

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

**AUDIT OF DISTRICT AGENCIES'
IMPLEMENTATION OF
ANNUAL FINANCIAL STATEMENT
AUDIT RECOMMENDATIONS**



**CHARLES J. WILLOUGHBY
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



May 18, 2010

Natwar M. Gandhi, Ph.D.
Chief Financial Officer
Office of the Chief Financial Officer
1350 Pennsylvania Avenue, N.W., Room 209
Washington, D.C. 20004

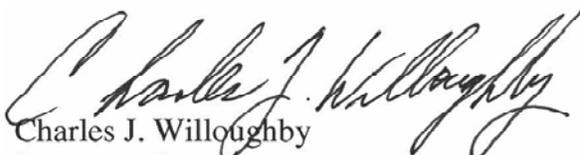
Dear Dr. Gandhi:

Enclosed is our final report summarizing the results of the Office of the Inspector General's (OIG) *Audit of District Agencies' Implementation of Annual Financial Statement Audit Recommendations* (OIG No. 09-1-04AT).

As a result of our audit, we directed nine recommendations to the Office of the Chief Financial Officer (OCFO) for necessary corrective actions and to correct reported deficiencies. We received a response to the draft report from OCFO on April 23, 2010. OCFO concurred with all of the recommendations. We consider OCFO's planned and/or taken actions to be responsive to our recommendations. The full text of OCFO's response to the draft report is included at Exhibit F.

We appreciate the cooperation extended to our staff during this audit. If you have any questions, please contact me or Victoria Lucchesi, Acting Assistant Inspector General for Audit, at (202) 727-2540.

Sincerely,


Charles J. Willoughby
Inspector General

CJW/sw

Enclosure

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EXECUTIVE SUMMARY

OVERVIEW

The District of Columbia Office of the Inspector General (OIG) has completed an audit of *District Agencies' Implementation of Annual Financial Statement Audit Recommendations*. This audit was performed at the request of the District's Comprehensive Annual Financial Report (CAFR) Committee as part of the Committee's oversight process. We conducted the audit of selected District agencies to determine whether findings and recommendations identified in the District of Columbia's Independent Auditors' Report on Internal Control and Compliance Over Financial Reporting for Fiscal Year Ended September 30, 2008 (Yellow Book audit)¹ have been implemented. The Yellow Book audit report was issued on February 4, 2009. Our report summarizes the results of the assessment of District agencies' compliance with the Yellow Book audit recommendations.

The overall objective of the audit was to determine whether agencies have implemented the agreed-to recommendations that were intended to correct material weaknesses and significant deficiencies noted in the Yellow Book audit report. The audit included review and evaluation of corrective actions taken by 15 agencies on 24 of 119 (20%) recommendations made in the Yellow Book audit report. Prior to the issuance of the draft audit report, agencies were provided preliminary audit results for management action and comment.

CONCLUSIONS

The Office of the Chief Financial Officer (OCFO) has established a collaborative process for tracking the Yellow Book audit report recommendations, developing corrective action plans, monitoring remediation efforts, and verifying completed actions. Adequate controls appear to be in place over the maintenance of audit follow-up files at OCFO's Office of Integrity and Oversight (OIO) Internal Audit division. Our review identified opportunities for strengthening management controls over the tracking, monitoring, administration, and reporting of corrective actions taken by agencies to address audit issues identified by the District's independent auditors.

SUMMARY OF RECOMMENDATIONS

We directed nine recommendations to OCFO that we believe are necessary to address deficiencies identified during the audit. The recommendations focus on strengthening management controls to improve the: (1) effectiveness of the District's audit follow-up process; (2) accuracy and completeness of the data contained in the District's recommendation tracking database system; and (3) timeliness of resolving outstanding audit findings and recommendations. A summary of potential benefits resulting from this audit is included at Exhibit A.

¹ Auditors are required to follow Generally Accepted Government Auditing Standards (GAGAS) requirements while conducting the audit Internal Control and Compliance Over Financial Reporting for Fiscal Year Ended September 30, 2008. GAGAS guidance is commonly referred to as the "Yellow Book".

EXECUTIVE SUMMARY

MANAGEMENT ACTIONS AND OIG COMMENTS

On April 23, 2010, OCFO provided a response to the recommendations in our draft audit report. OCFO concurred with all of the recommendations, and we consider OCFO's actions taken or planned to be responsive. The full text of OCFO's response is included at Exhibit F.

INTRODUCTION

BACKGROUND

This audit was requested by the District's Comprehensive Annual Financial Report (CAFR) Committee as part of the Committee's oversight process. It was intended to follow-up on issues addressed in the District's fiscal year (FY 2008) Independent Auditors' Report on Internal Control and Compliance Over Financial Reporting (OIG Report No. 09-1-10MA), which was issued on February 4, 2009. Issued by BDO Seidman, LLP in connection with the audit of the District's general purpose financial statements for FY 2008, the report:

- Identified significant deficiencies that adversely affect the District's ability to initiate, authorize, record, process, and report financial data reliably such that internal control may not prevent or detect a misstatement of the District's financial statements.
- Indicated that Treasury Functions and Management of the Medicaid Program are two significant deficiencies considered material weaknesses. 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.
- Recommended that management address the deficiencies in order to maintain the financial integrity of the city by ensuring that corrective actions are both immediate and sustainable relative to those persistent and recurring deficiencies.

Office of the Chief Financial Officer

The mission of the Office of the Chief Financial Officer (OCFO) is to enhance the fiscal and financial stability, accountability, and integrity of the government of the District of Columbia. OCFO's organization consists of: (1) Central Financial Operations; (2) Agency Financial Operations; and (3) Chief Financial Officers for independent agencies. The OCFO is managed by the District's Chief Financial Officer (CFO). Some of OCFO's responsibilities consist of oversight and direct supervision of the District's financial and budgetary functions; operating and maintaining a coordinated financial management system to budget, collect, control, and properly account for annual operating and capital funds; preparing the District's annual budget; representing the District in the federal appropriations process; monitoring budget performance during the fiscal year; borrowing on behalf of the District; collecting receipts, payments, and transactions for the District; and investing the District's funds.

Role of the OIO Internal Audit Division

The Office of Integrity and Oversight (OIO) reports directly to the CFO and consists of two divisions – Internal Audit and Internal Security. The OIO Internal Audit division (OIO Audit Division) assists District financial managers in promoting integrity, efficiency, and accountability in financial operations and related management functions. This role is

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accomplished through a system of internal audits and reviews, oversight and monitoring activities, and analyses and evaluations.

Conducting the follow-up review of the Yellow Book audit findings and recommendations is one of the major activities performed by the OIO Audit Division as part of its annual audit plan. OIO auditors are assigned to work collaboratively with agency liaisons in verifying corrective actions planned and taken to address identified deficiencies in the following areas:

- Medicaid Program;
- Compensation;
- Office of Tax and Revenue (OTR);
- District of Columbia Public Schools (DCPS);
- Post-retirement Health and Life Insurance Trust; and
- Treasury Functions.

Role of the Office of Financial Operations and Systems

The Office of Financial Operations and Systems (OFOS) is part of the Central Financial Operations division within OCFO. OFOS' mission is to:

- Bring accountability, discipline, and integrity to the District's financial processes by ensuring that standardized accounting practices, procedures, systems, and internal controls are embedded throughout the District's financial operations;
- Produce the District's financial statements; and
- Administer the District's payroll and retirement systems.

As part of its mission for maintaining accountability and strengthening internal controls, OFOS has developed a formal process to remediate the Yellow Book audit findings. Specifically, OFOS developed this comprehensive and systematic remediation process to: (1) address each deficiency noted by the independent auditors during the annual Yellow Book audit process; (2) mitigate the risk of repeat audit findings; (3) improve internal controls over financial reporting; and (4) maximize efficiency within the District's financial operations.

The remediation process enables OFOS to generate a corrective action plan template (Action Plan Status Report) for each affected agency to facilitate the development of detailed action steps needed to promptly and appropriately resolve each identified deficiency. After generating the initial corrective action plan, the agency updates its Action Plan Status Report on a weekly basis to reflect the current status of each "action step" and submits the weekly updates to OFOS. OFOS uses these weekly status reports to monitor the progress made by agencies on completing planned corrective action. When agencies report action steps as "completed," the assigned

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OFOS liaison determines whether such actions are satisfactorily completed prior to notifying the assigned OIO liaison. Using appropriate audit procedures, the OIO liaison verifies the completion of action steps. While OFOS and OIO assist in facilitating the remediation process, the affected agencies are ultimately responsible for developing and implementing the necessary corrective actions.

CRITERIA

There are several established criteria governing follow-up activities, which delineate management's responsibility. In its *Audit of District Agencies' Implementation of Audit Recommendations* (OIG No. 08-1-03MA) issued on March 12, 2009, the OIG recommended that the District of Columbia Office of Risk Management (DCORM) work collaboratively with the City Administrator to issue District-wide guidance patterned after the Office of Management and Budget (OMB) Circular A-50 and Federal Managers Financial Integrity Act (FMFIA) requiring responsible agency officials to establish, assess, correct, and report on internal controls related to their audit follow-up systems. DCORM indicated in its official response that this recommendation was satisfied, and that the agency would continue to work collaboratively with the City Administrator to issue the recommended guidance.

Additionally, on October 14, 2009, the OCFO indicated its agreement to develop and implement a system of internal control and work processes that are consistent with OMB Circulars A-50 and A-123. The District's CFO made this commitment in response to OIG's audit of OCFO's *Implementation of Recommendations Contained in the Wilmer Cutler Pickering Hale and Dorr LLP Report* (OIG No. 09-2-11AT), relating to the discovery of a fraud scandal within OTR in November 2007. Efforts to accomplish this goal are ongoing.

While the District has not yet formally adopted guidance such as OMB Circular A-50 as part of its city-wide audit follow-up policies or regulations, in order to ensure best practices and sound management controls, the District of Columbia would benefit from adherence to such guidance. Principal requirements of OMB Circular A-50 guidance include, but are not limited to, ensuring:

- Compliance with the regulatory requirements governing prompt and proper resolution of findings and recommendations from various sources;
- Establishment of adequate management controls to efficiently and effectively manage a centralized follow-up function for the District government;
- Implementation of a reliable information management system that would enable responsible officials to capture, track, and monitor the District's follow-up activities; and
- Development of adequate processes to address findings and recommendations reported in the annual Yellow Book audits.

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Statutory Guidance

According to Section 6 of the District's Reorganization Plan No. 1 of 2003 (D.C. Code § 2003-35), DCORM is responsible for implementing and maintaining a system for managing the resolution of outstanding recommendations and findings from various sources including the OIG, D.C. Auditor, and external District-wide audits with management letter recommendations, court orders, retained consultants, and others. This responsibility entails establishing and implementing adequate management controls to ensure: (1) accurate and complete recording of recommendations from various sources; (2) timely resolution of recommendations by District agencies; (3) regulatory compliance through ongoing follow-up processes and oversight of related activities; and (4) proper audit trails of all follow-up activities.

General Auditing Standards Guidance

The Comptroller General's Government Auditing Standards emphasize the importance of follow-up on significant findings and recommendations from prior audits to determine whether corrective actions have been implemented. Failure to implement audit recommendations increases the risk of fraud, waste, and abuse in government operations. Thus, tracking audit recommendations to assess the progress of corrective actions is an integral part of sound internal control systems that include proactive risk mitigation and compliance monitoring strategies.

Federal Managers Financial Integrity Act (FMFIA)

The Federal Managers Financial Integrity Act (FMFIA) of 1982 (Public Law 97-255) requires ongoing evaluations and reports of the adequacy of the systems of internal accounting and administrative control of each agency, and for other purposes. While FMFIA is not applicable to the District government, an effective audit follow-up process is an important component of the District's administrative control – one that is administratively delegated to the OIO Audit Division by the CFO.

Tracking and Correcting Material Weaknesses

Best practices reflected in OMB Circular A-123, Management's Responsibility for Internal Control, indicate that a material weakness identified by independent auditors could:

- Significantly impair the fulfillment of an agency component's mission.
- Deprive the public of needed services.
- Violate statutory or regulatory requirements.
- Significantly weaken safeguards against waste, loss, unauthorized use or misappropriation of public funds, property, or other assets.

INTRODUCTION

- Impact management’s or users’ decisions or conclusions based on an error or misstatement in a financial report.

The Circular provides guidance to agency managers on improving the accountability and effectiveness of their programs and operations by establishing, assessing, correcting, and reporting on management controls. When material weaknesses are identified, this Circular suggests that: (1) a corrective action plan with milestones be developed; (2) progress against plans be periodically assessed and reported to management; and (3) management track progress to ensure timely and effective results. The last milestone in the plan should be validation that corrective action has resolved the weakness.

