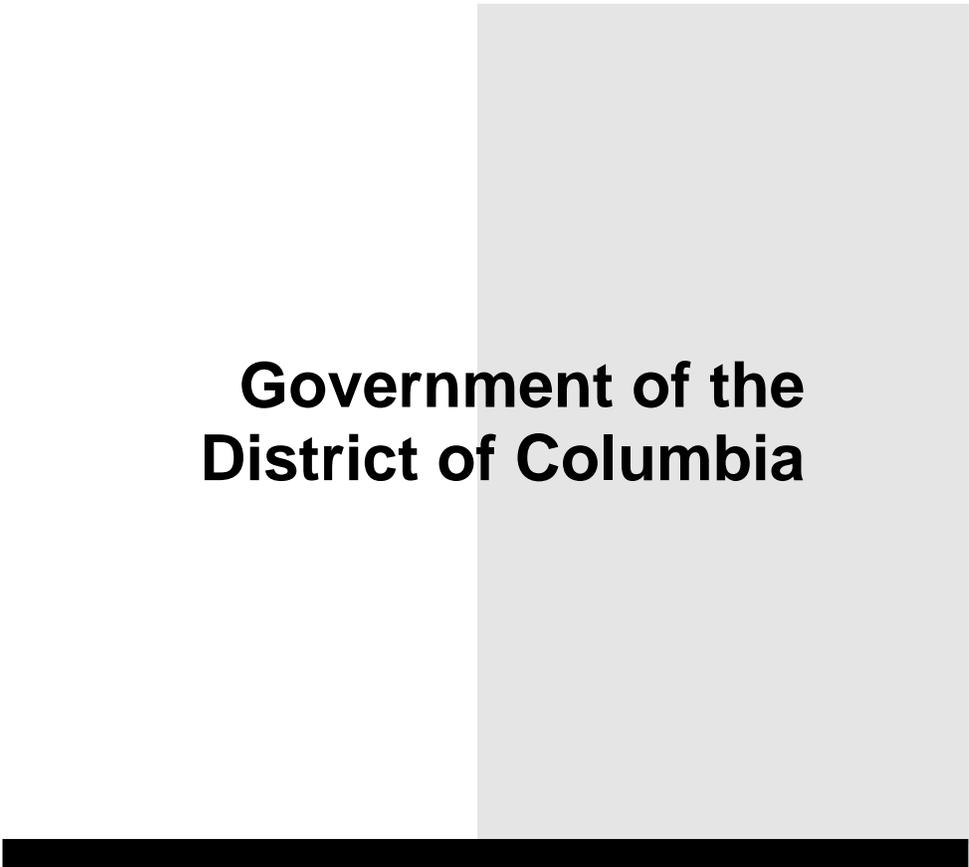


# Government of the District of Columbia

**Independent Auditors' Report  
on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based  
on an Audit of Financial Statements in Performed  
Accordance with *Government Auditing Standards*  
Year Ended September 30, 2009**



**BDO Seidman, LLP**  
Accountants and Consultants



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# Government of the District of Columbia

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## **Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **Government of the District of Columbia** (the District), as of and for the year ended September 30, 2009, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 28, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. Significant deficiencies in internal control over financial reporting are identified below and described in greater detail in Appendix A.

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



A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described earlier is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are identified below and described in greater detail in Appendix B.

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

We also noted additional matters which we have reported to management of the District in a separate letter dated January 28, 2010. The status of prior year instances of significant deficiencies, material weaknesses, and material noncompliance is presented in Appendix C.

The District's responses to the findings identified in our audit are included in Appendix A and Appendix B. We did not audit the District's responses and, accordingly, we express no opinion on them.

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

*BDO Seidman, LLP*

Washington, D.C.  
January 28, 2010



## Significant Deficiencies in Internal Controls Over Financial Reporting

### I. District of Columbia Public Schools - Payroll

The District of Columbia Public Schools (DCPS) previously used the Comprehensive Automated Personnel Payroll System (CAPPS) as its payroll system. The District utilized the Unified Personnel Payroll System (UPPS). During FY 2008, the District implemented a new PeopleSoft payroll system. In April 2009, DCPS also implemented PeopleSoft.

CAPPS was less automated and required more manual interfaces and adjustments to record payroll expenditures in SOAR, the District's accounting system of record. The new PeopleSoft system is intended to be a more dynamic and integrated system requiring less manual adjustments.

During our testing of the payroll at DCPS, we noted the following deficiencies:

#### *New Hires in CAPPS*

Current process narratives dictate that a Standard Form (SF) 52 is a request for personnel action and is required by DCPS to provide a position description. We noted the following:

- 1) For 25 out of 45 samples selected by us for testing, we were either not provided the SF 52 personnel document or we received one that was not properly authorized. As a result, we were unable to confirm whether accurate information was entered into CAPPS.
- 2) For 29 out of 45 samples selected by us for testing, we did not receive an authorized copy of the benefits package. As a result, we were unable to confirm whether accurate benefits information had been entered into CAPPS.

#### *Terminations in CAPPS*

Since CAPPS is not capable of generating an employee termination form, DCPS-HR maintains a separate database of all employees in MS Access and uses this customized system to print Form 1 Personnel Action documents. The information from said database is an extract of what is in CAPPS. Based on the notification received, the HR Specialist prints the Form 1 from the system and sends it to the HR Director for approval.

For 44 out of 45 samples selected by us for testing, DCPS was unable to provide an authorized termination form. We recommend that DCPS establish a review process for all terminated employees so that their status is promptly updated.

#### *New Hires in PeopleSoft*

Current process narratives dictate that a Standard Form (SF) 52 is a request for personnel action and is required by the agency to provide a position description. New employees have 31 days from date of hire to submit the completed health and life enrollment forms to the Benefits and Compensation Division of HR.

Once the employee submits a signed copy of the benefit package, the HR Specialist-Benefits completes the benefits portion screen in PeopleSoft to reflect the benefits availed.



## Significant Deficiencies in Internal Controls Over Financial Reporting

For 2 out of 45 samples selected by us for testing, we noted that the employee's information was not encoded in a timely manner. We recommend that DCPS implement a more efficient method of entering new employees into PeopleSoft in order to minimize the amount of time between the effective hire date and entry into PeopleSoft.

### *Terminations in PeopleSoft*

In case of employee termination, a Request to Terminate Memo is sent to Human Resources (HR), reviewed by the HR Director, and then HR – Legal prepares severance arrangements. A Form 52 is then generated from PeopleSoft, signed by the HR Director, and sent to payroll, the agency, and the employee's personnel file. For 3 out of 45 samples selected by us for testing, we noted that the employee's information was not encoded in a timely manner. We recommend that DCPS establish a review process for all terminated employees so that their status is promptly updated in PeopleSoft.

### *Transfers*

If an employee transfers to another agency, the employee number stays with them. HR personnel, other than the HR Specialist (e.g., HR Assistant, Supervisor, or Manager) perform a quality control online review to ensure all information is accurate and sign the Form SF 52 to evidence review.

For the 2 samples selected by us for testing, the Personnel Action for Transfer was not properly authorized and we were unable to confirm that accurate information had been entered into PeopleSoft. We recommend that DCPS establish a review process for all transferred employees that confirms that their paperwork has been properly authorized and recorded in PeopleSoft.

### ***Management's Response:***

DCPS completed the conversion from the old CAPPs HR system to the PeopleSoft system in April 2009. PeopleSoft is the district-wide HR system of record, so in addition to improving service for DCPS employees, the agency now has many more system-wide resources available to it to help solve problems. Unfortunately, the audit reflects 7 months of a fiscal year wherein DCPS had not yet made this transition.

The process for "New Hires" has shown great improvement since the introduction of PeopleSoft. While the CAPPs related samples identified a problem with timeliness in 55% of the sample set, the PeopleSoft related samples identified only a 4% problem. As noted, in CAPPs, the completion and authorization of the Form 52 personnel documents were done manually allowing for more error. These forms are now completed on-line via PeopleSoft.

The Employee Self Service (ESS) application through PeopleSoft gives employees direct access to their individual benefits with greater ease, flexibility, and control. DCPS-HR has also established an internal process to support employees who may not have access to the on-line benefits systems. Additionally, DCPS-HR will be updating its existing Standard Operating Procedures (SOP) manual to include the changes to its internal controls processes due to the PeopleSoft system conversion.



### Significant Deficiencies in Internal Controls Over Financial Reporting

Similarly, the termination process has been greatly improved with the introduction of PeopleSoft. While the CAPPs related samples identified a 97% error rate, the PeopleSoft related samples identified only a 6% error rate. DCPS will continue to improve on the timeliness of termination paperwork, however, the improvements to this process since the introduction of PeopleSoft, must not be overlooked. Due to the sensitive nature surrounding the termination process, DCPS-HR has established a tracking system which will notify the appropriate HR management and staff (as needed) of any pending termination actions to ensure termination actions are properly coded and processed in a timely manner via the PeopleSoft system. DCPS HR will be updating its existing SOP Manual to include the changes to its internal controls processes due to the PeopleSoft system conversion.

DCPS-HR follows the District's Employee Transfer policies to ensure all agency transfers are handled in accordance with the District's standards. DCPS will continue to work to ensure all transfers to other agencies have a smooth transition. Additionally, DCPS-HR will update its SOP Manual to reflect these process changes.

