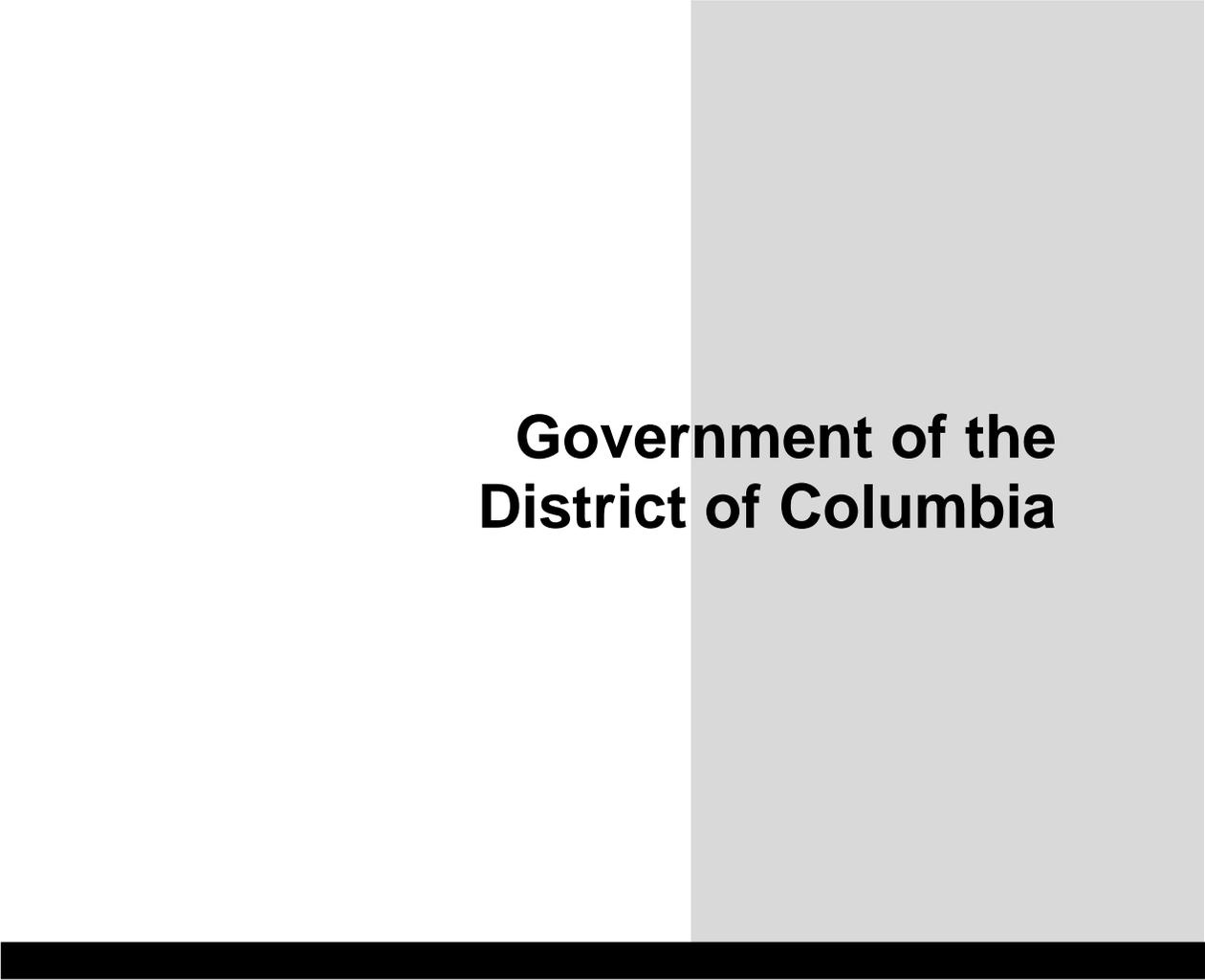


**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL**

**MEMORANDUM OF
RECOMMENDATIONS
YEAR ENDED SEPTEMBER 30, 2009**



**CHARLES J. WILLOUGHBY
INSPECTOR GENERAL**



**Government of the
District of Columbia**

**Memorandum of Recommendations
Year Ended September 30, 2009**

Government of the District of Columbia

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March 31, 2010

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, 2009, 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, 2009, 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.
- District of Columbia Annuitants' Health and Life Insurance Employer Contribution Trust Fund.
- E911/311 Special Revenue 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, the Council, and the 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 January 28, 2010, describes in greater detail the following significant deficiencies and material noncompliance with laws and regulations as noted for the year ended September 30, 2009:

Significant Deficiencies

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

Material Noncompliance with Laws and Regulations

- Noncompliance with Procurement Regulations.
- Noncompliance with the Quick Payment Act.
- Expenditures in Excess of Budgetary Authority.

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.

While management has begun the process of updating its manual, it has not yet been completed. A well-devised accounting manual can help to ensure that 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 of 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 concerned 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 District continues to implement processes to update its financial policies and procedures manual. The Office of the Chief Financial Officer (OCFO) Office of Financial Operations and Systems (OFOS) Financial Policy and Procedure (FPP) Division has established a comprehensive approach to developing and updating the manual. The FPP Division directs a project team consisting of a cross section of OCFO Central, Associate CFO Cluster, and agency personnel. The team: (1) assessed the current status of procedures across the OCFO, (2) established a standardized format that includes an internal control section, (3) defined responsibility for preparing and reviewing procedure documents, (4) established a central repository for the procedure documents, and (5) developed a strategy for communicating completed and updated procedures to OCFO staff. The FPP Division continues to monitor the progress of completing the manual. The financial policies and procedures are scheduled to be completed by September 30, 2010.

* * * *

Process: Compensation

During FY 2008, the District implemented a new PeopleSoft Payroll System. The PeopleSoft system replaced the previous Unified Personnel Payroll System (UPPS) used by the District. UPPS was less automated and required more manual interfaces and adjustments to record payroll expenditures in SOAR, the District's accounting system of record. The new PeopleSoft system is intended to be a more dynamic and integrated system requiring less manual adjustments.

During our FY 2009 review, we noted that many improvements had been made by the District to restrict sensitive access privileges and to reduce the number of segregation of duty conflicts in the PeopleSoft system. An overview of our results, including a comparison with our 2008 results is summarized as follows:

<i>Categories</i>	<i># of User IDs</i>	
	2008	2009
Users with access to sensitive privileges in Human Resources	2,381	1,015
Users with access to sensitive privileges in System Administration	257	82
Users with access to sensitive privileges in Payroll	678	456
Users with access to segregation of duty conflicts in Payroll	1,315	277
Total	4,631	1,830
Total Percent Reduction	N/A	60.48%

Sensitive privileges are functions in PeopleSoft that have inherent risk on their own but do not necessarily cause a conflict by themselves (i.e. Create/Modify Journal Entries; Processing Payments; etc.). Without proper controls over sensitive privileges, users with access to transactions beyond their job responsibilities increase the risk that unauthorized transactions may be processed. We continue to recommend that management ensure that user privileges be reviewed to verify that access is appropriately restricted to only those privileges that are necessary to perform jobs. In addition, user access to the master file data should be sufficiently segregated from transactional access.

We acknowledge that while a user ID may be identified in this report to have access to a sensitive function in PeopleSoft, it may be appropriate for that individual's job responsibility. It should also be noted that in lieu of these observations, there are numerous controls (both process and monitoring) that appear to mitigate the related implications of these PeopleSoft findings. Management should further review these mitigating controls to ensure that they are sufficient to minimize the risks noted below.

Sensitive Privilege Access within PeopleSoft – Human Resources (HR)

The following is a list of the sensitive functions within the Human Resources module and the corresponding number of users who have enter/update access to these functions. Failure to restrict access increases the risk of unauthorized transactions, unauthorized modifications, unauthorized updates, and unauthorized changes that could lead to payment errors or fraud along with improper disclosure of sensitive employee information. There is also an increased risk of fraud through the creation of ghost employees.

- 1) 9 users have access to assign or approve employee group salary increases.
- 2) 9 users have access to update employee variable compensation. The employee variable compensation pages allow access to sensitive employee payment information and therefore access should be restricted to authorized personnel.

Process: Compensation

- 3) 9 users have access to view and update employee variable compensation details.
- 4) 309 users have access to hire an employee.
- 5) 7 users have access to update employee contracts. Employee contract information consists of sensitive HR data and therefore access to this information should be restricted to authorized individuals.
- 6) 9 users have access to update employee earnings or deductions, which represents sensitive and confidential information.
- 7) 9 users have access to update the salary increase setup data. Access should be highly restricted to authorized personnel due to the sensitive nature of the associated transactions.
- 8) 1 user has access to view and update employee credit card and bank account information.
- 9) 9 users have access to view and update employee earnings and deductions information.
- 10) 6 users have access to update employee salaries.
- 11) 47 users have access to view and update employee benefits data.
- 12) 138 users have access to view and update employee compensation data.
- 13) 9 users have access to view and update employee personal data.
- 14) 430 users have access to view and update employee salary history.
- 15) 14 users have access to view and update employee salary increase information.

Management's Response:

- 1) These users are IT Technical Production Support. When salary changes are to be implemented, the DC Department of Human Resources (DCHR) and the Office of Pay and Retirement Services (OPRS) send authorization to execute the salary changes. The individuals with this access are duly authorized to have it and the access is considered necessary to perform their job duties. There is periodic monitoring throughout the year to assess who has this role and other sensitive role assignments.
- 2) These users are IT Technical Production Support. The individuals with this access are duly authorized to have it and the access is considered necessary to perform their job duties. There is periodic monitoring throughout the year to assess who has this role and other sensitive role assignments.
- 3) These users are IT Technical Production Support. The individuals with this access are duly authorized to have it and the access is considered necessary to perform their job duties. There is periodic monitoring throughout the year to assess who has this role and other sensitive role assignments.

Process: Compensation

- 4) Hire access is managed by DCHR. There are several customizations around HR security that need to be considered when counting users in this category. Only users with the following role combinations have access to hire an employee:
 - Independent Personnel Authorities (IA): DCG_Agency_HR_Spec and DCG_PAR_PROC_IA and do not have the role DCG_HR_SPEC_NA assigned
 - DCHR Authority (DCHR): DCG_DCOP_HR_Spec and DCG_PAR_PROC_DCOP and do not have the role DCG_HR_SPEC_NA assigned
 - Error Handlers (ERR): DCG_Error_Handler_Mgr
 - DCG_Hire_Processor
- 5) The District does not use contract pay. The access to this component is through a global read-only role.
- 6) These users are IT Technical Production Support. A change management process is in place that ensures the correct level of authorization to make a system administration change. The individuals with this access are duly authorized to have it and the access is considered necessary to perform their job duties. There is periodic monitoring throughout the year to assess who has this role and other sensitive role assignments.
- 7) These users are IT Technical Production Support. When salary changes are to be implemented, DCHR and OPRS send authorization to execute the salary changes. A change management process is in place that ensures the correct level of authorization to make a system administration change. The individuals with this access are duly authorized to have it and the access is considered necessary to perform their job duties. There is periodic monitoring throughout the year to assess who has this role and other sensitive role assignments.
- 8) The DCGBATCH1 user ID is used solely for submission of batch jobs through the UC4 batch job scheduling tool. No single individual uses this as a log-in. This role is necessary to run batch jobs.
- 9) These users are IT Technical Production Support. A change management process is in place that ensures the correct level of authorization to make a system administration change. The individuals with this access are duly authorized to have it and the access is considered necessary to perform their job duties. There is periodic monitoring throughout the year to assess who has this role and other sensitive role assignments.
- 10) These users are IT Technical Production Support. When salary changes are to be implemented, DCHR and OPRS send authorization to execute the salary changes. A change management process is in place that ensures the correct level of authorization to make a system administration change. The individuals with this access are duly authorized to have it and the access is considered necessary to perform their job duties. There is periodic monitoring throughout the year to assess who has this role and other sensitive role assignments.
- 11) Access to view and update employee benefits data is managed by DCHR. Except for the IT support within ASMP, DCHR Benefits Administration Division has 25 users that can update. The remaining business users designated as HR Advisors have view only access to benefits data.
- 12) Access to view and update employee compensation data is managed by DCHR. Updates to employee compensation data goes through a workflow approval: HR Advisor, Budget Authority, Agency Director, and HR Specialist. So while these users do have access to update compensation data, they can do so only within the established approval flow.

Process: Compensation

- 13) These users are IT Technical Production Support. When salary changes are to be implemented, DCHR and OPRS send authorization to execute the salary changes. A change management process is in place that ensures the correct level of authorization to make a system administration change. The individuals with this access are duly authorized to have it and the access is considered necessary to perform their job duties. There is periodic monitoring throughout the year to assess who has this role and other sensitive role assignments.
- 14) Access to view and update employee compensation data is managed by DCHR. Updates to employee salary history go through a workflow approval: HR Advisor, Budget Authority, Agency Director, and HR Specialist. So while these users do have access to update compensation data, they can do so only within the established approval flow.
- 15) These users are IT Technical Production Support. When salary changes are to be implemented, DCHR and OPRS send authorization to execute the salary changes. A change management process is in place that ensures the correct level of authorization to make a system administration change.

Sensitive Privilege Access within PeopleSoft – System Administration

The following is a list of the sensitive functions within the System Administration module and the corresponding number of users who have enter/update access to these functions. Failure to restrict access could lead to unauthorized configuration modifications, unauthorized transactions, improper approvals, financial reporting errors, payment errors, fraud, processing delays, system unavailability, and unauthorized system access or improper lock-out.

- 1) 9 users have access to their department's security table. Access to update the security table allows the user to modify configurations related to the reporting structure, approval levels, etc.
- 2) 45 users have access to foundation tables. Access to the foundation tables (company, tableset ID, business unit, tableset control table, operator preferences, business unit HR defaults, establishment tables, location table, department table, salary plan/grade/step tables, job code table, and pay group table) should be highly restricted.
- 3) 1 user has access to the installation table. The Installation Table contains most of the system default settings such as minimum and maximum standard hours, compensation rate codes, default compensation frequency, etc. that drive data processing. Therefore, access to the Installation Table should be restricted to authorized individuals.
- 4) 17 users have access to update the security menu. The menu allows access to application settings (e.g. pay groups) and therefore, access should be restricted to authorized personnel.
- 5) 1 user has access to update user security. The user security pages allow users to create new users and lock existing users and therefore, access should be restricted to authorized personnel.
- 6) 4 users are assigned to the PeopleTools role. The PeopleTools role allows users to access PeopleSoft's powerful system tools, such as Application Designer, that can be used to modify the underlying system codes. Therefore, access to this role should only be granted to a small number of authorized employees.