The Circular also suggests that management’s corrective action process for material weaknesses should:

- Provide for appointment of an overall action accountability official from senior management.
- Carefully consider whether systemic problems exist that adversely affect controls, organizational or program lines. CFOs, senior officials, and managers of other functional offices are encouraged to get involved in identifying and ensuring correction of systemic deficiencies related to their respective functions.
- Require prompt resolution and corrective actions, as they reflect positively on the agency’s commitment to recognizing and addressing management problems.
- Maintain accurate records of corrective action status through the entire process of resolution to allow for verification of remediation efforts.
- Ensure corrective actions are consistent with laws, regulations, policies, procedures, and other administrative directives.
- Ensure that performance appraisals of appropriate officials reflect effectiveness in resolving or correcting material weaknesses.

Establishing an Audit Follow-up System

DCORM’s planned District-wide guidance should provide policies and procedures that will require District agencies to establish an audit follow-up system “to assure the prompt and proper resolution and implementation of audit recommendations.” Under the new guidance, resolution should occur within a maximum of 6 months after issuance of a final report, and corrective action should proceed as rapidly as possible. The District guidance should also require that the

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follow-up systems provide for a complete record of action taken on both monetary and non-monetary findings and recommendations.

In addition, the District guidance should emphasize that audit follow-up is an integral part of good management as well as a responsibility shared by agency management officials and auditors. The new guidance should establish 11 standards patterned after OMB Circular A-50 that follow-up systems must meet, including ensuring that “performance appraisals of appropriate officials reflect effectiveness in resolving and implementing audit recommendations.”

To improve accountability, integrity, and transparency in government operations, we believe that the District should adopt applicable portions of the Circular by establishing systems to ensure the prompt and proper resolution and implementation of the Yellow Book audit recommendations. In particular, the systems should provide for complete records of actions taken by agency management on all findings and recommendations included in the Yellow Book audit reports issued by the District’s independent auditors.

OBJECTIVES, SCOPE, AND METHODOLOGY

The overall objective of this audit was to determine the status of recommendations detailed in the District of Columbia’s Independent Auditors’ Report on Internal Control and Compliance Over Financial Reporting for Fiscal Year Ended September 30, 2008, requiring management actions to correct reported material weaknesses and significant deficiencies. To accomplish this objective, we selected 24 recommendations and evaluated actions taken by 15 agencies/departments to determine: (1) the progress made in addressing the recommendations; (2) whether reported deficiencies had been satisfactorily resolved through prompt and appropriate corrective actions, or were still outstanding; and (3) whether reasons for delay or disagreement in implementing the recommendations were justified. Our audit universe and samples are detailed in Table I below.

Table I – Audit Universe and Scope			
<i>Audit Area</i>	<i>Total Recommendations</i>	<i>Total Sampled</i>	<i>Sampled Percent</i>
Management of the Medicaid Program	10	6	5%
Noncompliance with Procurement Regulations	13	4	3%
District of Columbia Public Schools	8	4	3%
Noncompliance with the Quick Payment Act	1	1	1%
Postretirement Health & Life Insurance Trust	9	3	3%
Compensation	8	3	3%
Office of Tax and Revenue	54	3	3%
Financial Institutions Deposit & Investment Amendment Act	1	0	0%
Expenditure in Excess of Budgetary Authority	1	0	0%
Treasury Functions	14	0	0%
Totals	119	24	20%²

² Percentages have been rounded to the nearest tenth.

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To address the first audit objective, we provided the designated agency officials with a list of the audit recommendations, and asked them to classify the current status of each as fully implemented, partially implemented, in progress, not implemented, or overtaken by events.

For the second audit objective, we analyzed the documentation provided by agency officials to determine whether management had implemented controls to address the reported deficiencies. For example, if the recommendation required that a policy be implemented to address a weakness, we verified that the policy had in fact been written, finalized, and promulgated. We did not otherwise verify, beyond analyzing supporting documentation provided and discussing past recommendations with agency personnel, the implementation and effectiveness of corrected actions reported by agency personnel.

Our audit of the OIO Audit Division's follow-up process included reviewing the audit follow-up system and supporting documentation maintained during the period under review. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Prior to the issuance of the draft audit report, agencies were provided preliminary audit results for management action and comment.

DISTRICT AGENCIES COVERED

Our verification process involved evaluating corrective actions taken and planned by the following 15 District agencies/departments to address 24 selected recommendations:

1. Child and Family Services Agency (CFSA)
2. D.C. Department of Human Resources (DCHR)
3. District of Columbia Public Library (DCPL)
4. District of Columbia Public Schools (DCPS)
5. Department of Health Care Finance (DHCF)
6. Department of Mental Health (DMH)
7. Department of Employment Services (DOES)
8. Income Maintenance and Administration (IMA), Department of Human Services
9. Office of Contracting and Procurement (OCP)
10. Office of Finance and Treasury (OFT)
11. Office of Pay and Retirement Services (OPRS)
12. Office of Tax and Revenue (OTR)
13. Office of the Attorney General (OAG)
14. Office of the Chief Financial Officer (OCFO)
15. Office of the Chief Technology Officer (OCTO)

INTRODUCTION

RESULTS OF PRIOR FOLLOW-UP REVIEW

Our Office issued the *Audit of District Agencies' Implementation of Audit Recommendations*, OIG No. 08-1-03MA, on March 12, 2009. The audit determined that the District had not adequately established a system to manage audit follow-up and resolution of outstanding audit issues. Additionally, this audit noted that DCORM did not have controls in place to ensure compliance with established criteria governing follow-up activities, and lacked adequate administrative controls to track and manage the resolution of outstanding audit issues. Based on these audit observations, the OIG recommended that the Director, DCORM:

1. Work collaboratively with the City Administrator to issue District-wide guidance requiring agency heads and management officials to establish, assess, correct, and report on internal controls related to their audit follow-up systems. Such systems should: (a) ensure the prompt and proper resolution and implementation of audit recommendations from various sources; and (b) provide for a complete record of action taken on both monetary and non-monetary findings and recommendations. Additionally, the guidance could be patterned after the Federal Managers Financial Integrity Act, OMB Circular No. A-50, and the Federal Claims Collection Standards.
2. Implement a comprehensive Web-based database system to accurately and completely track recommendations directed to District agencies and to facilitate the timely resolution of outstanding recommendations from various sources including the OIG, D.C. Auditor, Government Accountability Office (GAO), federal inspectors general, and external auditors.

DCORM management agreed with our observations and indicated that the agency had already taken corrective actions to address many of the deficiencies noted in the report.

FINDINGS AND RECOMMENDATIONS

FINDING 1: EVALUATION OF THE OIO AUDIT DIVISION'S FOLLOW-UP PROCESS
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SYNOPSIS

Our audit found that the OIO Audit Division appeared to have adequate management controls over its audit follow-up process. The audit also identified opportunities for strengthening such controls to improve:

- Coordination of the District-wide audit follow-up activities;
- Communication of management expectations through policy statements;
- Efficiency and effectiveness of the audit resolution process; and
- Information management to facilitate effective oversight of follow-up activities.

MANAGEMENT CONTROLS

Our limited review of the records submitted by the OIO Audit Division indicated that the agency appeared to have adequate management controls over its audit follow-up process. However, the review also identified the following opportunities for improvement:

- **Coordination of District's Audit Follow-up Activities:** There was no evidence of coordination between the OIO Audit Division and DCORM on tracking and managing the resolution of the Yellow Book audit issues. Section 6 of the District's Reorganization Plan No. 1 of 2003 states that DCORM is responsible for implementing and maintaining a system for managing the resolution of outstanding recommendations and findings from various sources including the OIG, D.C. Auditor, and external District-wide audits with management letter recommendations. Effective coordination of the District-wide audit follow-up activities would significantly minimize duplication of effort, reduce operating cost, improve recordkeeping, and optimize the remediation process.
- **Audit Follow-up Policies and Procedures:** OIO did not have written internal policies and procedures for conducting annual follow-up reviews of actions taken by agencies to address the Yellow Book audit findings and recommendations. Developing written policies and procedures for routine control activities and making them accessible to employees provides day-to-day guidance to staff, facilitates training of new employees, promotes adherence to accepted practices, and ensures the continuity of follow-up operations in the event of prolonged employee absences or turnover.
- **Written Guidelines for Agencies:** Formal guidelines on effective communication with OFOS and OIO personnel during the collaborative remediation process had not been developed and disseminated to the affected agencies. Such guidelines would minimize

FINDINGS AND RECOMMENDATIONS

confusion about proper remediation procedures, and ensure prompt and appropriate resolution of identified deficiencies.

- **Tracking of Repeat Audit Issues:** There was no formally defined process for identifying, tracking, and reviewing the repeat findings and recommendations. We did not obtain historical records reflecting prior findings and recommendations that had not been addressed by the agencies. The District’s independent auditors recommended that management address all reported deficiencies by ensuring that corrective actions are immediate and sustainable relative to those “persistent and recurring deficiencies.” We believe that tracking and monitoring the repeat audit issues will enhance the effectiveness of the ongoing oversight process.
- **Dunning Process:** An effective dunning³ management system was not established to ensure complete and continuous follow-up on outstanding audit findings and recommendations. Such a system would consolidate all follow-up and remediation actions in one place to ensure efficient and effective tracking of agency operations. Specifically, a dunning management system enables efficient tracking of agencies that have not responded or resolved outstanding audit issues within a given time span. It also facilitates the remediation process by sending reminders to agencies with outstanding audit issues.
- **Tracking of Reported Deficiencies and Corrective Actions:** The OIO uses disparate Excel spreadsheets to track audit issues and agencies’ implementation of corrective action plans. The OIO auditors responsible for each of the six audit areas transmit the current status of their completed work to the project manager on a weekly basis. The project manager uses the transmitted information to manually create a comprehensive summary sheet with the performance statistics. Given that records related to different remediation efforts from different agencies could be too voluminous to efficiently and effectively manage with such a cumbersome manual process, OIO should consider using an alternative information management system that facilitates seamless data sharing and automated management reporting. This system can significantly simplify the process of presenting audit issues that have been fully implemented, partially implemented, deemed in progress, or deemed no-longer-feasible in either real-time or as-needed mode.
- **Status Reports:** The project manager prepares and submits weekly status reports reflecting the number of completed and outstanding audit issues to the OIO Audit Director. The reports do not list agencies and their corresponding recommendations that have been fully resolved or remain outstanding as of the status date.

³ “Dunning” is a common accounting term used to demand payment for amounts due from a debtor. In this report, however, the term is used to connote frequent requests for the current status of implemented actions on report recommendations.

FINDINGS AND RECOMMENDATIONS

- **Red Alert Report:** The Red Alert Report prepared by OFOS contains front burner issues reported at the bi-weekly Yellow Book Liaisons Joint Meetings attended by OIO, OFOS, and agency officials. The report is an important control document in the ongoing audit remediation process. However, instead of merely stating that the agency is at risk of not remediating material weaknesses and significant deficiencies by the end of a given fiscal year, the effect portion of each identified issue could be refined to address the fiscal impact or risk exposure on the District's financial operations of the agency's failure to take prompt and appropriate corrective actions.
- **Communication of External Audit Results:** District agencies indicated during our verification phase that they were not given the opportunity to review and comment on the draft audit report prepared by the District's independent auditors prior to final issuance. The agencies believed that this was one of the reasons why some of the previously resolved issues were included in the audit reports of subsequent years as unresolved. However, the independent auditors stated that each of the District agencies were given an opportunity to review and comment on the Yellow Book findings and recommendations.
- **Accountability List of New and Prior Audit Issues:** The annual Yellow Book audit process does not currently provide a table or appendix that lists agencies responsible for addressing new and prior audit findings identified in the report. An accountability list would minimize confusion concerning which agencies are primarily responsible for remediating noted control deficiencies, and facilitate an effective follow-up review process on an annual basis by OIG, OIO, and other recognized audit entities. To address this issue, we advised the CAFR Committee to consider adopting our suggestion for having the independent auditors present information in the Yellow Book audit report in a table or appendix listing all agencies responsible for resolving new and repeat findings.

These conditions indicated that management controls need to be strengthened to more efficiently and effectively assist the District government in identifying, tracking, monitoring, and managing the resolution of all Yellow Book audit findings and recommendations.

MAINTENANCE OF FOLLOW-UP FILES

We reviewed the OIO Audit Division's follow-up files and interviewed personnel about their recordkeeping practices. The division maintained audit workpaper binders for each of the following areas:

- Medicaid Program;
- Compensation (payroll-related);
- OTR;
- DCPS;
- Post-retirement Health and Life Insurance Trust; and
- Treasury Functions.

