



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, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 26, 2007. 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are identified below and described in greater detail in Appendix A.

- I. District of Columbia Public Schools
- II. Management of the Medicaid Program

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item I to be 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.

- III. Noncompliance with Procurement Regulations
- IV. Noncompliance with the Quick Payment Act

We also noted certain additional items involving the internal control over financial reporting and compliance and other matters, which we have reported to management of the District in a separate letter dated January 26, 2007. The status of prior year reportable conditions and instances of material noncompliance is presented in Appendix C.

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, and the U.S. Congress 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 26, 2007



Appendix A

Material Weaknesses and Reportable Conditions in Internal Controls Over Financial Reporting

I. District of Columbia Public Schools (DCPS)

DCPS is currently home to 144 school sites which serve roughly 58,000 students across the District of Columbia.

DCPS is Classified as a “High Risk” School District

U.S. Department of Education:

In a letter dated April 21, 2006, the U.S. Department of Education cited DCPS as “high risk”, due to systemic weaknesses. The issues cited include:

- a) Submission of untimely audits.
- b) Inadequate monitoring of federal funds.
- c) Inadequate documentation of salary charges.
- d) Insufficient support for charter school funding.

As a result, there is potential for DCPS to lose federal funding and it may be required to have a third party monitor its federal funds. It should also be noted that the U.S. Department of Education indicated that it would consider imposing penalties if no progress was made within a year’s time.

Management’s Response:

DCPS’ management disagrees and takes exception with this disclosure. The United States Department of Education “High Risk” designation is based on problems in DCPS’ fiscal and program accountability, management systems, and related areas for fiscal year 2003 and fiscal year 2004. The current conditions of DCPS’ control environment are much different. There is always the risk in discussing internal controls that the discussion will turn into a piece-meal examination of specific control-related policies and procedures. When this occurs, it is easy to become lost or confused, because individual controls may appear isolated and unrelated to one another. However, internal controls are actually a coordinated set of policies and procedures that reflect a comprehensive strategy for achieving management objectives. In fiscal year 2005, DCPS/OCFO established policies and procedures in the following areas:

- Student Activities Fund
- Imprest Fund (Petty Cash)
- Travel
- Central Investment Fund
- Flow of information in Accounts Payable
- Document retention

DCPS/OCFO put a comprehensive framework of internal controls in place, which allows management to attain its objectives and meet its responsibilities. The controls we put in place possess the following elements:



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- A favorable control environment;
- Ongoing risk assessments;
- Control-related policies and procedures;
- Effective communication of information; and
- Monitoring the effectiveness of internal controls and the resolution of potential problems identified by those controls.

The key element in a favorable control environment is management's attitude. DCPS/OCFO management is truly committed to strengthening internal controls.

District of Columbia Office of Inspector General:

In its fiscal year 2006 Audit and Inspection Plan, issued August 29, 2005, the Office of Inspector General (OIG) identified DCPS as one of six areas assessed as high risk in the District of Columbia. The distinction as high risk is defined by the OIG as "areas that present the highest risks to maintaining the District's fiscal integrity and continued financial strength." As a result of this assessment, the OIG decided to provide onsite presence at DCPS to conduct internal control reviews and assessments of issues throughout the year.

The OIG conducted various other audits throughout the course of fiscal year 2006. One audit at DCPS found overtime payments that were:

- a) Made for hours when basic pay should have been paid while employees were on official leave or holiday;
- b) Not properly authorized;
- c) Not authorized in advance;
- d) Not recorded in the period in which overtime was worked; and
- e) Lacking the required overtime request forms.

These conditions occurred because DCPS did not have adequate internal controls for processing overtime pay and sufficient management oversight was not exercised to ensure that processing overtime was effective and efficient. Also, adequate written policies and procedures were not provided to payroll staff to ensure that there was a complete understanding of the payroll process. As a result, there was no assurance that DCPS overtime payments were always valid, or that the overtime was needed to fulfill genuine work requirements.

Other areas the OIG audited included security service billings and the capital improvement campaign. These audits also revealed a systematic lack of policies and procedures, insufficient oversight of vendors, duplicate payment of invoices, lack of fee collections, and the inability to enforce contract provisions.

OIG has also considered DCPS as a high risk area in its fiscal year 2007 Audit and Inspection Plan, which was issued on August 31, 2006.



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Management's Response:

DCPS disagrees and takes exception with this disclosure. As you read from the fiscal year 2007 Office of the Inspector General audit and inspection plan "The plan contains audits and inspections that are discretionary, required by law, or identified pursuant to special requests from District Leaders, managers, and other stakeholders." It is our belief the plan is a clear indication of the District's dedication to improving internal controls.

Procurement Practices

During the audit process, we noted numerous deficiencies related to procurement practices:

- DCPS was cited for inadequately training staff and maintaining dual databases containing conflicting information.
- It was further determined that DCPS lacked written policies and procedures for procurement of goods and services for use in its facilities. This condition led to a system of missing or incomplete procurement files and delays and issues with both the issuance of bid requests and bid awards.

Our audit process noted the following specific deficiencies with procurement practices:

- One (1) of the eight (8) sampled purchase order (POs) were not provided by DCPS.
- Five (5) of the eight (8) sampled POs did not have an approved requisition order.
- Two (2) of the eight (8) sampled POs did not have evidence of City Council or School Board approval.
- One (1) of the ten (10) sampled sole source contracts was not provided by DCPS.
- Seven (7) of the ten (10) sampled sole source contracts did not have an approved requisition order.
- Two (2) of the ten (10) sampled sole source contracts did not have evidence of City Council or School Board approval.
- Two (2) of the ten (10) sampled sole source contracts had no evidence justifying the use of a sole source contractor.
- Further, DCPS was unable to provide an accurate population of purchase order modifications.



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The lack of supporting documentation and not following a written set of policies and procedures can lead to expenses being incurred which are not allowed under both DCPS' internal policies and under the conditions of various Federal awards. Additionally, the disjointed systems in place at DCPS could result in higher costs. It can also lead to significant problems in its contracting practice.

Our understanding is that DCPS has currently not fully implemented corrective action to significantly improve its procurement practices which in turn, presents issues for the District of Columbia, as a whole.

Management's Response:

Currently, the Office of Contracts and Acquisitions (OCA) has reconfigured its office, added additional personnel, developed performance measures, and implemented policies and procedures to strengthen the procurement process. In addition, OCA has attempted to foster a constructive collaborative working relationship with its process partner, the Office of Facilities Management, to improve the procurement process.

Recently, the Chief Procurement Officer has taken critical steps to shore up the written policies and procedures associated with the procurement of goods and services for DCPS. A manager, whose sole role is developing procedures, policies, and administrative issuances has been brought on board. In addition, performance measures have been developed and disseminated and all OCA employees have to satisfy annual training requirements.

The Chief Procurement Officer has recognized that accurate and consistent documentation is critical to the procurement process and OCA employees have been directed to keep and maintain their files in a consistent manner. There has been an administrative directive issued exclusively addressing the establishment and maintenance of contract files.

The Chief Procurement Officer has informed all employees that any deviation from the procurement regulations Title 27DCMR, including Chapter 17, that addressed emergency procurements will not be tolerated.

Human Resource/Payroll System

DCPS' human resources department utilizes the Comprehensive Automated Personnel Payroll System (CAPPS) to process and manage payroll. CAPPS was implemented in 1999 and replaced the Unified Personnel Payroll System (UPPS).

Our audit process noted several systemic deficiencies with CAPPS. CAPPS is less automated and requires more manual interface than UPPS which results in unintentional errors and the use of an antiquated system. For instance:



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- CAPPS does not have the capability to track and calculate step increases for employees. Therefore, human resource personnel must determine when an employee is eligible for a step increase and process it manually.
- Checks and balances for CAPPSS is a manual process making it difficult to validate the data in CAPPSS.
- Furthermore, it is difficult to produce reports from CAPPSS to help analyze human resource/payroll functions such as the amount of overtime spent during the year or employees terminated but still reflected as active in the system.