\* \* \* \* \*



Significant Deficiencies in Internal Controls Over Financial Reporting

II. Medicaid

In its FY 2009 Report on the Activities of the Office of the Inspector General (OIG) dated December 1, 2009, the OIG identified the Medicaid Program as one of the areas of risk for the District of Columbia. The Medicaid program has also been identified as a risk area in previous years. The assessment continues to state that the impact of potential losses to the District is significant.

Following are the issues noted during our audit process.

Delay in Issuance of Audited Cost Reports

Various District agencies, including the District of Columbia Public Schools (DCPS), Child and Family Services Agency (CFSA), and the Department of Mental Health (DMH) provide Medicaid services to eligible District residents. The costs incurred by these agencies are summarized in a cost report that is submitted to the Department of Health Care Finance (DHCF), for approval before those claims are submitted to the Federal government for reimbursement.

The cost reports are required by the Medicaid State Plan to be audited. We noted that final audited cost reports for these agencies are completed after a significant period of time. Reasons for the delay in the completion of the audit of the cost reports are generally due to: (1) delays in submission of cost reports by District agencies; (2) appeals by the agencies for the disallowances by DHCF caused by failure to file Medicaid claims timely, as well as to provide sufficient support for the claims that are incurred; and (3) delays in resubmission of revised cost reports together with the additional documentation to support previously disallowed claims. The difference between costs submitted for reimbursement and the costs actually reimbursed result in the use of local, rather than federal, dollars to fund continued Medicaid expenditures.

The summary below shows the status of the cost report audits:

<u>Agency</u>	<u>Cost Report Audit Completed</u>	<u>Cost Report Available for Audit</u>	<u>Status of Cost Report Audit</u>
1. DCPS	Up to FY 2006	FY 2007, FY 2008	FY 2007 audit in process.
2. CFSA	Up to FY 2005	FY 2006, FY 2007, FY 2008	FY 2006 and FY 2007 audits in process.
3. DMH	Up to FY 2006	FY 2007, FY 2008	FY 2007 audit completed subsequent to 9/30/09.

We recommend District agencies improve the claims submission process and submit cost reports to DHCF on time and improve communication and better coordinate the submission of claims by agencies in a form that is acceptable to DHCF. 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.



## Significant Deficiencies in Internal Controls Over Financial Reporting

### *Management's Response:*

District of Columbia Public Schools - Field work for the audit of FY 2007 is in process. The final version of the FY 2008 cost report was submitted December 2, 2009.

Child and Family Services Agency - Field work for the audits of FY 2006 and 2007 are in process. The FY 2008 cost report was submitted September 21, 2009.

Department of Mental Health - The final Notice of Program Reimbursement, based on the audited FY 2007 cost report, was issued January 8, 2010. The FY 2008 cost report was submitted October 16, 2009.

Management believes it is reasonably timely, by industry standards, in completing these public provider audits. Completion of the District's annual CAFR audit is necessary to prepare final adjustments before cost reports can be completed. Given efficient preparation and filing of cost reports, the time required to complete audit field work, hold exit conferences, and resolve outstanding issues is likely to extend beyond September 30th of each year.

### Potential Claims Disallowance and Accounts Receivable Write-offs

At September 30, 2008, the District accrued significant liabilities for potential claims disallowance pertaining to Child and Family Services Agency (CFSA) and District of Columbia Public Schools (DCPS) from FY 2003 through FY 2008. In addition, the District also significantly reduced the Medicaid accounts receivable for CFSA during FY 2008. The amounts were estimated based on an availability of the latest audited cost reports mentioned earlier.

We noted that CFSA and DCPS had been very aggressive in claiming Medicaid reimbursements. Based on the audited cost reports, the potential disallowances were mainly due to claim expenditures that were not adequately supported and claim reimbursements that were not allowable.

As a result of the potential disallowances from previous years, the District has written off additional Medicaid accounts receivable for CFSA in the amount of \$32,055,553 during FY 2009. Additionally, management estimated potential disallowances for claims pertaining to FY 2009 for CFSA and recorded these as accrued liabilities in the accounting records at year-end in the amount of \$6,773,412. There were no such amounts for DCPS during FY 2009.

The District should improve its claims documentation in order to minimize potential disallowances in future years. In addition, it must ensure that all claims submitted are allowable and fully supported in accordance with the approved Medicaid State Plan. Further, receivable balances should be reviewed regularly to ensure that only valid receivables are reflected on the books.

### *Management's Response:*

Throughout 2009, DHCF has coordinated efforts to reform the District's Medicaid billing practice to significantly reduce the risk of future liabilities related to the Medicaid program.



## Significant Deficiencies in Internal Controls Over Financial Reporting

Based on the recommendations from the George Washington University report, *Improving Medicaid: Assessment of District of Columbia Agencies Claims Processes and Recommendations for Improvements in Efficiency and Customer Service*, DHCF issued an RFP on July 13, 2009, to solicit bids for an Administrative Services Organization (ASO) contract. The ASO will be responsible for implementing and operating a claim and payment management system and other administrative functions on behalf of the various Partner Agencies that receive Medicaid reimbursement or are responsible for operational functions of the Medicaid program which serves eligible District residents. The ASO contract is currently under legal sufficiency review by the Office of the Attorney General and then will be sent to Council for approval. Based on this timeline, the contract will be awarded in early 2010.

DHCF collaborated with DCPS and the Office of State Superintendent of Education (OSSE) to submit a state plan amendment (SPA) to the Centers for Medicare and Medicaid Services (CMS) to expand school based health services to students with individual education plans (IEPs). This SPA minimizes potential disallowance risk in the future because it includes a random moment time study, a CMS-approved cost report, and establishes a new reimbursement methodology. DHCF received official notice of the SPA approval on September 24, 2009; the effective date of the SPA is October 1, 2009. DHCF, DCPS, and OSSE are currently implementing the SPA. In addition, OSSE and DCPS continue implementation of an electronic data system to capture information related to Medicaid-billable services, which will ameliorate documentation deficiencies.

Due to potential disallowances caused by claiming unallowable services and inadequate supporting documentation for allowable services, CFSA suspended Medicaid claiming on January 31, 2009. Since then, DHCF and CFSA have engaged in redesigning how case management and behavioral health services will be delivered and claimed under the Medicaid program. DHCF will submit a SPA to CMS in 2010 for case management services that will reduce the risk of future paybacks to the Federal government because it takes a more conservative approach to defining what case management services are and is in compliance with new CMS regulations that limited the definition of case management services.

DHCF has also implemented a public provider review process. The review measures the public provider's adherence to Medicaid documentation requirements and provides DHCF the opportunity to develop recommendations for improvement and how to target technical assistance. DHCF will also issue a school based health services guidebook in 2010. This guidebook will highlight Federal and District requirements as they relate to school health services, define allowable services, outline documentation guidelines, and more. DHCF anticipates issuing similar guidance related to the Targeted Case Management SPA once it is approved.

### Maintenance of Supporting Documents at Income Maintenance Administration (IMA)

The Department of Human Services' Income Maintenance Administration (IMA) is responsible for determining eligibility of participants in the Medicaid program. IMA uses the Automated Client Determination System (ACEDS) to evaluate the eligibility of an applicant. We noted the following during our review of 132 participant files which had been selected for testing:

- 1) 2 participant files did not have signed application forms.
- 2) 4 participant files did not have verification of the applicant's income.

### Significant Deficiencies in Internal Controls Over Financial Reporting

- 3) 4 participant files did not have complete and signed citizenship declaration forms.
- 4) 4 participant files did not show that the social security number was furnished or was verified.
- 5) 3 participant files did not have proof of the participant being a qualified alien.
- 6) 1 participant file did not have proof that the recertification was done within the required twelve months.

The District is required to maintain source documentation to support the eligibility of Medicaid recipients. Further, it is important to produce certain detailed records at specific time periods, and to maintain these records for possible analysis by users such as management, independent auditors, or other governmental bodies. 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.

#### *Management's Response:*

The Department of Human Services (DHS) agrees with the recommendation. While there is some disagreement regarding some of the findings in the participant files, IMA agrees that additional processes are required to ensure the source eligibility documentation is contained in the record and available for the auditors for inspection. These changes would eliminate or reduce findings where the documentation to support eligibility is absent from the record. With regard to documentation of a verified social security number or alien status, DHS has an electronic interface with the Social Security Administration and the Immigration and Nationalization Service which verifies the recipient's status. Therefore, users would be required to view the verification in ACEDS or request a print-out of the document.

For future audits, IMA will review and print the electronic information consistently requested during the audit process, in advance. To address the time it takes to provide the case record, as well as address lost or misplaced documentation, in December 2009, IMA management implemented a system of accountability to ensure the successful retention and maintenance of Medicaid eligibility information. This process includes a system of management and staff accountability, which includes assignment of daily tasks and monitoring completion. Secondly, the Document Imaging Management System (DIMS) Request for Proposal was issued by the Office of Contracting and Procurement on January 8, 2010. The contract will include system development as well as document conversion. Based on an assessment in January 2009, IMA had over 22 million documents stored in the IMA service centers. Digitization of the case records and scanning of all incoming documents will further support the case record maintenance improvements. The expected date of contract award is March 2010.