Process: Compensation

- 7) 5 users are assigned to the Portal Administrator role. The Portal Administrator role gives users access to folder administration, portal registry, menu security, menu folder structure, etc. Therefore, access to this critical role should be restricted to a limited number of authorized individuals.

Management's Response:

- 1) These users are IT Technical Production Support. A change management process is in place that ensures the correct level of authorization to make a system administration change.
- 2) These users hold the "HR Classifier" role in which it is their responsibility to create and manage job codes. This role has access only to maintain job codes and no other foundation tables. This access is managed by the DC Department of Human Resources (DCHR). Independent agencies, agencies with delegated authority, and DCHR staff perform classification functions; as such, the number represented is necessary. Also note that 6 individuals identified have since been removed as result of change in duties or separation.
- 3) The DCGBATCH1 user ID is used solely for submission of batch jobs through the UC4 batch job scheduling tool. No single individual uses this as a log-in. This role is necessary to run batch jobs.
- 4) 9 of the 17 users are PeopleSoft System Administration / Production Support. There is a separation of duties between Time & Labor security administration and Human Resources security administration. DCHR manages Human Resources security administration, and Office of Pay and Retirement Services (OPRS) manages Time & Labor security administration.
- 5) The DCGBATCH1 user ID is used solely for submission of batch jobs through the UC4 batch job scheduling tool. No single individual uses this as a log-in. This role is necessary to run batch jobs.
- 6) The individuals with PeopleTools roles are PeopleSoft System Administration Support and are authorized to have this access to migrate system changes from test to production. A change management process is in place that ensures the correct level of authorization to make system administration changes.
- 7) The individuals with Portal Administrator roles are PeopleSoft System Administration Support and are authorized to have this access. A change management process is in place that ensures the correct level of authorization to make system administration changes.

Sensitive Privilege Access within PeopleSoft – Payroll

The following is a list of the sensitive functions within the Payroll module and the corresponding number of users who have enter/update access to these functions. Failure to appropriately restrict access increases the risk of unauthorized transactions, payment errors, fraud, and improper disclosure or distribution of sensitive employee information.

- 1) 9 users have access to compensate employees. Access to setup tables and master file transactions should be adequately restricted to authorized users. Specifically, access to 'Compensate Employees' pages should be restricted to authorized personnel.
- 2) 54 users have access to view, update, and review payroll.

Process: Compensation

- 3) 9 users can export payroll files and this ability should be highly restricted.
- 4) 38 users can generate off-cycle payments and this ability should be adequately restricted.
- 5) 9 users have access to payroll reporting and this ability should be highly restricted to only authorized personnel.
- 6) 18 users have access to transfer payroll information to the bank.
- 7) 319 users can view employee data. Access to view employee job details should be restricted to authorized personnel. Unauthorized access to this sensitive data may result in its misuse and/or improper disclosure.

Management's Response:

The Office of Pay and Retirement Services (OPRS) in coordination with Office of the Chief Technology Officer (OCTO) PeopleSoft IT Support and the DC Department of Human Resources (DCHR), continually review employee's access to the PeopleSoft system. The detailed listing for items 1-7 above has been reviewed and access will be adjusted as required.

However, while it may appear that the number of users is large, there are other security controls in place to detect or prohibit unauthorized transactions (i.e. system will not allow a user to update pay data for themselves, checks can only be printed by the Office of Finance and Treasury (OFT), and banking data can only be transmitted by OCTO). Also for many instances noted above, the individuals with this access are PeopleSoft System Administration / Production Support and are authorized to have this access to maintain the system. A change management process is in place that ensures the correct level of authorization to make system administration changes. With respect to item #7 above, access to view employee data is managed by DCHR. There are several customizations around HR security that need to be considered when counting users in this category. Only users with the following role combinations have access to hire an employee:

- Independent Personnel Authorities (IA): DCG_Agency_HR_Spec and DCG_PAR_PROC_IA and do not have the role DCG_HR_SPEC_NA assigned
- DCHR Authority (DCHR): DCG_DCOP_HR_Spec and DCG_PAR_PROC_DCOP and do not have the role DCG_HR_SPEC_NA assigned
- Error Handlers (ERR): DCG_Error_Handler_Mgr
- DCG_Hire_Processor

Further, the employees that are able to view information are comprised of agency HR staff, agency fiscal officers, agency executives, IT support, and DCHR staff. Each of the groups previously listed are subject to discipline for unauthorized use and/or disclosure of employee information.

Lastly, PeopleSoft is a decentralized system requiring input from multiple Human Resource and Payroll offices throughout the City, supporting actions and payments to approximately 36,000 employees. Therefore, access for multiple employees will always be required. For example, for item #7, there are payroll representatives that service multiple agencies who would be required to view employee data in order to service their employees. Item #4 shows that 38 users can generate off-cycle payments. Only 5 can submit an off-cycle payroll and do not have access to other functions in the process. It takes a coordinated effort of other staff (OCTO, OFT, and OPRS) to complete the process which includes check printing, transmission of files to the bank, and funding of payroll with the bank. No one individual can perform all of these functions.

Process: Compensation

Lack of Segregation of Duties within PeopleSoft

One of the basic elements of internal control is separation of duties. Separating certain duties improves internal controls and reduces the possibility of errors and irregularities. Without proper controls over payroll transactions, there is an increased risk that unauthorized transactions may be processed. We recommend that management review users with excessive access to determine if their access is appropriately restricted to only those functions that are necessary to perform their duties.

We obtained a data extract from the Production environment at the end of FY 2009 for purposes of evaluating the segregation of duties and user access review as they relate to PeopleSoft HRMS applications (modules).

The following are potential segregation of duties issues noted in our test work. Included within the information below are all PeopleSoft users with either update or inquiry access based on electronic IDs.

Conflicting Roles	Risks	# of Users
Add Non-Employees vs. Global Payroll	Failure to segregate access to the 'Add Non-employee' permission list (allows the user to update non-employee and his/her own personal information) and the 'Global Payroll' permission list (allows the user to define global payroll rules, maintain global payroll data, and manage the global payroll process) increases the risk of unauthorized payments and fraud.	9
Maintain Personal Data vs. Global Payroll	Failure to segregate access to the 'Add Non-employee' permission list (allows the user to update non-employee and his/her own personal information) and the 'Global Payroll' permission list (allows the user to define global payroll rules, maintain global payroll data, and manage the global payroll process) increases the risk of unauthorized payments and fraud.	9
Calculate Employee Absences vs. Review Payroll Data	Allowing users to modify vacation/leave time and update payroll data increases the risk of unauthorized/fraudulent payroll payments.	60
Calculate Payroll Process vs. Banking Process	Allowing a user access to review and approve salary calculations and prepare the employee payment details for submission to the bank increases the risk of unauthorized and fraudulent payroll payments to employees.	9
Calculate Payroll Process vs. Update Employee Earnings Deductions	Allowing a user access to review and approve salary calculations and also update employee earnings-deductions increases the risk of unauthorized and fraudulent payroll payments to employees.	9
Confirm Pay Process vs. Employee Bank Transfer	Granting a user access to review and approve salary calculations and also to prepare the employee payment details for submission to the bank increases the risk of unauthorized/fraudulent payments to employees.	9

Process: Compensation

Conflicting Roles	Risks	# of Users
Create Employee Paysheets vs. Confirm Pay Process	Granting a user access to create an employee (and update his or her personal and salary details) and also to calculate payroll amounts increases the risk of fraud since the user would be able to create ghost employees and subsequently process payroll payments to them.	18
Create Employee Paysheets vs. Unconfirm Pay Process	Granting a user access to calculate employee salary and reverse the approval of salary calculations increases the risk of unauthorized, fraudulent, or duplicate payroll payments.	9
Update Employee Paysheets vs. Confirm Pay Process	Granting a user access to review and approve salary calculations and update paysheets (i.e. process payroll) increases the risk of unauthorized/fraudulent payroll payments.	18
Update Employee Paysheets vs. Unconfirm Pay Process	Granting a user access to both unconfirm pay (i.e. to reverse the approval of payment calculations) and update paysheets (i.e. to process payroll) increases the risk of unauthorized changes and facilitates fraud.	9
Confirm Pay Process vs. Payment Check Printing	Granting a user access to review and approve salary calculations and also to print payroll checks increases the risk of unauthorized/fraudulent payroll payments to employees.	18
Create Employee Paysheets vs. Update Employee Pay Data	Granting a user access to update pay and create paysheets increases the risk of unauthorized or fraudulent payroll payments.	9
Create Paysheets vs. Hire Employees	Granting a user access to create an employee (and update his or her personal and salary details) and calculate payroll amounts increases the risk of fraud since the user would be able to create ghost employees and subsequently process payroll payments to them.	9
Update Employee Pay Data vs. File Export - Payroll Interface	Failure to segregate access to update pay data and create the payroll export file may result in unauthorized or fraudulent payroll payments.	9
Update Employee Paysheets vs. Hire Employees	Granting a user access to hire employees and update paysheets increases the risk of unauthorized/fraudulent payments to existing or ghost employees.	9
Update Employee Paysheets vs. Update Employee Pay Data	Granting a user access to update pay (i.e. to update payroll calculation data) and update paysheets (i.e. to process the payroll and arrive at the net pay amounts) increases the risk of unauthorized or fraudulent payroll payments.	9
Create-Update Employee Positions vs. Hire Employees	Failure to segregate the ability to create employee positions and hire employees increases the risk of unauthorized changes and fraud.	19

Process: Compensation

Conflicting Roles	Risks	# of Users
Create-Update Variable Compensation Plan vs. Modify Variable Compensation Allocation to Employees	Failure to segregate access to set up variable compensation plans and also to allocate them to employees may result in unauthorized creation and allocation of compensation plans, which could lead to unauthorized or fraudulent payments.	9
Data Preparation For Payroll Process vs. File Export - Payroll Interface	Granting a user access to prepare data for payroll processing and create the payroll export file may result in unauthorized changes to pay records and payroll processing, which could lead to incorrect or fraudulent payroll payments.	9
Maintain Recruitment Tables vs. Global Payroll	Failure to segregate access to the 'Global Payroll' permission list (allows the user to define global payroll rules, maintain global payroll data, and manage the global payroll process) and the 'Maintain Recruitment Tables' permission list (allows the user to create employment contracts, update employee personal information including bank accounts, approve employee awards, etc.) could result in incorrect or fraudulent updates to employee data and payroll payments.	9
Setup Compensation Tables vs. Global Payroll	Failure to segregate access to the 'Setup Compensation Tables' permission list (allows the user to define salary grades, define salary plan, define merit increase, etc.) and the 'Global Payroll' permission list (allows the user to define global payroll rules, maintain global payroll data, and manage the global payroll process) increases the risk of fraudulent or incorrect payments.	9

Management's Response:

The Office of Pay and Retirement Services (OPRS), in coordination with Office of the Chief Technology Officer (OCTO) PeopleSoft IT Support and the DC Department of Human Resources (DCHR), continually review employee's access to the PeopleSoft system commensurate with the employee's duties and responsibilities. OPRS will work with OCTO and DCHR to further refine access for individual users. However, the current users' access is necessary in order to carry out their functions.

For instance, the above categories with a user count of 9, represent the individuals that are PeopleSoft System Administration and Production Support staff and are authorized to have this access to migrate system changes from test to production, make authorized salary changes on behalf of DCHR and OPRS, and provide third tier support to the business users of the system. A change management process is in place that ensures the correct level of authorization to make system administration changes. Other categories with a user count of 18 each refer to the same 18 users: 9 are the PeopleSoft System Administration/Production Support. The remaining roles are within the Payroll Department.

Process: Compensation

Tracking of Full-Time Employees (FTEs)

Based upon request for information and discussion with District employees, we noted that the PeopleSoft System does not currently track and report actual FTE counts. Without the ability to track and monitor actual FTEs, there is an increased risk that payroll expenditures will not be properly monitored and that management will not be able to identify that the maximum authorized FTEs have been exceeded.

The system capability to track and monitor actual FTEs was originally designed to be part of the PeopleSoft system. We recommend that the District utilize existing capabilities within the PeopleSoft System to track and report actual FTEs.

Management's Response:

The District is currently tracking FTEs through Position Management. All FTEs are budgeted and approved by the Office of the Chief Financial Officer prior to being filled within an agency. As such, FTEs are tracked, albeit not through the PeopleSoft module specifically designed for the task. As the District moves to the upgraded 9.0 PeopleSoft platform, more effort will be made to utilize existing functionality to reengineer and streamline District processes.

Authorization of Overtime Payments

District policy requires that all overtime work be authorized and that time and attendance records are properly supported and documented. We reviewed overtime payments made to 77 employees during the year. The total overtime hours reviewed were 13,667 per the payroll register. Per review of supporting documentation, only 12,346 of those hours were supported as approved. Following are the agencies for which we noted discrepancies and the number of differences noted at each agency:

- 1) 9 differences noted at the Metropolitan Police Department.
- 2) 2 differences noted at the Department of Mental Health.
- 3) 1 difference noted at the Child and Family Services Agency.
- 4) 1 difference noted at the Department of Health.
- 5) 1 difference noted at the Department of Real Estate Services.
- 6) 1 difference noted at the Department of Youth Rehabilitation Services.

The District does not appear to have implemented the proper internal controls to ensure that only authorized and approved overtime is paid to employees. Appropriate documentation should be maintained to support all overtime payments. Lack of adequate authorization and improper maintenance of documentation increases the risk of unauthorized or incorrect payments being made.

The District should strengthen and improve its current policies and procedures surrounding the authorization, approval, and maintenance of documentation supporting overtime pay. Improved policies and procedures should be developed at the agency level and increased management oversight needs to be a critical part of these improved policies and procedures.

Management's Response:

The Office of Pay and Retirement Services will continue to work with the Office of Chief Technology Officer (OCTO) PeopleSoft Team, the DC Department of Human Resources (DCHR), and other supporting District Human Resources offices to ensure that overtime is properly documented and paid.

Process: Compensation

Overtime Payments made to Ineligible Employees

District regulations prohibit employees who are classified as career service (CS), management supervisory (MSS) at pay levels grade 14 and above, excepted services employees at pay level ES-6 and above, or equivalent from receiving overtime pay.

The database of all employees who received overtime during the year revealed 56 ineligible employees to whom the District paid overtime, totaling approximately \$27,000. While this represents an improvement from the prior year, supervisory controls to ensure that all employees are coded and classified properly were not applied consistently. We recommend that supervisory level employees who are responsible for the certification of time and attendance reports should fully review timesheets and monitor overtime amounts.