For fiscal year 2006, DCPS had an approved personnel services budget totaling \$626.4 million. In order to help ensure that DCPS is properly and accurately processing payroll on a bi-weekly basis, DCPS should reduce the number of manual and more labor intensive processes involved and consider the implementation of an automated system capable of efficiently processing its payroll volume.

Management's Response:

DCPS is planning to transition from CAPPSS to PeopleSoft in the timeframe of late fiscal year 2008 to early fiscal year 2009 utilizing the time and attendance, labor distribution, and the human resource components.

Medicaid Program

Cost Reports

Medicaid regulations require submission of cost reports within 5 months of the cost reporting fiscal year or 30 days after a valid Provider Statistical and Reimbursement Report is sent to the provider by the intermediary (whichever is later). If additional claims are able to be supported within two years of providing the services, cost reports can be resubmitted. As of January 2007, DCPS has not filed the fiscal year 2003, 2004, 2005, and 2006 cost reports. DCPS is in direct violation of compliance with the filing requirements. In addition, the longer that DCPS waits to submit these cost reports, the greater the risk increases that DCPS may not be able to locate the appropriate documentation during the respective cost report audit. We recommend that DCPS gather the information needed to file a complete and accurate cost report and file these reports that are past due. Going forward, an effort should be made to file these reports within the regulated time frame. We further noted that the fiscal year 2002 cost report was only submitted in fiscal year 2005 and DCPS is currently in negotiations concerning its Medicaid disallowances. Based on our discussion with DCPS personnel, disallowances for fiscal year 2002 could range as high as \$2 million. The fiscal year 2003, 2004, 2005, and 2006 disallowances are unknown as of January 2007, and no liability has been recorded for these potential disallowances.



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Based upon a historical analysis of prior year disallowances, there is a potential \$8 million disallowance relating to fiscal years 2003 through 2005.

Management's Response:

While it is true that documentation is hard to locate after two years, the District of Columbia State Plan for Medicaid services does not specify a time limit for DCPS for submitting cost reports. DCPS, as a public agency, has a two-year window, from the date of service to submit Medicaid claims (Legal citation: 45 CFR 95.7 (2001)).

While it is the understanding of DCPS that all allowable Medicaid claims have to be submitted prior to preparing a comprehensive cost report, DCPS is utilizing the two-year window to research and submit claims in an appropriate manner. DCPS is willing to re-examine its understanding of the requirements and looks to re-engineer its processes regarding the submittal of cost reports within the five months of the fiscal reporting fiscal year end. It is not the desire of DCPS to lose significant amounts of school-based Medicaid reimbursements with implementation of the five month requirement and DCPS will, to the fullest extent, make modifications of the report and utilize the two-year window to file Medicaid claims from the date of service.

Recording of Activity

We also noted that DCPS currently records Medicaid revenue using the cash basis of accounting. As such, no receivable is ever booked for Medicaid revenue. DCPS is also unable to quantify the amount of unbilled claims at year-end. This is due to the fact that DCPS has not yet developed a methodology to properly analyze and determine the potential incurred but not recorded (IBNR) Medicaid claims at year-end. We recommend that DCPS develop such a methodology and implement it as soon as possible. As a result of not having a calculation or requiring its Medicaid claims processing vendor to quantify unbilled claims at year-end, DCPS' related receivables and liabilities are understated. In addition, we noted that DCPS has not submitted claims in a timely fashion.

Management's Response:

DCPS' corrective action for this audit finding is the implementation and full use of the full accrual basis of accounting in order to fully book Medicaid revenue. We believe the methodology we plan to implement will be instrumental to properly analyze and determine the potential incurred but not recorded (IBNR) medical claims at year-end.



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II. Management of the Medicaid Program

Medicaid Program is Classified as an Area of Risk

District of Columbia Office of Inspector General:

In its fiscal year 2006 Report on the Activities of the Office of the Inspector General (OIG) dated December 1, 2006, the OIG identified the Medicaid Program as one of the five areas of risk for the District of Columbia. The assessment says that the impact of potential losses to the District is significant. The 2007 plan is to focus on the core areas of recordkeeping and documentation, nursing home reimbursements, and managed care organizations that provide Medicaid-covered services. Following are the summarized results of four recent audits performed by the OIG:

1) Audit of a Contractual Arrangement for Non-Emergency Transportation of Medicaid Recipients, issued May 5, 2006.

This audit focused on a review of a contractual arrangement executed by a Department of Health (DOH) employee for the Transportation Authorization Program. The DOH employee, who did not have authority to bind the District in a contractual arrangement, executed a contract for transportation authorization services. The contractual arrangement bypassed the normal procurement process, and the funds to pay for the services had not been pre-encumbered (budgeted). Approval to pay the contractor was made only after a formal ratification process had been completed. This procurement violated basic procurement rules contained in the District of Columbia Code and the District of Columbia Municipal Regulations (DCMR).

Management's Response:

As of July 2006, the DOH employee that executed a contractual arrangement for the Transportation Authorization Program is no longer employed with the District. MAA recognized the fact that the DOH employee did not have authority to bind the District in a contractual arrangement. As a result, MAA took the appropriate disciplinary action. MAA completed the ratification process in order to pay the vendor for the services delivered.

OIG directed four recommendations to the Director, DOH which focused on:

- i. *Ensuring the integrity of the agency procurement functions* – MAA senior management has reinforced to all the procurement functions.
- ii. *Issuing written guidelines informing the DOH employees that a DOH contracting officer is the only agency employee authorized to execute a contract on behalf of the agency* – MAA has developed and drafted written guidelines that informs MAA employees that the DOH contracting officer is the only agency employee authorized to execute a contract on behalf of the agency.



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- iii. *Amending the ratification package* – The ratification package was completed and processed prior to the OIG audit. The ratification package indicated that the DOH employee did not have the authority to bind the District in a contractual arrangement. MAA is willing to amend the ratification package to reflect various changes made to ensure the integrity of agency procurement functions and personnel changes.
- iv. *Implementing controls to ensure that the Office of Contracting and Procurement is fully informed of services to be provided under the contract* – MAA has since implemented protocols and procedures to ensure that the Office of Contracting and Procurement is fully informed of services requested under all contracts

2) Audit of the FY 2006 Fund Status at the Mental Retardation and Developmental Disabilities Administration (MRDDA), issued September 20, 2006.

The objectives of this audit were to: 1) determine the status of current year funds budgeted for MRDDA; 2) review MRDDA’s spending practices and compliance with District and/or federal anti-deficiency laws; and 3) evaluate controls to prevent or detect over-obligation of funds. The OIG made 13 recommendations to several District officials that it believes are necessary to correct the deficiencies noted in this report

Management’s Response:

- i. *Contact MRDDA providers to determine any outstanding bills or obligations relative to fiscal year 2006.*

Action taken or planned: On August 2, 2006, MRDDA sent correspondence to each of its providers in order to obtain outstanding bills and obligations for fiscal year 2006.

Current Status: Completed.

- ii. *Require budgets to be prepared based on identified needs for each consumer served. Additionally, establish controls to routinely evaluate and refine consumer needs so that budgets can be timely updated and accurately forecasted.*

Action taken or planned: MRDDA performed a review of each consumer’s individual service plan (“ISP”) and budget to determine whether providers are being paid only for support services required by the ISP and at the funding levels set forth in the applicable human care agreement or purchase order. MRDDA has established controls to evaluate consumer needs through the modification of the MCIS system. A module has been added to the MCIS system to include a comprehensive consumer budget process. The financial tab will include both waiver and local appropriations expenditures so that MRDDA budget staff will be able to ensure proper spending.



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The new module will allow MRDDA budget staff to track consumer information by provider to specific services provided, rates, hours needed, site information and other information necessary to monitor the budget of MRDDA.