#### Medicaid Provider Programs and Claims

DCPS requires that providers log onto the EASY-IEP system to record their encounter based visits. DCPS also requires the provider to subsequently print out these logs and sign them so that DCPS can capture a signed image supporting the Medicaid claim. Documentation such as IEP's, attendance records, and trip tickets should be on file for all Medicaid claims.



**Significant Deficiencies in Internal Controls Over Financial Reporting**

During our review of Medicaid claims, we noted that documentation (IEP's, attendance records, and trip tickets) for 3 out of 45 Medicaid claims could not be located. In addition, 22 out of 45 Medicaid claims were missing the proper authorization(s).

DCPS should require that written approvals be obtained before disbursing money for Medicaid Claims. Additionally, DCPS should keep files on hand that allows for timely retrieval.

***Management's Response:***

We will continue to utilize our electronic filing system to ensure that documents can be retrieved quickly.

DCPS concurs that Medicaid Claims were missing proper authorization. We will strengthen our review process to ensure evidence of approval prior to processing. Additionally, we are exploring the utilization of an electronic signature system to reduce the exposure to missing authorizations.

\* \* \* \* \*

## Significant Deficiencies in Internal Controls Over Financial Reporting

### III. Office of Tax and Revenue

The Integrated Tax System (ITS) is the District's system for day-to-day processing of tax returns. It is an automated system and a majority of the District's tax returns, including individual income taxes, real property taxes, and various business taxes are processed in this manner. Account balances in ITS are updated on a daily basis as a result of various types of activity such as, processing of amended tax returns, tax returns filed late, and posting of payments related to prior tax years to a taxpayer accounts.

Following are issues noted in the controls at the Office of Tax and Revenue (OTR). This section is divided into various parts as follows:

- Automated Tax Processes (ITS)
- Manual Tax Processes
- Other Issues

#### Automated Tax Processes (ITS)

##### Sales and Use Tax

During our review, we noted the following:

- 1) Changes to the ownership and authorized agent names were automatically processed in the Taxpayer Accounting System (TAS) if the form FR-500 was completed and filed through the District's Electronic Taxpayer Service Center (eTSC) website. These requests were not submitted to Customer Service Administration (CSA) for review and approval prior to processing. In addition, verification checks were not performed to ensure that adequate supporting documentation was provided prior to the system processing the online change request.
- 2) Users submitting the online request for change in ownership and/or authorized agent received user names and passwords to access their business tax account through eTSC within 24 – 48 hours of submitting such a request. As a result of this access, users were able to view the most recent tax returns submitted by the businesses, process tax returns for the businesses, and make estimated tax payments using various online tax payment options.
- 3) Although manual requests for changes in ownership and/or authorized agents are sent to CSA, guidelines have not been established to evaluate if the written authorizations for making the change is from an existing authorized owner or agent of the business. In addition, the District has not implemented a confirmation process to inform businesses that a change in ownership or authorized agent has been made to their accounts.

As a result of the above listed deficiencies, an unauthorized individual was able to file numerous FR-500 forms and gain unauthorized access to online taxpayer accounts for existing businesses. Based on a search performed during the audit process, this individual filed 114 online FR-500s for existing and fictional businesses between October 13, 2009 and December 22, 2009. Through the process, this individual was also able to establish him/herself as the owner or authorized agent of these businesses and gain access to 76 existing taxpayer business accounts. With the unauthorized access to taxpayer accounts, this individual was able to:

### Significant Deficiencies in Internal Controls Over Financial Reporting

- File a tax return that resulted in erroneous sales and use tax receivables totaling \$19.1 million. The error in the tax receivable balance was identified by management during its review of the fiscal year-end amounts and the balance presented in the financial statements was adjusted by the amount of the erroneous tax receivables.
- Submit 7 tax payments on behalf of businesses using the payment options available on the eTSC website. Six payments totaling \$599,994 were submitted using the eCheck option. For these payments, a taxpayer is required to enter the bank routing information and bank account number. These payments were not processed and were denied by the bank because invalid bank account information had been provided. One payment totaling \$99,999 was submitted using the ACH debit information stored in the eTSC account of the business. This payment was also denied by the taxpayer's bank due to controls implemented by the taxpayer.

To reduce the continued risk of unauthorized access to taxpayer accounts and to ensure that only taxpayer approved changes are made to the ownership or authorized agents of existing businesses, we recommend management consider the following:

- TAS should be modified to ensure that online requests for changes in business ownership and/or authorized agents for businesses registered with the District are routed to CSA for review and approval prior to being processed.
- User IDs and passwords for eTSC accounts of businesses registered with the District should not be emailed or provided to individuals initiating this request until it can be determined that an authorized representative of the taxpayer has approved the change request.
- When performing a review of the letters to authorize changes in ownership or agents of a business registered in the District, CSA should verify that the letter was indeed approved by an authorized individual of the organization prior to processing the change. In addition, confirmation should be sent to the businesses that ownership or authorized agents have been changed.
- Management should also periodically conduct a review to determine if an individual has multiple relationships that may be linked to other taxpayer accounts within ITS. A threshold should be determined for a reasonable number of relationships per taxpayer.

#### *Management's Response:*

OTR recognizes the risk associated with unauthorized changes to taxpayer account information, and is taking steps as outlined below to reinforce the security in online applications. OTR concurs with the findings with the following clarification.

The findings state that changes to the ownership and authorized agent names were automatically processed in TAS if the form FR-500 was completed and filed through the District's eTSC website. These requests were not submitted to CSA for review and approval prior to processing. In addition, checks were not performed to ensure that adequate supporting documentation was provided prior to the system processing the online change request.

### Significant Deficiencies in Internal Controls Over Financial Reporting

Although ownership and authorizing agent names were automatically processed in TAS for previously-registered businesses, the intent of the software logic in ITS was to deny changes to the ownership or authorized agent of a registered business as requested by the taxpayer using the eTSC FR-500 functionality. However, faulty logic in the ITS software allowed these updates to occur automatically. The faulty logic also resulted in the failure to automatically submit the request to CSA for review and approval. Therefore, CSA was not aware of the need to perform a check for adequate supporting documentation.

OTR has disabled its online FR-500 process until the recommended changes are in place.

- OTR will modify eTSC and ITS software logic to deny changes to the ownership or authorized agent of a registered business as requested by the taxpayer using the eTSC FR-500 functionality. These software modifications will be implemented in two phases. The first phase will block the requested changes to ownership or authorized agent of the registered business and provide a report to allow CSA to check that adequate supporting documentation was provided. Once the request has been validated, CSA will process the change via online data entry into ITS. The second phase will notify the taxpayer that its request to change ownership or authorized agent of the registered business was denied. The taxpayer will be directed to contact CSA.
- With the implementation of the Phase 1 software modifications described above, the User IDs and passwords for eTSC accounts of previously-registered businesses will not be emailed or provided to individuals initiating this request without CSA intervention. In these cases, CSA will review the provided report of all requests and take the necessary steps to ensure that the authorized representative of the taxpayer has approved the change request.
- CSA has no way of determining if a letter received on company letterhead is approved by an authorized official. However, CSA will send written confirmation to the business owner or authorized individual that the change in ownership or agent of business registered was requested. These changes are included in the CSA procedural guide.
- OTR will periodically conduct a review to determine if an individual has multiple relationships to other taxpayer accounts within ITS. For this purpose, a report will be generated from ITS listing those taxpayers having multiple relationships established to taxpayer accounts. The District will determine a threshold based on an acceptable number of relationships per taxpayer and will review those that fall above this threshold to determine if an anomaly exists.

#### Unidentified Taxpayer Accounts

Adequate controls are not in place to monitor the creation of and ensuing activity in Unidentified Taxpayer Accounts (UTA) in ITS. UTAs are used to record tax returns and payments in ITS that are received with inadequate taxpayer identifying information. Management, through inquiry of employees within the Returns Processing Administration (RPA), identified 13 UTAs that were in use during FY 2009.

During our review, we noted the following:

- 1) The system cannot identify all potential UTAs within ITS. As such, management had to rely on inquiries of employees to identify and determine the universe of UTAs.

### Significant Deficiencies in Internal Controls Over Financial Reporting

- 2) Any employee with modification rights within ITS can create a taxpayer account. As a result, an individual with these rights can also create a UTA or an invalid taxpayer account. A process has not been implemented to monitor the creation of new UTAs.
- 3) There is no restriction on the number of subaccounts that can be created for a Taxpayer Identification Number. For instance, we identified 86 subaccounts for one UTA.
- 4) Subaccounts associated with two UTAs were not identified as UTAs in ITS. As a result, access to the subaccounts was not restricted and anyone with modification rights within ITS could post transactions in these accounts.
- 5) In May 2009, RPA instituted a policy to limit the use of UTAs to two accounts. However, due to an ITS limitation, taxpayer accounts could not be deactivated or closed in the system. As a result, access to the 13 identified UTAs was restricted to 28 employees. As such, the 28 employees had the ability to post activity to all 13 accounts.
- 6) No one department and/or individual has been given the responsibility to review activity recorded in the UTAs.
- 7) Controls have not been implemented to ensure that the reviewer of the activity in the UTAs does not also have modification rights to these accounts.
- 8) Within ITS, the notes feature is used to attach explanations to transactions recorded in a taxpayer account. However, the notes are linked to the taxpayer account rather than to the transaction code. As a result, it is difficult to link an explanation to a specific transaction. Management has indicated that this issue will be addressed when the District converts to a new taxpayer accounting system in 2012.

