
Material Noncompliance with Laws and Regulations**

Nature of Comment	Type Of Comment in Fiscal Year 2007	Current Year Status
Required Employer Payroll Audits Not Performed	Material Noncompliance	Not Repeated
Reconciliation Between DUTAS and SOAR Not Properly Approved	Significant Deficiency	Not Repeated
Inadequate Procedures for Processing Employer Refunds	Significant Deficiency	Significant Deficiency (included as part of Management of Employer Refunds)
Inadequate Controls Over Web Enabled Benefit System	Significant Deficiency	Not Repeated
Reserve Methodology for Employer Receivables Not Adequate	Material Weakness	Not Repeated

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



May 6, 2009

To the Mayor, Members of the Council, and the Inspector General
of the Government of the District of Columbia, and Management
of the Government of the District of Columbia Unemployment Compensation Fund

During the course of our audit of the financial statements of the **Government of the District of Columbia Unemployment Compensation Fund** (the Fund) for the year ended September 30, 2008, we observed the Fund'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 Fund as of and for the year ended September 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Fund'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 Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund'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 Fund'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 Fund's financial statements that is more than inconsequential will not be prevented or detected by the Fund'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 Fund'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.

Management of Claimant Receivables (Overpayments Made)

We noted the following during our procedures over 45 items selected for test work:

- 1) No supporting documentation was available for 1 item selected. The data in the system indicated that the overpayment or the receivable was written off; however the amount was still listed as a receivable at year-end.
- 2) In 21 instances, there was no indication in the claim overpayment file that the Fund attempted to collect the remaining balance due from the claimant after the claimant had stopped sending in periodic payments.



Mayor, Members of the Council, and the Inspector General
of the Government of the District of Columbia, and Management
of the Government of the District of Columbia Unemployment Compensation Fund
Page 2

- 3) In 15 instances, the claimant failed to make any payments for overpaid unemployment benefits. No indication of collection effort, subsequent to the initial collection correspondence, was included in the claim overpayment file.

To improve controls over claimant receivables, we suggest that past-due balances be reviewed monthly. Any outstanding balances should be resolved with claimants and appropriately cleared from the books of account. Management should intensify collection efforts and all collection efforts should be documented in the claim overpayment file(s) to establish an audit trail.

Further, adherence to the existing document retention policy is important to ensure that all financial data is supported by appropriate documentation. Management may consider establishing a policy requiring periodic reviews, on a sample basis, of the existing claimant overpayment files to ensure that files are not lost and that all required information is included.

Management's Response:

The Department of Employment Services (DOES) management does not concur with the findings in this subject area.

- 1) DOES has three methods of eliminating overpayments: waiving, writing off, or cancellation. The claim in question was cancelled. The current IT system does not record a transaction for cancellation. This is the first time DOES became aware of this issue. Going forward, DOES will only use a waiver or write off to eliminate an overpayment.
- 2) DOES' District Online Compensation System (DOCS) uses an automated self – mailer to send collection notices to claimants with overpayments. The "14" screen in DOCS records the number of times the correspondence is sent to a claimant. Notifications are sent quarterly and tracked under the "Mail Indicator" data field. After the number of mailbags reaches 7, the count begins again at 1. Claimants only stop receiving notifications if their overpayment is resolved or the mail comes back undeliverable. The same protocol is in place for the claimants referenced in finding 3.

Claimant Eligibility

We noted the following during our procedures over 45 items selected for test work:

- 1) In 6 instances, the separation fact finding correspondence such as letter to the employer and correspondence from the employer were not included in the claim file.
- 2) In 4 instances, the eligibility determination forms were not signed by claim examiners. Signature of the claim examiner is required to provide certification of the form.
- 3) In 1 instance, the claimant's change of status from ineligible to eligible was not documented in the claim file.

Failure to maintain proper documentation for claimant eligibility can result in ineligible claimants receiving unemployment benefits.