Current status: Effective December 2006, consumer budgets based on their ISP were entered into the MCIS system. In addition, on January 9, 2007, a presentation was made to the provider community and other stakeholders on the new system and its impact on consumer services and their applicable budgets.

- iii. *Train current MRDDA staff to develop and monitor expenditures and related budgetary documents so MRDDA management will have accurate and timely information necessary to make decisions regarding program expenditures and resources.*

Action taken or planned: As mentioned above, MRDDA has developed a financial tab within the MCIS system that will provide us with accurate and timely financial information to monitor expenditures. MRDDA is developing various financial reports that will be used to monitor expenditures and track trends. MRDDA is also working with MAA to ensure that we have comprehensive financial data to include information on the costs for ICF-MR and costs associated with the waiver. In addition, MRDDA has developed a new case management model whereby consumers will be assigned to support services coordination teams on the basis of whether the individual requires intensive or non-intensive supports. These teams will be multi-disciplinary with specialists, advocates, nurses, and case managers, and are intended to develop expertise in the community based support services available for those consumers in the particular setting (i.e. ICF-MR). Each MRDDA staff will be better able to monitor the delivery of services with respect to the assigned caseload. As part of the implementation of and transition to the new case management model, MRDDA staff will receive training on the fiscal impacts (i.e. expenditure and budget) of specific placements and will work directly with service management specialists in MRDDA's contracts office to procure the necessary support services.

Current status: Ongoing.

- iv. *Request that the CFO temporarily assign OCFO staff to assist MRDDA staff, pending completion of training in budget formulation and monitoring.*

Action taken or planned: Effective July 16, 2006, the OCFO assigned an agency chief fiscal officer to MRDDA who worked on site three days per week. Recently, the OCFO assigned the agency chief fiscal officer to work exclusively with MRDDA on a full-time basis.

Current Status: Completed.



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- v. *Submit written notification to the applicable Deputy Mayor, Mayor, and D.C. Councilmember of any spending pressure exceeding a certain threshold, as determined in conjunction with the Executive Office of the Mayor, so that all stakeholders can be involved in the process of taking immediate corrective action.*

Action taken or planned: This recommendation exceeds the authority of either an agency director or administrator, but MRDDA currently is working with the OCFO and Deputy Mayor for Children, Youth, Families and Elders (“CFYE”) to develop a written notification tool as recommended.

Current status: In October 2006, the OCFO working with MRDDA’s Administration notified, in writing, the Executive Office of the Mayor concerning MRDDA’s fiscal year 2007 spending pressure. Subsequent meetings were held with the Executive Office of the Mayor and Councilmembers. In December 2006, a public roundtable was held so that MRDDA could present its fiscal year 2007 spending pressure before Council.

- vi. *Identify and seek recovery of over billings for Waiver enrollments. Further, establish proper controls to ensure that entrance dates for Waiver enrollments are properly recorded by MRDDA and that all appropriate officials are timely notified so that the costs for Waiver services provided are properly billed.*

Action taken or planned: This recommendation exceeds MRDDA’s authority, but MRDDA currently is working with the Department of Health’s Medical Assistance Administration (“MAA”), the OCFO, and the Office of the Attorney General (“OAG”) to identify and to seek to recover over billings for Waiver enrollments. MRDDA’s Waiver Unit has also worked with our IT Unit to modify the MCIS system to include a real time waiver roster that includes waiver certification beginning and ending dates. MRDDA is working with MAA on terms of a memorandum of understanding (“MOU”) that will ensure a more timely notice to providers on waiver authorizations. The current process is paper based, but with the implementation of the MOU, the process will be automated and expedited.

Current status: Ongoing.

- vii. *Develop a specific plan to develop an inter-state compact agreement, enter into MOUs or identify other formal means necessary to maximize services or reduce costs to the District, to:*
 - a. *Maximize all available Waiver enrollment slots and address costs for out-of-state placements so the District can obtain federal reimbursement for costs of services.*



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- b. *Identify services to meet consumer needs that are not otherwise covered by Medicaid so the most services can be delivered to consumers at the lowest costs;*
- c. *Take steps to minimize costs related to business closures. Specifically:*
 - *provide a seamless mechanism for providers in good standing to re-negotiate rates to keep them solvent;*
 - *identify a pool of pre-certified providers to reduce the application processing time, thereby eliminating the use of 100 percent local funds during the certification period; or*
 - *transfer facility certification, or provide temporary certification, to the new provider.*

Action taken or planned: This recommendation exceeds the authority of MRDDA and MAA, but these two agencies are working with several other agencies – including OCFO, the OAG, and the Office of Contracting and Procurement – to determine the extent to which the District government can address OIG’s recommendation. MRDDA is working with MAA on the development of an MOU that will transfer provider enrollment from MAA to MRDDA. This will allow MRDDA to better meet the needs of our providers and consumers of service. MRDDA also is modifying the MCIS system to include the number of slots per provider and number of vacant placements. We are also working with MAA to modify the waiver rules to include out-of-state providers.

Current Status: Ongoing.

- viii. *We recommend that the Chief Financial Office in conjunction with the Deputy Mayor for Children, Youth, Families, and Elders, make a legal determination whether a local or federal Anti-Deficiency Act violation occurred because of the over obligation of MRDDA’s FY 2006 budgetary authority. If a violation of federal laws governing spending with the District’s Appropriation Act has occurred, the Mayor must submit, to the President and Congress, the report required by 31 U.S.C. § 1351 (1994) in accordance with guidance contained in OMB Circular A-34 (revised October 19, 1999).*

Action taken or planned: We concur. We will refer this matter to the CFO’s General Counsel to determine whether an anti-deficiency violation has occurred. If the ruling finds that this is the case, we will promptly refer the issue to the District’s Anti-Deficiency Review Board for further action. We will inform the OIG of the results of Counsel’s review.

Current status: Ongoing



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- ix. *We recommend that the Anti-Deficiency Review Board Chairman convene the Anti-Deficiency Board and take appropriate action regarding the MRDDA over-obligation in accordance with the federal and District's Anti-Deficiency Acts.*

Action taken or planned: We concur. The matter will be sent forward to the Anti-Deficiency Board for further action.

Current status: Ongoing.

- x. *We recommend that the Chief Financial Officer and the Deputy Mayor for Children, Youth, Families, and Elders prepare quarterly FRP reports and monthly spending plans for MRDDA separate from those of DHS to improve visibility of program finances and to better monitor and manage MRDDA's budget.*

Action taken or planned: We concur. The DHS/OCFO's office prepares quarterly FRP and monthly spending plans for each administration. These reports are then consolidated into one agency report for submission. It must be noted that monthly budget reports (EIS reports) are distributed to each administration within DHS including MRDDA.

Current status: Effective with the 1st quarter FRP for FY 2007, MRDDA will submit a separate FRP. In addition, effective FY 2008, the spending plans for MRDDA will be submitted separately.

- xi. *We recommend that the Deputy Mayor for Children, Youth, Families, and Elders, in conjunction with the MRDDA Administrator establish controls to ensure that obligations are recorded at the point in time that they are incurred. These controls should include training, written procedures, and increased management oversight.*

Action taken or planned: MRDDA already is working within the context of the Systems Improvement Plan and with the OCFO to effect the types of procedures and management controls recommended by OIG.

Current status: Ongoing.

- xii. *We recommend that the Chief Financial Officer submit quarterly FRP reports for all agencies to improve visibility of program finances so program budgets can be better monitored and managed as required by the District's Anti-Deficiency Act of 2002.*

Action taken or planned: We concur. The DHS/OCFO's office prepares quarterly FRPs for each administration. These reports are then consolidated into one agency report (DHS) for submission to the Office of Budget and Planning (OBP).

Current status: Effective with the 1st quarter FRP for FY 2007, MRDDA will submit a separate FRP.