Unmonitored use of UTAs can result in erroneous tax bills, incorrect application of taxpayer payments, and creates an opportunity for the generation of fraudulent tax refunds. To enhance controls over the activity recorded in the UTAs, we recommend that management consider the following:

- Management should establish a process to identify new UTAs or suspense accounts created within ITS.
- Management should identify all subaccounts associated with the 13 UTAs and restrict access to these subaccounts.
- Management should institute a process to perform a review of the activity posted to the universe of UTAs and related subaccounts in ITS. In addition, the responsibility to perform this review should be assigned to specific individuals. The activity in these accounts should be reviewed by a supervisory level employee who does not have modification rights to these accounts.
- To enhance the audit trail related to specific transactions, the UTA notes should be linked to the transactions rather than the taxpayer account.

## Significant Deficiencies in Internal Controls Over Financial Reporting

### *Management's Response:*

OTR recognizes the risk associated with posting activity to unidentified accounts and has implemented strong controls to prevent the proliferation of such accounts by reducing the number of accounts used for pending transactions to two. Controls have been implemented to limit the ability of employees to post or transfer payments to and from these accounts by severely restricting access to these accounts, and employees have been provided with instructions regarding the handling of unidentified payments to prevent the creation of new accounts.

In reviewing the recommendations, OTR is taking the following additional actions:

- OTR will create a process to manage the creation of new accounts. Currently, accounts in ITS are created in two ways: 1) through the filing of a return, and 2) in an online transaction directly in ITS. Filing of fraudulent returns with invalid taxpayer IDs is controlled through OTR's automated fraud control in processing of returns. The user ID of an employee performing the "create account" transaction is retained in the system. A control report of accounts created will be developed and implemented and roles and responsibilities for monitoring the activity will be assigned.
- The sub accounts associated with the 13 UTA's are now restricted.
- RPA will assign responsibility for monitoring transactions in the specific UTA accounts for unidentified payments.
- The system will not allow for notes to be associated directly with transactions. However, reason codes can be associated with transactions on the UTA accounts. Therefore, OTR will use appropriate reason codes on UTA transactions and notes will be entered on the UTA account for each transaction performed.

### Real Property Tax Administration and Adjustment Unit (RPTAAU)

RPTAAU tax refunds processed through ITS are issued due to the overpayment of property taxes by homeowners or mortgage lenders, and can be caused by misclassification of property type (e.g., vacant property is taxed at a higher rate than residential property), or by erroneous overpayment (e.g., the homeowner and the mortgage lender may both have paid the same property tax bill).

The Refund Preparation and Review Directive (the Directive) which established guidelines for processing tax refunds, was implemented on March 31, 2008. However, during our review, we noted that adequate supporting documentation for Real Property tax refunds processed through ITS was not attached to the voucher packets to fully support the requested tax refunds as required per the Directive.

Specifically, the following issues were noted during our review:

- 1) For 12 out of 45 tax refunds selected, sufficient proof of taxpayer payment was not attached to the refund request voucher packets. Although RPTAAU was subsequently able to provide adequate support for 10 of these tax refunds, this information was not initially available to the individuals who had reviewed and authorized the tax refund payments.

### Significant Deficiencies in Internal Controls Over Financial Reporting

- 2) For 11 out of 45 tax refunds selected, the payments listed on the Refund Research Form did not reconcile to the proof of payment included in the voucher packets. Although RPTAAU was subsequently able to provide support for all of these tax refunds, this information was not initially available to the individuals who had reviewed and authorized the tax refund payments.
- 3) For all 4 tax refunds, selected by us, that were generated due to a reduction in tax assessments, documentation supporting the reason for the reduced tax assessment, such as a roll correction report was not attached to the voucher packets. Although RPTAAU was subsequently able to provide support for all of these tax refunds, this information was not initially available to the individuals who had reviewed and authorized the tax refund payments.

Without adequate documentation supporting the tax refund at time of payment, a risk exists that fraudulent tax refunds may be processed through the system. To enhance controls over the processing of Real Property tax refunds, we recommend that management consider the following:

- Real Property tax refund voucher packets should include sufficient evidence to validate the payments made by the taxpayer.
- The payments noted on the Refund Research Form should reconcile to the payments noted in the supporting documentation.
- Tax refunds generated as a result of reductions in tax assessments should be supported by roll correction reports or other evidential reports.
- Reviewers should ensure that adequate supporting documentation is attached to the Refund Research Form prior to approving the tax refund for payment.

#### *Management's Response:*

OTR recognizes the risk of issuing potentially fraudulent refunds, and has a rigorous control process in place to ensure that proper documentation and review is present for refunds over an established dollar threshold. Refunds in Real Property (RPTA) are subject to a management level review for all items over \$1,000. While OTR agrees that the audit process found some documentation missing in the paper copies of the selected refund packages, in the case of ITS refunds these paper documents are a redundant control. The support for such refunds exists online in the ITS system, and the individuals in the tiered review process all have access to view this account information.

Among the proof required for most types of refunds is sufficient proof of payment, which is reviewed and qualified before a refund is approved. If the documentation does not support the refund amount, the package is rejected.

In the case of ITS refunds coming from RPTA, proof of payment is substantiated by the payment postings in ITS, which include check or wire transfer information. While the ITS records are not always simple to reconcile because of split payments or multiple payments from mortgage companies, the reviewers in the Refund Control Unit (RCU) are fully trained on how to search ITS to substantiate payment amounts before releasing a refund voucher.

### Significant Deficiencies in Internal Controls Over Financial Reporting

The refund research form is a form that RPTA created for internal use. RCU reviews it by virtue of its inclusion in the refund package, although it is not required for ITS refunds, to ensure that the information documented on it is correct. If it cannot be supported, the refund package is rejected. RCU relies heavily on proof of payment via cancelled checks and/or wire transfers along with ITS to qualify the refunds.

Likewise, data supporting a change of class or assessment is also available in the system for review, and was available for review by those in the approval chain. The currently implemented policies and procedures demonstrate and evidence several controls, which are outlined below:

- Refund Form Development/Modifications
  - a. Action Request Form - all adjustments made within ITS are documented/approved using this form; actions are also notated within ITS notes to provide a concise audit trail.
  - b. Refund Research Form - all refund packets include a revised, electronic Refund Research Form that reflects payment(s) made by the taxpayer. Developed using MS Excel, this form includes taxes due (liabilities), actual payments made by the taxpayer as reflected in ITS, and includes pre-set formulas decreasing the likelihood of computation errors. By reflecting actual liabilities and payments, the issues of "offset" and "credit forward" is significantly reduced. Proof of payment (copy of cashed check/wire/etc.) is attached along with an ITS payment screen print, which further supports the validity of the refund.
  - c. Refund Checklists - all checklists have been re-formatted to allow for both the staff and managers to verify the contents of the refund packet. This serves as an internal checks and balance process to validate the content of the packet, which is a reflection of the Refund Directive, set forth by the Revenue Accounting Administration (RAA) and RPTAAU.
- Weekly Staff Meetings/Training Sessions - A weekly staff meeting is conducted by management to discuss any changes and/or updates to procedures. In addition, training for all reviewers reduces the risk of staff overlooking certain required supporting documentation set forth by the Refund Directive.
- RPTAAU implemented the audit of all adjustments completed on ITS that lead to a financial impact with the specific property liabilities. This report is generated by the IT department and forwarded to RPTAAU management for analysis and audit. This process reduces the likelihood of fraudulent adjustments.
- Error tracking - as errors are discovered within refund packages, they are returned to staff for correction. In addition, every refund packet that is returned by RAA for correction is reviewed by the division Chief. This further accentuates the commitment that RPTAAU has in mitigating the risk of fraud and general errors. An error tracking worksheet has been developed to identify performance deficiencies and provide a basis for increased training.
- Employee Performance:
  - a. Weekly Workload Reports - Staff submit reports on pending cases.
  - b. Cross Training - Staff is trained to do various types of adjustments, refunds, and billings.
  - c. Desk Audits (monthly) - Adjustment Unit Manager reviews, counts, and discusses the pending workload of the staff.

### Significant Deficiencies in Internal Controls Over Financial Reporting

- Continuous Review of the Refund Directive - RPTAAU continually reviews and discusses the current Refund Directive to possibly modify certain requirements.

#### Release and Reissuance of Tax Refund Checks

In some instances, tax refund checks mailed to the District's taxpayers are returned to OTR. A tax refund check is often returned because it could not be delivered to the taxpayer due to a change of name and/or address, or the address on the check was not specific enough (e.g., a taxpayer lives in an apartment building but does not specify an apartment number). Adequate controls do not exist over the release and re-issuance of these suppressed tax refund checks.

We noted that within ITS, the function to "suppress" and "release and re-issue" the tax refund check cannot be segregated. Approximately 258 employees within OTR have access rights to suppress, as well as release and re-issue tax refund checks. As a result, the same individual who voids and cancels a tax refund check can also authorize the reissuance of a tax refund check.

A risk exists that previously suppressed tax refund checks may be released for payment without adequate support or authorization. To enhance controls over the reissuance of suppressed tax refund checks, the access to release these checks for reissuance to the taxpayer should be restricted to a select group of individuals. A supervisory level employee who does not have authorization to release these checks should review the released checks to verify that checks should indeed be re-issued.