Management's Response:

The Office of Pay and Retirement Services (OPRS) will continue to work with the D.C. Department of Human Resources (DCHR) and the Office of Chief Technology Officer (OCTO) PeopleSoft Team to ensure that all employee records are coded correctly and reflected as such in the PeopleSoft System. We will continue to provide assistance to all District agencies and ensure that they know how to run the Earnings Detail Report for overtime payment review of their agency, for which the job aids can be found on the OPRS Web Site: <http://www.oprs.in.dc.gov>.

Bonus and Retroactive Pay

Effective internal controls over financial reporting require that documents are reviewed, authorized, and properly maintained. We reviewed bonus and retroactive payments made to 45 employees totaling \$789,621. Total bonus and retroactive payments made during the fiscal year were \$6,927,766. The results of our review are as follows:

- 1) In 2 instances, we noted that the Office of Pay and Retirement Services (OPRS) applied incorrect employee rates. Thus, an overpayment of \$11,711 and an underpayment of \$982 were made.
- 2) We were unable to completely verify the total retroactive payment made to 1 employee due to a lack of supporting documents. The total payment made was \$15,817 and the amount which was verifiable was \$13,376.

Lack of adequate review and improper maintenance of documentation increases the risk of unauthorized or incorrect payments being made. We recommend that the Office of Pay and Retirement Services (OPRS) follow the established policies and procedures for document retention and also ensure that payments are properly reviewed prior to authorization.

Management's Response:

OPRS is currently reviewing and revising all policies and procedures, specifically focusing on internal operating procedures, to ensure that all payment requests are properly reviewed prior to data entry.

For this finding, we have reviewed the Retroactive Payment Request Form and found that the form itself was a contributing factor in the overpayments and underpayments identified above. We have concluded that the form can be improved in order to provide greater clarity for the specific payment request. We are taking action to revise the form. We will also review the other off-cycle payment request forms in conjunction with our focus on improving internal operating procedures.

Process: Compensation

Health Benefit Payments made after Termination

The District pays health benefits to third parties for its employees. We reviewed 45 terminated employees and noted that in 1 case, the District continued to pay health benefits for up to 2 months after the employee's separation from the District government.

Employee personnel actions were not always submitted for processing in a timely manner. As a result, benefits payments were made beyond the employee separation date. Insufficient coordination appears to exist between District Agencies, the Office of Personnel, and the Office of Pay and Retirement Services (OPRS) in the timely processing and monitoring of terminations of employees. As a result, unnecessary benefit costs may be incurred by the District for terminated employees.

We recommend that the District improve its policies and procedures over the timely processing of personnel actions for terminated employees. In addition, the District should consider enhancing its payroll system to prevent calculations of benefit payments beyond the employees' termination dates.

Management's Response:

OPRS will work with the D.C. Department of Human Resources (DCHR) and other District HR offices to assist them in identifying areas for improvement for all terminating personnel actions, which directly impact payment to third party vendors.

* * * *

Process: Fixed Assets

The District has an investment of approximately \$8 billion in depreciable and non-depreciable assets and we recommend that controls be strengthened in this area.

Inventory of Fixed Assets

Most fixed assets, except items classified as personal property, have not been physically inventoried in recent times. We also noted that although the District conducted a physical inventory of personal property in FY 2008, the results have not yet being reconciled to the fixed assets subsystem; hence, assets that may have been scrapped, misplaced, or otherwise deemed unusable may continue to be considered "in service."

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 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:

The District agrees with the recommendation but feels that the current plan to count every physical asset owned by every City agency is too enormous a task to accomplish. We believe that the plan should be amended to cycle count all of the assets at specific agencies on an annual basis instead. We believe that by choosing specific agencies and preparing a plan to count items specific to that particular agency will allow a more accurate count.

Personal Property

According to existing policies and procedures, purchases of fixed assets must be added to an agency's fixed assets listing, as maintained on the Fixed Assets System (FAS), within 3 working days from the date of payment for the respective fixed asset.

During our sample test work over personal property additions, we noted that 6 acquisitions by the District's Public Safety & Justice Cluster were included in the list of additions for FY 2009, but had actually been purchased in FY 2007 and FY 2008. Three of these acquisitions were recorded in FAS approximately eighteen months after payment date and the remaining items, about one year after date of payment. Issues like these can lead to an understatement of depreciation expense and fixed assets acquisitions. District agencies should have proper controls in place to ensure that fixed assets and relevant information (i.e. cost, useful life, in-service date, asset class, etc.) are entered into the system accurately and in a timely manner.

Management's Response:

We agree with the finding and will be working with the Office of Financial Operations and Systems (OFOS) to ensure the guidelines are adhered to and appropriate for the circumstances under review.

Land Swaps

The District exchanged a portion of the land previously used for the old Convention Center and paid approximately \$1 million for land owned by a developer. The land acquired in the exchange is to be used for the construction of the new Convention Center hotel.

Process: Fixed Assets

Additionally, several parcels of land were exchanged between the District and the Federal Government during FY 2009. During our test work, we noted the following:

- 1) The District removed from its fixed assets records the entire book value of the old Convention Center land. However, due to a lack of supporting documentation, we were unable to determine whether the cost of land that the District removed from its records was the correct amount of land that has been relinquished in the exchange. While insignificant to the overall operations of the District, it appears that the overall balance at year-end may be understated.
- 2) The District failed to initially recognize a gain from the exchange transactions with the Federal Government.

We recommend that the District develop and implement a process for analyzing these types of transactions to ensure that they are recorded in accordance with applicable accounting standards.

Management's Response:

In the future, management will properly record these transactions in SOAR, the District's accounting system of record, after thoroughly examining all aspects of the event(s).

Asset Impairment

We noted that the District had written-off the entire net book value of several schools determined to be impaired, even though only a portion of the schools were actually impaired. In addition, we noted that a capital asset that had been identified for demolition during the year still remained on the books and records.

We recommend that the District perform an analysis to measure the correct amount of asset impairment using a method that most appropriately reflects the decline in service utility of capital assets. In addition, the District should regularly review the capital asset listing for any asset impairments and adjust its books accordingly.

Management's Response:

The District, in the future, will monitor real property acquisitions and dispositions more closely in order to ensure proper recording. The District will also draft a policy outlining how future impairments will be determined, what is an impairment, and how to record the impairment.

Classification of Expenditures

We noted 2 instances in which the Office of Unified Communications improperly classified training expenditures as repairs and maintenance. It is important to maintain correct classification of expenditures so that management can accurately report the financial results of the District and we recommend that the District improve and strengthen its controls over proper recording of expenditures in the system.

It should be noted that we identified these discrepancies from a sample of transactions that were selected for testing. Management should recognize that the potential exists for additional discrepancies.

Process: Fixed Assets

Management's Response:

Management concurs with the finding as it relates to one instance and takes exception to the second instance. With respect to the second instance, the items purchased support the agency's communications network/software. In an effort to minimize a finding of this nature, we will continue to review procurements to ensure the accounting attributes reflect the good/services acquired.

Pollution Remediation Expenditures

District agencies are required to report pollution remediation expenses to the Office of Financial Operations and Systems (OFOS) for financial accounting and reporting purposes. We noted that not all agencies had initially reported the required information to OFOS. We recommend that OFOS implement and maintain certain monitoring controls to ensure that information required from the agencies is received and evaluated in a timely manner in order to determine the appropriate accounting treatment and disclosures.

Management's Response:

OFOS will monitor the required documentation in order to ensure proper reporting for all required accounting requirements.

Incorrect Leave Additive Rate

During our sample testwork over capital expenditures by the Highway Trust Fund, it was noted that the leave additive rate that had been applied was not correct. According to the District's approved leave additive agreement, the approved rate should have been 20.18%. During our testwork, we noted 2 instances where the percentage used was 20.81%.

We recommend that the District improve and strengthen controls over cost allocation calculations, and that the calculations should be properly reviewed.

Management's Response:

Management acknowledges that a transposition error was made in the file that calculated the indirect rate and that this error was not detected on initial review. There is a review process in place to ensure that allocation of indirect costs is made according to the approved method to ensure an allocation of charges based on actual direct labor charges. We will improve the process to ensure that the approved rate is compared to the file used to calculate the period allocations; however, the financial impact of the transposition error is insignificant and amounted to \$56,000. Moreover, a method to correct the difference has been agreed upon by the Federal Highway Administration (FHWA) and the District Department of Transportation (DDOT).

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Process: Management of Grants

Income Maintenance Administration

The Department of Human Services' (DHS) Income Maintenance Administration (IMA) is responsible for determining eligibility for the Food Stamps program. IMA uses the Automated Client Determination System (ACEDS) to evaluate the eligibility of an applicant. During our review, we noted the following from a sample of 45 items selected for test work:

- 1) In 1 instance, we were unable to verify that the recipient was a District resident.
- 2) In 2 instances, the recipient did not sign the application form.
- 3) In 3 instances, the income/assets of the applicant were not verified.
- 4) In 3 instances, the re-certification for continuation of benefits was not approved.
- 5) In 1 instance, the recipient did not sign the declaration form.
- 6) In 3 instances, the Social Services Representative (SSR) did not sign the application/recertification form.
- 7) In 3 instances, the supervisor did not review and approve the eligibility decision.
- 8) In 1 instance, the applicant's case record was not provided for review.

Adequate internal controls to monitor Food Stamps benefits are essential to ensure that benefits are only paid 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:

IMA agrees with the finding that the SSR did not sign the application. However, SSRs are no longer required to sign the application form. IMA also agrees that one record could not be located for review. IMA disagrees with all remaining instances.

IMA has a plan in place to improve the agency's ability to locate records in a timely fashion.

Records Management: IMA has developed a records management policy and procedure, which establishes a system of accountability by assigning a specific member of the management team and staff to be responsible for the implementation. The team is required to designate specific personnel to the task of ensuring: 1) there is a record established for each new case; 2) all case documentation is maintained in the case record; and 3) the record is appropriately filed following case action.

Document Imaging Management System: On January 8, 2010, DHS issued a Request for Proposal for a Document Imaging Management System (DIMS) for the creation of an electronic records system and the scanning of existing case files. IMA purchased scanners for each service center and a centralized mail and scanning center is planned, to ensure that all incoming case documentation is scanned and stored electronically. This will enable SSRs to easily access the case record from ACEDS while interviewing the customer, and ensure documentation is easily available for auditors upon request.

Process: Management of Grants

Child and Family Services Agency (CFSA)

During our review of the Foster Care and Adoption Assistance programs as administered by CFSA, we noted the following from a sample of 45 items selected for test work:

- 1) In 2 instances, the adoption subsidy agreement was not available for review.
- 2) In 1 instance, the name of the adoptee on the adoption subsidy agreement did not agree to the actual name.

Failure to properly support claims can result in noncompliance with laws and regulations. We recommend that the District review and revise its policies and procedures to ensure that items claimed for eligibility are supported by proper documentation and that checklists are maintained within the filing system to ensure that all necessary documentation is included in a child's records before filing a claim.

Management's Response:

The agency concurs that documentation for the two adoption subsidies was not provided. One case was a Traditional Foster Family transaction and the other case was a Kinship Foster Care transaction. The transactions made were for payments issued to Foster Care parents that are not invoiced. The transactions are processed and paid automatically each month through the FACES system; therefore, invoiced documentation for the payments would not exist. However, placement screen prints for these two case providers served as documentation for the transactions which verifies the placement of the child. Payment screen prints are also available to verify that payments were made to the providers for the children residing in their foster home.

The agency also concurs that the adoptee on one adoption subsidy agreement did not match the adoptee name. The correct adoption subsidy agreement was provided; however, further research concluded that this particular circumstance was the result of an error found in the supporting documentation. A screen print from FACES is available to show the correct adoptee name on the adoption subsidy agreement.

Public Safety and Justice Cluster

During our review of the accounts receivable detail and the related allowance for doubtful accounts, we noted that it did not readily agree to SOAR, the District's accounting system of record. Upon further review, it was noted that no activity had been recorded in either the accounts receivable or the allowance for doubtful accounts during FY 2009.

As a result, the net receivable balance was overstated by approximately \$3.6 million. We recommend that the receivable and corresponding allowance detail be reconciled and recorded in SOAR on a regular basis.

Management's Response:

We concur with the finding and will be reviewing the activity on a quarterly basis. In addition, the allowance for doubtful accounts was adjusted by the \$3.6 million in FY 2009.

Process: Management of Grants

Transfer of Grants Receivable - Deputy Mayor for Planning and Economic Development

Effective October 1, 2007, the component units Anacostia Waterfront Corporation (AWC) and National Capital Revitalization Corporation (NCRC) were transferred into the District's general fund. As such, certain applicable activity was transferred into the books and records for the Deputy Mayor for Planning and Economic Development agency.

Based on a review of the economic development agency's receivable balance at year-end, we noted an outstanding balance due from the Department of Housing and Community Development (DHCD), another District agency, for approximately \$2,400,000. This related to activity between DHCD and AWC before the aforementioned dissolution of AWC and incorporation of its activities into the District's books and records.

This has resulted in an overstatement of the ending accounts receivable by \$2,400,000 because the economic development agency, AWC, and DHCD are all different agencies or activities of the District at large. We recommend that the economic development agency monitor and review its receivable balances. In this specific instance, the agency should make eliminating entries to remove the "due to/due from NCRC and AWC" activity from its books.

Management's Response:

The agency has a plan in place to monitor and review the collectability of receivables. In addition, the agency will increase its effort to collect and clean up the outstanding balances. The agency will make the eliminating entries to remove "due to/due from NCRC and AWC activity" from its books.

Department of Employment Services (DOES)

During our review of grant expenditures at DOES, we noted that in 2 out of 45 items selected for test work, management could not agree the selected transactions to the payroll registers for the periods examined.

The process of documenting and monitoring compliance with grant requirements was not functioning as intended and failure to properly support claims can result in noncompliance with laws and regulations.

We recommend that management consider a document management and retention policy that includes mapping of transactions from the payroll register to SOAR, the District's accounting system of record. This will assist the agency's personnel in reconciling the transactions and identifying supporting documentation in an efficient manner.

Management's Response:

As recommended, management will implement a document management and retention policy that includes mapping of transactions from the payroll register to SOAR. This policy will assist the agency's personnel in the reconciliation of transactions and identifying supporting documents efficiently.

* * * *

Process: Cash and Investments

Bank Reconciliation Process (Sampling of BIDs)

We noted the following issues in our test work:

Pooled and Investment Cash Accounts

- 1) During our testing of monthly reconciliations, we noted that the following Bank Account IDs (BIDs) were not prepared and reviewed within the stated policy of 30-45 days from the last day of the month: BID 133 for July 2009, BIDs 128, 130, 209, 255, 200, 277, and 121 for September 2009.