FINDINGS AND RECOMMENDATIONS

Our review of several workpaper binders indicated that the OIO auditors diligently documented the source, purpose, procedure, and results of their verification of supporting documents submitted by the affected District agencies. The binders also contained records of communications with agencies to resolve outstanding audit recommendations and evidence of supervisory reviews. These conditions indicated adequate controls over the OIO Audit Division's recordkeeping practices.

AUDIT FOLLOW-UP SYSTEM

The OIO Audit Division did not implement a centralized audit follow-up system that included accurate, complete, and current records of actions taken by agencies on the Yellow Book audit findings and recommendations. As noted previously, the Division tracked the audit recommendations and agencies' implementation of corrective actions on disparate Excel spreadsheets maintained by six different auditors. Although the spreadsheets contained all recommendations from the FY 2008 audit report and actions taken or planned by agencies to address some of these recommendations, the disjointed records did not facilitate:

- Tracking and storage of audit finding and recommendations in a central location;
- Efficient agency updates on the status of outstanding recommendations;
- Efficient retrieval of audit follow-up data for review and management reporting; and
- Effective maintenance of historical audit follow-up data for benchmarking purposes.

These conditions are not in compliance with best practices. Specifically, OMB Circular A-50 recommends the establishment of audit follow-up systems "to assure the prompt and proper resolution and implementation of audit recommendations." The Circular also recommends that the systems maintain accurate and complete records of actions taken by agencies on findings and recommendations through the entire process of resolution and implementation. Deploying a centrally managed relational database or Web-based application for the Yellow Book audit follow-up system offers the following benefits to the District government:

- Enables auditors to remotely record recommendations, corrective action plans, and completed verifications.
- Allows agencies to update the status of recommendations online. This will significantly: (1) reduce paperwork in the audit follow-up process; (2) minimize duplication of information processing efforts; (3) improve information exchange and coordination between agencies by providing access to real-time data; and (4) enhance accountability, transparency, and efficiency in the audit follow-up process.
- Assures compliance with regulations and best practices, including the provisions of OMB Circulars A-50 and A-123.

FINDINGS AND RECOMMENDATIONS

- Promotes prompt and appropriate resolution of outstanding recommendations from various audit entities.
- Generates useful information for management on the current status of findings and recommendations to aid the ongoing oversight process.
- Provides effective guidance to agencies in developing and implementing sound controls to prevent fraud, waste, and mismanagement of financial resources.

As noted in the Results of Prior Follow-up Review section of this report, DCORM agreed to implement a comprehensive Web-based audit follow-up system to: (1) accurately and completely track recommendations directed to the District agencies; and (2) facilitate the prompt resolution of outstanding recommendations from various sources, including the District's independent auditors. We believe that OCFO and other agencies would benefit from using this system to synergistically track, monitor, manage, and report resolution of control deficiencies.

ANNUAL FOLLOW-UP REVIEW

The OIO Audit Division conducts an annual follow-up review of the Yellow Book audit findings and recommendations. This review is consistent with the division's mission of assisting the CFO in promoting integrity, efficiency, and accountability in fiscal operations and related management functions.

On January 29, 2009, the OIO Executive Director issued a memorandum report to the CFO summarizing results of the follow-up review of FY 2007 Yellow Book audit findings and agencies' implementation of corrective action plans for material weaknesses and significant deficiencies in internal controls over financial reporting. The follow-up review was initiated at the CFO's request, and its primary objectives were to: (1) determine whether agencies' planned corrective actions adequately addressed the findings and recommendations; and (2) ensure that actions implemented actually remediated the findings and satisfied the intent of the recommendations. Although the results of the follow-up review were sufficiently detailed and well presented, they were outside the scope of our limited review.

OIO did not issue a similar follow-up review report for FY 2008 because: (1) agencies were still receiving assistance in developing corrective action plans to address the related Yellow Book audit findings and recommendations; (2) most of the recommendations were in various stages of the resolution process; and (3) OIO Audit Division and OFOS personnel were still meeting regularly to discuss completed and pending actions of the affected agencies, as well as to resolve some obstacles encountered during the remediation process.

FINDINGS AND RECOMMENDATIONS

FOLLOW-UP STATUS REPORTS

OMB Circular A-50 requires follow-up systems to provide semi-annual reports to the agency head on: (1) the status of all unresolved audit reports over 6 months old, the reasons for the untimely resolution, and a timetable for their resolution; (2) the number of reports or recommendations resolved during the period; (3) the amount of disallowed costs; and (4) collections, offsets, write-offs, demands for payment, and other monetary benefits resulting from audits. The Circular also indicates that these reports should include an update on the status of previously reported unresolved audits.

The OIO Audit Division provides weekly status reports to its Director. These weekly reports did reflect: (1) the status of all unresolved recommendations over 6 months old, reasons for their untimely resolution, and a timetable for their resolution; and (2) updates on identified repeat audit issues. However, we were not provided with any evidence indicating that the division was generating and submitting periodic status reports of its follow-up activities to the affected agency heads, CFO, and other appropriate District stakeholders. As a result, District stakeholders cannot be assured that the conditions identified in the Yellow Book audit reports have been corrected or that remedial actions are ongoing to address the reported deficiencies.

COLLABORATIVE REMEDIATION PROCESS

We interviewed OIO Audit Division personnel about their collaboration with other District agencies to address the Yellow Book audit issues, and reviewed related records on a limited basis. We noted that the division has been working collaboratively with OFOS personnel to facilitate the review and remediation of the FY 2008 Yellow Book audit findings and recommendations. This collaborative process consists of the following activities:

- OFOS personnel assist the affected agencies in developing corrective action plans for remediation of the findings. Such plans are primarily intended to satisfy the intent of the Yellow Book audit recommendations.
- OIO auditors review corrective action plans developed by the agencies to determine whether the plans adequately address the Yellow Book audit findings and recommendations.
- An OIO auditor for a specific audit area is assigned to coordinate all follow-up actions with the appropriate OFOS representative and agency's liaison officer.
- OIO auditors schedule meetings with appropriate agency officials responsible for coordinating the Yellow Book remediation efforts to obtain, review, and test the supporting documentation on a sample basis, and where necessary, perform tests of transactions or actions implemented to ensure that controls implemented to remediate deficiencies are functioning as intended.

FINDINGS AND RECOMMENDATIONS

- OIO auditors hold bi-weekly meetings with OFOS liaisons to discuss any exceptions, obstacles, or concerns with a given agency.
- OFOS issues a “Red Alert Report” to the CFO, as necessary, that states the issue, effect, and action needed to resolve the issue.
- OIO Audit Division issues a memorandum report summarizing the results of follow-up review on the Yellow Book findings and recommendations.

This collaborative process appears beneficial to the District government in terms of promoting prompt resolution of deficiencies noted in the annual Yellow Book audit process and preventing the repeat of similar issues in subsequent fiscal years.

RECOMMENDATIONS

We recommend that the Chief Financial Officer, OCFO:

1. Establish a process for periodic coordination with DCORM to track and manage the resolution of audit findings and recommendations from various sources, including the District’s independent auditors.

OCFO RESPONSE

OCFO concurs with the recommendation, and stated that a process for periodic coordination with DCORM will be established by June 30, 2010. The full text of OCFO’s response to each of our recommendations is included at Exhibit F.

OIG COMMENT

We consider actions planned by OCFO to be responsive to our recommendation.

2. Develop and implement internal policies and procedures for conducting annual follow-up review of actions taken by agencies to address the Yellow Book audit. Such policies will ensure integrity and consistency in work processes and activities. These policies should be periodically updated to reflect current follow-up practices within OCFO and other affected agencies.

OCFO RESPONSE

OCFO agrees with the recommendation, and stated that by September 2010, OCFO will re-examine and update its policies and procedures for conducting audit recommendation follow-up.

FINDINGS AND RECOMMENDATIONS

OIG COMMENT

We consider actions planned by OCFO to be responsive to our recommendation.

3. Implement policy that defines the process to ensure that persistent and recurring control deficiencies are appropriately tracked, monitored, and resolved to maintain the financial integrity of the District.

OCFO RESPONSE

OCFO agrees with the recommendation, and stated that by September 2010, OCFO will re-examine and update its policies and procedures to ensure persistent and recurring control deficiencies are tracked, monitored, and resolved.

OIG COMMENT

We consider actions planned by OCFO to be responsive to our recommendation.

4. Utilize the Web-based audit follow-up database system implemented by DCORM to accurately and completely track recommendations, and to facilitate the timely resolution of outstanding issues from the District's independent auditors. The system should include effective dunning management protocols.

OCFO RESPONSE

OCFO concurs with the recommendation and by June 30, 2010, will utilize the Web-based audit follow-up database system implemented by DCORM to accurately and completely track recommendations.

OIG COMMENT

We consider actions planned by OCFO to be responsive to our recommendation.

5. Improve the usefulness of periodic audit follow-up status reports by including information about the District agencies that are in compliance as well as those that are not in compliance with the requirements for prompt and appropriate resolution of outstanding audit issues. Semi-annual status reports should be generated and distributed to the directors of all affected agencies.

FINDINGS AND RECOMMENDATIONS

OCFO RESPONSE

OCFO agrees with the recommendation, and plans to work with the OIG for assistance in establishing a protocol similar to the OIG's dunning system, in which reminder letters are sent to management to report on the status of recommendation implementation. The OCFO plans to complete its protocol by June 30, 2010.

OIG COMMENT

We consider actions planned by OCFO to be responsive to our recommendation.

6. Adopt measures to ensure that all affected agencies are accorded the opportunity to review and comment on the draft audit report prepared annually by the District's independent auditors prior to final issuance.

OCFO RESPONSE

OCFO agrees with the recommendation, and states that agencies are accorded the opportunity to review and comment on draft findings/reports. OCFO also noted that obtaining management comment for input into the draft report by the independent auditors should continue to be emphasized during the CAFR Oversight Committee Meetings.

OIG COMMENT

We consider actions taken by OCFO to be responsive to the recommendation.

7. Implement management controls to ensure that OCFO's audit follow-up system includes procedures for prompt and appropriate resolution of all outstanding recommendations within a maximum of 6 months after issuance or receipt of a final report.

OCFO RESPONSE

OCFO agrees with the recommendation, and plans to work with the OIG for assistance in establishing a protocol that is similar to the existing structure that the OIG uses to track audit agency implementation of audit recommendations, by June 30, 2010.

OIG COMMENT

We consider actions planned by OCFO to be responsive to the recommendation.

FINDINGS AND RECOMMENDATIONS

FINDING 2: RESULTS OF DISTRICT AGENCIES' FOLLOW-UP ACTIONS

SYNOPSIS

Our review indicated that 15 District agencies had fully implemented 17 of 43 (40 percent) recommendations selected for verification. The total number of recommendations selected for review included 19 duplicates.⁴ The remaining recommendations verified by the OIG were classified in the following status categories:

- Partially Implemented: 16 of 43 (37 percent).
- In Progress: 2 of 43 (5 percent).
- Not Implemented: 8 of 43 (19 percent).

Overall, 26 of 43 (60 percent) agency actions reported by the end of FY 2008 did not fully resolve the agreed-to recommendations selected for review. This condition indicates that the OCFO, working with DCORM, needs to take more aggressive action to ensure prompt and appropriate resolution of the Yellow Book audit issues. Results of our follow-up audit verifications are presented at Exhibit D.

DISCUSSION

We provided the designated agency officials with a list of the audit recommendations affecting their agencies, and asked them to classify the status of each selected recommendation as fully implemented (FI), partially implemented (PI), in progress (IP), or not implemented (NI). We also asked the officials for supporting documentation on all actions taken to address recommendations they reported as fully implemented and partially implemented. For recommendations classified as partially implemented and in progress, we asked agencies to provide target dates for the full implementation of corrective actions. The table shown at Exhibit B summarizes the results of our review. A more detailed description of the status of each recommendation is at Exhibit D.

The verification phase of our audit was limited to analyzing the supporting documentation provided by agency officials to determine whether management had implemented controls to address the reported deficiencies. For example, if the recommendation required that a policy be implemented to address a weakness, we verified that the policy had in fact been written, finalized, and promulgated. We did not otherwise verify, beyond analyzing supporting documentation provided and discussing past recommendations with agency personnel, the

⁴ Initially, we selected 24 sample items (recommendations) for verification. These recommendations are listed at Exhibit B. Given that not every recommendation was limited to one agency, there were instances where two or more agencies were required to address the same recommendation. Accordingly, we had to verify 19 duplicate actions during our follow-up audit, thus increasing the total number of recommendations reviewed to 43 (24 plus 19).

FINDINGS AND RECOMMENDATIONS

implementation and effectiveness of corrected actions reported by agency personnel. Of the 43 recommendations verified by direct analysis of the relevant supporting documentation, 17 (40 percent) recommendations were determined to be fully implemented.