Mayor, Members of the Council, and the Inspector General
of the Government of the District of Columbia, and Management
of the Government of the District of Columbia Unemployment Compensation Fund
Page 3

Transactions should always be supported by appropriate documentation. Good documentation serves as an accounting record and facilitates future follow-up as well as additional insight for other users. We recommend that the personnel in charge of verifying eligibility comply with established internal controls to ensure that documentation is complete before authorization of benefits. Further, the availability of records is critical and management should institute certain procedures and decide on a systematic manner of filing and retaining documents.

Management may also consider establishing a checklist of documents required for claims files to ensure overall consistency.

Management's Response:

The Department of Employment Services (DOES) concurs with this finding. Claims examiners have been instructed in the past, and will continue to receive instruction, to sign all letters to claimants. For the 3rd part of the finding, the claimant in question was collecting benefits in the 1st and 2nd Quarter of 2008. He/she returned to work in April 2008. The claimant indicated that he/she had returned to work, but he/she failed to report the earnings. As a result an "issue" was established on the claim. The claimant reopened his/her claim in July 2008, claiming "Laid off/Lack of Work." The issue was resolved. However, a determination letter should have been placed in the claimant's file.

DOES management is currently developing a checklist of items to include in each folder. The checklist will list all of the documents required in each folder per the DOL 301 Handbook. DOES will update its written policy and distribute it to all relevant employees. Supervisors and the DOES Quality Review Team will ensure that employees comply with the new procedures.

Undeliverable Checks for Unemployment Benefits

The Fund does not maintain a complete and cumulative listing of the unemployment benefit checks that were issued but not cashed by claimants. A listing is only available for the most recent fiscal year. Further, the Fund does not have a set policy on how to treat these old undeliverable checks.

We recommend that management develop and implement a policy that will require maintaining a complete list of all undeliverable checks. This list of undeliverable checks should then be reviewed regularly and checks not returned by the bank(s) within a reasonable period of time should be investigated.

We further recommend that management establish a formal, written policy concerning undeliverable checks based on current laws. Such a policy could specify aging milestones with required actions. For example, this policy might specify that when checks are undelivered past 60 days, the payee should be contacted. After 90 days, the checks should be moved to a suspense account or written off.

Management's Response:

The Department of Employment Services (DOES) concurs with this finding. Management will develop a policy that will require maintaining a complete list of all the undeliverable checks. This policy will ensure that the agency captures and maintains a list of undeliverable checks for a duration of 2 consecutive years; the current and prior year. Management will also address other internal control concern issues that will take into consideration when undeliverable checks are re-issued.



Mayor, Members of the Council, and the Inspector General
of the Government of the District of Columbia, and Management
of the Government of the District of Columbia Unemployment Compensation Fund
Page 4

Information Technology Environment – General Controls at the Department of Employment Services (DOES)

During our procedures, we noted the following pertaining to program change management:

- 1) The DOCS, DUTAS, WEBS, and BARTS applications do not have a formal change management methodology in place to support program changes.
- 2) For the DOCS, WEBS, and BARTS applications, the agency was unable to provide evidence that all program changes were authorized, developed, tested, and approved prior to being migrated into the production environment.
- 3) The vendor, On Point, does not utilize any form or tool to control copies of the source code. As such, data and program code integrity may be compromised during the migration process.

During our procedures, we noted the following pertaining to logical security:

- 4) User administration (user addition, modification, removal) is performed informally for WEBS and BARTS.
- 5) There is no formal procedure to remove terminated users from the DOCS and DUTAS applications.
- 6) We observed that there are an excessive amount of users that have access to the BARTS SQL database. Thus, it is possible for unauthorized employees to gain access.