Agency Cash Accounts

- 2) During our review of the bank reconciliation for BID 250 for March 2009, we noted a wire transfer that had not been initiated until April 1, 2009 but had been reduced from the March 31, 2009 SOAR balance, the District's accounting system of record.
- 3) During our review of the bank reconciliation for BID 260 for March 2009, we found that a single reconciliation was done to cover the period from October 1, 2008 through March 31, 2009.

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 can result in errors or other problems that may not be recognized and resolved on a timely basis. Further, any 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.

We recommend that the District comply with its stated policies and procedures in reconciling its bank accounts on a monthly basis within a reasonable timeframe and conduct proper and timely reviews. We also recommend that reconciliations be signed as an indication of approval.

Management's Response:

With regards to pooled and investment cash accounts, management does concur that reconciliations were not prepared and reviewed within the stated policy timeframe. Management contends, however, that the reconciliations were completed within two to three weeks after the fiscal period closed. The reconciliations cannot be completed until the fiscal period is closed.

With regards to agency cash accounts, management does concur that reconciliations should be prepared and reviewed within a timely manner. The Office of Financial Operations and Systems (OFOS) will reinforce to the agencies the reporting requirements for wire transfers and stress the importance of providing complete and accurate documentation to support their monthly bank reconciliations.

Bank Reconciliation Process (Bank Account ID 121)

Bank Account ID (BID) 121 is a pooled cash account that is centrally managed by the Office of Finance and Treasury (OFT) and reconciled by the Office of Financial Operations and Systems (OFOS). During our audit process over the year-end bank reconciliation, we noted that certain stopped checks from FY 2006 through FY 2008 in the amount of \$3,324,729 were still being shown by the Bank as being outstanding.

Process: Cash and Investments

We recommend that the District communicate and advise its bank to remove these items from the outstanding check listing. This procedure was last performed for checks from FY 2004 and FY 2005 and should be done on a regular basis.

Management's Response:

Management concurs that 2006-2008 outstanding checks should be removed from the system. OFOS will submit the required documentation to the financial institution to request removal of these items. This request will become standard practice for our annual closing process.

Maintenance of Accounts Database

During our audit procedures, we noted numerous inaccuracies in the bank account database maintained by the Office of Finance and Treasury (OFT). These inaccuracies pertain to (1) incorrect account numbers, (2) correct account number but incorrect bank institution, and (3) incorrect Bank Account ID (BID) number assigned to the account.

We also noted that for some bank accounts, the SOAR balance was made up of outstanding and stale checks and other amounts which should be removed and cleared. The balance of these accounts amounted to approximately \$3,100,000 as of September 30, 2009. While deemed insignificant to the overall operations of the District, this has the effect of understating cash and investments.

We recommend that the general ledger and chart of accounts be periodically reviewed and that unused accounts or zero balance accounts be removed and cleared out. In addition, any BID accounts that do not have a corresponding active bank account should be closed out. 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. Further, time needed to record transactions may be substantially reduced if the District considered eliminating or combining bank accounts where possible. This will also result in improved internal controls and simplification of reconciliation procedures.

Management's Response:

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

The District will award, in the spring of 2010, new banking contracts for its checking and investment accounts pursuant to a recently-issued RFP. This will require the District to review all accounts, their purpose and use, as well as newly establish the content and accuracy of the OFT bank account list. In addition, the goal of the RFP implementation is to reduce the number of bank accounts, the complexity of the account structure, and close unnecessary accounts.

OFT has established a policy to bi-annually mail confirmation surveys to all of its banks, requesting that the banks confirm all District bank accounts by name and account number, as part of the process of OFT ensuring on-going accuracy of its account records and database.

OFT recognizes that the database contains component unit and trustee investment accounts that should not have been assigned a BID and will work with OFOS to close these accounts. OFT will also continue to work with the Office of Financial Operations and Systems (OFOS) to close BIDs for which the bank account is closed but the BID remains open.

Process: Cash and Investments

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

Management agrees that the general ledger and chart of accounts should be periodically reviewed in order to ensure that only current data is reflected. OFOS is developing an action plan to identify and eliminate any obsolete balances, BIDs, or general ledger accounts by the close of the current fiscal year. We will review the general ledger and chart of accounts at least annually.

Stimulus Funds

In anticipation of receiving funds under the American Recovery and Reinvestment Act of 2009 (ARRA), the District's Office of Finance and Treasury (OFT) set up the following policies and procedures:

- 1) All stimulus funds received are set up to be tracked by OFT in a separate bank account, namely Bank Account ID (BID) 731.
- 2) All agencies are required to inform the Office of Chief Financial Officer (OCFO)/OFT within 24 hours of recording the receipt of ARRA funds in SOAR, the District's accounting system of record.

During our audit procedures, we noted that the agencies had not fully complied with the stated policies. All of the agencies requested and received funding directly into their own bank accounts, with their own unique tracking numbers, instead of utilizing BID 731.

If the existing policy is not practical, we recommend the District revise its policies and procedures to comply with the existing processes being followed and eliminate any unnecessary bank accounts.

Management's Response:

OFT and the Office of Budget and Planning (OBP), in consultation with GAO in June 2009, agreed to establish BID 731 as part of the District's efforts to track ARRA grant award funds separately, and use a unique four digit code for various categories of stimulus related grant funds that were to be received. This allows for separation and identification of Recovery Act dollars. Specifically, fund details have been created for the following sources of stimulus funds:

- Federal Grants Stimulus - grants awarded as part of the stimulus act.
- Federal Stimulus funding, Capital Projects - for capital projects that are not tied to FHWA projects.
- Medicaid Federal Grant Stimulus - Additional Medicaid reimbursement received as part of FMAP formula increase.
- Medicaid Federal Grant Stimulus, Local Match - FMAP local match dollars.
- State Stabilization - direct federal payment used for fiscal relief for education.

The District's receipt of Recovery Act grant awards reflects existing programs and does not require agencies to use BID 731. The agencies do submit a revenue cash receipt to OCFO/OFT within 24 hours of receiving the funds. Therefore, current practice, despite the non-use of BID 731, is in compliance with ARRA requirements and internal controls.

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Process: Revenue Generation and Collection

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.

We noted 1 instance out of 45 samples selected for test work where the hard copy of the form FP-161 could not be located, although the form had been entered in the Integrated Tax System (ITS) as having been received. Failure to identify property owners not complying with this law will result in potential loss of revenue to the District.

We recommend that the Office of Tax and Revenue (OTR) implement stronger controls over monitoring the annual filing of Form FP-161 and consider adding ITS capability to capture and bill the entities that did not comply with the requirement.

Management's Response:

The Real Property Tax Administration (RPTA) Assessment Division (AD) will explore options to scan all FP-161's into the Contact Tracking System (CTS) and index them by Square, Suffix, and Lot (SSL), which will ensure that a copy of the FP-161 is readily available for review.

Tax Sale Adjustments

When property taxes are delinquent, penalties and interest are established. These delinquent property taxes result in liens on the properties, and the District has the right to seize the properties, and sell them as "tax sales."

Amounts received against tax sales are initially credited to a "property redemption" fund (a deferred revenue account). As each item is analyzed and reconciled, it is transferred from the deferred revenue account to actual revenues. We noted that there did not appear to be any formal process used for reconciling the tax sales revenue amount. As a result, revenue recognized from the tax sale and recording and reconciling of data to individual taxpayers accounts' appeared to be incomplete.

We recommend that the Office of Tax and Revenue (OTR) ensure that procedures for recording payments and issuing refunds are established to appropriately reflect the change in revenue recognition.

Management's Response:

OTR recognizes the risk that potential adjustments to taxpayer accounts have not been recorded, and agrees that there is more work to be done in fully reconciling the tax sale ledger systems for prior years. At this time, the final deliverables due from our outside consulting firm are outstanding. OTR will continue to work to ensure that balances within the Property Redemption Fund Account are accurately determined and that adjustments made to SOAR, the District's accounting system of record, and to taxpayer accounts are based on the workpapers provided by the consultant. Additionally, the Revenue Accounting Administration (RAA) will work with the Real Property Tax Administration (RPTA) to ensure that procedures for recording payments and issuing refunds are established to appropriately reflect the change in revenue recognition.

Process: Revenue Generation and Collection

Non-Real Property Accounts Receivable

During our test work, we noted 10 instances out of 61 samples selected for test work, where the taxpayer's receivable balance appeared to have been overstated at year-end. We noted the following:

- 1) 2 instances were outstanding for over 8 years, and based on a review of these taxpayer accounts, we found these were adjusted after year-end in the Integrated Tax System (ITS), as the District determined them to be uncollectible.
- 2) 8 instances were determined to be data entry errors made in ITS, resulting in an erroneous calculation of the tax liability. As a result of certain changes made in the processes during FY 2009, these items were not corrected in a timely manner; thereby, leaving uncorrected balances at the end of the fiscal year.

We noted that all of the errors identified were subsequently adjusted in ITS. The adjustments appeared to be valid and reasonable; however, since they were made subsequent to fiscal year-end, the balances at September 30, 2009 remained uncorrected, resulting in a net overstatement of receivables of \$1.6 million.

We recommend that management perform timely reviews and monitoring of taxpayer account balances to help ensure that the account balances are up to date. In particular, any adjustments deemed necessary should be posted before year-end to help ensure valid and accurate balances.

Management's Response:

The Office of Tax and Revenue (OTR) recognizes the risk associated with potential misstatements of accounts receivable (A/R) in the financial statements, and generally concurs with the recommendations suggested for the improvement and accuracy of the balances reported as part of the year-end process. Many of these practices were in place prior to FY 2009.

While changes to this practice improved controls over the adjustment function, as noted in prior year findings, it has had an impact on the timeliness of adjustments to A/R balances. The Revenue Accounting Administration (RAA) will work to institute new procedures OTR-wide that will ensure a timely correction of balances, while maintaining the segregation of duties that precipitated the change in historical practices. Recognizing that A/R adjustments will be determined and posted to taxpayer accounts throughout the fiscal year, RAA will enhance and document existing procedures to monitor and track post-September 30 A/R adjustments that affect financial statement balances for inclusion in the final revenue lead and supporting schedules.

The FY 2009 year-end close also differed from prior years in that RAA had to perform several additional receivable reviews to identify erroneous receivables associated with a specific group of taxpayers. While most of these items were discovered and adjusted timely, each additional receivables report that was run increased the risk of additional review items entering the stream.

These additional reports would not have been run in a normal year and created a significant time pressure. Because of the extraordinary nature of these additional report runs, the new items picked up were not subjected to the normal rigorous review process. While ad-hoc reports probably would not be helpful in identifying the kinds of errors cited, RAA will develop a checklist of known issues and criteria for review to ensure that all A/R is subject to the same rigorous review.

Process: Revenue Generation and Collection

Department of Consumer & Regulatory Affairs (DCRA)

During our procedures over revenue processed at the agency, DCRA was not able to provide adequate supporting documentation for 2 out of 11 samples selected for test work. As such, we were unable to verify proper recording and proper approval and unable to fully confirm that these amounts had been properly included in the bank accounts.

We also noted that for 9 out of 11 SOAR journal vouchers selected for test work, the agency was not able to provide revenue detail at the individual taxpayer level. As such, we were not able to verify the payments received.

We recommend that management take steps to ensure that it is able to produce certain detailed reports and records at specific time periods, and maintain these records for review, analysis, and decision making by users such as management, independent auditors, and other governmental bodies.

Management's Response:

In reference to adequate support for 2 out of 11 samples selected for test work, the agency has instituted procedural changes to manage filing documents electronically to prevent this finding from recurring.

In reference to 9 out of 11 SOAR journal vouchers selected for test work, management will work with the program personnel to achieve a complete reconciliation of taxpayers who use credit cards charges as a form of payment to verify the payments received.

Deputy Mayor for Planning and Economic Development

During our test work over miscellaneous revenues, we noted the following:

- 1) Under the General Capital Improvements Fund, the agency was unable to provide supporting documentation for 3 out of 11 samples selected for test work.
- 2) Under the General Fund, the agency was unable to provide support for 1 out of 15 samples selected for test work.

We recommend that management take steps to ensure that it is able to produce certain detailed reports and records at specific time periods, and maintain these records for review, analysis, and decision making by users such as management, independent auditors, and other governmental bodies.

Management's Response:

The agency will increase its effort with the Office of Financial Operations and Systems (OFOS) to institute a systematic manner to obtain and file documents posted by OFOS on-site at the agency.

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Process: Disbursements

Lack of Adequate Supporting Documentation

During our review of 77 vendor files, we noted the following:

- 1) The District was unable to provide sufficient supporting documentation for 3 journal entries that were referenced as intra-district transactions; thus we could not determine whether the transactions were properly recorded and classified. The SOAR journal voucher provided stated that the purpose of the journal entries was to reallocate intra-District funds to different administrative units or object codes or to reclassify amounts from one fund group to another. However, based on the supporting documents provided, we were unable to conclude that these journal entries were properly classified and recorded.
- 2) We also noted 5 instances in which intra-District transactions were inadequately supported. We noted that in 4 of the 5 instances, the District could not provide any documentation. In the other instance, we were unable to trace the transfers to the actual costs incurred by the transferring agency. We also noted that the buying agency did not obtain documentation of the items purchased from the selling agency.
- 3) In 2 instances, the District was unable to provide evidence of approval by the City Council for transactions that were in excess of \$1,000,000.

We recommend that personnel in charge of authorizing payments or recording transactions comply with established internal controls to ensure that documentation is complete before authorization of payments and implement measures to ensure that all journal entries are supported by adequate documentation. We also recommend that the District review and revise its documentation policy regarding intra-District transactions. Lastly, 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:

Management concurs with the finding and has a plan in place to ensure that personnel in charge of authorizing payments or recording transactions comply with established internal controls. The District will ensure that documentation is complete before authorization of payments and that all journal entries are supported by adequate documentation. Management also has a plan to institute a records management system for easy filing and retaining of documents. Going forward, all transactions of \$1,000,000 and greater will have Council approval.

Purchase Cards

The District's purchase card transactions are primarily governed by statute, as well as rules and regulations outlined in the District of Columbia Official Code. In addition, the Mayor, Chief Financial Officer, and Director of the Office of Contracting and Procurement (OCP) can issue directives, orders, and memorandums governing purchasing actions. We noted the following issues during our audit process:

Transaction Usage

Purchase card transactions are required to be supported by an original invoice or vendor receipts, cardholder transactions logs, monthly statements of account, statement of questioned items, and memorandum of explanation for documentation. Of the 45 transactions selected for test work:

Process: Disbursements

- 1) Although documentation was provided for 8 transactions, we noted that the support provided did not identify the nature of the items purchased. We were therefore, unable to determine the following:
 - Whether the cardholder used the card to buy commercially available goods and services for Official Government Business Only.
 - Whether the purchase was deemed reasonable within the District's standards (i.e. no purchases were for personal use, travel, and travel-related expenses, taxicab fees, cash advances or ATM withdrawals, utility payments, motor vehicle fuel, criminal or illegal activity, entertainment, or any prohibited usage designated by the Agency Head).