Our review of reported agency actions also indicated the following conditions:

- Four agencies did not provide the requested updates classifying the status of 10 recommendations selected for review during the verification phase. Those agencies provided the status updates and documentation after the presentation of our audit briefings.
- Seven agencies did not provide supporting documentation during the verification phase to validate 15 recommendations they reported as fully implemented and partially implemented. Some of the agencies provided the required documentation after our audit briefings to management. However, we could not validate 11 recommendations that 5 agencies reported as fully implemented due to lack of appropriate supporting documentation. We changed the status of those recommendations to either partially implemented or not implemented.
- Six agencies did not provide target dates for completing corrective actions on 11 recommendations they classified as partially implemented and in progress.

Our comparison of the FY 2007 Yellow Book audit report to the FY 2008 report identified 31 repeat audit issues. We asked the affected agencies to provide written explanation as to why the issues were not previously addressed. We noted that 6 agencies could not provide written explanation for 23 of 31 (74 percent) repeat audit issues. Results are detailed at Exhibit C.

These results indicate that agencies are not: (1) maintaining appropriate supporting documentation for recommendations they reported as fully and partially implemented; (2) taking prompt and appropriate corrective action to address reported deficiencies; and (3) exercising appropriate management oversight to minimize incidents of repeat audit issues. The 26 recommendations not fully implemented by agencies included 10 recommendations identified by the OIG at Exhibit E as not implemented.

RECOMMENDATIONS

We recommend that the Chief Financial Officer:

8. Work with DCORM to follow-up with agency officials on all of the FY 2008 Yellow Book audit recommendations that remain unresolved, including the 26 recommendations that the OIG classified as not fully implemented to ensure that agencies continue to work aggressively to timely and fully close these recommendations.

FINDINGS AND RECOMMENDATIONS

OCFO RESPONSE

OCFO concurs with the recommendation, and stated that the OCFO will establish a process for periodic coordination with DCORM by June 30, 2010.

OIG COMMENT

We consider actions planned by OCFO to be responsive to our recommendation.

9. Formalize and implement policy to ensure that sufficient supporting documentation is maintained for all audit recommendations that the District agencies report as fully and partially implemented, and make such documentation readily available for review by independent auditors.

OCFO RESPONSE

OCFO agrees with the recommendation, and stated that OCFO will re-examine and update its policies and procedures to ensure that sufficient documentation is maintained for all audit recommendations that District agencies report as fully and partially implemented. OCFO's target date for completion is September 2010.

OIG COMMENT

We consider actions planned by OCFO to be responsive to our recommendation.

**EXHIBIT A: SUMMARY OF POTENTIAL BENEFITS
RESULTING FROM AUDIT**

Recommendations	Description of Benefit	Amount and Type of Benefit	Estimated Completion Date	Status ⁵
1	Internal Control, Efficiency, and Economy. Establishes a mechanism for tracking and managing resolution of audit issues.	Non-monetary	TBD	Open
2	Internal Control, Efficiency, and Economy. Develops and implements internal policies and procedures for the audit follow-up process.	Non-monetary	TBD	Open
3	Compliance and Internal Control. Strengthens controls to minimize incidents of repeat audit issues.	Non-monetary	TBD	Open
4	Internal Control and Program Results. Improves the ability to track and resolve outstanding issues.	Non-monetary	TBD	Open
5	Internal Control and Program Results. Improves the usefulness of periodic audit follow-up status reports.	Non-monetary	TBD	Open
6	Compliance and Internal Control. Ensures agencies are accorded an opportunity to comment on Yellow Book recommendations.	Non-monetary	TBD	Closed

⁵ This column provides the status of a recommendation as of the report date. For final reports, “**Open**” means management and the OIG are in agreement on the action to be taken, but action is not complete. “**Closed**” means management has advised that the action necessary to correct the condition is complete. If a completion date was not provided, the date of management’s response is used. “**Unresolved**” means that management has neither agreed to take the recommended action nor proposed satisfactory alternative actions to correct the condition.

**EXHIBIT A: SUMMARY OF POTENTIAL BENEFITS
RESULTING FROM AUDIT**

Recommendations	Description of Benefit	Amount and Type of Benefit	Estimated Completion Date	Status⁵
7	Compliance, Internal Control, Efficiency, and Program Results. Implements controls similar to those included in OBM Circular A-50.	Non-monetary	TBD	Open
8	Compliance, Internal Control, and Program Results. Intensifies efforts to resolve outstanding recommendations in the FY 2008 Yellow Book report.	Non-monetary	TBD	Open
9	Compliance, Internal Control, and Program Results. Provides audit trails of remediation efforts and allows for independent review of such efforts.	Non-monetary	TBD	Open

⁵ This column provides the status of a recommendation as of the report date. For final reports, “**Open**” means management and the OIG are in agreement on the action to be taken, but action is not complete. “**Closed**” means management has advised that the action necessary to correct the condition is complete. If a completion date was not provided, the date of management’s response is used. “**Unresolved**” means that management has neither agreed to take the recommended action nor proposed satisfactory alternative actions to correct the condition.

EXHIBIT B: RESULTS OF THE FOLLOW-UP AUDIT VERIFICATIONS

Description	District Agencies Covered															Total
	CFSA	DCHR	DCPL	DCPS	DHCF	DMH	DOES	IMA	OAG	OCFO	OCP	OCTO	OFT	OPRS	OTR	
Audit Universe	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
Total Recommendations	13	10	7	20	2	13	7	1	1	10	14	3	10	6	54	171 ⁶
Repeat Audit Issues	10	2	0	2	2	9	0	1	0	2	11	1	0	2	13	55 ⁷
Verification Status																
Fully Implemented (FI)	2	0	2	0	1	2	2	0	1	0	2	0	3	0	2	17
Partially Implemented (PI)	2	0	0	4	1	1	0	1	0	2	2	2	0	0	1	16
In Progress (IP)	0	1	0	0	0	0	0	0	0	0	0	0	0	1	0	2
Not Implemented (NI)	0	2	0	4	0	0	0	0	0	1	0	0	0	1	0	8
Total Verified (Sample Items)	4	3	2	8	2	3	2	1	1	3	4	2	3	2	3	43 ⁸

SUMMARY

Status (Total)	Percent
Fully Implemented (17)	40%
Partially Implemented (16)	37%
In Progress (2)	5%
Not Implemented (8)	19%
Totals	100% ⁹

⁶ This figure includes 52 duplicates because the FY 2008 Yellow Book audit recommendations in our universe actually totaled 119 (see Table I).

⁷ This figure includes 25 duplicates because we identified only 31 repeat audit issues as listed at Exhibit E.

⁸ This figure includes 19 duplicates because we actually selected 24 recommendations (sample items).

⁹ This total equals 100 percent due to rounding of totals within each category.

EXHIBIT C: RECOMMENDATIONS IDENTIFIED BY OIG AS NOT IMPLEMENTED

The OIG verified supporting documentation for 43 recommendations that 15 agencies agreed to implement (see Exhibits B and D). Our review identified four agencies that did not maintain supporting documents for eight recommendations they classified as fully implemented and partially implemented. Due to the lack of sufficient documentation to support corrective actions taken by the agencies, we have classified the 8 recommendations as not implemented and listed them below for management attention. The recommendations listed below were as stated in the FY 2008 Yellow Book audit report with the page numbers in parentheses.

DISTRICT DEPARTMENT OF HUMAN RESOURCES (DCHR)

1. Recommendation 19: 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 (pg. 34).
2. Recommendation 20: We recommend that each agency develop policies and procedures and train employees to directly charge their time to specific federal grants and local programs (pg. 42).

DISTRICT OF COLUMBIA PUBLIC SCHOOLS (DCPS)

3. Recommendation 4: CFSA and DCPS should improve their claims documentation in order to minimize potential disallowances in future years (pg. 29).
4. Recommendation 9: Management at the contracting offices should perform a periodic review and design checklists which must be approved by supervisory personnel prior to being filed (pg. 81).
5. Recommendation 12: We recommend that timelines for completion of the Medicaid cost reports be developed and implemented with the independent third party utilized by DCPS to complete the applicable Medicaid cost reports (pg. 69).
6. Recommendation 14: More detailed analysis needs to also be considered in analyzing disbursements to ensure they are reported in the proper period (pg. 71).

OFFICE OF THE CHIEF FINANCIAL OFFICER (OCFO)

7. Recommendation 8: The District must follow its existing policies for documentation and approval of transactions. Special focus should be placed on ensuring that all agencies conform to the regulations and are accountable at a centralized level (pg. 81).

**EXHIBIT C: RECOMMENDATIONS IDENTIFIED BY OIG AS
NOT IMPLEMENTED**

OFFICE OF PAY AND RETIREMENT SERVICES (OPRS)

8. Recommendation 20:¹⁰ We recommend that each agency develop policies and procedures and train employees to directly charge their time to specific federal grants and local programs (pg. 42).

¹⁰ This is a duplicate recommendation directed to DCHR and OPRS.

EXHIBIT D: LIST OF RECOMMENDATIONS REVIEWED

The list below contains 24 recommendations selected for review during our follow-up audit. Actions taken by 15 District agencies to address these selected recommendations were verified by OIG auditors. Where available, agency comments are included. For tracking purposes, the FY 2008 Yellow Book audit report page numbers containing the recommendations are cited inside the parentheses.

MANAGEMENT OF THE MEDICAID PROGRAM

Recommendation 1: The Memorandum of Understanding (MOU) between DMH and MAA should be renegotiated so that MAA, the state Medicaid agency, assumes the role of payer of first resort for provider of Medicaid claims. In the current process, DMH pays the provider first and then seeks 70 percent reimbursement (federal portion) from MAA. Thus, DMH uses 100 percent of its local dollars to pay providers and then attempts to recover the 70 percent. This approach has not been effective or efficient (pg. 22).

DMH Status: The recommendation was deemed fully implemented by the agency. The MOU between DMH and the DHCF (formerly MAA) was amended to facilitate the direct payment of claims by DHCF to Medicaid Rehabilitation Option (MRO) providers certified by DMH, also known as Mental Health Rehabilitation Services (MHRS) providers. The amended MOU became effective November 1, 2007, and was properly signed by the agency directors, general counsels, and financial officers. Supporting documentation adequately validated the full implementation of this recommendation.

DHCF Status: DHCF classified this recommendation as fully implemented. Supporting documentation submitted by the agency adequately validated the full implementation of this recommendation. However, this recommendation was initially classified as *not implemented* in our audit briefing presentation to management because the agency did not respond to our repeated requests for a status update during the verification phase.

Recommendation 2: Further, internal controls surrounding validation of provider claims need significant improvement. DMH has a documented policy that requires periodic audits of MHRS providers. However, during FY 2006, DMH was unable to provide documentation supporting any audits performed during FY 2006 or FY 2007 (pg. 23).

DMH Status: DMH indicated that this recommendation was fully implemented. The agency hired a Director for Accountability on December 11, 2006, and its Office of Accountability (OA) has been performing periodic audits of claims since the spring of 2007. Supporting documentation submitted to OIG for review included Preliminary Audit Results for FY 2008 1st Quarter, FY 2007 Audit Results, and FY 2006 Audit Results; MHRS Financial Bulletins; Personnel Action Form for the Director of Accountability; OA's Claim Audit Process Flow; OA's FY 2008 Audit Plan; and sample letters of OA's final audit results for FY 2007. The documentation adequately validated the full implementation of this recommendation.

EXHIBIT D: LIST OF RECOMMENDATIONS REVIEWED

Recommendation 3: We also recommend that cost report audits be done in a timely manner. This will allow the District to reduce the time between Medicaid expenditures being incurred and the ultimate reimbursement from the Federal government (pg. 28).

CFSA Status: CFSA indicated that this recommendation was partially implemented because DHCF auditors were on site and in the process of completing the cost audit reports for FYs 2006 and 2007. According to the agency, DHCF only schedules Medicaid cost audits after receiving internal cost reports from CFSA. The agency indicated on November 12, 2009, that auditors from Bert Smith and Associates (BSA) completed their fieldwork as of September 30, 2009, but BSA has not yet published the final report. CFSA did not provide any supporting documentation such as unaudited or audited cost reports to validate the partial implementation of the recommendation regarding the timely cost reporting process. According to the agency, the final report will be available for OIG review from DHCF once it is completed by an unspecified date.

DCPS Status: DCPS indicated that implementation of this recommendation was in progress, with a target completion date of September 30, 2009. DCPS did not provide the requested status update in a timely manner. In response to our November 2, 2009, status inquiry on the status of this recommendation, the agency indicated that a preliminary Medicaid Cost Settlement Report was submitted for FY 2008 to DHCF on September 30, 2009, and the final version was submitted on November 3, 2009. DCPS submitted an electronic copy of the FY 2008 Cost Settlement Report for our review on November 5, 2009. We consider this recommendation partially implemented.