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- xiii. *We recommend that the Deputy Mayor for Children, Youth, Families, and Elders finalize MRDDA's reporting structure with regard to making MRDDA a separate agency or part of the DHS reporting structure.*

Action taken or planned: In September 2005, and again in July 2006, the DHS Director delegated authority for MRDDA's personnel, contracting and procurement, and budget actions to the MRDDA Administrator in an effort to provide better accountability at the program level. By Mayor's Order 2006-101 dated July 26, 2006, "Delegation of Authority to Administrator of the Mental Retardation and Developmental Disabilities Administration and Requirements for Inter-Agency Cooperation," 53 D.C. Reg. 6393 (Aug. 4, 2006), the Mayor further defined MRDDA's separate authority for budget, contracting and procurement, personnel, and Medicaid, and instituted a monthly meeting of affected agencies "to take steps necessary and appropriate to comply with the 2001 Plan for Compliance and Conclusion of Evans v. Williams. Accordingly, MRDDA's roles and responsibilities with respect to budget and contracting and procurement already have been addressed.

Finally, on September 14, 2006, the Mayor transmitted to the Council of the District of Columbia for its consideration Bill 16-890, the "Department of Cognitive and Developmental Disability Services Establishment Act of 2006," which creates a separate Cabinet-level agency within the executive branch of government to lead the reform of the District's system of care and rehabilitation services for citizens with mental retardation and developmental disabilities. Bill 16-890 was introduced on September 18, 2006, circulated on September 20, 2006, and referred to the Committee on Human Services.

Current status: Emergency legislation was passed on December 19, 2006 establishing MRDDA as a cabinet-level agency reporting directly to the Mayor.

- 3) Audit of the Maintenance of Medical Necessity Forms for Non-Emergency Transportation of Medicaid Recipients, issued September 29, 2006.

This audit indicated that the DOH Medical Assistance Administration (MAA) did not maintain Medical Necessity forms for nearly all of the 8,607 participants who received transportation benefits at a cost of \$16.3 million from the NET Program in fiscal year 2005.

The maintenance of the Medical Necessity form is essential for controlling the total cost of the NET Program because it authorizes the District's Medicaid recipients to receive various modes of transportation assistance when receiving treatment or seeking other medical services. This condition occurred because MAA required and relied on the medical facilities to maintain the Medical Necessity forms. Further, MAA had not performed any on-site visits or reviews at the medical facilities to ensure that the forms were being maintained.



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Although MAA required the medical facilities to maintain the Medical Necessity forms, MAA policies and procedures do not require medical facilities to submit completed and approved forms to MAA.

Due to MAA's failure to properly maintain Medical Necessity forms, DOH cannot determine the total number of authorized participants who utilized the NET Program. DOH also cannot substantiate the medical condition that warranted transportation for program participants who received transportation services during fiscal year 2005.

Moreover, failure to maintain all of the Medical Necessity forms is a serious breach of basic internal controls, which may have resulted in additional program costs to the District of Columbia.

Management's Response:

- i. *Ensuring the maintenance of the Medical Necessity forms* – MAA has proactively taken several steps to remedy the issue identified. MAA developed a plan of action to reissue Transmittal 06-05, "Authorization for Medical Transportation for Doctor's appointment" to all Medicaid providers. The transmittal indicates a medical necessity form must be completed and substantiated by a physician's order for each Medicaid recipient requesting non-emergency transportation before services will be authorized.

To ensure Medical Necessity Certification forms are maintained, MAA recently developed a Medical Necessity Certification Questionnaire, which is currently being faxed to physicians, practitioners, and authorized facilities that request and arrange non-emergency transportation services for Medicaid recipients.

On August 14, 2006, MAA started sending (via fax) the Medical Necessity Certification Questionnaire to Medicaid physicians, practitioners, and authorized facilities that request and arrange non-emergency transportation services. The physician is required to sign the Questionnaire, which certifies that a "completed" Medical Necessity Certification form on file and retained. The Questionnaire captures the Medicaid recipient's name, Medicaid number, and requires the physician to identify the appropriate mode of transportation required.

Providers must complete and submit the Medical Necessity Certification Questionnaire to MAA by November 1, 2006. Failure to submit the Questionnaire will result in the denial of transportation services.

Once the Medical Necessity Certification Questionnaire form is completed and returned to MAA, the form will be placed in an organized filing system. The new filing system will serve as a repository, which will be accessed by MAA to ensure the physician has certified that a Medical Necessity Certification form is on file.



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Data collected from the Medical Necessity Certification Questionnaire form will be entered into shared database that will be maintained by MAA. MAA's Office of Program Operations will enter data from all the Medical Necessity Certification forms into a database, which will be used by MAA Customer Service Representatives (CSR) that handle non-emergency transportation prior authorization requests via telephone and fax. Each MAA CSR will have access to the shared database. The CSR will access the database every time a provider submits a prior authorization request, via fax or telephone, to MAA for non-emergency transportation. The CSR will access the database to verify the following:

- A Medical Necessity Certification form was completed by the physician and is on file; and
- The recipient's medical condition warrants transportation by public transportation or van, based on the physician's information.

The CSR will either approve or deny authorization for services and inform the provider of MAA's decision of approval or denial of transportation services.

- ii. *Amending DOH's Access Guide to require that medical facilities submit a copy of each completed and approved Medical Necessity form to MAA* – MAA will amend the DOH Access Guide. The DOH Access Guide now will require physicians, practitioners, and authorized facilities that request and arrange non-emergency transportation services to submit to MAA a Medical Necessity Certification Questionnaire, which has been signed by the physician. The Medical Necessity Certification Questionnaire may be submitted via fax or direct mail.
- iii. *Issuing written guidelines requiring MAA to perform periodic reviews of the Medical Necessity forms* – MAA concurs with this recommendation. MAA will have the Office of Program Integrity establish formal written policies and procedures that explain how periodic reviews of Medical Necessity forms will be conducted. The written policies and procedures will be finalized and completed by MAA's Office of Program Integrity.
- iv. *Implementing controls to ensure the need for van transportation* – MAA has implemented a formal process to verify the need for van transportation by requiring the completion of the Medical Necessity Certification Questionnaire. It is the responsibility of the physicians, practitioners, and authorized facilities that request and arrange non-emergency transportation services for Medicaid recipients to complete this form and send it into MAA before van transportation services are authorized.

Also refer to item (i) in this section for additional procedures to be implemented.



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4) Audit of the Outsourcing of the Aging and Disabilities Resource Center, issued December 8, 2006.

Medical Assistance Administration, Office on Disabilities and Aging (MAA-ODA) officials were, for the third time, attempting to outsource (contract out) the Aging and Disabilities Resource Center (ADRC) without evaluating other options and providing documentation to support that doing so was in the best interest of the District.

While participation in the Home and Community-Based Services Elderly and Adults with Physical Disabilities Waiver Program (HCBS EPD Waiver Program) has increased, officials did not fill all of the slots approved by the Centers for Medicare and Medicaid Services (CMS), and lost opportunities to provide in-home nursing care for District residents and save money by diverting them from more expensive nursing home care.

OIG estimates that had MAA officials filled all allotted HCBS EPD Waiver slots from 2002 to 2005, the District could have saved up to \$33.8 million. In addition, OIG estimates that if MAA-ODA officials filled all of the allotted HCBS EPD Waiver slots in 2006, the District could have saved \$2.8 million.

Management's Response:

- i. The OIG based their calculations on estimates that were quite optimistic and did not address the issue of consumer choice, a key component of the Elderly and Persons with Physical Disabilities (EPD) waiver. It is not unusual for States to have waivers operating at less than full capacity as the ceiling provides an estimate of what volume of waiver expenditures Centers for Medicare and Medicaid Services (CMS) routinely will pay. The OIG did not find merit with MAA findings or response.
- ii. MAA has increased the EPD waiver over one hundred percent in the past 18 months and is now operating at over 83 percent of capacity, an increase of over 55 percent in the last six months. There are now more than 1,200 persons in the Waiver out of a maximum of 1,445 for the current Waiver year.
- iii. MAA-ODA evaluated at least three options and elected to move to outsource based on the time and resources required to establish in-house infrastructure. Given that the OIG did not recommend that MAA outsource the ADRC, the MAA chose to provide these services in-house. The following corrective actions have already been taken or are underway to address the OIG concerns:
 - a. MAA cancelled the outsourced contract with Chesapeake Consulting, Inc. effective May 31, 2006.