#### *Management's Response:*

Although OTR recognizes that a risk exists that previously suppressed tax refund checks may be released for payment without adequate support or authorization, we believe this risk has been mitigated.

The root cause of almost all suppressed accounts is returned refund checks due to a bad address. These refunds have been through normal processing in ITS which includes control checks before the check was initially issued, including review by the Refund Control Unit for those items above the threshold amounts. Additionally, the name and social security number are pre-printed on a check and cannot be changed, mitigating internal fraud.

In order to have the suppression released and the check reissued, a taxpayer must contact OTR's Customer Service Administration and verify pertinent information related to the tax return. The customer service representative asks several probing questions to verify the taxpayer's identity, including:

#### Individual Income Tax Returns

- Social Security Number.
- Complete name and address on return.
- Filing status on return.



## Significant Deficiencies in Internal Controls Over Financial Reporting

### Business Tax Returns

- Federal Identification Number or Social Security Number.
- Name and address of Company.
- Relationship to Company. (The caller must be listed in the company relationship as someone authorized to discuss the account).

Verification provides controls to mitigate external fraud. Based on the controls in place over the release of suppressions, OTR feels that the risk associated has been adequately mitigated.

### Unpaid Taxpayer Liabilities

As part of the fiscal year-end process, a Senior Systems Accountant from the Revenue Accounting Administration (RAA) downloads a report of all unpaid taxpayer liabilities (e.g. accounts receivable) as of September 30 from ITS. This report is reviewed to ensure the accuracy of the tax receivable accrual.

- 1) Informal guidelines state that the RAA Assistant Manager will review all taxpayer receivables over \$10,000. However, as the taxpayer receivable report contains receivable balances from a large number of taxpayers, it is not consistently possible to complete a review of all taxpayer accounts over \$10,000 prior to the date that final journal entries for the fiscal year-end close process are required to be posted to the general ledger. Further, taxpayer receivable balances less than \$10,000 are only reviewed at random if and when the review of balances over \$10,000 is completed. In addition, taxpayer receivable balances consistently change during the review process as new activity related to prior fiscal periods is posted into ITS.

Account balances in ITS are updated on a daily basis and the receivable balance as of fiscal year-end is subject to change. As such, the population of tax receivable accounts over \$10,000 may increase and all or new added balances may not be selected for management's review.

- 2) A process has also not been established to identify potentially erroneous tax receivables caused by known issues. For instance, ITS will automatically calculate a tax liability for non-resident tax filers that show earned income and a zero tax liability on the tax return. In these instances, although the taxpayers indicate on the tax return that they are non-residents of the District, they fail to indicate that none of the income was earned in the District. This is a recurring problem that is encountered by RAA when reviewing taxpayer receivables during the fiscal year-end close process. However, a report is not generated to identify receivable balances from these types of taxpayer accounts so that review of these accounts can be prioritized. The total receivable overstatement identified due to this error was approximately \$13 million and an adjustment was processed to correct the September 30, 2009 balances.

Without established guidelines and adequate report writing tools, a risk exists that erroneous receivable balances may be recorded in the financial statements and not corrected or identified in a timely manner. We recommend that management consider the following:

- Management should establish defined guidelines to follow for review of the taxpayer receivable balances, including timely review and monitoring to help ensure that the account balances are correct and up-to-date. In particular, any adjustments deemed necessary should be posted before year-end to help ensure valid and accurate balances.

### Significant Deficiencies in Internal Controls Over Financial Reporting

- Management should determine if ad-hoc reports can be run to identify taxpayer receivable balances that are prone to historical errors. For example, an ad-hoc report of receivable balances for high income, non-resident taxpayers.
- Management should develop criteria to identify high risk taxpayer receivables.
- Management should revise the policy of reviewing all taxpayer receivable balances over \$10,000 so that the population of taxpayer accounts to be reviewed can be scaled back to a more manageable level.
- Management should perform a thorough review of account balances to identify and minimize data entry errors.

#### *Management's Response:*

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

At the beginning of FY 2009, in an effort to provide additional segregation of duties, RAA modified the security profiles of employees to restrict the ability to make taxpayer account adjustments. Prior to that time, a Senior Systems Accountant performed a daily review of all A/R balances posted to ITS. This allowed for a timely review of all balances greater than \$10,000 and a weekly submission to the Returns Processing Administration (RPA) of all balances between \$5,000 and \$10,000 for similar review and correction. This allowed for balance correction prior to year-end. The only balances that would need an after year-end review would be those that posted right around that time.

Prior to the year-end close, RAA would submit the results of its review to RPA so that it could be made aware of the types of errors found and make necessary adjustments to processes and procedures to prevent the errors from continuing on an ongoing basis.

This included keying errors, the issue with out-of-state residents, and any other issues that arose during the review. The review that RAA performed was instrumental in correcting these errors in a timely manner.

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

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

## Significant Deficiencies in Internal Controls Over Financial Reporting

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

### Manual Tax Processes (ITS)

#### Hold for Pickup (HFP) Tax Refund Check Requests

As of May 2009, management implemented a revised policy to establish clear guidelines and procedures for handling checks designated as HFP. Per this policy, all HFP checks should have:

- 1) A form which indicates the administration requesting the tax refund.
- 2) The name of the taxpayer receiving the tax refund.
- 3) The amount of the tax refund.
- 4) The reason the tax refund check is held for pick-up.

For the 2 HFP checks selected for our test work, we noted that the required form to request a HFP check was missing. To enhance controls, management should ensure that its process designed for hold-for-pickup checks is followed.

#### *Management's Response:*

Although we recognize the risk of possible fraud associated with the Hold For Pickup process, it must be noted that controls have been implemented in both OTR and the Office of Finance and Treasury (OFT), with OFT executing the primary control function. Both OTR and OFT have established policies and procedures that have substantially reduced the risk and significantly reduced the number of checks that are held for pickup.

The currently implemented process demonstrates and evidences several controls:

- Specific documentation requirements outlined in formal procedures.
- Segregation of duties demonstrated by movement of work through the Real Property Tax Administration (RPTA) and Revenue Accounting Administration (RAA) within OTR and through OFT outside of OTR.
- Clear guidelines that substantially limit HFP refunds.
- Secondary review provided by OFT.
- Limited access to funds using Customer Service Administration (CSA) as the sole distributor of these refunds.
- Identification required by customers who pickup refunds.

In addition, to specifically address the finding stating that OTR failed to provide supporting documentation that is required to request the HFP check, an email with the pertinent information that is required per policies and procedures is a part of the refund request package.



## Significant Deficiencies in Internal Controls Over Financial Reporting

In the case of the particular refunds identified by the audit process, these refunds were necessitated by the sudden cancellation of the annual tax sale due to pending court action, and so it was determined that deposits placed by prospective tax sale buyers should be refunded expeditiously due to the critical nature of the situation. Because of the emergency nature and high dollar value of the refunds, an email request documented the need for "Hold for Pick Up", and the request was submitted and approved by OFT in accordance with its policies and procedures.

### Revenue Accounting Administration

Since the names and titles of the preparers, reviewers, and approvers is not documented on the SOAR Refund Revenue Voucher (SRRV) form, it is not possible to identify the individuals who were involved in preparing and authorizing a manual tax refund request. Without this information, it is difficult to determine if an authorized employee has prepared or approved a manual tax refund request.

A risk exists that unauthorized individuals may prepare or approve a manual tax refund request. To enhance controls, we recommend that the SRRV provide space for preparers, reviewers, and approvers to not only sign, but also print their full names and titles.

### *Management's Response:*

OTR recognizes the risk associated with unauthorized individuals preparing and approving manual refund requests. During the course of FY 2009, OTR made the recommended changes to the SRRV form and trained end users on the new form. However, because the Real Property Tax Administration (RPTA) uses preprogrammed forms from their administrative database to initiate manual refunds, the changes in that administration could not be implemented until after the end of the fiscal year.

More importantly, in mitigating the risk of unauthorized refunds, OTR has implemented the following controls:

- Specific documentation is required for all refund requests and outlined in the Refund Directive. Periodic refresher training on the Refund Directive is provided to end users to reinforce the requirements.
- A tiered review process is in place to attest to the adequacy of documentation and the accuracy of the refund request, evidenced by a signature, based on the dollar amount of the request.
- The review cycle requires additional due diligence for requests greater than \$50,000, though all requests over \$10,000 are reviewed (\$1,000 for Real Property refunds).
- The population of reviewers of requests is limited to managers, and the reviewer list and authorized signatures are managed in the Revenue Accounting Administration (RAA).
- Quarterly reviews are performed to ensure the integrity of the reviewer list.



## Significant Deficiencies in Internal Controls Over Financial Reporting

### Other Issues

#### Reconciliation Between Tax Sale Ledger, D.C. General Ledger, and SOAR

Management has not reconciled activity in the Tax Sale Ledger, the D.C. General Ledger, and SOAR, the District's accounting system of record, for fiscal years prior to 2009. Management has completed this reconciliation for FY 2009. Listed below is a brief description of the three systems:

- *Tax Sale Ledger* – This database contains properties available for sale during the current tax sale year, information of Buyers that are participating in the tax sale, record of initial deposits made by the prospective buyers, the winning bid amount for the property, and the subsequent settlement payment to complete the purchase made by the Buyer. A database is created for each tax sale year. This data base is used to support refunds to individuals that made deposits to participate in the tax sale but did not win any bids. Therefore, the deposit amount has to be refunded to these individuals.
- *D.C. General Ledger* – This is a consolidated database of all properties that have been purchased at the Tax Sale through various years and the corresponding purchase amount for the properties and the Buyer information. This database is used to support the refunds to Buyers due to cancellation of the tax sale, redemption of the tax lien property by the original owner, or successful foreclosure on the tax lien property.
- *SOAR* – This is the general ledger financial accounting system of the District.