Official Government Usage

- 2) There was 1 instance where the District could not provide evidence that the card holder had the "Delegation of Contracting Authority – Purchase Card."
- 3) There were 2 transactions purchased between 6/24/2009 and 6/25/2009 in which the sum of the items purchased exceeded the monthly limit of \$50,000. The transactions appeared to be a split purchase to prevent the card holder from appearing to exceed the maximum for a single transaction. In addition, the "Delegation of Contracting Authority – Purchase Card" was signed on 6/25/2009; however, the first purchase occurred on 6/24/2009.
- 4) We noted 2 charges for a vendor for cleaning and maintenance services that exceeded the card limit of \$5,000. The card holder intentionally split the transactions. The card holder used the card to purchase recurring services well above the authorized limit that should have otherwise been obtained through a purchase order.
- 5) There were 2 separate purchases for which the amounts individually exceeded the single purchase limit of \$5,000. Although a request for an increase was requested, the accompanying "Delegation of Contracting Authority – Purchase Card" was not signed by the Chief Procurement Officer.
- 6) There was 1 instance in which a vendor, who had a maximum limit of \$5,000 for a single transaction, entered into a transaction for \$9,404 but split the payment into three amounts so as to give the appearance that the amounts were below the limit.
- 7) There was 1 instance in which the transaction totaling \$7,033 exceeded the single purchase limit of \$5,000.

Management's Response:

- 1) The issue raised is regarding the lack of detail in certain receipts provided, which made it difficult to identify the nature of the items purchased and specifically if the items purchased were for Official Government Business Only or reasonable within the District's standards.

First, when the OCP Purchase Card Program Management Office (PMO) established the card program with the bank provider, certain merchant category codes were blocked on all cards to minimize inappropriate usage and unauthorized purchases. These blocks include ATM and cash advances as well as a number of entertainment venues and luxury items. Second, cards are established as purchase-enabled, travel-enabled or both purchase and travel-enabled. Travel related purchases including taxi-cabs and fuel purchases are acceptable on travel-enabled cards.

Process: Disbursements

Evidence was provided demonstrating that all travel-related purchases were made on travel-enabled cards, and in fact, attempted unauthorized travel purchases on a purchase-only card would have been blocked by the bank. Finally, every transaction is approved by an agency approving official, who is typically the supervisor of the card holder and is required to attend training on the Purchase card policies and procedures. This approval signifies that the approving official compared the vendor receipt with the transaction information provided by the bank, and verified that the good or service was received by the agency. Importantly, it also signifies that the approver verified the good or service was for official government business and was reasonable within the District's standards.

Even if a vendor receipt did not include the vendor name or a detailed itemization, there are adequate controls in place to verify what was purchased and that it was within the District's standards.

- 2) There was one standard delegation of procurement authority that the PMO was not able to locate. This cardholder was one of the District's original cardholders and the delegation was executed in October 2004. Starting in FY 2009, the PMO began scanning every delegation and retaining an electronic and paper file of all delegations on site as well as, sending a scanned copy to the cardholder.
- 3) The cardholder was provided a \$50,000 single purchase limit to address urgent supply needs related to a massive new outdoor component of the District's Summer Youth Employment program. The Chief Procurement Officer was well aware of the situation and did not provide the \$50,000 as a cap, but rather to ensure all the needs were met. Purchases two days in a row were not an indication of splitting, but rather evidence of last minute requirements becoming apparent.
- 4) Management agrees that the cleaning and maintenance purchases were recurring expenses totaling well above the cardholder's single purchase limit and evidence of splitting. This pattern was identified by the agency in October 2009, at which time the employee was counseled. Subsequent evidence of splitting and other issues led to the employee being terminated and the card being cancelled, as well as purchase orders being established for the related services. The system controls in this case worked effectively.
- 5) Finding #5 and #7 were related to three transactions by the same cardholder who did not have a signed delegation of authority for single purchase limits above \$5,000. This cardholder submitted a justification and delegation request for a single purchase limit of \$15,000 for critical purchases in January 2009. The Chief Procurement Officer discussed the request with the agency Director and provided verbal approval for this delegation, and the limits were increased accordingly by the PMO in the bank system. This approval was discussed in an email exchange that included the Chief Procurement Officer. The approval occurred on Christmas Eve and unfortunately, the PMO staff failed to get the Chief Procurement Officer (CPO) signature on the delegation before leaving for the holiday.
- 6) Management agrees that a transaction appears to have been split in order to circumvent the single purchase limit. The cardholder and agency will be notified and the cardholder will receive a letter of warning, as per the established disciplinary guidelines.

Process: Disbursements

Subsequent Disbursements

During our search for unrecorded liabilities, we noted the District had not recorded liabilities in the amount of \$35,535,033. These liabilities pertained to transactions that should have been posted to the capital and operating funds at year-end and resulted in an understatement of liabilities and the related expenditures at September 30, 2009.

Proper cut-offs are critical for the accuracy of the accrual basis of accounting and even though the District made the necessary adjustments during the audit process, we recommend that the District strengthen its oversight and monitoring controls to ensure that all transactions are recorded in the proper period and to ensure an improved system of fiscal management.

Management's Response:

Prior to FY 2009, capital invoices for the District Department of Transportation's (DDOT) infrastructure program were coded to the prior year until month-12 was closed for entry, usually late November. This was in contravention of closing cut-off requirements. This contravention resulted in minimal subsequent disbursements, but prevented the agency from finalizing all costs until well past the requirements to complete closing.

After recognizing that the previous year's failure to comply with cut-off requirements had masked the large amount of subsequent payments, DDOT reviewed the agency's invoice approval process and recognized that there is a 45-day turnaround from completion of work on infrastructure projects until final approval and receipt of vendor's contract invoices, due to the many inspections and sign-off of invoice charges from DDOT and Federal Highway Administration (FHWA) staff. Using this information, the additional accrual was made and a memorandum was prepared explaining the change in methodology and the reasons for the additional accrual.

DDOT will follow the procedures for the infrastructure program's pooled accrual based upon the identified 45-day turnaround for infrastructure contract invoices.

Manual Accruals

During our review of 90 transactions, we noted the following:

- 1) The District was unable to provide sufficient supporting documentation for 11 accrual transactions.
- 2) Expenditures in the amount of \$1,794,899 which pertained to FY 2010 had been improperly recorded in FY 2009 and were not cancelled by District personnel during the year-end closing of the financial records.
- 3) 1 instance for which there was no memorandum of understanding, grant award, or contract in place prior to the liability being established.

Proper cut-offs are critical for the accuracy of the accrual basis of accounting. It appears that agencies continue to accrue transactions without the proper procurement documentation in place and are unable to adequately support the basis for the accruals. It is recommended that the District's fiscal personnel perform periodic reviews of the accruals recorded to ensure that they are properly procured, approved, and supported.

Process: Disbursements

Management's Response:

Management concurs with the finding and has a plan in place to ensure that expenditures incurred for goods and services received by the fiscal year-end are properly accrued. Management will ensure that all the accrued transactions have proper procurement documentation. The plan includes periodic reviews of the accruals under the referenced transaction codes to ensure that they are properly procured, approved, and supported.

* * * *

Process: Management of the Disability Compensation Program

The District, through the Office of Risk Management (DCORM), administers a disability compensation program under Title XXIII of the District of Columbia Comprehensive Merit Personnel Act of 1978.

Civilian Claims

We noted the following exceptions during our test work over 45 open civilian claims. We identified these differences from a sample of items that had been selected for testing. Management should recognize the possibility that additional discrepancies may exist.

- 1) In 2 instances, disability compensation was incorrectly calculated by the claims adjuster. This resulted in the claimant being paid in excess of that which is prescribed by the D.C. Code.
- 2) In 2 instances, we noted that DCORM accrued additional reserves for possible settlement of the claim, while the settlement is intended to reduce DCORM's exposure of future liability through one-time payment at the agreed amount. The settlement amount was already part of the reserve; therefore, no additional accrual should have been made. This resulted in the overstatement of the reserve.

While management has a process in place to monitor the work of third party claims adjusters who are responsible for calculating claims payments, we recommend that this monitoring process be further strengthened to establish tighter controls to ensure that the calculation of disability compensation is in accordance with the provisions of the D.C. Code. A review should be diligently performed to reduce possibility of errors, especially because the calculation is manually done by the claims adjusters. Moreover, we recommend that guidance be established with regards to claims settlement such that reserves are reasonably stated.

Management's Response:

The third party administrator (TPA) has reiterated the proper calculation of benefits to all staff. The colleague making the overpayment is no longer with the TPA. Reimbursement has been made to DCORM by the TPA.

The contract requirements have been reinforced to the TPA staff that reserve increases over \$50,000 require client approval and that this process does not allow for additional reserve increases even if within TPA authority concurrently. Supervisory staff must ensure the calculations are accurately entered as approved by DCORM and that the approved signed copy is properly filed.

DCORM will conduct additional audits and accounting checks for accuracy of benefit calculations.

Tort Liability Claims

We noted the following exceptions during our test work of 45 sample items. The exceptions were mainly attributable to the first year implementation and use of DCORM's new system, American Technical Services, Inc. (ATS), the claims database that replaced Risk Master effective September 23, 2008. However, management should recognize the possibility that additional discrepancies may exist.

- 1) 2 civilian claims were reported as tort liability claims. This was due to using only one claims database to maintain both civilian and tort liability claims prior to transition to the new system. We noted that the same claims were properly included in the civilian claims database; therefore, they should be completely deleted from ATS to correct overstatement of payments during the fiscal year.

Process: Management of the Disability Compensation Program

- 2) In 2 instances, a claim settlement was posted more than once in ATS. This was due to confusion of roles in posting claim settlements resulting in multiple postings of the same transaction in ATS. This resulted in an overstatement of payments during the fiscal year.

We recommend management perform a reconciliation of claims to ensure that only tort liability claims are included in the database. Strong internal controls over the tort liability claims process should be maintained to ensure that all claims have been properly processed and documented. Reviews should be conducted to detect possible errors, particularly when the current system in use is fairly new.

Management's Response:

- 1) Due to the system conversion and system rollout of the new claims processing system (ATS system) in FY 2009, two disability compensation claims were inadvertently carried over into the new system. The two claims were identified and have been deleted from the ATS system.
- 2) The duplicate payment has been deleted. DCORM Standard Operating Procedures state that the claims adjuster for the case/file is the only person authorized to post payments against the case/file in ATS and not the Claims Analyst. The Tort team has been refreshed on the process.

Metropolitan Police Department (MPD) and Fire and Emergency Medical Services Department (FEMSD)

We noted the following exceptions during our test work over claims handled at MPD and FEMSD:

- 1) In 7 out of 27 MPD claims tested, there was a discrepancy in the performance of duty (POD) sick leave hours between PeopleSoft and the claims database. This was due to a delay in the submission of a PeopleSoft report; therefore, the MPD Claims Specialist had to use the latest available PeopleSoft report with the POD sick leave hours adjusted for estimated additional POD sick leave hours used as of the reporting period. This resulted in an understatement of payments during the fiscal year.
- 2) In another instance at MPD, a claimant's POD sick leave hours were extended beyond the 1,376 hours cap. The extension is allowed under General Order 100.11 upon recommendation by the Medical Services Branch (MSB) Director; however, there was no documentation of the MSB Director's recommendation for this extension. This resulted in an overstatement of payments during the fiscal year.
- 3) In 1 out of 18 FEMSD claims tested, there was a discrepancy in POD sick leave hours reported in the claims database. The occurrence of such an error can be attributable to deficiencies in the review process. This could result in either an understatement or an overstatement of payments during the fiscal year.

We identified these differences from a sample of items that had been selected for testing. Management should recognize the possibility that additional discrepancies may exist. We recommend management establish a procedure to ensure that accurate information is obtained in preparing year-end data for reporting purposes in order to minimize discrepancies. A review process should be present for both MPD and FEMSD claims handling procedures especially since manual processing is used, which is inherently prone to error. Management may also consider linkage of required information from PeopleSoft and Roster to lessen manual intervention and to avoid recurrence of such differences. Lastly, management should ensure that proper documentation is prepared and approved by authorized personnel for instances that deviate from official rules to avoid processing invalid claims.

Process: Management of the Disability Compensation Program

Management's Response:

Management will consider the recommendations cited.

Data in Actuary Report

The District's actuarial report should be complete so that it can be relied upon for a comprehensive analysis of the loss and loss expense reserve liability related to worker's compensation. DCORM should provide certain analyses and data information to the actuary in order to achieve a complete report and ensure that the estimated reserve is reasonably accurate. In this regard, we make the following "best-practice" recommendations:

- 1) Initiate the development of written policies and procedures describing the processes used in computing and reporting these liabilities in the financial statements.
- 2) Provide a clear reasoning of how DCORM and/or its actuaries established any subjective assumptions.
- 3) Provide rationale in the event DCORM computes and/or reports a liability differently than DCORM's consulting actuary.
- 4) Provide a reconciliation control function for the data provided to DCORM's consulting actuaries and how the data differs, if at all, from that used by DCORM in its calculation and whether each of those data sets reconciles to the ledger.
- 5) With respect to spreadsheet management:
 - a. Review the hard coded values in spreadsheets, such as replacing hard coded values with formulas or include comments that described the source and/or meaning of the information; and
 - b. Allow for easy identification of non-formulas by changing the font on input numbers.
- 6) Include explicit explanations for any changes made to methodologies or programs in the current period that were not present in the prior period valuation.
- 7) For completeness, we recommend constructing a formal Risk Control Matrix and a visual flow chart relating to the valuation processes.

Management's Response:

- 1) DCORM used the actuary report liabilities without adjustment for our September 30, 2009 financial statements. To meet this requirement, DCORM can produce a formal document stating that "we rely on actuary report liabilities, without adjustment for our financial statement reporting".
- 2) We believe the narrative and history outlines this, but we will clarify as necessary.
- 3) This does not apply since we do not compute and/or report a liability differently than the actuary report.
- 4) We could produce a reconciliation document for external auditors that tracks how the DCP, Tort, MPD, and Fire data given to the actuary and external auditor reconciles with internal data.

Process: Management of the Disability Compensation Program

- 5) Our actuary will better document and highlight information to facilitate the reading and understanding of where information is coming from in our report.
- 6) We will have our actuary provide more explanation regarding changes made to the valuation from one year to the next.
- 7) For presentation to external auditors, we will produce the flow chart with written steps and procedures to chart the development, reconciliation, and resolution of information and data given to the actuary and external auditor. This will be helpful for all parties.