DMH Status: The agency indicated that implementation of this recommendation was in progress. DMH indicated on November 8, 2009, that its cost reports for FYs 2007 and 2008 were submitted to DHCF for review. DMH further indicated that it is unclear as to when the cost report audits would be completed because DHCF cancelled the November 5, 2009, exit conference on the FY 2007 cost report. Due to these actions, we consider the recommendation partially implemented.

OIG Comments: OIG auditors made several unsuccessful attempts to obtain information from DHCF officials to: (1) determine the timeline for completion of the required cost report audits; (2) confirm the receipt of cost reports from DCPS, DMH, and CFSA for review; (3) ascertain whether the agencies filed their reports in a timely manner; and (4) assess the status of DHCF's review of the cost reports filed by the agencies. These factors make it difficult to determine whether the District has implemented cost-effective controls to ensure the timely completion of the recommended cost report audits.

Recommendation 4: CFSA and DCPS should improve their claims documentation in order to minimize potential disallowances in future years (pg. 29).

CFSA Status: CFSA indicated that this recommendation was fully implemented. Management indicated that CFSA had implemented monthly internal audits, enhanced quality assurance, verified Medicaid services prior to submission of Medicaid claims, and improved maintenance

EXHIBIT D: LIST OF RECOMMENDATIONS REVIEWED

and management of data documenting the provision of Medicaid services. The agency was also restructuring its Medicaid service delivery and Medicaid claims system in collaboration with DHCF, and had discontinued Medicaid claims processing until the effort is complete. Due to these ongoing remediation efforts and the lack of appropriate supporting documentation, such as samples of improved claims documentation, we classified the recommendation as partially implemented.

DCPS Status: DCPS classified this recommendation as fully implemented. However, DCPS neither explained nor provided supporting documentation indicating how the agency's claims documentation has been improved to minimize potential disallowance in future years. We could not validate the full implementation of this recommendation without sufficient and appropriate evidence of actions taken and planned by the agency to address reported deficiencies. DCPS did not provide any comments or documentation after the presentation of our audit briefing to management. Additionally, DCPS did not provide the requested status update to us in a timely manner. Due to these conditions, we classified this recommendation as not implemented.

Recommendation 5: We recommend that IMA review its existing processes for document retention, as not having the required documentation can increase the possibility of disallowance of these expenditures (pg. 30).

IMA Status: IMA indicated that this recommendation was partially implemented. The agency obtained a Scanning Assessment, which was completed in February 2009, and had completed a Statement of Work (SOW). After review by OCP, the SOW was to be revised for two distinct services: the development of the Document Imaging Management System and the actual scanning of the records. The revised SOW was forwarded to OCP on June 18, 2009. We noted that a copy of the scanning assessment submitted for our review did not include cost estimates. However, corrective actions taken and planned by the agency, as well as supporting documentation, adequately validated the partial implementation of this recommendation.

Recommendation 6: Considering the significant number of transactions and the significant dollar amounts being processed through the MMIS, it is very important that all control objectives are met. Not having these controls in place could jeopardize the accuracy and completeness of provider claims processed which could affect the District's financial results. We recommend MAA either conduct follow-up with the third party administrator of MMIS or consider other alternatives to ensure that the above control objectives are achieved in FY 2009 (pg. 31).

DHCF Status: DHCF classified this recommendation as partially implemented. The agency developed detailed corrective actions that started on October 1, 2008, and were slated for completion by September 30, 2009. DHCF did not respond to our inquiries as to whether the status of the recommendation has changed now that FY 2009 has ended. Supporting documentation submitted by the agency, including monthly reports of active and inactive system user access as well as signed user agreement forms, adequately validated the partial implementation of this recommendation. However, this recommendation was initially classified

EXHIBIT D: LIST OF RECOMMENDATIONS REVIEWED

as not implemented in our audit briefing presentation to management because the agency did not respond to our repeated requests for status update during the verification phase.

NONCOMPLIANCE WITH PROCUREMENT REGULATIONS

Recommendation 7: We recommend that the District consider the design and maintenance of a centralized tracking system (database) with information that identifies the amount and status of each contract for all procurements (pg. 79).

OCP Status: OCP indicated that the implementation of this recommendation was in progress. The agency noted that the contract for PASS/Ariba Contracts Compliance Module was planned for award in July 2009, and implementation was slated for early FY 2010. However, the agency indicated on November 2, 2009, that the contract for the implementation of the Module has not been awarded yet. OCP further indicated that considerable efforts were spent cleaning up the existing stand alone contract database (Contract Awards Database). This allows the agency to reconcile results in the system on a monthly basis to its solicitation system, and resolve any discrepancies. OCP also added more fields to the existing database to eliminate another stand alone database because it is easier to ensure the integrity of data in one system. In addition, the importance of accuracy in the District's official system of contract records is being emphasized to OCP staff, and although OCP's remediation response focused on the new system, management now believes that the problem could be remediated without the new system. Because the agency implemented some actions to address this recommendation and provided adequate documentation of joint remedial efforts with OCTO to address identified deficiencies, we consider this recommendation partially implemented.

OCTO Status: The agency classified this recommendation as partially implemented. OCTO indicated that the District would satisfy this recommendation with the implementation of the Ariba Contracts Compliance (ACC) Module application that supports the loading of master agreements into Ariba Buyer, which is designed to control the award of individual purchase orders known as Release Orders, and allows for centralized tracking of the amount and status of each contract. Per OCTO, the request for proposal (RFP) for implementation of the ACC Module was issued in May 2008 with responses received in July 2008; the vendor evaluation and selection concluded in February 2009; the contract was awaiting OAG's review prior to transmission to the D.C. Council for approval; and the implementation was expected in late summer of 2009. However, on November 6, 2009, OCTO indicated that the contract status has not changed because OCP and OAG were still reviewing the contract prior to submission to the D.C. Council. The agency further indicated that the contract has been undergoing the review process for more than 36 weeks and OCTO is currently waiting for the entire approval process to be completed before the modules can be implemented.

Recommendation 8: The District must follow its existing policies for documentation and approval of transactions. Special focus should be placed on ensuring that all agencies conform to the regulations and are accountable at a centralized level (pg. 81).

EXHIBIT D: LIST OF RECOMMENDATIONS REVIEWED

OCP Status: OCP indicated that this recommendation was fully implemented. Copies of the written Guidelines for Contract File Preparation and File Checklists were submitted for our review and posted on the Internet for procurement staff reference. Additionally, OCP rolled out a database in January 2009 to track contract files and their contents, and conducted training for procurement staff on the contents of complete files. Documentation submitted and actions taken adequately validated the full implementation of the recommendation.

CFSA Status: The agency considered this recommendation fully implemented. Supporting documentation submitted for our review, such as Contract and Procurement Administration guidelines that include an internal audit checklist for periodic supervisory review and approval of procurement transactions, adequately validated the full implementation of the recommendation.

DCPL Status: The agency classified this recommendation as fully implemented. DCPL currently ensures that all regulatory requirements related to procurement are satisfied before any award is made. Tax verification responses are obtained in writing from DOES and OTR prior to award to verify that the applicable regulatory requirements have been satisfied. Supporting documentation submitted by the agency adequately validated the full implementation of this recommendation. However, appropriate supporting documentation was submitted for our review after the presentation of audit briefing to management.

DCPS Status: DCPS classified this recommendation as fully implemented. However, the agency did not submit supporting documentation that clearly indicates: (1) actions taken by the agency to ensure that all procurement transactions are routinely documented and approved; (2) how the agency employees were trained to ensure compliance with the District's procurement regulations; and (3) checklists were established for the approval and documentation of procurement transactions. The agency submitted samples of disbursement records to the OIO auditors. Review of these records indicated that vendor invoices were being reviewed, approved, and documented to support disbursement transactions. Due to these conditions, we classified this recommendation as partially implemented. DCPS did not provide the requested status update to us in a timely manner.

DOES Status: The agency classified this recommendation as fully implemented. DOES' Office of Program and Performance Monitoring (OPPM) monitors transactions for compliance with the procurement regulations. Completed documents are reviewed for sufficiency and returned for remediation if they contain errors or insufficient information. Supporting documentation, including the checklists the agency uses for monitoring contract and blank purchase agreements (BPAs), adequately validated the full implementation of the recommendation. However, the status update and documentation were submitted after our audit briefing presentation.

OCFO Status: OFOS, which responded on behalf of OCFO, originally indicated that this recommendation was partially implemented with a target completion date of September 30, 2009. Subsequent to the presentation of our audit briefing to management, OFOS stated in its response that: (1) OCP was solely responsible for implementing this recommendation; and (2) the target date for implementing the long-term automated compliance solution changed from

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September 30, 2009, to the second or third quarter of FY 2010. OCFO did not provide any information or documentation indicating actions taken or planned to ensure agency-wide compliance with the District's procurement regulations, policies, and procedures. Due to the lack of supporting documentation, we reclassified this recommendation as not implemented. Additionally, OCFO did not submit the requested status update to us in a timely manner.

Recommendation 9: Management at the contracting offices should perform a periodic review and design checklists which must be approved by supervisory personnel prior to being filed (pg. 81).

OCP Status: The agency indicated that this recommendation was fully implemented. OCP designed checklists for the review and approval of contract files by appropriate supervisory personnel. In addition, management indicated that OCP's Office of Procurement Integrity and Compliance (OPIC) had conducted approximately 30 audits of FYs 2008 and 2009 contract files, and that random auditing of contract files by the division was ongoing. Although OPIC's responsibility for conducting procurement related reviews for compliance is reflected in the draft procedures manual dated June 2008, OCP did not provide documentation to support the completion of periodic reviews. Due to the lack of supporting documentation, such as copies of completed audit reports or records reflecting completed periodic reviews, we classified this recommendation as partially implemented.

CFSA Status: The agency considered this recommendation fully implemented. For our review, CFSA submitted a copy of its Contract and Procurement Administration guidelines that included an internal audit checklist for periodic supervisory review and approval of procurement transactions. The documentation adequately validated the full implementation of the recommendation.

DCPL Status: The agency classified this recommendation as fully implemented. Management in the contracting office at DCPL currently performs the recommended periodic reviews and checklists have been established that must be approved by supervisory personnel prior to filing. Supporting documentation submitted by the agency adequately validated the full implementation of this recommendation. However, appropriate supporting documentation was submitted for our review after the presentation of an audit briefing to management.

DCPS Status: DCPS indicated that this recommendation was fully implemented. As one of several District agencies with independent procurement authority, DCPS did not submit any evidence of the checklists developed for supervisory approval of contract files and periodic reviews performed to ensure compliance with existing procurement policies and regulations, including the contract file preparation policy. Due to the lack of supporting documentation, we classified this recommendation as not implemented. In addition, the agency did not provide the requested status update to us in a timely manner.

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DOES Status: The agency indicated that this recommendation was fully implemented. Per Section 7.3 of DOES' Procedures Manual (Contract Monitoring), the Workforce Investment Act (WIA) mandates that the District monitor all of its training providers receiving WIA funds for compliance with legislation, government regulations, service delivery, achievement of program performance standards, and customer satisfaction. Accordingly, OPPM is responsible for conducting the District's oversight and monitoring activities relative to employment and training services providers. In carrying out this responsibility, OPPM monitors contracts, Memoranda of Understanding, Memorandum of Agreement, and Subgrant Blanket Purchase Agreement service providers on a quarterly basis. Monitoring includes: (1) in-house desk reviews of activity reports, management information reports, and follow-up reports; and (2) onsite reviews that may entail a tour of the facility, interviews with program directors, staff, and participants, and reviews of participant records, and financial records. Findings for the initial monitoring visit are recorded in the OPPM's Initial Service Provider Monitoring Report, and all subsequent scheduled monitoring is recorded in the Monthly Training Provider Quarterly Report. Supporting documentation adequately validated the full implementation of the recommendation. However, the status update and documentation were submitted after our audit briefing presentation to management.

OCFO Status: The agency indicated that the implementation of this recommendation was in progress, with a target completion date of September 30, 2009. The agency did not submit the requested status update in a timely manner. On November 6, 2009, OCFO's Office of Management and Administration (OMA) indicated that OCFO's Office of Contracts performs contract reviews on an ongoing basis, requiring each contract to be subjected to supervisory review before execution. In addition, the Office of Contracts routinely uses a series of checklists to complete contracting actions. OMA officials further noted that because contracting actions and related requirements for each action differ, the completion of each checklist for every contract is not required. OCFO submitted copies of the checklists used by its Office of Contracts for our review. Samples of completed periodic reviews were not submitted. Due to incomplete supporting documentation, we consider this recommendation partially implemented.