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- b. MAA requested a no-cost extension for MAA's Real Choice Systems Change Grant which utilized the ADRC as part of the work plan in FY 2006. CMS granted MAA a one time extension from October 1, 2005 through September 30, 2006. MAA sought a second extension which was not granted. MAA also applied for an additional RCSC grant but was notified on September 18, 2006 that the MAA proposal was not accepted and the District was not awarded a new RCSC grant.
- c. MAA conducted a more detailed cost benefit analysis of outsourcing the ADRC vs. keeping the services in-house as well as drafted a fiscal impact statement.
- d. As a result of the cost benefit analysis and internal discussions MAA will plan to conduct all key portions of the ADRC in-house for fiscal year 2007 contingent upon obtaining budget enhancements, making budget adjustments, locating space and hiring personnel needed to bring the ADRC in-house. MAA will continue to build internal infrastructure through fiscal year 2007 and beyond. Once it can operate at full capacity MAA fully intends to optimize the ADRC capacity and services provided in-house in fiscal year 2008. Specific ADRC goals and deliverables with a timeline are being developed to reflect the best approach for best serving District residents going forward.

The primary recommendation of the OIG to bring the ADRC in house to DOH-MAA is in progress.

Other Audits:

Following are the summarized results of other recent audits performed over the Medicaid program:

5) Office of the D.C. Auditor - Auditor's Examination of Contracts for Four (4) Consumers under the Care of the Mental Retardation and Developmental Disabilities Administration, issued July 13, 2006.

Mental Retardation and Developmental Disabilities Administration (MRDDA) current invoice review and certification process is poorly managed and lacks vital management, administrative, and financial controls. Present MRDDA procedures create opportunities that allow for potential fraudulent billings in addition to violating OCFO internal control policies and procedures, as evidenced in this review. In addition, MRDDA's current review and certification process does not provide assurances that negotiated services are actually being rendered at the negotiated price and that employees are paid the negotiated rates. It is imperative, in order to adequately safeguard the expenditure of public funds and reduce the adverse impact it may impose on consumers under MRDDA's care that MRDDA establishes a system of internal controls that ensures adequate review and certification of invoices and services prior to payment.



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Management's Response:

Action taken or planned: MRDDA performed a review of each consumer's individual service plan ("ISP") and budget to determine whether providers are being paid only for support services required by the ISP and at the funding levels set forth in the applicable human care agreement or purchase order. MRDDA has established controls to evaluate consumer needs through the modification of the MCIS system. A module has been added to the MCIS system to include a comprehensive consumer budget process. The financial tab will include both waiver and local appropriations expenditures so that MRDDA budget staff will be able to ensure proper spending. The new module will allow MRDDA budget staff to track consumer information by provider to specific services provided, rates, hours needed, site information and other information necessary to monitor the budget of MRDDA.

Current status: Effective December 2006, consumer budgets based on their (ISP) was entered into the MCIS system. In addition, on January 9, 2007, a presentation was made to the provider community and other stakeholders on the new system and its impact on consumer services and their applicable budgets.

6) Centers for Medicare and Medicaid Services (CMS) of the Department of Health and Human Services - Summary of Issues Identified during the Assessment of DC's Home Community-Based Services Waiver for Individuals with Mental Retardation, issued October 10, 2006.

The on-site review from August 15 to 17, 2006 was part of the CMS assessment and in anticipation of a waiver expiration/renewal date of November 19, 2007. CMS found that the District failed to substantially meet three of the six waiver assurances as follows:

- The District failed to demonstrate that it has designed and implemented a system to assure that plans of care waiver participants are adequate and services are being delivered; and that services are meeting the needs of waiver participants.
- The District failed to demonstrate that it assures the health and welfare of waiver participants including the identification, remediation and prevention of abuse, neglect, and exploitation.
- The District failed to demonstrate that it retains administrative authority over the waiver program and that its administration of the waiver program is consistent with its approved waiver application.

CMS also issued a summary of corrective actions and follow-up expectations for the Medical Assistance Administration (MAA) and MRDDA to follow to ensure that the individuals in the waiver receive quality services.



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Management's Response:

Status: MRDDA is in the process of implementing a six-month Systems Improvement Plan which includes enhancing the quality of care and services and establishing a new organizational structure. The System Improvement Plan includes the following:

- 1) Restructuring of the case management system and elimination of the distinction between Evans and on Evans Class members.
- 2) Eliminating contract case managers. Some current case managers will be offered positions as District employees.
- 3) Instilling a consumer-centered philosophy into the case management staff.
- 4) Use of a common assessment tool by case managers.

MRDDA has developed a new incident management system, Alert Resolution System (ARS). ARS will catalogue, classify, and respond to significant consumer and provider issues identified by internal and external partners. It will provide a mechanism for MRDDA to track, trend, and organize timely responses to address individual, provider, and system issues. Key components of the system include (1) the Immediate Responses Committee which reviews issues each day, (2) a Rapid Intervention Team which evaluates potential crisis situations, and (3) the MRDDA Consumer Information System, which is a web-based database providing the automated tracking of consumer and provider data.

MRDDA has indicated that it is reconsidering its decision to terminate the Columbus Organization, but has not announced a final decision.

MAA is working with MRDDA to strengthen the MOU.

Cost Reports

Various District agencies, including Child and Family Services (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 Medical Assistance Administration (MAA), part of the District's Department of Health, 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.



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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) agency appeals of MAA disallowances caused by failure to file Medicaid claims timely, as well as, the provision of sufficient support for incurred claims; 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 Medicaid expenditures.

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

Agency	Cost Report Completed	Status of Cost Report under Audit
CFSA	Up to fiscal year 2003	On going fieldwork for fiscal year 2004
DMH	Up to fiscal year 2002	Just began fieldwork for fiscal year 2003
DCPS	Up to fiscal year 2001	Finalizing fiscal year 2002

We recommend District agencies improve the claims submission process and submit cost reports to MAA on time and improve communication and better coordinate the submission of claims by agencies in a form that is acceptable to MAA. This will allow the District to reduce the time between when the Medicaid expenditures are incurred and the ultimate reimbursement of these costs from the Federal government.

Management’s Response:

We agree that timely completion of audits is necessary to reduce the possibility of misstatements. Changes in personnel and record retention issues may add to the possibility of eventual audit error. While we note that the District imposes no time restriction on the completion of audits, we agree that prolonged incompleteness makes it cumulatively harder to maintain and produce competent evidential matter necessary to render an opinion on the fair statement of the District’s financial position. We concur with the above recommendations and henceforth MAA, with the cooperation of the public providers, will strive to complete these audits in a timely manner. We will reinforce with the public provider agencies the need for timeliness.

Accounts Receivable Write-offs at the Department of Mental Health (DMH)

In connection with the cost report audits mentioned previously, the Medical Assistance Administration (MAA) of the District’s Department of Health has disallowed significant portions of Medicaid costs submitted for reimbursement by DMH. We noted that DMH had been very aggressive in recording receivables for the Federal share of its Medicaid claims incurred from fiscal years 2002 to 2004. However, these claims expenditures could not be fully supported by DMH in the cost reports submitted to MAA and this resulted in significant write-offs.



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We observed that as a result of such disallowances, DMH has written off \$17.3 million of Medicaid accounts receivable during fiscal year 2006 which related to fiscal years 2002 through 2005 claims expenditures. In addition, DMH has also written off \$11.4 million and \$9.9 million during fiscal year 2003 and fiscal year 2005, respectively.

We recommend that DMH ensure that all claims reimbursements submitted to MAA are provided with sufficient supporting documentation which in turn, will ease the collection process from the Federal government. This will also help to minimize the use of local dollars to fund these expenditures.