* * * *

Process: Budget and Planning

Grant Modifications

Our review of the grant modification process identified 4 instances where we noted a variance in the reconciliation of the grant modification compared to the details of the modifications recorded in SOAR, the District's accounting system of record. In these instances, the University of the District of Columbia had erroneously entered the budget for 2 grants and the Metropolitan Police Department and D.C. Public Library had each erroneously entered the budget for 1 grant. Once noted by the Office of Budget and Planning (OBP), the agencies attempted to remove the excess budget; however, they were unable to remove it in SOAR.

We recommend that management should implement internal controls to verify that the entries into SOAR are properly reviewed and authorized, and made for the correct amounts. Management should develop policies and procedures for better coordination, communication, and internal controls with regards to the grant modification process.

Management's Response:

In an attempt to address a technical error, grant budget modification entries were made into SOAR twice. The above mentioned agencies received the approval to enter grant budget modifications into SOAR by the OBP Grants team. When the initial entries were made into SOAR, the batches did not complete the normal cycle and were authorized to re-enter the batches to ensure that budget authority would be available. During the FY 2009 year end close, the suspense file was cleared and the authority was added to each agency's budget, which thereby created double budget entries. OBP had no way of removing these entries from the suspense file but did note that the errors occurred. OBP also monitored FY 2009 year-end expenditure adjustments for the affected agencies to ensure that overspending did not occur.

Reporting Requirements

The Congressionally approved Appropriations Act related to the Resident Tuition and Support Program states that the Office of the Chief Financial Officer shall provide a quarterly financial report to the Committees on Appropriations of the House of Representatives and the Senate showing, by object class, the expenditures made and the purpose of the expenditure.

We noted that the District did not prepare and submit the above required report. We recommend that each agency be informed of the reports they are required to submit and that they update the Office of the General Counsel as to when the reports are due and when they are submitted.

Management's Response:

We concur that signed copies of reports provided to Congress were not archived in a readily available location. Due to significant management turnover, these records are unrecoverable at this time. We have prepared a report for the first quarter of FY 2010, and have implemented an electronic and hard-copy archival process for these reports in FY 2010 and beyond.

* * * *

Process: Loans Program

Inadequate Supporting Documentation

During our procedures over new and ending loans at the Department of Housing and Community Development (DHCD), we noted the following:

- 1) In 3 instances, promissory notes were not provided. We were unable to verify the correct classification of loans as either deferred or amortized.
- 2) In 14 instances, the settlement statements were not provided.

DHCD should review and assess its current filing system. Supporting documents provide the details of transactions and allow for subsequent verification of said transactions. They also provide a trail showing how resources were acquired or used. The following can be implemented:

- Assign a reference number in sequence to account for completeness of the recorded transaction.
- Include a checklist in all loan binders, detailing the required documents for the file.
- Assign personnel to review the loan file for completeness and investigate any missing promissory notes or settlement statements.

Management's Response:

When DHCD moved from 801 North Capitol Street to 1800 Martin Luther King Avenue (MLK), a significant number of agency files were required to be stored off-site. Due to the lack of space, DHCD maintains a minimal number of loan files on-site. DHCD will in the future, assign sequential reference numbers to loan files stored off-site to facilitate easy retrieval. As related to DHCD's files missing Settlement Statements, eighty three percent (83%) of the loans in DHCD's Portfolio are Home Purchase Assistance Program (HPAP) loans. Settlement Statements for these loans are not maintained in the files located at DHCD but at the Greater Washington Urban League (GWUL). DHCD has contracted with the GWUL to underwrite HPAP loans. The documents in DHCD's files mostly consist of the documents required to service the loans. Settlement Statements are requested from GWUL.

Loan Reconciliation

We noted that the Department of Housing and Community Development (DHCD) had inconsistently applied the modified accrual basis of accounting to its loan programs. This may affect the budgeting process of the District, as it might indicate availability of funds, when such funds are not available. We recommend that the District apply consistent accounting treatments for all loans in accordance with the prescribed accounting literature to avoid this kind of inconsistency in the future.

Management's Response:

Historically, DHCD's Office of Chief Financial Officer (OCFO) used different accounting treatments for recording local and federal loan receivables. For local loans, the OCFO debits a receivable and credits a corresponding expense and for federal grants, debits a receivable and credits deferred revenue. There is no evidence to suggest that the different treatments have resulted in any financial misstatements. However, moving forward, the OCFO will apply consistent accounting treatments to both local and federal loans in accordance with governmental accounting standards.

* * * *

Process: Journal Entries

Review, Approval, and Documentation

The District has a procedure in place whereby the person authorizing a journal entry document must be distinct from the person preparing the respective document. Our review over a sample of 233 journal entries revealed the following:

- 1) In 1 instance, there was a lack of evidence of both the preparation and review of the journal entry posted.
- 2) In 1 instance, the journal entry did not have adequate supporting documentation.

The District should enforce its policies which are set up to improve existing internal controls. Specifically, all entries should be initialed by the preparer and the individual approving them in order to attribute responsibility to the appropriate individuals. Further, journal entries should always be supported by appropriate documentation where possible. Good documentation serves as an accounting record and facilitates future follow-up as well as, additional insight for other users.

Management's Response:

The District concurs but we consider this finding an improvement and a reflection of the performances by agency financial managers to ensure that journal entries contain the required supporting documentation, correct effective date, and the appropriate signatures prior to posting the accounting event in the system.

The Office of Financial Operations and Systems (OFOS) will continue to remind, encourage, and enforce the importance of all journal entry documents containing a written description of the accounting event(s) to be recorded in the system, that adequate supporting documentation is attached, and the required signatures and dates are present on the journal entry documents.

* * * *

Information Technology Environment: General Controls

The District's complex organization is comprised of numerous agencies that serve the public welfare. The complexities of the various decentralized agencies necessitate the use of specialized information systems that perform as stand alone modules. The data processed and housed in the different information systems is either directly or manually converted to a format that can be interpreted by the District's overall general ledger and financial reporting system, SOAR.

The District also has five (5) datacenters that are the central computer centers that provide the core data processing capabilities in the District and to the majority of the District's agencies.

During our procedures over District agencies with significant business processes, we noted many similar issues as outlined on the pages which follow. As a result, we recommend the following for the District as a whole and management's responses are provided on the following pages, agency by agency:

- 1) One of the basic elements of internal control is separation of duties so that no one person controls all phases of an operation. Separating certain duties improves internal controls and reduces the possibility of errors and irregularities. To ensure proper segregation of duties, programmers and developers should be permitted read-only access to the production environment for all critical IT applications and systems and should never have administrative access to process transactions. Further, the ability to move packages into the production environment should restrict it to the least amount of users based on strict business need.
- 2) A formal change management methodology should be created, documented and enforced to ensure the requested change is documented and reviewed, the appropriate approvals are received, and changes are tested by the requesting party prior to migration into production. Inappropriate modifications to applications can cause incorrect calculations and compromise functionality. The formal change management methodology which ensures documented procedures are followed could include the following items:
 - a. Change request initiation, approvals, and sign-off requirements.
 - b. Testing requirements, approvals, and sign-offs.
 - c. Change request migration approval and sign-offs.
- 3) User administration (user addition, modification, removal) controls should be implemented to ensure that appropriate access is granted and terminated employees are removed in a timely manner. For terminated employees, among other processes, there should be a process for immediate deletion of passwords in the system and immediate change of all locks or passwords giving access to hardware or software. Inappropriate or excessive access may result in unauthorized data changes or transactions. In addition, management may consider a periodic reconciliation of application accounts to active District employees.
- 4) Management should also consider implementing a secondary review to ensure access to various applications is granted accurately based on the District's authorized forms and terminations are authorized prior to removing them from the applications. Management should consider implementing the Windows domain audit policy to identify potential security violations and failed events.

Information Technology Environment: General Controls

Department of Health

During our procedures over the eCura application, we noted the following:

- 1) There are no formally documented change management policies and procedures. Further, program change requests, testing, and approvals to move to production are not formally documented and test case forms are not always completed to evidence testing was performed and approved.

During our procedures over the MMIS application, we noted the following:

- 2) There appears to be an excessive number of users, more than 100, that have the ability to move packages into production.

During our procedures over the ACEDS application, we noted the following:

- 3) There is no formal change management policy in place for the ACEDS application and program change requests, testing, and approval to move to production are not noted.
- 4) 11 programmers had the ability to promote ACEDS codes to production and had direct access to the database.
- 5) There was 1 terminated user who was still active on the ACEDS system and mainframe after separation.

Management's Response:

The agency does have and employ formal procedures for program changes, testing, and gaining approvals to move to production. No system changes are moved to production without testing and managerial level approval. However, the agency is working on regression test plans and test scenarios to ensure a solid and consistent testing process. We are also preparing a manual of policies and procedures around system changes. The testing and change management processes will be documented by September 30, 2010.

Department of Employment Services

During our procedures over the DOCS application, we noted the following:

- 1) There is no formal change management policy in place.
- 2) Management was unable to provide evidence of programmer or user acceptance testing of all program changes.
- 3) No formal procedure exists to remove terminated users from DOCS.
- 4) Management was unable to provide documentation of the new hire process.

During our procedures over the DUTAS application, we noted the following:

- 5) There is no formal change management policy in place.
- 6) No formal procedure exists to remove terminated users from DUTAS.

Information Technology Environment: General Controls

- 7) No documentation was provided for the addition of users to the system.

During our procedures over the WEBS application, we noted the following:

- 8) There is no formal change management policy in place.
- 9) There is no formal procedure for user administration.
- 10) Management does not retain documentation of program changes.

During our procedures over the BARTS application, we noted the following:

- 11) There is no formal change management policy in place.
- 12) There are no formal procedures for user administration.

Management's Response:

DOCS Application:

The agency is currently working with OIT to implement a tracking system that incorporates approval and acceptance of changes to the system. In addition, the agency is presently developing a Policy Directive from the Director to in-house human resources to require them to notify the Office of Compliance and Independent Monitoring (OCIM) of all employees who separate from service.

DUTAS Application:

The agency is currently working with OIT to implement a tracking system that incorporates approval and acceptance of changes to the system. The agency's OCIM provides all those seeking access to the system with the required "Computer Access Form." This form must be filled out by the employee, signed by an Associate Director, and approved by the OCIM. It is only then that an employee's request is processed by OCIM.

WEBS and BARTS Applications:

The agency is currently working with OIT to implement a tracking system that incorporates approval and acceptance of changes to the system.

Office of the Chief Financial Officer

During our procedures over the SunGard application, we noted the following:

- 1) Access rights to be granted to a new user were not designated on the request form.
- 2) There was no evidence that the SunGard Access Removal Request form was appropriately approved.
- 3) The SunGard application had been upgraded. No documentation was available to verify that the upgrade had been properly tested or approved prior to migration into production.

Information Technology Environment: General Controls

During our procedures over the iNovah application, we noted the following:

- 4) There was no evidence that appropriate testing had been completed prior to implementation of iNovah.
- 5) There are unknown users with administrative access to the iNovah Windows domain.
- 6) iNovah Windows domain audit policy has not been configured to record security related events.

During our procedures over the DBC debt application, we noted that there is no formal methodology, testing environments, or documented approvals for requests, testing, or approval for moves to production.

During our procedures over the ARP cash application, we noted that computer programmers have access to move program changes into the production environment. We also noted that programmers have access to the ARP Datasets.

During our procedures over the SOAR application, we noted that SOAR developers had update access to the production environment and databases, and also conduct system administrator responsibilities.

Management's Response:

The Office of the Chief Financial Officer (OCFO) recognizes the importance of implementing effective change management processes to ensure security and functionality of production systems. Although change management processes are currently in place in all OCIO departments, these processes differ from each other. Last year, the OCIO re-organized its staff to more logically align IT personnel with roles in the systems development life cycle. This year, the OCFO OCIO is implementing an organization wide change management process that would apply to all systems. Certain aspects of this process are already implemented. Such as, any system changes require the approval of the Quality Assurance team before being promoted to production. Other aspects of the overall SDLC will be implemented this year.

SunGard Application:

A new user access form has been implemented. In addition, test procedures have now been developed for the SunGard application. Test plan, execution, and results recently performed prior to the move to the SW Waterfront are available.

iNovah Application:

When the Office of Finance and Treasury (OFT) first implemented iNovah to the 3 cashier locations in OFT, there was no documentation of testing by the original team of OFT and OCIO. While the cashier module is operable, the system is not fully implemented as the interface to SOAR is still in the development phase. Testing is underway. Test procedures have now been developed for the iNovah application. Test plan, execution, and results recently performed prior to the move to the SW Waterfront are available.

There is no iNovah Windows domain. There is an OCFO domain in which the iNovah server is located. The unknown users with administrative access to iNovah were the original System Innovators implementation team who needed administrative access to set up the cashier locations, create user IDs, and install revenue allocations and payment types.

Information Technology Environment: General Controls

These users' status in iNovah is INACTIVE. An iNovah User Access form has to be completed by type of access, user, and signed by a supervisor prior to creating a user ID for an iNovah user. Likewise, the form is used to remove iNovah user access. OFT will create a policy to review all user statuses quarterly.

As previously mentioned, there is no iNovah windows domain. The Agency will work with the OCFO IT Security Team to develop an iNovah audit policy that will be established and the corresponding configuration will be set up, complete with monitoring of security related events.

DBC Application:

Test procedures have now been developed for the DBC Debt Manager application. Test plan, execution, and results recently performed prior to the move to the SW Waterfront when the system configuration was changed to meet the waterfront infrastructure requirements are available.

ARP Application:

Per the ARP software change procedure, the change management analyst promotes software changes to production. The procedure prohibits the analyst making any edits to the software to promote the software into production. Since the ARP is a legacy application, changes to the system are infrequent.

Systems Analysts responsible for support of the ARP application have READ access to the corresponding production datasets to research and respond to users and production processing problems. No edit access is allowed for system analysts.

SOAR Application:

OCIO maintains that segregation of duties is in place. All SOAR development is performed by contractors (currently one contractor is retained for all software changes/development). Once the contractor has completed unit testing of codes in the development region, a request is made to the OCIO staff to migrate the code to a user acceptance testing environment. Once the Office of Financial Operations and Systems (OFOS), the business user, tests and formally approves the software change, a request is made to the OCIO to promote the software to production. OCIO staff does not perform any development work and is primarily responsible for test facilitation and production migration.

The contractor developer is restricted to "read only" access rights to production libraries. The developer has authority to browse production libraries but does not have the authority to change production libraries or data. RACF is used to secure the SOAR application programs and data. Any unauthorized access attempt is reported to the OCIO and OFOS and appropriate measures are taken.