Recommendation 10: It is recommended that the District reevaluate the policy regarding instances of noncompliance with procurement laws which address securing the services of vendors without a written contract (pg. 84).

OCP Status: The agency classified this recommendation as fully implemented. Management indicated that OCP last approved a ratification request on October 14, 2008. OCP and OAG had also agreed to the period of August 29, 2008, through July 3, 2009, where OAG would represent the agency in negotiating a settlement of claims on a *quantum meruit* basis. Information about steps involved in this process is available at the OCP Website under the "Alternative to Ratification" heading. In addition, the agency provided us with hard copies of OCP's *Procurement Policy on Ratification of Unauthorized Commitments*, a description of the *quantum meruit* recovery process, and a memorandum dated May 27, 2009, from the Chief Procurement Officer to agency directors informing them of the new process and relevant deadlines. These actions and documents adequately support the full implementation of the recommendation.

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OAG Status: OAG indicated that the recommendation was fully implemented. Supporting documentation adequately validated the status of corrective actions taken jointly by OAG and OCP to address this recommendation.

DISTRICT OF COLUMBIA PUBLIC SCHOOLS (DCPS)

Recommendation 11: We also recommend that DCPS develop written procedures for its draw down process. Those procedures should be consistently performed for each draw down request (pg. 69).

DCPS Status: DCPS indicated that this recommendation was fully implemented. The agency submitted a copy of its draft draw down policy dated August 5, 2008. The draft policy submitted for our review lacked accuracy, completeness, and evidence of management approval. Additionally, the agency did not submit any evidence indicating that the formal procedures were consistently performed for each draw down request. Due to these conditions, we determined that this recommendation was partially implemented. Finally, the requested status update was not timely submitted to us by the agency.

Recommendation 12: We recommend that timelines for completion of the Medicaid cost reports be developed and implemented with the independent third party utilized by DCPS to complete the applicable Medicaid cost reports (pg. 69).

DCPS Status: DCPS classified this recommendation as in progress. The agency did not provide a target completion date for this recommendation as requested. Additionally, the agency did not timely submit the requested status update. Due to the lack of appropriate supporting documentation reflecting actions taken or planned by the agency, we classified this recommendation as not implemented.

Recommendation 13: We recommend DCPS follow its existing policies for maintenance of supporting documentation (pg. 71).

DCPS Status: DCPS classified this recommendation as fully implemented. Management's response indicated that internal policies and procedures would be revised to further incorporate the integrated features of SOAR, and individuals responsible for approving vouchers and journal entries had been counseled to review each transaction for sufficient evidentiary support. We reviewed a limited sample of disbursement records submitted to the OIO auditors and noted that disbursement transactions were approved and reviewed for evidentiary support. However, the agency did not submit its revised policies and procedures for maintenance of supporting documentation for disbursements. Due to the lack of adequate supporting documentation, we determined that this recommendation was partially implemented. In addition, the agency did not timely submit the requested status update.

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Recommendation 14: More detailed analysis needs to also be considered in analyzing disbursements to ensure they are reported in the proper period (pg. 71).

DCPS Status: DCPS indicated that implementation of this recommendation was *in progress*. In response to this recommendation, management indicated that the agency would work to ensure that all subsequent disbursements were properly accrued in the proper fiscal year. The agency did not provide supporting documentation and a target completion date for this recommendation as requested. Due to the lack of appropriate supporting documentation reflecting actions taken or planned by the agency to address reported deficiencies, we classified this recommendation as *not implemented*. In addition, the agency failed to timely submit the status update we requested.

NONCOMPLIANCE WITH THE QUICK PAYMENT ACT

Recommendation 15: The District should improve its compliance with the requirements of the Quick Payment Act. [*This recommendation was implied in the audit report (pg. 86).*]

OCFO Status: The agency indicated through OFOS that the implementation of this recommendation was in progress because: (1) a Quick Payment Act Procedure was being developed for distribution to all agencies; and (2) distribution of this procedure with the governing law would be completed by September 30, 2009. Subsequent to our audit briefing presentation, OFOS asserted that compliance with the Quick Payment Act has been the responsibility of OCP. However, OCP disputed this assertion by stating that OCP handles contracting and procurement processes, while OCFO coordinates payments to vendors and service providers through OFOS' finance and treasury functions. On November 6, 2009, we received information from OCFO indicating that the Deputy CFO for OFOS issued a memorandum on September 28, 2009, to all Associate CFOs, Agency Fiscal Officers, and Agency Financial Managers, advising them of the requirements related to the Quick Payment Act and directing them to develop and implement, as needed, the necessary procedures to be in full compliance with the Act. Due to the issuance of this memorandum and the fact that necessary compliance procedures are yet to be adopted, we consider the recommendation partially implemented.

MANAGEMENT OF THE POSTRETIREMENT HEALTH AND LIFE INSURANCE TRUST

Recommendation 16: We noted that the District has set up an irrevocable trust for the Plan, effective September 30, 2006. However, the trust does not define the terms of the Plan. We continue to recommend that a comprehensive Plan Document be prepared and implemented as soon as possible (pg. 72).

OFT Status: OFT originally classified this recommendation as in progress because OCFO's Office of General Counsel had determined that a Plan Document was not needed. However, OFOS indicated that the recommended Plan Document was needed to meet Generally Accepted Accounting Principles (GAAP), which prompted OFT to draft the Plan Document, *Annuitants'*

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Health and Life Insurance Employer Contribution Plan. The Plan was signed by the CFO and finalized on September 22, 2009. Due to these actions, we changed the status of this recommendation to fully implemented.

Recommendation 17: Investment management activities carried out during the year were not sufficient to monitor the different funds in the Trust. We recommend an amendment to the investment policy in order to clearly define controls and processes. This will help ensure that funds are allocated appropriately to achieve the greatest benefit and that investment income is accurate, complete, and reasonable (pg. 73).

OFT Status: OFT originally classified this recommendation as partially implemented because as of the date of its response on June 18, 2009, a new investment policy had been drafted and approved by the new investment committee, and the District's Treasurer expected to sign the policy by June 26, 2009. The agency submitted a copy of the signed investment policy on July 1, 2009. The revised policy satisfied the intent of the recommendation. We, therefore, consider the recommendation fully implemented.

Recommendation 18: The District may consider the establishment of an investment committee which would be entrusted with the task of managing the funds (pg. 73).

OFT Status: OFT classified this recommendation as fully implemented. The Investment Committee was established and has held formal meetings. Supporting documentation submitted by the agency, including minutes of the Other Post-Employment Benefits (OPEB) Investment Review meeting held on April 14, 2009, adequately validated the full implementation of this recommendation.

COMPENSATION

Recommendation 19: 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 (pg. 34).

DCHR Status: DCHR originally classified this recommendation as fully implemented. The agency indicated that: (1) a review of access was completed in March 2009 in conjunction with the Yellow Book audit; (2) it was discovered that the User roles as defined in the District's HRMS were customizations that did not allow the access reported in the audit report; (3) additional access restrictions have been implemented with regard to PAR access; and (4) all access forms for the PeopleSoft HR module are being submitted through DCHR for review and approval. The agency did not submit the requested status update to us in a timely manner, and did not submit any documentation to support actions taken in addressing this

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recommendation. Due to the lack of supporting documentation, we reclassified this recommendation as not implemented.

OCTO Status: The agency indicated that this recommendation was partially implemented. OCTO has been working collaboratively with DCHR and OPRS to address each of the “conflicting roles” categories identified in the FY 2008 Yellow Book audit findings, as well as developing a script that identifies the users in each of these categories. Reports generated from the script are circulated to OPRS and DCHR management monthly. The August 2009 report reflected the trend in number of users in each category, as well as detailed supporting sheets identifying the users in each category. Additionally, the agencies were working on standard operating procedures that describe the process. While the supporting documentation adequately validated the partial implementation of this recommendation, the agency did not provide a target date for completing corrective actions.

Recommendation 20: We recommend that each agency develop policies and procedures and train employees to directly charge their time to specific federal grants and local programs (pg. 42).

DCHR Status: DCHR classified this recommendation as in progress because the agency was still in the process of working with OCTO on labor distribution to best fit the needs of the District. The agency anticipated that the additional functionality available in the upcoming PeopleSoft version, scheduled for rollout in March 2010, will improve options. Additionally, the agency believed that more discussion was needed with OPRS and OFOS to determine if all accounting information could be accurately tracked in PeopleSoft and relayed to the OCFO accounting system. The agency also failed to submit the requested status update to us in a timely manner. After we presented the audit briefing to management, the update was provided without any documentation of policies and procedures developed and training provided to employees as recommended. Due to the lack of appropriate supporting documentation, we classified this recommendation as not implemented.

OPRS Status: OPRS indicated that the implementation of this recommendation was in progress. However, the agency did not provide details of corrective actions taken or planned to address this recommendation with target completion dates. Additionally, the agency did not submit the requested status update in a timely manner with documentation of policies and procedures developed and training provided to employees as recommended. Due to the lack of appropriate supporting documentation, we classified this recommendation as not implemented.

Recommendation 21: The District should strengthen and improve its current policies and procedures surrounding the authorization, approval, and maintenance of documentation supporting overtime pay (pg. 46).

DCHR Status: DCHR classified this recommendation as partially implemented because the agency disseminated an updated DPM Issuance with reference to overtime (OT) and the requirements for documentation. Additionally, DCHR was working with OCTO to automate the

EXHIBIT D: LIST OF RECOMMENDATIONS REVIEWED

OT request/approval process in PeopleSoft (PS) so that all documentation would be stored in HRMS. DCHR also noted that at the onset of the Payroll and Time & Labor Go Live project in February 2008, managers were trained on time entry and approval, which included reviewing employee time reported prior to electronic approval. Further, time that is not approved in PS is not paid to the employee. We also note that the agency failed to provide the requested status update in a timely manner. The update was provided after we presented the audit briefing to management. Finally, the agency did not provide a target date for the full implementation of this recommendation.

OPRS Status: OPRS indicated that the implementation of this recommendation was in progress. However, the agency did not provide details of corrective actions taken or planned to address this recommendation with target completion dates. Additionally, the agency did not submit the requested status update to us in a timely manner.

OFFICE OF TAX AND REVENUE (OTR)

Recommendation 22: To enhance controls over transactions recorded in ITS and to prevent unauthorized entries or adjustments, management should review ITS user profiles of all employees and assign appropriate user rights based on an individual employee's job responsibilities (pg. 52).

OTR Status: OTR classified this recommendation as fully implemented. The agency submitted a document entitled *Business Systems Design – Security Validation for Tiered Refunds* that describes new user class profiles based on job titles. This supporting documentation adequately validated the full implementation of the recommendation. However, the agency did not submit the requested status update to us in a timely manner. We received the status update and supporting documentation after the presentation of audit briefing to management.

Recommendation 23: Management should consider a formal process with adequate audit trails to ensure that all ITS users are authorized, that all access rights are modified accordingly, and that users are removed from the system on a timely basis upon termination (pg. 52).

OTR Status: OTR classified this recommendation as fully implemented. The Procedures for Security Administrators detail the formal process established by the agency to achieve the recommended controls. This supporting documentation adequately validated the full implementation of the recommendation. However, the agency did not submit the requested status update to us in a timely manner. We received the status update and supporting documentation after the presentation of audit briefing to management.

Recommendation 24: Due to the lack of a consolidated Tax Sale database, it is difficult to analyze the total activity per Tax Sale Buyer. We recommend that each tax sale participant be assigned a unique identifier. This identification number should be used to generate a report that details the buyer's complete tax sale history (pg. 65).

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OTR Status: OTR classified this recommendation as partially implemented, and submitted appropriate supporting documentation detailing actions taken and planned to address the recommendation. The documentation adequately supported the partial implementation of this recommendation. However, the agency did not submit the requested status update to us in a timely manner. We received the status update and supporting documentation after the presentation of an audit briefing to management. Additionally, a target date for the full implementation of this recommendation was not provided by the agency.

EXHIBIT E: LIST OF REPEAT AUDIT ISSUES

The 31 repeat audit issues identified by our review are presented below. Each agency was asked to provide written explanation as to why the issues were not previously addressed. Where available, agency comments for these repeat audit issues are included. For tracking purposes, the FYs 2008 and 2007 Yellow Book audit report page numbers containing the recommendations are cited inside the parentheses.

MEDICAID PROGRAM – Program Management and Administration of Provider Reimbursement

Audit Issue 1: The Memorandum of Understanding (MOU) between DMH and MAA should be renegotiated so that MAA, the state Medicaid agency, assumes the role of payer of first resort for provider of Medicaid claims. In the current process, DMH pays the provider first and then seeks 70 percent reimbursement (federal portion) from MAA. Thus, DMH uses 100 percent of its local dollars to pay providers and then attempts to recover the 70 percent. This approach has not been effective or efficient (FY 2008, p. 22 and FY 2007, p. 28).