Management's Response:

The new DMH management team is placing a very high level of resources and effort into recouping Medicaid reimbursement for claims submitted but denied. The Accounts Receivable module that was intended to support the internal claims system has not been made operational. Therefore, the agency is in the process of engaging an experienced outside vendor to analyze the denial reasons and to correct the claims to resubmit them to MAA. This vendor will work in conjunction with internal resources such as a recently hired Medicaid Eligibility Specialist and three claims staff specifically assigned to Medicaid reimbursement recovery.

The agency has developed a repeatable and sustainable cycle for extracting Medicaid eligible claims from the internal claims system and forwarding them to MAA. This process has been occurring weekly since July 2006.

DMH and MAA are working toward reassignment of the responsibility for provider claims payments from DMH to MAA. This effort has already resulted in a closer alignment of payment rules for the DMH and MAA claims systems. Once the effort is completed, DMH will no longer be seeking reimbursement from MAA for private provider claims.

Outstanding Audits of New Provider Claims at the Department of Mental Health (DMH)

As noted during the previous fiscal year, DMH did not perform an audit of the first batch of new providers' claims for fiscal year 2006. As a result, DMH has \$113,840 worth of claims in its receivable balance for fiscal year 2006, which has not yet been billed, because the audits of the new providers are pending. The longer DMH takes to bill, the longer it will take for DMH to collect the revenue and the older the receivables become, the lesser the likelihood of collection.

DMH policy states that an initial audit of a sample of the first batch of claims submitted is to be audited. We recommend that DMH hire and train additional personnel to perform the audits to ensure compliance with its policies and to ensure that claims submitted are for actual services provided.



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Management's Response:

DMH will immediately initiate the audit of claims received for fiscal year 2006 to ensure the validity of these claims. There was an internal agency miscommunication regarding the status of task orders and these providers' readiness to submit claims when the DMH auditor made their initial inquiry.

DMH has recently hired a Deputy Director for the Office of Accountability under which the audit function reports. The new Deputy Director is currently revising the table of organization for that division which will include supplementing the agency audit function with additional resources.

Outstanding Audits of Financial Data at the Department of Mental Health (DMH)

DMH did not perform the quarterly financial data validity audits of claims submitted by service providers for fiscal year 2006. Per DMH's compliance policy, a sample of 15 claims for each provider is to be reviewed on a quarterly basis. As a result of not performing these audits, DMH cannot determine whether providers are in compliance with its policies. Additionally, claims submitted for payment could be overstated. DMH is only in the process of completing the quarterly audits for fiscal year 2005. We recommend that management conduct such audits in a timely manner.

Management's Response:

DMH's Office of Accountability is working with the Office of Information Systems to get the data in order to perform the appropriate quarterly reviews. Once the claims data is obtained from Information Systems, the desk audits will be performed for fiscal year 2006 claims in accordance with DMH Policy 911.1.

DMH has recently hired a Deputy Director for the Office of Accountability under which the audit function reports. The new Deputy Director is currently revising the table of organization for that division which will include supplementing the agency audit function with additional resources.

Overdrawn Medicaid Federal Funds at the Department of Health (DOH)

During the fiscal year, DOH's request for Medicaid funds included costs that had not been paid out before the request for Federal reimbursement was made. As a result, DOH has overdrawn \$16,466,386 from the Federal government. This amount is currently reflected as deferred revenue in the September 30, 2006 books and records.

The District's Cash Management Improvement Act (CMIA) agreement requires the government to minimize the time that elapses between the payment of the disbursement and the request for reimbursement. The costs must be incurred or paid out before reimbursement is requested from the program's funding. DOH's requests for funds for the program were not based on its immediate cash needs and interest may be owed to the Federal government.



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II. Management of the Medicaid Program

We recommend DOH implement improved policies and procedures to ensure that program obligations have been incurred prior to requesting reimbursement and that requests for funds is consistent with the CMIA agreement.

Management's Response:

DOH has implemented new procedures to ensure that expenditures are incurred and recorded prior to requesting reimbursement. Beginning in fiscal year 2007, additional staff has been assigned to analyze Medicaid spending. The accounting supervisor is reviewing the analysis prior to the draw from CMS in order to ensure the correct amount is drawn.

The reconciliation between MMIS expenditures, SOAR expenditures posted, and the cash draw will be performed on a monthly basis, maintained for review and will involve the accounting staff and MAA staff. The draws for the third party liability (TPL) collections will be adjusted quarterly.

Additionally, the CMIA report for Medicaid will be restructured in 2007 to incorporate SOAR organization codes which will assist in preventing the overdrawing of federal funds. We will document all of these policies and procedures in 2007. Finally, the subject adjustments will be used to offset draws in fiscal year 2007.

Automated Client Eligibility Determination System (ACEDS) Tables Maintained at Income Maintenance Administration (IMA)

Current controls surrounding changes made to the ACEDS tables are not sufficient to prevent errors or omissions to the tables either due to unintentional error or fraud. ACEDS is a system approved by the Federal government for the determination of eligibility and level of payment for federally sponsored social service programs, including Food Stamps, Temporary Assistance for Needy Families (TANF), and Medicaid and other select locally funded programs. The District is responsible for updating the data tables that are used in ACEDS for levels of eligibility.

Changes to the ACEDS tables are made by IMA personnel. Changes come from various sources and at various different times, for instance the Social Security Administration, Congress, through new legislation or IRS changes, and Federal awarding agencies, etc.

During 2006, IMA developed a draft *Table Maintenance Schedule* designed to document the table name, who is responsible for making the change, the relative level of complexity of the change, the table change frequency, whether there is an effective until date (to indicate when the table was changed) and the critical level of the table. This is currently the only means by which table changes are monitored.

Although there is an informal approach in which the analyst can ask for a review of the work that was entered in the system, there is no control over whether this review actually takes place and no proof that it did.



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Although the effective until date within the system can be somewhat useful in determining the approximate date that a table was changed, there are currently no reports that can be generated by the system to determine when and by whom a table was changed and what changes were made. Once a table change is initiated by an analyst, there is currently no formal means of authorizing the table changes before it is placed into use.

The lack of controls surrounding the table change process exposes the District to the risk that changes could be made to the tables that are unauthorized or that errors can be made in the application of the change either due to error or fraud. Since the ACEDS system determines eligibility for the District's need based assistance programs this could lead to invalid eligibility determinations that could be material to the District.

We recommend that IMA implement the following:

- Finalize the Table Maintenance Schedule that is currently in draft form.
- Consider adding source of table change to the Table Maintenance Schedule as applicable.
- Implement a policy in which all table changes must be 1) authorized by the Deputy Administrator or Assistant Deputy Administrator and 2) reviewed by such before the change is implemented.
- Develop a procedure to monitor that upcoming changes to the tables are occurring as necessary.
- Determine if a report can be developed from the ACEDS system that will tell when and by whom a table was last changed and what changes were made.

Management's Response:

Informal controls on table updates have been in place since 1992. The table maintenance schedule referenced may or may not be "finalized" as is, but a maintenance schedule will be developed and implemented as part of an overall Table Monitoring Plan.

An explanation will be conducted with staff from Department of Human Services, Office of Information Systems and the Office of Chief Technology Officer's technical staff regarding the development of a report from the ACEDS system that will tell when and by whom a table was last changed and what changes were made.



Material Noncompliance with Laws and Regulations

III. Noncompliance with 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 (OCP) can issue directives, orders, and memorandums governing procurement actions.

