

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



March 4, 2016

George A. Schutter
Chief Procurement Officer
Office of Contracting and Procurement
One Judiciary Square
441 4th Street, N.W., Suite 700S
Washington, D.C. 20001

Dear Mr. Schutter:

This letter is to inform you of the results of our *Audit of the District of Columbia Supply Schedule Discount Revenue* (OIG Project No. 13-1-19PO). We conducted this audit to determine whether the Office of Contracting and Procurement (OCP): (1) collected and deposited District of Columbia Supply Schedule (DCSS) Discount revenue in accordance with applicable laws, rules, regulations, policies, and procedures; and (2) established adequate internal controls to safeguard against fraud, waste, and abuse. The scope of the audit covered DCSS revenue collected and deposited during the period of October 1, 2009, through September 30, 2013.

For fiscal years (FYs) 2010 through 2012, OCP did not maintain required DCSS contractor quarterly reports and related documents to support OCP's discount revenue collection and deposit activities. As a result, we were unable to determine whether OCP collected and deposited DCSS revenue in accordance with Section 1 of OCP's DCSS Terms and Conditions for 3 of the 4 FYs within our audit scope.¹

Although we will not issue an audit report for this engagement, this letter summarizes our findings and suggested improvements to strengthen your office's DCSS program administration and oversight. These findings and suggested improvements resulted from our review of DCSS activities in FY 2013. Please note that all suggested improvements in this letter are not recommendations that require a written response from your office. However, upon a future reevaluation of DCSS administration at your office, we will assess whether the conditions reflected in our findings have been addressed.

¹ Section 1 of the February 2010 OCP DCSS Terms and Conditions requires that "[c]ontractors shall remit, as a discount on sales, one percent (1%) of all sales Purchase Orders (PO), Delivery Orders (DO), Task Orders (TO), and purchase cards transactions to the District of Columbia on a quarterly basis. The amount due shall be paid by check, made payable to the DC Treasurer and delivered with each quarterly sales report to the DCSS Contracting Officer."

FINDINGS

OCP did not design and implement internal controls over collection and deposit processes related to the DCSS program. Specifically, OCP did not:

- provide written justifications for 36 of 78 procurement actions awarded to non-DCSS contractors in accordance with D.C. Code § 2-218.45.²;
- ensure the collection of applicable DCSS discount revenues from DCSS contractors for payments made against 31 of 39 procurements;
- perform reviews of quarterly sales reports to ensure they were accurate, complete, and current;
- reconcile DCSS sales transactions to the quarterly sales report;
- maintain records of checks remitted by DCSS vendors;
- document check remittance advices sent to the D.C. Treasurer for deposits made; and
- require delivery confirmation from the D.C. Treasurer for submitted checks.

As a result, for FY 2013, we calculated \$669,787 in lost discount revenue. Inadequate management oversight of the DCSS program, lack of formal cash collection policies and procedures, and the lack of a process to accurately track and report DCSS activities contributed to these conditions.

SUGGESTED IMPROVEMENTS

To strengthen controls over collection and deposit processes, OCP should:

1. Follow established guidelines to establish controls regarding record creation and maintenance in accordance with the District of Columbia Municipal Regulations.³
2. Establish and implement procedures to ensure that all quarterly sales reports are reviewed for compliance with payment requirements and reconciled for accuracy in the payment amount.

² D.C. Code § 2-218.45 (LEXIS current through Sept. 19, 2012) provided that a District “agency shall not be required to set aside a contract if the agency determines in writing that there are not at least 2 responsible certified small business enterprises on the DCSS that can provide the services or goods which are the subject of the contract.”
NOTE: D.C. Code § 2-218.45 was amended by D.C. Law 20-108, effective June 10, 2014.

³ See 1 DCMR §§ 1502.1 and 1503.1 (LEXIS current through Jan. 22, 2016), and *DCSS Terms and Conditions*, dated February 2010.

3. Establish and implement procedures for handling DCSS vendor noncompliance with District contract terms and conditions regarding sales discount payments.

In December 2015, we discussed the above described control deficiencies and suggested improvements with OCP officials who agreed to:

- establish protocols and procedures for collecting and preparing deposit records for DCSS revenue, including maintaining: (1) a physical and electronic file containing checks received; (2) a copy of the completed check Transmittal Memo; and (3) email correspondence to Office of Finance and Resource Management's Financial Manager and pertinent contracting staff;
- establish, implement, and regularly monitor for compliance protocols and operational procedures, which require reconciliation of DCSS submitted invoices against collected and/or outstanding revenue; and
- reorganize the structure of the Simplified Acquisition Group to improve compliance.

I appreciate the cooperation and courtesy extended to our audit staff during the engagement. If you need additional information, please call me or Toayoa Aldridge, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,



Daniel W. Lucas
Inspector General

DWL/fg

cc: Rashad M. Young, City Administrator, District of Columbia
The Honorable Phil Mendelson, Chairman, Council of the District of Columbia
The Honorable Jack Evans, Chairperson, Committee on Finance and Revenue, Council of the District of Columbia
The Honorable Kathleen Patterson, District of Columbia Auditor, Office of the D.C. Auditor