Management did contract an outside consulting firm in October 2008 to reconcile these systems; however, the reconciliation was never completed. Management is now in the process of selecting a new system to track and record the Tax Sale process and plans to implement the new system by FY 2012. At this time, management has determined that it is not cost effective to invest additional time and funds into reconciling systems that will be replaced.

As the reconciliation of activity between these systems has not been completed, a risk exists that potential adjustments to the financial statements have not been identified and recorded by management. Based on the preliminary reconciliation work completed by the former consulting firm, management should determine, what adjustment, if any, is to be recorded to the financial statements.

#### ***Management's Response:***

OTR recognizes the risk that potential adjustments to the general ledger (SOAR) have not been recorded, and agrees that there is more work to be done in fully reconciling these ledger systems for prior years. At this time, the final deliverables due from the outside consulting firm are outstanding. The most critical of these is the determination of all outstanding liabilities potentially due to tax sale purchasers. The most likely adjustment to SOAR would be a recordation of revenue from tax sale forfeitures, which is likely to be a small amount.

OTR will continue to work to ensure that correct balances for each prior tax sale year are determined and the appropriate adjustments are made in SOAR, based on the workpapers provided by the consultant. As noted, OTR has also implemented processes to conduct monthly reconciliations of these systems during the year and to ensure that all current tax sale activity is recorded in SOAR at the time of the transaction.

## Significant Deficiencies in Internal Controls Over Financial Reporting

### Homestead Tax Credit Program

During the testing of controls over the Homestead and Senior Citizen Tax program, we noted the following:

- 1) There was no consistent audit trail or evidence of review of Homestead applications; this is specifically related to applications received in prior years and processed outside of the Homestead Unit within the Real Property Tax Administration (RPTA) department of OTR.
- 2) A Homestead credit is only allowed for one property which is the property in which the owner resides in during the year. We noted that because of inconsistent reviews of the Homestead applications, there were many instances of individuals receiving multiple Homestead credits for multiple properties. This lack of review has also resulted in a cap credit deficiency, which allowed individuals with multiple properties to receive the cap credit on more than one property.
- 3) At our request during the audit process, OTR researched its database and determined that incorrect Homestead credits may have been given on at least 353 properties.
- 4) Certain categories of non-individuals, including LLCs, which are ineligible for the Homestead credit, received this credit. These entities also received the Assessment Cap Credit to which they were not entitled.
- 5) We also noted that in 25 out of 45 items selected for testing, the homestead application form was not included in the supporting documentation provided to us for review. We were informed that these application forms were in the process of being scanned into the OTR system by a third party service provider. As a result, we were unable to determine if the application forms had been appropriately reviewed, and whether the information from the application form (e.g. names, addresses, etc.) had been accurately entered into the ITS system.

The District does not appear to have a proper and comprehensive review process in place, which would have allowed management to identify these errors related to the incorrect application of credits. Failure to properly and comprehensively review and approve applications can result in employees granting improper tax deductions and credits to ineligible entities which can result in lost revenue to the District. We recommend that management consider centralizing the approval process and ensure that only eligible entities are allowed these tax credits. In addition, we recommend that evidence of review be properly documented to provide a better audit trail of the transactions.

### *Management's Response:*

The current processes clearly demonstrate and evidence several controls and are as follows:

- ASD centralized the review and approval process of the homestead and senior citizen applications by removing the Maps & Titles Unit from the process (e.g. granting the homestead credit) - January 2009.
- ASD has acquired full access to the Data Warehouse which serves as a single pathway to multiple separate databases, which are critical to the homestead unit: Department of Motor Vehicles, Voter Registration, Vital Statistics, Recorder of Deeds, and Income Tax Returns. Such tools allow the staff to validate data that is presented on the application - March 2009.

### Significant Deficiencies in Internal Controls Over Financial Reporting

- ASD developed and implemented the use of a desktop procedures manual specifically focused on the review and validation process of the homestead and senior credit application - May 2009.
- ASD and the office of the General Counsel have engaged in developing a robust decision matrix for the homestead and senior citizen credit - In Progress.
- ASD developed and implemented a mass audit plan - August 2009.
- ASD developed and implemented the review of the "Monthly Sales Report". This report review mitigates the risk of the homestead credit rolling over to the next owner without completing the necessary documents. The Homestead Unit researches each property listed on the report and generates a Homestead audit letter, when applicable. Additionally, this report will prevent a homestead credit rollover to an LLC after a sale - January 2009.
- ASD separated core responsibilities within the Homestead unit to ensure segregation of duties. For example, the auditors do not process any new homestead applications. The auditors are responsible for reviewing a sample of applications on a monthly basis for quality assurance purposes and conducting the mass audits - August 2009.
- ASD performed targeted mini-audits for specific groups, such as properties with multiple owners, LLCs, Trusts, etc., billing address outside of the City - January 2009.
- ASD implemented a homestead and senior citizen application tracking system which contains further audit trail capabilities - January 2009.
- ASD scans all images for homestead and senior citizen credit applications via Alchemy from 2001-2009, which was not previously available - December 2009.
- Homestead Manager receives a weekly staff report regarding homestead granted, removed and the corresponding revenue impact - August 2009.
- Homestead Manager conducts a monthly quality review of work assignments to ensure consistency and accuracy - November 2009.
- Homestead Manager incorporated the use of ITS notes generated from the staff as an audit trail; additionally a standardized set of notes from ITS is in the process of being developed - Ongoing.

Further improvements underway include:

- ASD has requested access to view income tax returns through ITS which were filed electronically (ELF System). Currently, the unit has view-only access to such returns filed through a hard copy. Such access will allow staff to validate income and domicile information for homestead and senior citizen credit applicants.
- ASD is working with the Returns Processing Administration to improve the use of its Correspondence Tracking System to alleviate current delays in the delivery of ASD related documents (e.g. homestead cancellation requests).

ASD and the Chief Risk Officer of the Office of Chief Financial Officer (OCFO) have partnered in a large scale Risk Management Program that continues to identify possible risks and discuss options to reduce such risks.



## Significant Deficiencies in Internal Controls Over Financial Reporting

### Reconciliation of Withholding Payments

During FY 2009 there was no match of withholding payments received by the District from employers or taxpayers to the tax payments reported on the tax returns. Therefore, a tax refund may be issued to a taxpayer without knowing if the taxpayer has in fact made the tax payments to the District. To ensure that tax payments reported on tax returns have been received by the District, management should consider instituting a process to match the following:

- 1) Taxpayer withholding payments received by the District to tax payments reported on tax returns.
- 2) Withholding information received from employers to the withholding amount indicated on the tax returns.

Although management has indicated that reconciling withholding information from employers and/or taxpayers is not feasible during tax filing season, they have begun to develop a program to address this concern after the tax filing season and as an audit tool to detect potentially fraudulent tax filers. Management anticipates that new procedures to address this risk will be implemented by December 2010.

### *Management's Response:*

OTR recognizes the risk of processing incorrect refunds based on overstated withholding information on filed returns. We have indicated that in a high volume tax processing environment, it is not feasible to reconcile employer withholding information during the tax season and would substantially increase fiduciary, customer service, and reputational risks. OTR begins processing individual income tax returns beginning in January, and the W-2 filing for employers is not due until the end of February, which would make it impossible to match withholding payments on early filed returns. OTR has implemented a reasonable preventative control, an Automated Fraud Program (AFP), that performs the following examination:

- For all individual returns (1040 and 1040-EZ) filed with refunds greater than \$250, perform the following:
  - a. Match the Social Security Number (SSN) of the taxpayer on the return against the external data residing in the Enterprise Data Warehouse (EDW), not including any record of previous tax filings. If a return is a joint return then also perform the matching process on the SSN of the secondary taxpayer.
  - b. For the returns with SSNs NOT found in the EDW, create review items using the description "SSN not in EDW".

As indicated in the recommendation, OTR is implementing a post-audit program in FY 2010. This detective control will match employer's withholding payments to the taxpayer return. The primary focus is to identify fraud where the taxpayer entered more withholding than entitled. Additionally, in the FY 2010 filing season, OTR has implemented another automated screening program to identify returns with disproportionate amounts of withholding, in order to provide another level of preventive control on potentially fraudulent refunds.

\* \* \* \*

## Material Noncompliance with Laws and Regulations

### I. Procurement Regulations

The District's procurement transactions are primarily governed by statute, as well as rules and regulations outlined in the District of Columbia Municipal Regulations (DCMR). In addition, the Mayor, Chief Financial Officer, and Director of the Office of Contracting and Procurement can issue directives, orders, and memorandums governing procurement actions.

The District established the Office of Contracting and Procurement (OCP) in 1997 to improve acquisition outcomes. OCP functions as the District's lead contracting office on behalf of a significant number of District agencies and departments. For FY 2009, OCP was responsible for procuring approximately \$1.2 billion worth of goods, services, construction, and information technology through the Procurement Automated Support System (PASS).