DMH Explanation: Management indicated that DMH did not know why external auditors decided to present the same audit issues in the FY 2008 Yellow Book audit report because the agency felt that the issues were adequately addressed after they were presented in the FY 2007 report. The agency also indicated that the external auditors did not discuss the status of FY 2007 audit issues with appropriate agency officials during the FY 2008 audit process, and that DMH was not given the opportunity to review the draft FY 2008 report prior to its final issuance.

DHCF Explanation: The agency did not provide any explanation for not resolving this issue prior to the FY 2008 Yellow Book audit. We presented our audit briefing to management on August 17, 2009. DHCF did not provide clarifying comments subsequent to the receipt of our audit briefing to explain its lack of written explanation for the issue.

OIG Comments: Based on the explanations provided by DMH and lack of explanation from DHCF, the issue presented in the FY 2007 and FY 2008 Yellow Book audits remains unresolved.

Audit Issue 2: Further, internal controls surrounding validation of provider claims need significant improvement. DMH has a documented policy that requires periodic audits of MHRS providers. However, during FY 2006, DMH was unable to provide documentation supporting any audits performed during FY 2006 or FY 2007 (FY 2008, p. 23 and FY 2007, pp. 28-29).

DMH Explanation: See Audit Issue 1 above for DMH's comments.

DHCF Explanation: No explanation provided (see Audit Issue 1 above).

EXHIBIT E: LIST OF REPEAT AUDIT ISSUES

OIG Comments: Based on the explanations provided by DMH and lack of explanation from DHCF, the issue presented in the FY 2007 and FY 2008 Yellow Book audits remains unresolved.

Audit Issue 3: DMH should reduce the number of service providers contracted through Human Care Agreements (HCA). This was an implied recommendation (FY 2008, p. 22 and FY 2007, p. 28).

DMH Explanation: See Audit Issue 1 above for DMH's comments.

OIG Comments: Based on the explanations provided by DMH, the issue presented in the FY 2007 and FY 2008 Yellow Book audits remains unresolved.

MEDICAID PROGRAM – Delay in Issuance of Audited Cost Reports

Audit Issue 4: We recommend District agencies improve the claims submission process and submit cost reports to MAA on time and improve communication and better coordinate the submission of claims by agencies in a form that is acceptable to MAA (FY 2008, pp. 27-28 & FY 2007, pp. 34-35).

CFSA Explanation: CFSA initiated actions between May and October 2008 to address audit issues identified in the FY 2007 Yellow Book audit report. While CFSA had not fully resolved many of the FY 2007 audit findings by the time the FY 2008 audit was underway, the agency took steps to address the findings and had made some progress toward their resolution. The agency's efforts toward tightening its Medicaid claiming and procurement practices remain ongoing.

OIG Comments: CFSA's corrective actions to address this issue are ongoing, but the issue presented in the FY 2007 and FY 2008 Yellow Book audits remains unresolved.

DCPS Explanation: The agency indicated on July 31, 2009, that a written explanation would be provided to OIG on August 3, 2009. However, we did not receive any explanation from DCPS before or after the issuance of our audit briefing to management on August 19, 2009.

OIG Comments: No explanation received from DCPS.

DMH Explanation: See Audit Issue 1 above for DMH's comments.

OIG Comments: Based on the explanations provided by DMH, the issue presented in the FY 2007 and FY 2008 Yellow Book audits remains unresolved.

EXHIBIT E: LIST OF REPEAT AUDIT ISSUES

MEDICAID PROGRAM – Claims Processing

Audit Issue 5: We also recommend that cost report audits be done on a timely manner. This will allow the District to reduce the time between Medicaid expenditures being incurred and the ultimate reimbursement from the Federal government (FY 2008, pp. 27-28 & FY 2007, pp. 34-35).

CFSA Explanation: See Audit Issue 4 above for CFSA’s comments.

DCPS Explanation: No explanation provided (see Audit Issue 4 above).

DMH Explanation: See Audit Issue 1 above for DMH’s comments.

OIG Comments: No explanation received from DCPS. Based on the explanations provided by CFSA and DMH, the issue presented in the FY 2007 and FY 2008 Yellow Book audits remains unresolved.

MEDICAID PROGRAM – Potential Claims Disallowance and Accounts Receivable Write-offs

Audit Issue 6: CFSA and DCPS should improve their claims documentation in order to minimize potential disallowances in future years (FY 2008, pp. 28-29 & FY 2007, p. 38). *[Notes: In the FY 2007 report, the audit issue affected CFSA and DHCF. The issue affected CFSA and DCPS in the FY 2008 report. Given that CFSA was mentioned in both reports with reference to this issue, only CFSA was asked to explain this repeat issue.]*

CFSA Explanation: See Audit Issue 4 above for CFSA’s comments.

OIG Comments: CFSA’s corrective actions to address this issue are ongoing, but the issue presented in the FY 2007 and FY 2008 Yellow Book audits remains unresolved.

Audit Issue 7: In addition, CFSA and DCPS must ensure that all claims submitted are allowable and fully supported in accordance with the approved Medicaid State Plan (FY 2008, pp. 28-29 & FY 2007, p. 38). *[Notes: See Audit Issue 6 above.]*

CFSA Explanation: See Audit Issue 4 above for CFSA’s comments.

OIG Comments: CFSA’s corrective actions to address this issue are ongoing, but the issue presented in the FY 2007 and FY 2008 Yellow Book audits remains unresolved.

EXHIBIT E: LIST OF REPEAT AUDIT ISSUES

MEDICAID PROGRAM – Maintenance of Supporting Documentation at IMA

Audit Issue 8: We recommend that IMA review its existing processes for document retention, as not having the required documentation can increase the possibility of disallowance of these expenditures (FY 2008, p. 30 & FY 2007, pp. 36-37).

IMA Explanation: The agency did not provide any explanation prior to or after the presentation of our audit briefing to management on August 12, 2009.

OIG Comments: The audit issue remains unresolved.

MEDICAID PROGRAM – Medicaid Management Information Systems (MMIS)

Audit Issue 9: Considering the significant number of transactions and the significant dollar amounts being processed through the MMIS, it is very important that all control objectives are met. Not having these controls in place could jeopardize the accuracy and completeness of provider claims processed which could affect the District's financial results. We recommend MAA either conduct follow-up with the third party administrator of MMIS or consider other alternatives to ensure that the above control objectives are achieved in FY 2009 (FY 2008, p. 31, & FY 2007, pp. 37-38).

DHCF Explanation: No explanation provided (see Audit Issue 1 above).

OIG Comments: The audit issue remains unresolved.

COMPENSATION – Overtime Payments

Audit Issue 10: The District should strengthen and improve its current policies and procedures surrounding the authorization, approval, and maintenance of documentation supporting overtime pay (FY 2008, pp. 45-46 & FY 2007, p. 57).

DCHR Explanation: The agency did not provide any explanation prior to the presentation of our audit briefing to management on August 19, 2009. The explanation provided by DCHR on September 2, 2009, did not address why the issue was not resolved after the FY 2007 Yellow Book audit report. The agency explanation indicated that: (1) PeopleSoft system configurations were updated to enforce exempt and non-exempt status employees; and (2) the system change rectified ineligible employees from receiving premium overtime compensation.

OIG Comments: The audit issue remains unresolved.

DMH Explanation: See Audit Issue 1 above for DMH's comments.

EXHIBIT E: LIST OF REPEAT AUDIT ISSUES

OIG Comments: Based on the explanations provided by DMH, the issue presented in the FY 2007 and FY 2008 Yellow Book audits remains unresolved.

OPRS Explanation: DCHR is responsible for developing and maintaining personnel policies regarding overtime, and OPRS ensures that the system is calculating pay in accordance with such policies. DHCR issued District Personnel Manual (DPM) Bulletin 11B-63 on July 20, 2008, that provided guidelines for determining which exempt employees would be eligible for overtime, and the guidelines provided specific details that would allow the payroll system to be updated to prohibit ineligible employees from receiving overtime.

OIG Comments: Based on the explanations provided by OPRS, the issue presented in the FY 2007 and FY 2008 Yellow Book audits appears to be in the process of being resolved.

Audit Issue 11: Improved policies and procedures need to be developed at the agency level and improved management oversight needs to be a critical part of the improved policies and procedures (FY 2008, pp. 45-46 & FY 2007, p. 57).

DCHR Explanation: The explanation provided by DCHR on September 2, 2009, after the receipt of our audit briefing on August 19, 2009, did not address why the issue was not resolved after the FY 2007 Yellow Book audit report. The agency explanation indicated that: (1) overtime issuance disseminated to agencies outlines guidelines and documentation requirements; (2) at the agency level, managers should be held accountable by agency heads for noncompliance; and (3) the process for documenting overtime approval in PS is being developed.

DMH Explanation: See Audit Issue 1 above for DMH's comments.

OPRS Explanation: Because the related DPM Bulletin was not issued until the 4th quarter of FY 2008, District agencies continued to allow employees to work overtime even though those employees would be deemed ineligible under the current issuance. Thus, OPRS had no way to technically limit the overtime payments via the payroll system until August 2008 when a system change was made. OPRS continued to provide overtime reports to agencies, including overtime for exempt employees, for analysis to determine if ineligible employees were being paid in order to make appropriate pay adjustments if necessary.

OIG Comments: Based on the explanations provided by DCHR, DMH, and OPRS, the issue presented in the FY 2007 and FY 2008 Yellow Book audits remains unresolved.

EXHIBIT E: LIST OF REPEAT AUDIT ISSUES

OFFICE OF TAX AND REVENUE – Scanned Copies of the Original Tax Return

Audit Issue 12: Management should ensure that all tax returns processed through RPA are scanned properly into IDCS, which is then uploaded to ITS (FY 2008, p. 56 & FY 2007, p. 15).

OTR Explanation: The agency did not provide any explanation prior to or after the presentation of our audit briefing to management on August 19, 2009.

OIG Comments: The audit issue remains unresolved.

Audit Issue 13: Additionally, management should ensure that the information listed on the tax return matches the information in ITS (FY 2008, p. 56 & FY 2007, p. 15).

OTR Explanation: No explanation provided (see Audit Issue 12 above).

OIG Comments: The audit issue remains unresolved.

Audit Issue 14: The Output Review Unit currently selects for review approximately 12% of the total tax refunds processed within the ITS system. The Output Review Unit should consider increasing this percentage (FY 2008, p. 56 & FY 2007, pp. 14-15).

OTR Explanation: No explanation provided (see Audit Issue 12 above).

OIG Comments: The audit issue remains unresolved.

Audit Issue 15: In addition, the errors and/or issues noted by this group during its review should be communicated to the other departments within RPA who are responsible for the scanning function to ensure that systematic problems are identified and corrected (FY 2008 p. 56 & FY 2007, pp. 14-15).

OTR Explanation: No explanation provided (see Audit Issue 12 above).

OIG Comments: The audit issue remains unresolved.

OFFICE OF TAX AND REVENUE – Internally Generated Standard Form for Requesting and Processing

Audit Issue 16: Management should consider adding to the SRRV form the printed name of the individual who prepares and approves the manual tax refund request, to avoid confusion if signatures are unidentifiable or illegible (FY 2008, pp. 59-60 & FY 2007, pp. 9-10).

OTR Explanation: No explanation provided (see Audit Issue 12 above).

OIG Comments: The audit issue remains unresolved.

EXHIBIT E: LIST OF REPEAT AUDIT ISSUES

OFFICE OF TAX AND REVENUE – Controls over the Review and Approval of Manual Refund Requests

Audit Issue 17: All applicable fields on the SRRV form should be completed with the appropriate detail (FY 2008, pp. 59-60 & FY 2007, pp. 9-10).

OTR Explanation: No explanation provided (see Audit Issue 12 above).

OIG Comments: The audit issue remains unresolved.

Audit Issue 18: The SRRV should provide space for preparers, reviewers, and approvers to not only sign, but also to print their full name and title (FY 2008, pp. 59-60 & FY 2007, pp. 9-10).

OTR Explanation: No explanation provided (see Audit Issue 12 above).

OIG Comments: The audit issue remains unresolved.

NONCOMPLIANCE WITH PROCUREMENT REGULATIONS – Database Review

Audit Issue 19: We recommend that the District consider the design and maintenance of a centralized tracking system (database) with information that identifies the amount and status of each contract for all procurements (FY 2008, p. 79 & FY 2007, p. 70).

OCP Explanation: The individual responsible for OCP's audit remediation was recently terminated because she did not handle related matters with appropriate urgency. The agency has since begun to remediate the core deficiencies identified in the current and prior Yellow Book audit reports.