In order to ensure continuity of service, a process is in place for an OCIO staff member to edit or develop software codes. Such instances require management approval. Documented procedures require a different OCIO member to migrate the code to production than the one who made the code changes, ensuring separation of duties in this instance. SOAR security administration is performed by OFOS personnel and not OCIO Systems Analysts.

Information Technology Environment: General Controls

Child and Family Services Agency

During our procedures over the FACES.NET application, we noted the following:

- 1) 3 FACES Program Specialists also had administrative access to the application. Further, one of the Program Specialists also had "connect" access to the database.
- 2) There was 1 terminated employee who was still active in the system and the Windows domain after separation.

Management's Response:

The three program specialists are individuals who are responsible for the system administration of FACES.NET in their respective roles and their having system administrator access is a pre-requisite.

The program specialist was a user account created with select privileges for the application development team to view the database tables as required by their assignments. After the agency performed the infrastructure upgrade on the database to a newer version in October 2009, a new account has been created. The new account only has select privileges to the database.

The agency's active directory domain has 3 domain administrators who are still active employees. There is no individual with domain administrative rights besides the above listed individuals.

Metropolitan Police Department

During our procedures over the TACIS application, we noted the following:

- 1) Currently, no audit trail documentation is maintained to evidence the approvals, sign-offs, and performance of the different stages in the change management process.
- 2) A Software AG Programmer had full access to TACIS at the application, database, and operating system levels.

Management's Response:

The agency agrees there is no automated audit trail to serve as evidence of approvals, signoffs, and performance of different stages in the change management process. The agency maintains an Excel spreadsheet of all system enhancements and changes with the noted approval of MPD and Software AG staff.

Under the current arrangement, the Software AG Programmer is required to have full access to the TACIS system to ensure the system functions as intended and to make the necessary modifications and research user problems.

Office of Tax and Revenue

During our procedures over the E-Star application, we noted the following:

- 1) Recorder of Deeds business users had administrative access.

Information Technology Environment: General Controls

- 2) While subsequently remediated, a new user in our sample was not setup accurately per the E-Star User Access Request Form.

Management's Response:

User administration (user addition, modification, removal) for the E-Star application is performed by the OCIO Technical Infrastructure Group (TIG) in a formal and controlled process. The OCIO has provided formal addition/termination user access request forms. The TIG receives an email request along with the attached form from the Recorder of Deeds (ROD). This is used to create an internal Help Desk ticket and all user access provisioning requests are tracked using email, the access forms, and Helpdesk SDE tickets.

Currently, a ROD supervisor reviews the access rights of E-Star users on a yearly basis. The OCIO recommends this review occur on a quarterly basis. To support the ROD review, the TIG will provide a report of current E-Star users and their access rights on a quarterly basis.

* * * *

Information Technology Environment: Treasury Functions

User Access and Segregation of Duties

During our review of the SOAR, SunGard, and iNovah systems' user access and segregation of duties, we noted the following:

- 1) Within SOAR, the ability to enter and release journal entries is not segregated to individuals based on job function; Accounting Technicians and Accounting Assistants entered and released SOAR entries in FY 2009. It was also noted that there is no policy documented for a review of user access on a periodic basis to ensure that access is appropriate and commensurate with job responsibilities.
- 2) Within SunGard, business users had access to administrative functions.
- 3) Within iNovah, 1 reviewer was granted inappropriate supervisory access for a period of time. In addition, 1 retired employee had active access to the iNovah system. The access issues were subsequently corrected.

We recommend that management review user access rights and authorizations and ensure access has been granted to only those functions required for an individual's job responsibilities. Access rights should be reviewed at least annually to ensure that they remain appropriate as this could result in unauthorized entries or adjustments being made.

Management's Response:

Management will consider the recommendations and will do a full review of all user access for all Office of Finance and Treasury (OFT) related financial systems. The Revenue Collection department will institute a regular review of user access rights in iNovah to assure that employees have access rights appropriate for their positions and job functions. Management will monitor access rights and limit the administrative functions to appropriate individuals for all OFT financial systems.

Oversight and Review

During our review over the Cashiering Operations, Disbursing Operations, Banking Operations – Vendor Center, and Wire Transfers, we noted the following:

- 1) For a selected daily settlement report from the Traffic Adjudication Site, the Site Supervisor had prepared and approved the daily settlement sheet.
- 2) For a selected check register summary sheet, there was no independent review and approval.
- 3) For individual expedited payment requests, there is no formal process for management to review and approve. A wire transfer transaction was authorized by the Office of Financial Operations and Systems (OFOS) and therefore did not need Office of Finance and Treasury (OFT) approval; however, it should have been recorded on the End of Day Report. OFT was notified of the transaction, but it was not recorded on the End of Day Report. Such a review did not adequately satisfy the control objective of the second level independent review.

We recommend that management establish a formal review and authorization process for daily settlement reports, check register summary sheets, individual expedited payment requests, and wire transfers, in order to better assure the completeness and validity of the transactions.

Management's Response:

OFT concurs with establishing a formalized second level management review of the daily settlement report, check register summary sheet, and individual expedited payment requests, in order to strengthen the oversight of these items.

Physical Access to Blank Checks

We noted that physical access to blank checks is not restricted in the Disbursement Operations' print room. In addition, Office of Finance and Treasury (OFT) management does not perform a periodic review of the authorized representatives who are allowed to take possession of the checks marked for pickup, and OFT management does not perform a reconciliation of checks processed by Disbursement Operations to the checks picked up by each agency representative.

In order to minimize the risk of theft, we recommend that management restrict access to blank checks to the Disbursing Manager and the Printing Coordinator. We recommend that management periodically review and confirm with agencies the appropriate list of authorized agency representatives allowed to take possession of checks marked for pickup. In addition, we recommend that a reconciliation of checks processed by Disbursement Operations to the checks picked up by each agency representative be performed periodically to ensure the completeness of the check stock and related disbursements.

Management's Response:

With the relocation of OFT in April, the Disbursing Unit will be contained in a restricted area with adequate space to enhance the security of the check stock. OFT management does perform an annual review of the authorized representatives who are allowed to take possession of the checks marked for pickup. Each Agency Fiscal Officer is required to designate the authorized person(s) for their agency and sign a new authorization form each fiscal year. OFT will develop a reconciliation procedure of checks processed by Disbursement Operations to the checks picked up by each agency representative.

Unclaimed Property

- 1) We noted that the District maintains a database of holder companies within the Unclaimed Property Management System (UPMS). However, the District does not have an existing process to confirm whether the holder companies file a holder report on an annual basis in order for the District to monitor unclaimed property that will be transferred to the District based on the Uniform Disposition of Unclaimed Property Law.
- 2) We also noted that Unclaimed Properties Operations has established policies and procedures for processing unclaimed property received from the holder companies; however, the policies and procedures are not periodically reviewed to ensure that they reflect current practices.
- 3) In addition, we noted that on an annual basis the Unclaimed Property Manager will use only the year-end (i.e., as of September 30) Affiliated Computer Services (ACS) Statement to "true-up" the value of the ACS managed Stock Portfolio in SOAR, the District's accounting system of record.

We recommend that management establish a list of holder companies and implement a process to monitor their annual filings in order to ensure the completeness of unclaimed properties.

Information Technology Environment: Treasury Functions

We also recommend that management establish a proper monitoring process to liquidate filed unclaimed properties in order to reduce storage and security costs. In addition, we recommend that management perform account reconciliations on the ACS managed stock portfolio on a periodic basis in order to ensure the accurate current market value of the unclaimed property stock portfolio.

Management's Response:

Management will consider the recommendations and implement the appropriate policy changes, ensuring that such changes are consistent with the District's Unclaimed Property Act.

Revenue Collections

We noted that a formal process and related accounting policy for pursuing collection of long outstanding accounts receivable has not been established. We recommend that management consider establishing a formal process to aid in this endeavor.

Management's Response:

The Revenue Collections manager has formally written the policies and procedures to document the accounting of dishonored checks in SOAR, the District's accounting system of record, to include a charge-off policy and a bad debt allowance. The current collection process for receivables less than 90 days remains in place with the Check Chase collection software system. Check Chase converts the returned check into an ACH debit and collects a return check fee. Office of Finance and Treasury (OFT) continues to pursue both a check guarantee service, to lessen the volume of future returned checks, and a third party collection agency to pursue receivables aged over 90 days.

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User Access and Segregation of Duties

During our review of the Integrated Tax System (ITS), System of Accounting and Reporting (SOAR), and the Computer-Assisted Mass Appraisal System (CAMA), we noted the following:

- 1) 2 terminated ITS system users retained their user access as of August 2009, even though the access rights were removed prior to that date.
- 2) 2 senior/supervisory appraisers were granted administration access rights as back-up for a CAMA system specialist. Business users should generally not be given administrative access to the system since the business users perform certain financial/business tasks within the same system.
- 3) The Deputy Recorder of Deeds retained active user access to the CAMA system as of August 2009, even though the access rights were removed prior to that date.
- 4) 1 retired SOAR user retained user access as of August 2009, even though the access rights were removed prior to that date.

Management should timely and continually evaluate user access rights within the important and critical computer systems, and remove/update user access rights immediately upon termination, detailing, temporary moves, permanent moves, and other such changes.

Management's Response:

The Office of Tax and Revenue (OTR) recognizes the risks associated with unauthorized access to our critical financial systems, and has established robust processes to ensure that access is controlled. System access is controlled by a dual system of user profiles within each application, and network/mainframe access. User profiles are determined based on assigned job duties, generally linked to job titles, and procedures are in place to assign user rights based on these criteria. Employees in each administration are specifically assigned responsibility to determine appropriate levels of access based on profiles, to ensure timely termination of system access for employees who are no longer with OTR and to create appropriate temporary profiles for employees who are detailed between administrations. In the specific instances cited, the established controls performed as intended, as outlined below.

- 1) 2 terminated ITS users:
 - One of these users (a contract employee) was added to the system on 04/15/2009. All user classes (one in this case) associated with the user were removed on 08/24/2009 by the Returns Processing Administration's Application Security Administrator (ASA). However, the user's mainframe RACF ID, which would have allowed the employee to access systems on the mainframe, was removed before 7/31/2009 per a RACF report generated that day. This prevented the user from accessing the system after the last day of July 2009, when the employee was terminated.
 - The other user was added to the system on 12/07/2004 and given a reassigned user-ID at that time. That means someone else was assigned that user-ID previously. The practice of re-using user-IDs was abolished in January 2008. On 07/24/2008, the employee was assigned a new, previously unassigned user-ID. All user classes associated with the user under both user-IDs were given an expiration date of 04/01/2009 by the Real Property Tax Administration's Application Security Administrator (ASA). By setting the expiration date for all of the user classes on 04/01/2009, the ASA removed the employee system access on that date.

Information Technology Environment: Revenue Generation and Collection

- 2) 2 business users with administrative access to CAMA: Both of these users have gone through the process for assigning user rights, and the access is appropriate.
 - Until January 2009, one of these employees was the supervisor of the Maps and Titles unit and had a supervisory assessor title. Currently, this employee is the Program Analyst for RPTA, serving as the backup for the CAMA specialist, and therefore not a business user.
 - The other user has an “assessor” title, but works solely for the CAMA manager performing the functions of a system administrator.
- 3) 1 terminated CAMA user: This employee had inquiry access, per Real Property’s procedures for removing access to CAMA. When someone is separated from District service, they are changed to *inquiry only* for the remainder of that fiscal year so that their ID’s are not lost in the CAMA tables. In the unlikely event that a former employee could somehow gain access to CAMA, they would not be able to change anything. After the CAMA file is rolled to the next year, users that are no longer with the District are deleted in that year’s file. This employee retired in October 2008. Access was removed in October 2009 at the beginning of the next fiscal year, in line with the stated practice.
- 4) 1 terminated SOAR user: This employee retired in April 2006. SOAR access was set to “inquire only”, and although the SOAR profile was not terminated timely, the RACF ID was automatically suspended and deleted by the data center according to their procedures. At no time could this former employee have entered a transaction into SOAR. To reinforce this current safeguard, OTR has implemented a process to review SOAR access lists, along with ITS access, on a quarterly basis to ensure that such profiles are removed timely from applications as well as from the mainframe.

Revenue Accounting Administration (RAA)

We noted the following:

- 1) The System Accountant did not prepare and release the ITS Refunds SOAR Voucher. This was done by the Management Analyst instead. Further, the Accounting Manager did not approve the SOAR Refund Journal Voucher; this was also performed by the Management Analyst.
- 2) The monthly communication of refunds processed and rejected was performed by the Tax Specialist, and not by the Accounting Manager.
- 3) The Revenue Accounting and Administration Director did not review the Business Improvement District revenue reconciliation on a regular basis. This was only carried out on an exception basis.

Authorization of refunds by proper levels of authority is an important control requirement. The Office of Tax and Revenue (OTR) appeared not to have followed some of the specified controls. Also, the Accounting Manager should perform the second level review on SOAR Refund Journal Vouchers, especially when the Management Analyst prepares and releases ITS Refund Journal Vouchers as well as approves non-ITS SOAR Refund Journal Vouchers.

Lastly, management should update its controls process narratives to reflect the changes made to the internal control processes structure on a regular basis. Management should also communicate the transfer and delegation of authority to the accounting team through internal memos or through other communications.

Management's Response:

We have made appropriate changes to our present procedures and agree to update our procedures if there are personnel changes during the year. In addition, with the implementation and remediation of various FY 2008 audit findings, RAA has continuously reviewed and updated its process flows during FY 2009 and has finalized many of its procedures. For example, RAA has developed a standard approval process/workflow for accounting entries posted to the general ledger (SOAR). This process mandates that separate individuals (1) create/enter, (2) approve, and (3) release all journal entries posted to the general ledger. The process narrative is current and up to date. During subsequent periods, management shall revisit the process narrative to make sure that proper protocol is being followed and the process narrative reflects any changes that have occurred during the year.

There is a protocol already in place where authority is delegated to the accounting team through internal memos and email communications. The RAA also restructured its organization chart during FY 2009 in order to ensure that accounting has a constant management presence through line supervision.

The Revenue Accounting Manager is the final step in the SOAR refund approval process. There are three levels of review:

- 1) Tax Specialist who reviews the vouchers and creates the SOAR journal entry.
- 2) Supervisory Revenue Accounting Specialist who reviews the work of the Tax Specialist.
- 3) Revenue Accounting Manager who reviews the refund package before it is released/approved in SOAR.

There was a period during FY 2008 and FY 2009 when for lack of resources, the Management Analyst released SOAR refund vouchers. This is not the current process as staffing levels improved with the return of the Revenue Accounting Manager to full-time duties. Also, a Systems Accountant or Management Analyst, who are equivalent in grade, can release transactions in SOAR. As such, when the Management Analyst released the transaction in SOAR, it was not a violation of internal controls.