Management's Response:

- 1) DOES has a change management methodology to support program changes for each of the systems identified. The methodology is followed by DOES staff and contractors. For DOCS, DUTAS, and WEBS, email is used for change requests as well as approvals to implement the changes. The agency does not utilize forms to record those activities; instead these requests are tracked through emails and discussions. DUTAS also includes a separate and more formal process when changes/modifications are significant:
 - Decision/Information Request (DIR) is prepared by an IT analyst. The DIR describes the change requested, the reason for the change, and how the new process will work.
 - The Tax Chief may accept the DIR orally or by e-mail.
 - The software is modified.
 - When the modifications are significant, they are described in a specification document.
 - All changes are marked within the software itself, in the remarks section of the COBOL program, and with comments in the code when needed.

BARTS change control process is a formal process that includes email as well:

- All BARTS technical issues and enhancement requests are communicated from DOES via email.
- Reported issues are documented and tracked on the contractor's corporate issues portal.
- Periodically, DOES and the contractor review issues and determine priorities for development.
- Issues are wrapped into service packs and/or hot fixes and given a specific build number.
- Once the build is complete, the contractor deploys the build to the DOES QA environment.



Mayor, Members of the Council, and the Inspector General
of the Government of the District of Columbia, and Management
of the Government of the District of Columbia Unemployment Compensation Fund
Page 5

- DOES reviews and tests the build and approves the migration to production. These approvals are documented through email.
- DOES IT uses the installation script and instructions to complete the production installation.

While these procedures were not accepted as formal, they have worked well for the Department. DOES is committed to improving processes and will create an electronic Change Request form to be emailed to the vendor directing action.

- 2) All program changes were authorized, developed, tested, and approved before being migrated into production. The testing for DOCS and WEBS is conducted by the contractor. As set forth above, DOES staff is involved in the testing of changes in BARTS. For DUTAS, the IT staff tests the new software, then turns it over to tax staff for testing. Tax staff has access to a copy of the tax system in a test environment. This environment can be used to test new processes. Confirmation that the new process works correctly is conveyed orally or through e-mail. The processes used have worked well for the Department. DOES is committed to improving processes and will create a formal change management methodology and ensure that documented procedures are followed. DOES will:
 - Create an electronic Change Request form to be emailed to the contractor directing action.
 - Require submission of an electronic test plan from the contractor for changes exceeding 24 hours.
 - Require submission of an electronic migration plan from the contractor for all changes.
 - Create an electronic approval form to be emailed to the contractor granting approval to implement the change.
- 3) DOES does not concur with this finding in its entirety. The contractor utilizes a product provided by the OCTO data center Panvalet to manage Mainframe (DOCS) copies of the source code. The contractor utilizes Visual Source Safe to manage web copies of the source code. Both these products are industry standard products. As to BARTS, the contractor utilizes CVS and industry standard branching and tagging methods to control copies of the source code. There are no recommendations with respect to security of the source code and DOES does not plan any changes.
- 4) DOES does not concur with this finding. Additions, modifications, and deletions are audited within the Security Portal making it easy to track/review all changes. Changes in WEBS and BARTS are effected immediately upon entry by authorized staff.
- 5) DOES does not concur with this finding. The agency's Office of Compliance and Independent Monitoring tracks the separation of DOES employees and terminates their access. DOES has included a section in interagency agreements wherein a point person is identified so that employees who separate from service are removed from system access.
- 6) DOES does not concur with this finding. User administration is limited to the BARTS administrator (one employee who is the user able to add users to the BARTS system and remove their access). Per the recommendation, DOES will formalize the electronic administration of user accounts by expanding the existing Security Portal.



BDO Seidman, LLP
Accountants and Consultants

Mayor, Members of the Council, and the Inspector General
of the Government of the District of Columbia, and Management
of the Government of the District of Columbia Unemployment Compensation Fund
Page 6

Management's written responses to the suggestions outlined above have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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, the Council, the Inspector General, and management of the Fund 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 May 6, 2009, describes in greater detail the following significant deficiency as noted for the year ended September 30, 2008:

- Management of Employer Refunds.

This communication is intended solely for the information and use of the Mayor, the Council, the Inspector General, management of the Fund, and others within the Government of the District of Columbia 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