OIG Comments: OCP did not provide details regarding specific actions it is taking to design and maintain a centralized tracking system for each contract.

OCTO Explanation: OCTO was not able to address the finding on the database review following the FY 2007 Yellow Book audit due to lack of funding, and the fact that project plans and necessary contracts would need to be prepared in advance to properly allocate the funding and resources to the project. OCTO also noted that the two modules for the automated procurement system could not be implemented until the hardware and software upgrades were completed in late FY 2008.

OIG Comments: The audit issue remains unresolved.

Audit Issue 20: We further recommend that the District strengthen controls over its current contracting database(s). It is critical that periodic reviews are conducted during the year to ensure the integrity of the database information (FY 2008, p. 79 & FY 2007, p. 70).

EXHIBIT E: LIST OF REPEAT AUDIT ISSUES

OCP Explanation: See Audit Issue 19 above for OCP's comments.

OIG Comments: The audit issue remains unresolved.

Audit Issue 21: Commodity managers should be responsible for the review of the information and a report documenting any errors, and their disposition should be communicated to senior management with appropriate corrective action performed in a timely manner (FY 2008, p. 79 & FY 2007, p. 70).

OCP Explanation: See Audit Issue 19 above for OCP's comments.

OIG Comments: The audit issue remains unresolved.

NONCOMPLIANCE WITH PROCUREMENT REGULATIONS – Approval Process and Other DCMR Issues

Audit Issue 22: We recommend that closer oversight and monitoring controls be placed over document maintenance and retrieval processes throughout the District's procurement process (FY 2008, pp. 80-81 & FY 2007, pp. 75-79).

CFSA Explanation: See Audit Issue 4 above for CFSA's comments.

DMH Explanation: See Audit Issue 1 above for DMH's comments.

OCP Explanation: See Audit Issue 19 above for OCP's comments.

OTR Explanation: No explanation provided (see Audit Issue 12 above).

OIG Comments: No explanation received from OTR. Based on the explanations provided by CFSA, DMH, and OCP, the audit issue remains unresolved.

Audit Issue 23: The District must follow its existing policies for documentation and approval of transactions. Special focus should be placed on ensuring that all agencies conform to the regulations and are accountable at a centralized level (FY 2008, pp. 80-81 & FY 2007, pp. 71-73; 75-79).

CFSA Explanation: See Audit Issue 4 above for CFSA's comments.

DMH Explanation: See Audit Issue 1 above for DMH's comments.

OCP Explanation: See Audit Issue 19 above for OCP's comments.

OTR Explanation: No explanation provided (see Audit Issue 12 above).

EXHIBIT E: LIST OF REPEAT AUDIT ISSUES

OIG Comments: No explanation received from OTR. Based on the explanations provided by CFSA, DMH, and OCP, the audit issue remains unresolved.

Audit Issue 24: Management at the contracting offices should perform a periodic review and design checklists which must be approved by supervisory personnel prior to being filed (FY 2008, pp. 80-81 & FY 2007, pp. 71-73; 75-79).

CFSA Explanation: See Audit Issue 4 above for CFSA's comments.

DMH Explanation: See Audit Issue 1 above for DMH's comments.

OCP Explanation: See Audit Issue 19 above for OCP's comments.

OTR Explanation: No explanation provided (see Audit Issue 12 above).

OIG Comments: No explanation received from OTR. Based on the explanations provided by CFSA, DMH, and OCP, the audit issue remains unresolved.

Audit Issue 25: We also recommend that the District consider performing an assessment of the current training program available to contracting personnel. Focus should be placed on ensuring that these employees are trained in the compliance regulations applicable to contracts (FY 2008, pp. 80-81 & FY 2007, pp. 71-73; 75-79).

CFSA Explanation: See Audit Issue 4 above for CFSA's comments.

DMH Explanation: See Audit Issue 1 above for DMH's comments.

OCP Explanation: See Audit Issue 19 above for OCP's comments.

OTR Explanation: No explanation provided (see Audit Issue 12 above).

OIG Comments: No explanation received from OTR. Based on the explanations provided by CFSA, DMH, and OCP, the audit issue remains unresolved.

Audit Issue 26: The training program should assist in the employees obtaining the requisite tools needed to carry out their daily assignments. Training needs to be consistent and ongoing and not be considered as a quick fix to a long term problem (FY 2008 pp. 80-81 & FY 2007 pp. 71-73; 75-79).

CFSA Explanation: See Audit Issue 4 above for CFSA's comments.

DMH Explanation: See Audit Issue 1 above for DMH's comments.

OCP Explanation: See Audit Issue 19 above for OCP's comments.

EXHIBIT E: LIST OF REPEAT AUDIT ISSUES

OTR Explanation: No explanation provided (see Audit Issue 12 above).

OIG Comments: No explanation received from OTR. Based on the explanations provided by CFSA, DMH, and OCP, the audit issue remains unresolved.

Audit Issue 27: The District must also retain personnel with the appropriate competencies to ensure that procurement as a major process is guided properly (FY 2008, pp. 80-81 & FY 2007, pp. 71-73; 75-79).

CFSA Explanation: See Audit Issue 4 above for CFSA's comments.

DMH Explanation: See Audit Issue 1 above for DMH's comments.

OCP Explanation: See Audit Issue 19 above for OCP's comments.

OTR Explanation: No explanation provided (see Audit Issue 12 above).

OIG Comments: No explanation received from OTR. Based on the explanations provided by CFSA, DMH, and OCP, the audit issue remains unresolved.

NONCOMPLIANCE WITH PROCUREMENT REGULATIONS – Purchase Order Splitting

Audit Issue 28: Appropriate evidence of approval from the D.C. Council and the Office of the Attorney General (OAG) should be maintained for multiple purchase orders issued to the same vendor for similar services within a year. [This recommendation was implied (FY 2008, p. 83 & FY 2007, p. 74).]

OCP Explanation: See Audit Issue 19 above for OCP's comments.

OIG Comments: The audit issue remains unresolved.

NONCOMPLIANCE WITH PROCUREMENT REGULATIONS – Limited Competition and Competitive Small Purchases

Audit Issue 29: District should improve its compliance with the competitive small purchases requirement. [This recommendation was implied (FY 2008, p. 83 & FY 2007, p. 74).]

OCP Explanation: See *Audit Issue 19* above for OCP's comments.

OIG Comments: The audit issue remains unresolved.

EXHIBIT E: LIST OF REPEAT AUDIT ISSUES

NONCOMPLIANCE WITH THE FINANCIAL INSTITUTIONS DEPOSIT AND INVESTMENT AMENDMENT ACT – The Financial Institutions Deposit and Investment Amendment Act

Audit Issue 30: We recommend that District personnel closely monitor the collateral held by custodians, to ensure that the District remains in compliance with the requirements of this law (FY 2008, p. 87 & FY 2007, p. 81).

OCP Explanation: See Audit Issue 19 above for OCP's comments.

OCFO Explanation: The agency did not provide any explanation prior to or after the presentation of our audit briefing to management on August 14, 2009.

OIG Comments: No explanation received from OCFO, which has primary responsibility for addressing this issue. The audit issue remains unresolved.

NONCOMPLIANCE WITH THE QUICK PAYMENT ACT– The Quick Payment Act

Audit Issue 31: The District should improve its compliance with the requirements of the Quick Payment Act. [This recommendation was implied (FY 2008, p. 86 & FY 2007, p. 80).]

OCP Explanation: See Audit Issue 19 above for OCP's comments.

OCFO Explanation: No explanation provided (see Audit Issue 30 above).

OIG Comments: No explanation received from OCFO, which has primary responsibility for addressing this issue. The audit issue remains unresolved.

EXHIBIT F: OFFICE OF THE CHIEF FINANCIAL OFFICER'S RESPONSE TO DRAFT REPORT

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Chief Financial Officer



Office of Integrity and Oversight

APR 23 2010

Charles J. Willoughby
Inspector General
Government of the District of Columbia
717 14th Street, NW, 5th Floor
Washington, DC 20005

Dear Mr. Willoughby:

Thank you for the opportunity to respond to Draft Report (OIG No. 09-1-04AT) regarding the audit of District Agencies' Implementation of Annual Financial Statement Audit Recommendations.

The methodology used in my office to resolve the FY 2008 "Yellow Book Report" findings proved to be quite effective and we are very pleased to note the progress achieved regarding the FY 2009 Yellow Book Report. For example, as reported by the independent auditors there were no material weaknesses and only three significant deficiencies. In the prior year, the auditors reported two material weaknesses and four significant deficiencies. Although work remains, considerable progress has been made in reducing the number and severity of reported Yellow Book Report findings.

Our specific responses to the OIG's recommendations are presented below:

- OIG Recommendation:** Establish a process for periodic coordination with DCORM to track and manage the resolution of audit findings and recommendations from various sources, including the District's independent auditors.

OCFO Response: We concur. The OCFO will establish a process for periodic coordination with DCORM by June 30, 2010.
- OIG Recommendation:** Develop and implement internal policies and procedures for conducting annual follow-up review of actions taken by agencies to address the Yellow Book audit. Such policies will ensure integrity and consistency in work processes and activities. These policies should be periodically updated to reflect current follow-up practices within OCFO and other affected agencies.

1100 4th Street, S.W., Suite 750, Washington DC 20024 (202) 442-6433

EXHIBIT F: OFFICE OF THE CHIEF FINANCIAL OFFICER'S RESPONSE TO DRAFT REPORT

OCFO Response to Draft Report (OIG No. 09-1-04AT)
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OCFO Response: While we have procedures in place for conducting audit recommendation follow-up, the OCFO will re-examine and update, as appropriate, its policies and procedures. Our target date for completion is September 2010.

3. **OIG Recommendation:** Implement policy that defines the process to ensure that persistent and recurring control deficiencies are appropriately tracked, monitored, and resolved to maintain the financial integrity of the District.

OCFO Response: See response to Recommendation 2.

4. **OIG Recommendation:** Utilize the Web-based audit follow-up database system implemented by DCORM to accurately and completely track recommendations, and to facilitate the timely resolution of outstanding issues from the District's independent auditors. The system should include effective dunning management protocols.

Response: See response to Recommendations 1 and 7.

5. **OIG Recommendation:** Improve the usefulness of periodic audit follow-up status reports by including information about the District agencies that are in compliance as well as those that are not in compliance with the requirements for prompt and appropriate resolution of outstanding audit issues. Semi-annual status reports should be generated and distributed to the directors of all affected agencies.

OCFO Response: See response to Recommendation 7.

6. **OIG Recommendation:** Adopt measures to ensure that all affected agencies are accorded the opportunity to review and comment on the draft audit report prepared annually by the District's independent auditors prior to final issuance.

OCFO Response: Affected agencies are accorded the opportunity to review and comment on draft findings/reports, and responses are included in final reports. Moreover, obtaining management comments is also a responsibility of the independent auditors under contract and management input to draft reports should continue to be emphasized during the CAFR Oversight Committee Meetings.

7. **OIG Recommendation:** Implement management controls to ensure that OCFO's audit follow-up system includes procedures for prompt and appropriate resolution of all outstanding recommendations within a maximum of 6 months after issuance or receipt of a final report.

OCFO Response: We agree that audit follow-up is an integral part of not only the audit process but also sound management controls. Accordingly, in the near term (June 30, 2010), the OCFO plans to work with the OIG to assist us in establishing a protocol similar to the existing structure used by the OIG which includes dunning

EXHIBIT F: OFFICE OF THE CHIEF FINANCIAL OFFICER'S RESPONSE TO DRAFT REPORT

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letters/reminders to management. Commensurate with resources, the OCFO through the budget process plans to re-align its Office of Integrity and Oversight with dedicated audit staff and technology for audit follow-up purposes.

8. **OIG Recommendation:** Work with DCORM to follow-up with agency officials on all of the FY 2008 Yellow Book audit recommendations that remain unresolved, including the 26 recommendations that the OIG classified as not fully implemented to ensure that agencies continue to work aggressively to timely and fully close recommendations.

OCFO Response: See response to Recommendation 1.

9. **OIG Recommendation:** Formalize and implement policy to ensure that sufficient supporting documentation is maintained for all audit recommendations that the District agencies report as fully and partially implemented, and make sure documentation readily available for review by independent auditors.

OCFO Response: See response to Recommendation 2.

If you have any questions, please contact William J. DiVello, Executive Director, Office of Integrity and Oversight, at (202) 442-6445.

Sincerely,



Natwar M. Gandhi
Chief Financial Officer

cc: [REDACTED] Chief of Staff, OCFO
Anthony F. Pompa, Deputy Chief Financial Officer, OFOS
William J. DiVello, Executive Director, OIO
[REDACTED] Chief Risk Officer, OCFO