Several other District agencies also perform procurement independently. Some of these include the Office of the Chief Financial Officer (OCFO), Child and Family Services Agency (CFSA), the District of Columbia Public Schools (DCPS), and the Department of Mental Health (DMH). Following are the issues, grouped thematically by agency (dependent and independent), as noted during our testing performed in conjunction with the audit of the FY 2009 Comprehensive Annual Financial Report (CAFR).

#### Data Quality, Accuracy, and Completeness for All Agencies (OCP and Non-OCP Supported)

While the selected agencies provided contract information, these agencies could not confirm the completeness of this information. The absence of a centralized tracking tool or database inhibits the ability to verify completeness of contracts awarded, the amounts awarded, and status of each contract entered into. Further, the maintenance of a database is critical in the evaluation of controls. We further noted that while the contracts data field in PASS is a required field, it is a manually entered data field. As such, we could not validate the accuracy and completeness of contracts referenced to in purchase orders.

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 procurement. 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. 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.

#### *Management's Response:*

OCP, in conjunction with the Office of the Chief Technology Officer (OCTO), satisfied last year's recommendation to "consider the design and maintenance of a centralized tracking system (database)." In December 2009, OCP awarded the contract for the implementation of the ARIBA Contract Compliance (ACC) module, which will serve as a centralized repository of all District contract information. As of January 2010, OCP, OCTO, and the vendor initiated the implementation kick-off. Throughout FY 2010, and into early FY 2011, the implementation phases will progress, beginning with and continuing to include: (1) Defining the User Requirements; (2) Customizing & Developing the system; (3) Conducting User Testing; and (4) Implementation (which includes both a communication and training plan for users). Equally critical to the successful implementation of the ACC module and full remediation of this finding will be the migration of the current, active contracts from OCP and the independent agencies into PASS.

## Material Noncompliance with Laws and Regulations

### Missing Documentation at OCP and its Supported Agencies

Throughout the performance of our sample testing, we noted noncompliance issues which have been classified as involving instances where either: (1) a requested contract file folder was not found/provided; (2) a specific document type from within a provided contract file folder was deemed missing; or (3) a specific document type from within a provided contract file folder was deemed inaccurate or incomplete.

#### *Procurement Transactions Greater than \$1 Million*

- 1) There were 13 instances at OCP where there was no evidence of City Council approval.
- 2) There were 14 instances at OCP where there was no evidence of OAG approval.
- 3) There were 9 instances at OCP where no information was provided for the purchase orders in our sample.
- 4) There were 3 instances at OCP where evidence of the agency fiscal officer or designee approval of the purchase requisition was not provided for review.
- 5) There were 3 instances at OCP where evidence of the Budget Officer or designee approval of the purchase requisition was not provided for review.
- 6) There were 2 instances at OCP where evidence of the Contracting Officer approval of the purchase requisition was not provided for review.

#### *Limited Competition Small Purchase Threshold*

- 1) There were 4 instances at OCP where no information was provided for the purchase orders in our sample.
- 2) There was 1 instance at OCP where the sole source determination and finding documentation was not provided.
- 3) There was 1 instance at OCP where the three required quotes were not provided.
- 4) There were 9 instances where we were not provided contracts for purchases which cumulatively exceeded the dollar threshold for small purchases.

#### *Competitive Small Purchases Requirement of Three (3) Oral Quotes*

- 1) There were 10 instances at OCP where no quotes were provided for review.
- 2) There were 14 instances at OCP where less than the three (3) required oral quotes were available for review.
- 3) There was 1 instance at OCP where evidence of the Agency Fiscal Officer or designee approval of the purchase requisition was not provided for review.

### Material Noncompliance with Laws and Regulations

- 4) There was 1 instance at OCP where evidence of the Budget Officer or designee approval of the purchase requisition was not provided for review.
- 5) There were 2 instances at OCP where evidence of the Contracting Officer approval of the purchase requisition was not provided for review.

#### *Competitive Small Purchases Requirement of Three (3) Written Quotes*

- 1) There were 22 instances at OCP where no quotes were provided for review.
- 2) There were 2 instances at OCP where less than the three (3) required written quotes were available for review.
- 3) There was 1 instance at OCP where the Budget and Fiscal Officers did not approve the requisition.

#### *Signed Contract Not Available for Review*

- 1) During our test work over procurement transactions greater than \$1 million, we noted 8 instances at OCP where signed contracts were not available for our review.
- 2) During our test work over the limited competition small purchase threshold requirement, we noted 8 instances at OCP where signed contracts were not available for our review.

#### *Accuracy and Completeness of Procurement Transactions*

- 1) During our test work over the limited competition small purchase threshold requirement, we noted 1 instance at OCP where the contract expired before the period of service on the purchase order.
- 2) During our test work over the limited competition small purchase threshold requirement, we noted 1 instance at OCP where the sole source determination was certified by the Procurement Officer after the purchase order date.
- 3) During our test work over the competitive small purchases requirement of three (3) oral quotes, we noted 1 instance at OCP where the sole source determination and findings were not approved by the Contracting Officer.
- 4) During our test work over the competitive small purchases requirement of three (3) written quotes, we noted 2 instances where OCP provided contracts instead of the required three written quotes. However, the contracts did not cover the purchase periods.
- 5) During our test work over the competitive small purchases requirement of three (3) written quotes, we noted 1 instance at OCP where the sole source determination and findings was not approved by the Contracting Officer.

#### *Management's Response:*

In conclusion to this FY 2009 CAFR audit, management's immediate focus and attention will be to take corrective action on these findings and ensure the completeness of the contract files and records.

### Material Noncompliance with Laws and Regulations

There were a number of contributing factors to explain why some of our identified contract files were “not provided”. A number of the contract files were not readily accessible because of: (1) movement/transfers between agency offices; or (2) personnel changes (e.g., left the employment of the District or transferred jobs within the District) amongst the Contracting Officers. Another allotment of contract files identified as “not provided” stemmed from weak controls over the custody of contract files. Finally, another segment of the contract files or documentation not provided supported transactions that only when aggregated would be above \$100,000 or \$1,000,000. Since OCP contends these were discrete procurements, the documentation requested does not exist and is not required.

Throughout the final days of testing, and with the increased collaboration between the procurement staff of OCP and agencies with delegated authority, many of the requested contract files were identified. It is believed that with more time, the remaining contract files would also have been provided. Management nonetheless accepts these findings and remains committed to conducting a post-CAFR audit reconciliation to locate the contracts identified as “not provided”.

While OCP acknowledges the many long-standing documentation issues that continue to plague this agency, management has undertaken two significant efforts aimed at remediating these matters. The first, which began in the fourth quarter of FY 2009, involved utilizing PASS to electronically manage and retain the documentation to support small purchases transactions rather than paper files. Eliminating the need to maintain paper files for small purchases, which in FY 2009 accounted for over 80% of the total purchase orders, will contribute significantly toward reducing the risk of losing contract files and/or documentation contained within a traditional hard copy file.

The second effort involves the large contract file management redesign initiative which was launched in August 2009 and is targeted for completion (full remediation) in FY 2010. Simply stated, the goal of this initiative is intended to ensure that all new large contract files are accurately accounted for and contain the required supporting documentation. Other management actions to be initiated in FY 2010 that will support our remediation efforts will also include:

- Communication of Findings & Remediation Activities: As a follow-up to the issuance of the final FY 2009 CAFR report, OCP management will take action to share with both the OCP procurement staff, as well as other District procurement professionals within the Independent Agencies, a digest of the lessons learned from the FY 2009 CAFR. Emphasis will be placed upon framing the root cause of the issues, and setting the proper level of expectation related to compliance with procurement laws and regulations.
- Tightening of Management Controls: Management will underscore the use of proper contract file preparation, including the use of checklists to ensure accurate and complete file preparation. Additionally, contracting officers will be held accountable for the completeness of contracting files, as well as their safe custody, as evidenced by their approval of the accompanying checklists. Our records management staff, as OCP’s document custodians, will be held responsible for the proper identification, safeguarding, and completeness of all large contract file folders in their custody. Finally, starting in FY 2010, all contract files over \$100,000 will be scanned as they are awarded and maintained in an electronic repository.

### Material Noncompliance with Laws and Regulations

- Improving Oversight: OCP recognizes that the findings in this area relate to quality assurance. Through the agencies Office of Procurement Integrity & Compliance (OPIC) division, a number of control measures to address these issues will be instituted. More specifically, on a periodic and recurring basis, OPIC will perform contract file compliance reviews (quality assurance checks) aimed at ensuring that the accuracy and completeness of the contract files are maintained in accordance with all requirements. Finally, on a regular basis, information in the contract file room database will be compared with information in the contract awards database to identify any gaps.

#### Missing Documentation at Independent Agency - OPEFM

Throughout the performance of our sample testing, we noted noncompliance issues which have been classified as involving instances where either: (1) a requested contract file folder was not found/provided; (2) a specific document type from within a provided contract file folder was deemed missing; or (3) a specific document type from within a provided contract file folder was deemed inaccurate or incomplete.

#### *Procurement Transactions Greater than \$1 Million*

- 1) There was 1 instance at OPEFM where there was no evidence of OAG approval.
- 2) There was 1 instance at OPEFM where there was no evidence of City Council approval.