We noted the following issues during our audit process:

Procurement Files Review

- We noted that there were deficiencies in the execution and approval of sole source contracts at the Child and Family Services Agency (CFSA). Our examination revealed that the Agency Chief Contracting Officer did not perform certain required certifications prior to awarding the contract. In addition, there was no evidence that justification was documented prior to the Agency awarding a sole source contract and that the determination and findings reviewed were correct and complete. We also noted that the Director of the Agency did not certify that the contractor's price was fair and reasonable prior to the issuance of the contract.
- There were four (4) instances whereby we were unable to verify approval by the Agency's Fiscal Officer, the Budget Officer, and/or the Contracting Officer. The missing approvals were at the following agencies: One (1) from OCP, one (1) from the Department of Mental Health (DMH), and two (2) from CFSA.
- Evidence of Council approval for contracts over \$1,000,000 was not provided for nine (9) contracts selected for testing from the following agencies: Two (2) from OCP, one (1) from DMH, and six (6) from CFSA.

DCMR states that files shall be maintained at organizational levels that ensure effective documentation of contracts, ready accessibility to principal users, and conformance with any regulations or procedures for file location and maintenance.

We recommend that closer oversight and monitoring controls be placed over contracting at the independent agencies. We further recommend that the Child and Family Services Agency (CFSA), Department of Mental Health (DMH), and Office of Contracting and Procurement (OCP) review their current controls over document maintenance and retrieval. Special focus should be placed on ensuring that all agencies conform with the regulations and are accountable at a centralized level. Management at the contracting offices should perform a periodic review and design checklists which must be approved by supervisory personnel prior to being filed.



Material Noncompliance with Laws and Regulations

III. Noncompliance with Procurement Regulations

Management's Response:

The Office of Contracting and Procurement (OCP) has updated its Contract File Preparation Guidelines Policy (No. 1101.00). The policy requires that the Contracting Officer sign an Index Sheet to provide the final validation of the contents of the contract file five (5) days after contract award, as well as prior to the contract file going forward for any reviews, requests for approval (e.g. OAG review, Council approval, PRC) or litigation. The custodian of OCP's filing system, the Procurement Administration, will review files for compliance and sign for acceptance of the files. If the files are not in compliance they will be returned to the Contracting Officer. The agency's file custodian will conduct frequent contract file preparation training programs within OCP and other independent District contracting and procurement agencies.

CFSA management recognizes that past practice within CFSA's Contracts and Procurement Administration did not consistently include complete preparation of Determination and Findings documents, funding certification documents with required signatures by the Fiscal Officer, and evidence of City Council approval for \$1 million and above contracts. A number of the documents reviewed during this audit pertained to former Contract Manager and Administrator tenures. In response to many of the deficiencies found in past Contracts and Procurement Administration practices, our Contract Administrator has made deliberate efforts to ensure that Contracts and Procurement Administration Contract Specialists are fully aware of all procurement documents and signatures required to complete procurement files in a timely manner in accordance with the Title 27 DCMR and the Contracts and Procurement Administration Standard Operating Procedures. Over the last five months, the Contract Administrator has been conducting weekly, internal training for the Contracts and Procurement Administration staff that includes all elements of the procurement process. In addition to training, Contracts and Procurement Administration managers have recently implemented internal audits of contract files to ensure adherence to procurement requirements. For fiscal year 2007 contract files, the completion of all required documents with required signatures has become common practice in Contracts and Procurement Administration.

Another Contracts and Procurement Administration challenge has been the lack of a functioning, centralized document maintenance and retrieval (or filing) system. During the current Contract Administrator's tenure, a centralized file room has been established, as well as a filing system that allows for ready accessibility by Contracts and Procurement Administration staff members and managers. The Contracts Assistant has ensured that files have been numbered and filed properly, and now maintains a central control, or "locator system" as required by 27 DCMR 1203.8 to ensure the ability to efficiently locate files.

Database Review

- We noted data input errors relating to procurement type, award amounts, contract numbers, contract types, purchase order numbers, period of performance, etc.



Material Noncompliance with Laws and Regulations

III. Noncompliance with Procurement Regulations

- There was one (1) instance at CFSA in which the contract was listed as a competitive sealed proposal RFP, however, the actual contract was a sole source contract. There was another contract at Office of Chief Technology Officer (OCTO) which was listed as a small purchase; however, it was actually a sole source contract.
- The database contained contracts with the same contract number and different vendor names, award dates, and procurement methods.
- For some contracts selected, the database did not identify the procurement method and contract numbers used.
- We noted that some contracts covering the same vendor, award date, and amounts were entered multiple times.
- From the sample tested, we noted that three (3) grants were inappropriately included as contracts.
- We noted that DMH and CFSA did not have databases which track all contracts; instead contracts are entered into an Excel spreadsheet for which the agencies could not confirm its completeness.

We recommend that the District strengthen controls over its contracting database. It is critical that periodic reviews are conducted during the year to ensure the integrity of the database. 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.

We also recommend that the District consider the design and maintenance of a centralized tracking system with information that identifies the amount and status of each contract entered into.

Management's Response:

The proposed fiscal year 2008 budget for the Office of the Chief Technology Officer (OCTO) includes a request for additional funding to improve OCP's centralized tracking system. If the request is approved, the District's procurement activities will then be streamlined and automated into a centralized procurement data system, thereby dramatically improving the efficiency of the vast majority of procurement operations. The upgrade to the central tracking system will serve as the technology and business process foundation necessary for the District, to not only, achieve its procurement goals but to provide better tracking, reporting, and monitoring of procurement activities.

CFSA's Contracts and Procurement Administration has recently been re-assessing its approach to the maintenance of an automated centralized tracking system. An Access database had previously been utilized to manage general contract information, but has not been maintained during the last six months in favor of a decision to manage contract information via MS Project.



Material Noncompliance with Laws and Regulations

III. Noncompliance with Procurement Regulations

The MS Project plan not only includes contract name, number, amount, and contract period, but also includes procurement planning milestones related to each contract. The Excel spreadsheets referenced in the findings hold the aforementioned information, as well as additional information such as contract type, monitor contact information, etc. It would be prudent to determine whether the Contracts and Procurement Administration is to participate in a District-wide contract tracking system managed by OCP before CFSA reinstates its Access database system.

Compliance with Regulations as outlined in the DCMR

- Two (2) contracts were in excess of the \$1,000,000 ceiling but there was no evidence of approval from the Council.
- Thirteen (13) transactions were recorded as accrued expenses in T Code accounts 808 and 805 and were not supported by valid contracts prior to the services being rendered. We were not provided with any evidence that the contracts had been submitted for ratification.
- Support for ten (10) contracts which exceeded the dollar threshold for small purchases was not provided.
- Documentation to indicate the history of procurement was missing from one (1) file at DMH and two (2) at CFSA.
- Two (2) procurement files at CFSA lacked supporting documentation to show that there was full and open competition.
- Two (2) contracts lacked documentation in support of the rationale to limit competition (One was identified at CFSA and another at DMH).
- One (1) file reviewed at DMH lacked evidence that a cost/price analysis was performed.
- Tax verification responses were not provided for four (4) contracts from DMH and two (2) from CFSA. One (1) Notice of D.C. Official Attachment and Levy reviewed stated that the contractor owed the District for taxes totaling \$62,720.82. No evidence was provided to show that the contractor paid the taxes prior to the contract being granted.
- There was one (1) instance at OCP where a valid contract was not in place during the fiscal year. OCP awarded several bridge contracts to have services provided while the contract was submitted for approval.



Material Noncompliance with Laws and Regulations

III. Noncompliance with Procurement Regulations

- CFSA did not exercise Option 1 of a contract thereby causing the underlying contract to expire at 9/30/05. We noted that the vendor and CFSA were unable to reach an agreement on the Option 1 prices, however, the vendor continued to perform residential services after the expiration of the contract. In July 2006, instead of executing Option 1, CFSA awarded a sole source contract to this vendor as a replacement contract during the Option period.

Purchase Order Splitting

- Nine (9) occurrences, for which short-term purchase orders were individually less than \$1,000,000 but cumulatively totaled over \$1,000,000, were issued to the same vendor for similar services within a twelve month period.
- The District of Columbia Supply Schedule (DCSS) limits competition by restricting the pool of vendors for a number of goods and services performed by local companies. However, amounts over \$1,000,000 must be approved by the City Council. During our testing, we noted that two (2) agencies entered into contracts under the DCSS which exceeded \$1,000,000 without the evidence of approval from the City Council.
- Invoice splitting appeared to exist with two (2) vendors who provided similar services with different purchase orders. In addition, we were unable to determine whether invoice splitting occurred with eight (8) vendors because the agencies failed to provide the documentation.