Real Property Tax Administration – Assessment Division

We reviewed selected assessments and noted that the assessor's file should contain the Percent Change Report and Old to New Percentage Change Report, and should be maintained for every neighborhood grouping and track approvals and changes related to all property assessments. We noted that the Percent Change Report was not available for 9 out of the 45 properties selected for test work.

Management should continuously update the property records information within the Assessment Services division. The Assessor's file should be reviewed to ensure that it contains all up-to-date and necessary documentation such as the Percent Change Report for both residential and commercial properties. This will assist management in tracking changes in property assessments.

Management's Response:

The Office of the Chief Financial Officer (OCFO) has recognized the risks associated with inaccurate property tax valuations. To mitigate this risk, Real Property Tax Administration (RPTA) Assessment Division has implemented several controls.

In its efforts to be both efficient and effective, the Assessment Division has selected a mass appraisal system. This system takes advantage of several attributes that serve as controls to mitigate valuation risk, including the implementation of a Statistical Package for Social Science (SPSS) model, in-depth analyses of sold properties for inputs to modeling, verification of survey information to ensure data accuracy, regular sampling of properties to assess model performance, investigation of model outliers, and the sales to assessment ratio study, which includes 3 main tests, the Median Ratio, The Coefficient of Dispersion Ratio, and the Price Related Differential (performed annually). While not recognized as a formal control, each property owner has the right to appeal any valuation that he/she believes does not accurately reflect the market value of the property.

While RPTA appreciates the observations regarding the Percent Change report ("Percentage Change Detailed Analysis", or PCDA) and "Old to New" reports not being included for all of the commercial properties tested, it is procedurally not required to be kept for each property. It is one of the many tools used by appraisers during the valuation process to spot anomalies and verify that the information in the Computer-Assisted Mass Appraisal System (CAMA) is as accurate as possible. The appraisers are encouraged, but not required, to keep the latest version of the PCDA report; however, many appraisers keep multiple versions of the report as part of their working papers. If the version of the PCDA report reviewed was the last in a series run by the appraiser before final adjustments were made, the value could be different in CAMA and the Integrated Tax System (ITS). CAMA, however, is the official system of record for the Assessment Division. CAMA is the system of record where all property data is housed. RPTA will continue to review the risks and controls associated with ensuring accurate property assessments in its efforts to continue its existing controls.

Real Property Tax Administration – Recorder of Deeds

We noted that in 4 instances out of 45 samples selected for test work, the reconciliation between the Daily Revenue Cashier Summary, the Cashier's Receipt, and the Standard Deposit Ticket was not available. Amounts from the Cashier's Receipt appeared to have been properly agreed to the Standard Deposit Ticket, but there were differences noted in the reconciliation to the Daily Revenue Cashier's Summary.

Amounts listed on the Daily Revenue Cashier's Summary sheet should be reconciled to both the Cashier's Receipt and the Standard Deposit ticket. When variances are found during the reconciliation of these documents, supporting documentation should be filed with the Daily Revenue Cashier's Summary for the unreconciled amount. To accomplish this, management should perform daily reconciliations between these three documents, and these documents should be signed by the preparer and reviewed by an approver to confirm all amounts have been properly reconciled.

Management's Response:

The identified differences were insignificant and as of June 2009, the Office of Finance and Treasury (OFT) has revised the cashier settlement process that was reviewed and the new settlement process is consistent with the cited recommendations.

The four differences noted are cashier settlement differences between the tender (cash and checks) and the work processed. The total payment amount was crossed through on the Daily Revenue Cashier sheet and the corrected total noted, which included the difference. The Daily Revenue Cashier sheet is no longer modified for any reason and the three way settlement document reconciliation is performed daily.

Information Technology Environment: Revenue Generation and Collection

Under the new OFT cashier process, at the daily close of business, the cashier now completes a separate settlement sheet that shows the cash and check counts, any teller differences, and requires the signature of the cashier and cashier supervisor. This settlement sheet is reconciled to the Daily Revenue Cashiers Summary. If there is a difference, the cashier must complete a general ledger ticket to note the difference. The general ledger ticket is approved by the cashier supervisor and an interoffice memo is sent to the accounting unit for recording.

The cashier supervisor collects all of the cashier documents, and reconciles the individual settlement sheets to the Daily Revenue Sheet totals. He/she also verifies the cashier's cash and checks under dual control to confirm or resolve the difference. He/she creates a Cashier Receipt (bank deposit slip) and logs the entries in the courier log book.

The additional step of having a separate document to clearly show cashier differences and the completion of the general ledger document are added steps that provide proper support and documentation of any differences. The separate settlement sheet is signed off by the preparer and the cashier supervisor. With this new process, the noted deficiency is eliminated.

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Information Technology Environment: Hire to Pay

Supplemental Pay in PeopleSoft

An approved supplemental adjustment form with supporting documents must be submitted to the District's Office of Pay and Retirement Services (OPRS) - Special Pay Offices for any type of supplemental adjustment. During our review of 45 samples, we noted the following:

- 1) In 13 instances, we were not provided with any supporting documentation.
- 2) In 20 instances, there was no off-cycle request form or the forms were missing some of the necessary signatures.

We recommend that OPRS establish a better filing system for documentation supporting supplemental pay and a better review process so that off-cycle payments are not processed without the required signatures.

Management's Response:

- 1) There were a number of off-cycle payments that could not be fully documented with backup paperwork, although some paperwork was submitted for the 13 of 45 samples identified above. It is not unusual for an off-cycle request to encompass more than one employee with the appropriate documentation; however, all payments may not be processed on the same off-cycle schedule. Therefore, the paperwork is separated but the payment itself is not an unauthorized or unapproved payment.
- 2) The off-cycle request form is not required for various types of special payments such as: terminal leave payments, severance payments, bonus payments, and check cancellation and reissue. There are other forms and letters used for these payments. The off-cycle form is only used for hours not paid in a prior period (adjustments) and some retroactive payments.

OPRS looks for one signature on the off-cycle form for payment and that is the Approver Signature, which is usually the certification at the Agency. All signature blocks on the form are for internal agency use as required. For example, there may not be a signature for "Timekeeper/HR Advisor Signature" if the employee enters his/her hours in PeopleSoft and the agency does not use a timekeeper for this data entry.

There is no lack of review by management over the off-cycle process. The filing of appropriate documents will be looked at and improvements implemented as may be required. Additionally, management will review the current off-cycle form and revise as applicable to ensure better understanding/use of the form to include the signatures required for approval.

Segregation of Duties – Off-Cycle Payments

During our review of 45 samples pertaining to segregation of duties over off-cycle payments, we were not provided with supporting documentation authorizing the transactions in 14 instances. The District should enforce its policies which are set up to improve existing internal controls. Good documentation serves as an accounting record and facilitates future follow-up as well as, additional insight for other users.

Management's Response:

The Office of Pay and Retirement Services (OPRS) is in the process of documenting the off-cycle approval and payment process with written, hard copy, internal procedures.

Information Technology Environment: Hire to Pay

However, the off-cycle payment approval process is an electronic process with electronic signatures of approval for each step of the process. None of the steps can be missed and each step must be completed in sequence before the next step can begin. Without methodical step-by-step process within OPRS, an off-cycle payment cannot be done for the City. Additionally, with the multiple check points between OPRS' Special Payment unit, the Office of Chief Financial Officer at Office of Finance and Treasury (OFT), the Cash Management Department, the Office of Chief Technology Officer (OCTO) PeopleSoft Payroll Support Office, and the oversight and approval at OPRS Director's Office, an unauthorized off-cycle process cannot occur.

For the 14 of 45 transactions in which there was an inability to determine if the payments were properly authorized, the off-cycle payment could not be generated or paid by OPRS or another department without following the sequential steps and business processes, which is the same as for the 31 that were documented. The 14 could not be documented due to the limitation of storage capacity for retention of emails.

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Status of Prior Year Observations

Process, Entity, or Fund	Nature of Prior Year Comment	Current Year Status
General District Administration	Policies and Procedures Manual	Control Deficiency
General District Administration	Vendor Codes	Not Repeated
Cash and Investments	Unclaimed Properties	Not Repeated
Cash and Investments	Cash Receipts	Not Repeated
Cash and Investments	Cash Advances	Not Repeated
Cash and Investments	Supervisory Review	Not Repeated
Cash and Investments	Compliance with Investment Policy and its Parameters	Not Repeated
Cash and Investments	Transfer of Cash and Investments	Not Repeated
Cash and Investments	Non-Compliance with Financial Institutions Deposit and Investment Amendment Act	Not Repeated
Revenue Generation and Collection	Antifraud Policies and Procedures	Not Repeated
Revenue Generation and Collection	Redeemed Properties – Tax Sale Process	Not Repeated
Revenue Generation and Collection	Interest Calculation Method	Not Repeated
Revenue Generation and Collection	Buyer's Report	Not Repeated
Revenue Generation and Collection	Exemption from Real Property Tax	Control Deficiency
Revenue Generation and Collection	Review and Approval of SOAR Revenue Refund Vouchers (SRRV)	Not Repeated
Revenue Generation and Collection	Batching of Tax Returns	Not Repeated
Revenue Generation and Collection	Estate Taxes	Not Repeated
Revenue Generation and Collection	Policies and Procedures	Not Repeated

Process, Entity, or Fund	Nature of Prior Year Comment	Current Year Status
Revenue Generation and Collection	Ball Park Fees and Receivables	Not Repeated
Revenue Generation and Collection	Department of Employment Services (DOES)	Not Repeated
Revenue Generation and Collection	Department of Consumer & Regulatory Affairs (DCRA)	Control Deficiency
Revenue Generation and Collection	Office of the Chief Financial Officer (OCFO)	Not Repeated
Compensation	Sensitive Privilege Access within PeopleSoft – Human Resources	Control Deficiency
Compensation	Sensitive Privilege Access within PeopleSoft – System Administration	Control Deficiency
Compensation	Sensitive Privilege Access within PeopleSoft – Payroll	Control Deficiency
Compensation	Other Observations within PeopleSoft	Partially Corrected; see “Lack of Segregation of Duties within PeopleSoft” and “Tracking of Full-Time Employees (FTEs)”
Compensation	Health Benefit Payments made after Termination	Control Deficiency
Management of Grants	Transfer of Grants Receivable	Control Deficiency
Management of Grants	Income Maintenance Administration (IMA)	Control Deficiency
Management of Grants	Child and Family Services Agency (CFSA)	Control Deficiency
Management of Grants	Office of the State Superintendent of Education (OSSE)	Not Repeated
Disbursements	Purchase Cards	Control Deficiency
Disbursements	Direct Vouchers	Not Repeated
Disbursements	Lack of Adequate Supporting Documentation	Control Deficiency
Disbursements	Subsequent Disbursements	Control Deficiency

Process, Entity, or Fund	Nature of Prior Year Comment	Current Year Status
Disbursements	Purchase Orders and Requisitions	Not Repeated
Management of the Disability Compensation Program	Tort Liability Claims	Control Deficiency
Management of the Disability Compensation Program	Fire and Emergency Medical Services (FEMS) Claims	Control Deficiency
Management of the Disability Compensation Program	Data in Actuary Report	Control Deficiency
Fixed Assets	Inventory of Fixed Assets	Control Deficiency
Fixed Assets	Classification of Capital Expenditures	Control Deficiency
Fixed Assets	Personal Property	Control Deficiency
Fixed Assets	Confiscated Property	Not Repeated
Fixed Assets	Baseball Project Expenditures	Not Repeated
Fixed Assets	Unrecorded Land Swap	Partially Corrected; see "Land Swaps"
Management of the Postretirement Health & Life Insurance Trust	Accounting for Daily Activity	Not Repeated
Management of the Postretirement Health & Life Insurance Trust	Data in Actuary Report	Not Repeated
Management of the Medicaid Program	Findings of the Medicaid Fraud Control Unit	Not Repeated
Health Care Safety Net	Participant Eligibility	Not Repeated
Budget and Planning	Capital Budget Corrections	Not Repeated
Budget and Planning	Lack of Written Policies and Procedures	Not Repeated
Budget and Planning	Lack of Compliance with the Reserve Requirement	Not Repeated
Budget and Planning	Appropriation Act Reporting Requirements	Control Deficiency
Inventory	Reconciling Inventory	Not Repeated

Process, Entity, or Fund	Nature of Prior Year Comment	Current Year Status
Journal Entries	Review, Approval, and Documentation	Control Deficiency
Information Technology Environment: General Controls	Office of the Chief Technology Officer	Not Repeated
Information Technology Environment: General Controls	Office of Finance and Treasury	Control Deficiency; see "Office of Chief Financial Officer"
Information Technology Environment: General Controls	Medical Assistance Administration	Not Repeated
Information Technology Environment: General Controls	Department of Employment Services	Control Deficiency
Information Technology Environment: General Controls	Child and Family Services Agency	Control Deficiency
Information Technology Environment: General Controls	Department of Mental Health	Not Repeated
Information Technology Environment: General Controls	Department of Health	Control Deficiency
Information Technology Environment: General Controls	Office of Tax and Revenue	Control Deficiency
Information Technology Environment: General Controls	Metropolitan Police Department	Control Deficiency
Information Technology Environment: General Controls	Office of Financial Operations and Systems	Not Repeated
Information Technology Environment: General Controls	Office of the Chief Financial Officer	Control Deficiency
Information Technology Environment: General Controls	District of Columbia Public Schools	Not Repeated
Information Technology Environment: Treasury Functions	User Access and Segregation of Duties	Control Deficiency
Information Technology Environment: Treasury Functions	Opening of Bank Accounts	Not Repeated
Information Technology Environment: Treasury Functions	Closing of Bank Accounts	Not Repeated

Process, Entity, or Fund	Nature of Prior Year Comment	Current Year Status
Information Technology Environment: Treasury Functions	Bank Polling and Parsing	Not Repeated
Information Technology Environment: Treasury Functions	Journal Entries	Not Repeated
Information Technology Environment: Treasury Functions	Expedited Payments	Partially Corrected; see "Oversight and Review"
Information Technology Environment: Treasury Functions	Investment and Interest Income	Not Repeated
Information Technology Environment: Treasury Functions	Wire Transfers – Approval Limits	Not Repeated
Information Technology Environment: Treasury Functions	Wire Transfers – File Format	Not Repeated
Information Technology Environment: Revenue Generation and Collection	User Access and Segregation of Duties	Control Deficiency
Information Technology Environment: Revenue Generation and Collection	eTaxpayer Services Center	Not Repeated
Information Technology Environment: Revenue Generation and Collection	Lack of Review and Approval	Control Deficiency; see "Revenue Accounting Administration (RAA)"

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