#### *Signed Contract Not Available for Review*

- 1) During our test work over procurement transactions greater than \$1 million, we noted 3 instances at OPEFM where signed contracts were not available for our review. For the contracts that were provided, there was no reference to purchase orders requested.
- 2) During our test work over the limited competition small purchase threshold requirement, we noted 1 instance at OPEFM where the signed contract was not available for our review.

#### *Management's Response:*

*Procurement Transactions Greater than \$1 Million* – Each of the POs was issued as a single transaction because they are part of specific D.C. Public Schools modernization project that are implemented under various completion schedules. None of the individual POs was in excess of \$1 million and therefore did not require D.C. City Council or Attorney General approval.

*Signed Contract Not Available for Review* – In the first issue, the base contract was approved by the D.C. City Council on July 28, 2008 by Emergency Act A17-0464. Change Order No. 3 was a “tipper” over the \$1 million review threshold and was affirmatively ratified by the D.C. City Council at its December 16, 2008 hearing under Resolution 17-943. This resolution was published on January 23, 2009 in Volume 56, Page 724 of the D.C. Register. In the second issue, a competitively procured contract was previously awarded by the DCPS contract staff and at the time, the work was funded by a federal grant. However, the federal grant expired before the equipment was installed, so the original contract was de-obligated due to a lack of funding. These purchase orders provided the necessary funding to install the involved play sets.



**Material Noncompliance with Laws and Regulations**

Missing Documentation at Independent Agency - CFSA

Throughout the performance of our sample testing, we noted noncompliance issues which have been classified as involving instances where either: (1) a requested contract file folder was not found/provided; (2) a specific document type from within a provided contract file folder was deemed missing; or (3) a specific document type from within a provided contract file folder was deemed inaccurate or incomplete.

*Procurement Transactions Greater than \$1 Million*

- 1) There was 1 instance at CFSA where there was no evidence of City Council approval.

*Competitive Small Purchases Requirement of Three (3) Oral Quotes*

- 1) There was 1 instance at CFSA where the required three (3) oral quotes were not available for our review.

*Signed Contract Not Available for Review*

- 1) During our test work over the limited competition small purchase threshold requirement, we noted 1 instance at CFSA where the signed contract was not available for our review.
- 2) During our test work over the limited competition small purchase threshold requirement, we noted 1 instance at CFSA where the cumulative purchase orders issued for the same services exceeded \$100,000; but there was no signed contract available for our review.

*Accuracy and Completeness of Procurement Transactions*

- 1) During our test work over the competitive small purchases requirement of three (3) oral quotes, we noted 1 instance at CFSA where the requisition was not approved by the Agency Fiscal Officer or alternate designee at the time of the purchase order issuance date.

***Management's Response:***

*Procurement Transactions Greater than \$1 Million* - CFSA accepts this finding. Although, the procurement was approved by the City Council, the approval was not in the case file.

*Competitive Small Purchases Requirement of Three (3) Oral Quotes* - CFSA accepts this finding.

*Signed Contract Not Available for Review* - Purchase Orders for both were issued against existing contracts. Contract files are available for review but the audit review period had expired.

*Accuracy and Completeness of Procurement Transactions* - Page 2 of the requisition provided for review will clearly indicate that the funds commit process occurred prior to the funds integration process. It is not possible to encumber a purchase order in PASS without the existence of a requisition. The notation on the front of the requisition which indicates that an action occurred in April 2009 is merely the date when an attempt to edit the requisition was made. Additionally, three quotes were received for this procurement.

\* \* \* \* \*



## Material Noncompliance with Laws and Regulations

### II. Quick Payment Act

The Quick Payment Act of 1984 states, in part, the following:

*In accordance with rules and regulations issued by the Mayor of the District of Columbia ("Mayor"), each agency of the District of Columbia government ("District"), under the direct control of the Mayor, which acquires property or services from a business concern but which does not make payment for each complete delivered item of property or service by the required payment date shall pay an interest penalty to the business concern in accordance with this section on the amount of the payment which is due.*

Specifically, the due dates required are as follows:

- 1) The date on which payment is due under the terms of the contract for the provision of the property or service;
- 2) 30 calendar days after receipt of a proper invoice for the amount of payment due;
- 3) In the case of meat or a meat food product, a date not exceeding seven calendar days after the date of delivery of the meat or meat food product; and
- 4) In the case of agricultural commodities, a date not exceeding seven calendar days after the date of delivery of the commodities.

Furthermore, the act addresses various requirements for payment of interest penalties and includes provisions regarding required reports as follows:

- 1) Each District agency shall file with the Mayor a detailed report on any interest penalty payments made.
- 2) The report shall include the numbers, amounts, and frequency of interest penalty payments, and the reasons the payments were not avoided by prompt payment, and shall be delivered to the Mayor within 60 days after the conclusion of each fiscal year.
- 3) The Mayor shall submit to the Council within 120 days after the conclusion of each fiscal year a report on District agency compliance with the requirements.

For the year ended September 30, 2009, we noted 248 instances where the District failed to comply with the Quick Payment Act.

#### ***Management's Response:***

Prompt payment is dependent upon quick approval of valid vendors' invoices by an agency's program office. Certification of delivery of services or goods must be communicated to the agency's finance division before vendor payments can be made. Management will increase efforts to assure compliance with the Quick Payment Act.

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## Material Noncompliance with Laws and Regulations

### III. Expenditures in Excess of Budgetary Authority

The Anti-Deficiency Act states, in part, the following:

A District agency head, deputy agency head, agency chief financial officer, agency budget director, agency controller, manager, or other employee may not make or authorize an expenditure or obligation exceeding an amount available in an appropriation or fund.

The Home Rule Act states, in part, the following:

No amount may be obligated or expended by any officer or employee of the District of Columbia government unless such amount has been approved by an Act of Congress, and then only according to such Act.

Section 301 of the D.C. Appropriations Act 2005, enacted October 18, 2004, states, in part, the following:

Whenever in this Act, an amount is specified within an appropriation for particular purposes or objects of expenditure, such amount, unless otherwise specified, shall be considered as the maximum amount that may be expended for said purpose or object rather than an amount set apart exclusively therefore.

The District's basic financial statements state in note 1, "Appropriated actual expenditures and uses may not legally exceed appropriated budget expenditures and uses at the function level. A negative expenditure variance in the budgetary comparison statement for a particular function is a violation of the Anti-Deficiency Act and the District of Columbia Anti-Deficiency Act. Also, a violation of the Anti-Deficiency Act exists if there is a negative expenditure variance for a particular purpose or object of expenditure within an appropriation."

At September 30, 2009, the Child and Family Services Agency (CFSA) had overspent its local budget by approximately \$23,402,000. This was a result of potential disallowances from previous years with respect to Medicaid cost report audits, and management has estimated additional potential disallowances and reflected these as accrued liabilities in the accounting records at year-end for CFSA. Additionally, the District forgave certain debt owed to it by the Sports and Entertainment Commission and this resulted in an unbudgeted write-off expenditure of approximately \$4,513,000. These two items are in violation of the Anti-Deficiency and Home Rule Acts.

#### *Management's Response:*

Up until January 31, 2009, CFSA was claiming Medicaid funding for two services—Targeted Case Management (TCM) and Rehabilitative Services (Rehab. Option). During the FY 2008 CAFR closing period, audited cost reports were completed for two fiscal years (FY 2004 and FY 2005) on these programs. The audits concluded that due to a lack of documentation in support of claiming for these services, the District owed the Federal government significant reimbursement for claims that had been disallowed for these years.



**Material Noncompliance with Laws and Regulations**

During FY 2009, the CFSA Director conducted an assessment of current Medicaid claiming operations to determine if the documentation issues raised in FY 2004/FY 2005 persisted. The assessment was conducted and the CFSA Director concluded that additional time would be needed to adequately address the issues raised in the cost report audits and that the agency could not continue claiming without the risk of incurring future significant disallowances. As a result of that conclusion, and in consultation with the Office of the City Administrator (OCA) and the Department of Health Care Finance, CFSA Medicaid billing was halted on January 31, 2009.

As a result of the CFSA Director's review and determination that additional time would be needed to adequately address the issues raised in the cost report audits and the subsequent decision to halt Medicaid claiming, receivable balances totaling approximately \$32.1 million were written-off during the FY 2009 CAFR closing period.

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

Nature of Comment	Type of Comment in Fiscal Year 2008	Current Year Status
Treasury Functions	Material Weakness	Control Deficiency
Management of the Medicaid Program	Material Weakness	Significant Deficiency
Compensation	Significant Deficiency	Control Deficiency
Office of Tax and Revenue	Significant Deficiency	Significant Deficiency
District of Columbia Public Schools	Significant Deficiency	Partially Corrected; Significant Deficiency - Payroll
Management of the Postretirement Health and Life Insurance Trust	Significant Deficiency	Control Deficiency
Noncompliance with Procurement Regulations	Material Noncompliance	Material Noncompliance
Noncompliance with the Quick Payment Act	Material Noncompliance	Material Noncompliance
Noncompliance with the Financial Institutions Deposit and Investment Amendment Act	Material Noncompliance	Not Repeated
Expenditures in Excess of Budgetary Authority	Material Noncompliance	Material Noncompliance