Limited Competition Small Purchases

- Thirty (30) written quotations were not provided for limited competition small purchases. Twenty-four (24) of the purchases were made from vendors outside of the local trading area.
- Seventy-eight (78) oral quotations were not provided for limited competition small purchases. This deficiency was noted at both the Independent Agencies such as OCFO, DMH, and CFSA as well as OCP.

Contracts Not Issued Timely

CFSA was required to issue contracts to various providers who perform services to the District's Foster Care population. At October 1, 2005, these contracts were not in place and the Contracting Office at CFSA issued Bridge contracts pending the preparation, approval, and awarding of new contracts to the providers. We noted that some of the vendors received contracts during the last quarter of fiscal year 2006.



Appendix B

Material Noncompliance with Laws and Regulations

III. Noncompliance with Procurement Regulations

We recommend that the District perform an assessment of the current training program available to contracting personnel. Focus should be placed on ensuring that these employees are trained in the compliance regulations applicable to contracts. The training program will assist in the employees obtaining the requisite tools needed to carry out their daily assignments. Training needs to be consistent and ongoing and not be considered as a quick fix to a long term problem. The District must also retain personnel with the appropriate competencies to ensure that procurement as a major process is guided properly.

We recommend that OCP and all independent agencies review their current contracting procedures with special focus on the contracting officers or designees and their responsibilities for ensuring compliance with contract dollar limitations and the approval process. The commodity managers should meet with senior procurement personnel to review the status of certain contracts during the year and action should be taken to remedy deficiencies cited.

We recommend that contracting personnel re-evaluate the controls that are in place over the issuance of contracts to healthcare providers. Since these contracts are recurring, the Contracting Officer should establish schedules to ensure that the contracts are approved prior to the beginning of the new fiscal year. In addition the Contracting Officer should ensure that all the appropriate approvals are obtained prior to the issuance of the contract.

Management's Response:

The Office of Contracting and Procurement (OCP) has already recognized the need for a professional development and certification program. In fiscal year 2007, OCP will distribute to all OCP employees a Training Policy Manual that establishes a professional development plan for all levels of procurement personnel. OCP's proposed fiscal year 2008 budget includes an enhancement for the OCP Training Unit to develop a certification program; however, the development of a certification program is contingent upon funding.

OCP will extend the training for the certification program to independent District contracting and procurement agencies. Additionally, OCP is creating a working group consisting of contracting officers and contracts specialists to randomly perform an internal audit of contracts to note and correct deficiencies found.

As mentioned in an earlier response, the current Contracts and Procurement Administration Contract Administrator has made strides to ensure that required procurement documents are being completed and filed timely. In the past, deemed approval letters from City Council were not always sent to CFSA. The Contracts and Procurement Administration has successfully obtained some of the missing letters pertaining to prior year contracts, but is focused on ensuring that all new contract packages with value in excess of \$1,000,000 contain all required OAG and City Council approval documents. The Contracts and Procurement Administration is also ensuring that all documents are returned to this office, including the approval letter, for inclusion in our own Contracts and Procurement Administration files. Return of the approval letter had not been common practice.



Material Noncompliance with Laws and Regulations

III. Noncompliance with Procurement Regulations

The tax verification process had not always been fully executed prior to award, but this task has now been assigned to the Contracts and Procurement Administration's contract assistant. Tax compliance is also being monitored by the Contracts and Procurement Administration, as there are vendors with ongoing issues in this area.

The finding related to an award of a sole source contract as a "replacement contract" relates to a situation in which CFSA and the Contractor could not come to agreement on the terms of the exercise of the option. Due to the nature of the residential foster care services, CFSA sometimes is placed in a predicament as its overarching child welfare goals include permanence of children. In order to avoid a disruption in the placement stability of children, CFSA makes all efforts to maintain children in their current foster care placements. Provision of foster care services is a necessary government function that can sometimes exact emergency contract situations.

CFSA has been in the process of soliciting for many of its services that had been sole sourced in the past. The appearance of "purchase order splitting" was caused, in one instance, when the Contracts and Procurement Administration's plans to release solicitation on a particular date was delayed by the CFSA Program Office not having finalized the scope of work in a timely fashion. This caused unanticipated, short-term contracts issued to the same vendor for similar services. The Contract Administrator has addressed through a series of "Scope of Work" and "Contract Action Package" trainings for all CFSA components to ensure that Program staff are familiar with the processes, and ensure timely completion in order for the Contracts and Procurement Administration to solicit and award in a timely fashion.

We have significantly improved practices related to limited competition small purchasing practices. The Contracts and Procurement Administration now ensures that three quotes are solicited for each small purchase, and that the proof of these quotes is recorded in the contract files. The Contracts and Procurement Administration is also seeking vendors on the DC Supply Schedule and those that are LSDBE certified in order to meet all requirements in this regard. The Contracts and Procurement Administration has also improved on issuance of contracts in a timely manner. There have been instances in the past in which, due to the ongoing need for continued services without disruption, the Contracts and Procurement Administration has been required to put in place short-term, "bridge" contracts. The Contract Administrator has been making strides toward bringing the Contracts and Procurement Administration and all the CFSA components into an "effective acquisition planning" rubric. As mentioned, training has been ongoing within the Contracts and Procurement Administration and across CFSA on all steps in the procurement process. Full implementation of the advanced acquisition planning policy and procedures outlined in the Standard Operating Procedures is an important goal of the Contracts and Procurement Administration. CFSA welcomes the opportunity to participate in OCP-sponsored training that might offer all contracting specialists, officers, and managers across District agencies with a uniform curriculum in basic and more complex procurement principle and practice. In the interim, the Contracts and Procurement Administration has offered external trainings to its staff, and several have obtained their CPPB certification. In addition, the Contracts and Procurement Administration is offering internal trainings on procurement policy and practice in an effort to fully implement the Standard Operating Procedures manual developed for its office. These Standard Operating Procedures are in accordance with Title 27 DCMR and FAR guidelines.



Material Noncompliance with Laws and Regulations

IV. Noncompliance with the 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:

- The date on which payment is due under the terms of the contract for the provision of the property or service;
- 30 calendar days after receipt of a proper invoice for the amount of payment due;
- 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
- 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:

- Each District agency shall file with the Mayor a detailed report on any interest penalty payments made.
- 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.
- 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, 2006, we noted seventy-two (72) instances where the District failed to comply with the Quick Payment Act.

Management's Response:

Payments to suppliers of goods or services should not be made without certification that the goods and or services have been received. Vendor payments associated with procurement activities are initiated through the Procurement Automated Support System (PASS). Payments are approved only after program operations have recorded the receipt of goods or services in PASS. PASS will not generate the payments until the receipt is recorded. The "receipt of goods and services recordation process" has not always been timely, and has occasionally resulted in untimely payments to vendors. The OCFO staff has increased its efforts to assist program operations in the timely recording of the receipt of goods/services. We are confident that the OCFO's support will significantly improve the timeliness of payments to vendors.



Appendix C

**Status of Prior Year Reportable Conditions and
Material Noncompliance with Laws and Regulations**

Nature of Comment	Type of Comment in FY 2005	Current Year Status
Management of Disability Compensation Program	Reportable Condition	Advisory Comment
Unemployment Compensation Claimant File Management	Reportable Condition	Advisory Comment
Noncompliance with Procurement Regulations	Material Noncompliance	Material Noncompliance
Noncompliance with Quick Payment Act	Material Noncompliance	Material Noncompliance
Expenditures in Excess of Budgetary Authority	Material Noncompliance	Resolved
Noncompliance with Financial Institutions Deposit and Investment Amendment Act	Material Noncompliance	Advisory Comment