

PUBLIC OVERSIGHT HEARING
ON
THE FISCAL YEAR 2007 AND 2008 SPENDING AND
PERFORMANCE BY THE OFFICE OF INTEGRITY
AND OVERSIGHT (OIO) OF THE OFFICE OF THE
CHIEF FINANCIAL OFFICER (OCFO)

Before the
Committee on Finance and Revenue
Council of the District of Columbia
The Honorable Jack Evans, Chairman

March 5, 2008, 10:00a.m.
Chamber, John A. Wilson Building



Testimony of
Robert G. Andary
Executive Director
Office of Integrity and Oversight

Natwar M. Gandhi
Chief Financial Officer
Government of the District of Columbia

Good morning, Chairman Evans and members of the Committee on Finance and Revenue. I am Robert Andary, Executive Director of the Office of Integrity and Oversight. I took over as Executive Director of this office at the beginning of February. This is my first appearance before this Committee, and I am pleased to have this opportunity to testify today on the FY 2007 performance of our office and our direction for FY 2008.

Last week I provided the Committee with a copy of our Fiscal Year 2007 Annual Report (which is Attachment 1 to my testimony today), as well as copies of previous annual reports. These contain the details of our program accomplishments, and I will briefly summarize what we have done for the past fiscal year.

The mission of the Office of Integrity and Oversight (OIO) is to ensure that accountability, integrity and efficiency are maintained in the financial management and tax administration systems of the Government of the District of Columbia. Through its audit and investigative programs, OIO provides the Chief Financial Officer with an independent review of OCFO operations.

In FY 07, the Office of Integrity and Oversight was authorized 25 FTEs.

The Office comprises 13 auditors, 10 investigators, an Executive Director and an executive assistant. (See Attachment 2.)

Response to the Tax Scandal

Before I turn to the accomplishments of this office during the present and past fiscal years, let me describe to the Committee what is being done by my office in direct response to the issues presented by the investigation of certain employees in the Real Property Tax Administration.

On November 7, 2007, immediately following the arrest of certain employees in the OTR Real Property Tax Administration, my predecessor issued an alert detailing important management control issues that came to OIO's attention during the investigation that led to the arrests. The OIO alert contained six recommendations to correct the internal control failures that facilitated the alleged fraud:

- Establish and disseminate clear written procedures to be followed in the preparation, approval, and issuance of real property tax adjustment refund checks. The procedures should address the necessary separation of duties and describe the required supporting documentation and/or justification, and the designated approval authority. The process should also delineate senior management review/signatory requirements for all high dollar refunds, and other

measures as deemed necessary, including periodic management oversight reviews.

- Re-evaluate the need for “hold for pick-up” refund checks. The creation of “hold for pick up” checks clearly establishes a high risk area susceptible to exploitation. “Hold for pick-up” refunds should only be utilized in exigent circumstances.
- Policy guidelines must dictate that employees responsible for preparation/ approval of refund vouchers should not be same employee allowed to pick-up the refund check.
- All vouchers prepared to generate a refund check should be retained for the same period of time (seven years) that the negotiated check is retained by the Office of Finance and Treasury, Disbursing Unit.
- Establish the use of signature cards bearing the signature of the staff members designated as approving authorities for vouchers. Provide signature cards to the Revenue Accounting Administration in order to prevent the generation of checks by unauthorized personnel.
- Automated systems should be implemented that reject the entry of fictitious lot and square numbers and other improper entries.

These recommendations have since been implemented or are in the process of being implemented by OTR to safeguard the District’s assets.

In addition, beginning in November 2007, OIO assigned three auditors to work exclusively at OTR on a full-time basis. These auditors are currently assigned to conduct a risk assessment of the agency, to review Tax Sale Refunds and related refunds, and to conduct a follow up of an earlier review

of the Integrated Tax System (ITS). These auditors have already issued a management alert regarding certain vulnerabilities in the Integrated Tax System (ITS).

I recognize that, as the OCFO's internal auditors and investigators, we must question and reevaluate our own approach to doing business in light of the integrity and internal control failures revealed by the alleged tax fraud in OTR. Since that time, we have taken the following steps to address these failures.

- We are assisting the Office of the U.S. Attorney and the FBI in their investigation, and we will continue to do so as a priority matter within the OIO.
- We are leveraging our resources to better address the audit needs of OTR. We are working with Mr. Cordi to arrange for three dedicated OIO audit positions that will be funded by OTR. These three auditors will work full-time and exclusively at OTR performing audits in areas that are determined to be high-risk.
- We are also entering into a memorandum of understanding with the Treasury Inspector General for Tax Administration (TIGTA) for 2-3 auditors on a 6 month detail to help us identify and design audits to

address the unique needs of a tax organization. We expect them to be on board by the last quarter of the fiscal year.

- We are undertaking a project to do background clearances on all OCFO employees hired before the OIO began employee background checks in 1999. This will involve background checks on over 600 employees and will cost at least \$108,000.
- In addition, we are reviewing the OCFO code of conduct and expect to strengthen it by, at a minimum, clarifying and expanding the variety of conduct that is prohibited and that should be reported to the appropriate persons within the OCFO.

I will review our audit procedures to strengthen our ability to track how well OCFO component offices implement our audit recommendations, and I am exploring the possibility of requesting independent peer reviews of our audit and investigation divisions.

At the request of Dr. Gandhi, I reviewed audit reports issued during the previous three fiscal years by the Inspector General and the DC Auditor to insure that the OCFO has been responsive to the recommendations made in those reports. I identified 17 reports with recommendations directed to the

OCFO and reviewed the implementation of each recommendation and reported my findings to Dr. Gandhi.

Finally, we assisted in a vulnerability assessment conducted by the consulting firms of Ernst-Young and Deloitte at OFT. We assigned two auditors for one month to assist in identifying and assigning risks and internal controls in the OFT.

It has been imperative for us to review our approach to conducting risk assessments and deciding what audits to perform. An important lesson from the last several months is that the approach should employ a bottom-up instead of a top-down methodology. This involves meeting with the employees who handle the day-to-day transactions of the organization to determine their assessment of the risks facing the organization, rather than relying solely on the managers' and supervisors' assessment. We will apply this process to conduct vulnerability assessments throughout the OCFO.

This is an important factor in changing the way we conduct our activities in the OIO. We must focus our audit efforts to accurately identify and address the highest risks within the agency before we conduct any other audits or

special projects. We must evaluate and redesign our integrity program to ensure that OCFO employees internalize our core values. This is the challenge I face as the new director of this office. That said, let me now describe for you our operations during the past fiscal year.

Internal Audit Division

During FY 07, we completed 27 audits and reviews covering a wide range of financial operations and programs, as well as assisting or coordinating important external audits. In addition, OIO auditors contributed significantly to two key District financial objectives—assuring that the District is in compliance with federal audit requirements concerning the receipt of federal grants, and the issuance of a successful Comprehensive Annual Financial Report (CAFR).

As the Committee is aware, last year's CAFR reported a serious finding concerning the existence of material weaknesses relating to the operations of DC Public Schools. Having a material weakness, which is a serious deficiency in internal controls over financial reporting, is significant since failure to correct these problems promptly could have repercussions in the next year's CAFR and damage the District's financial standing.

As a result, the Office of Integrity and Oversight dedicated significant audit resources to this area. Our monitoring concluded that the project then underway at DCPS was insufficient and would likely not succeed in preventing a negative assessment in the subsequent CAFR. We alerted the Chief Financial Officer, who notified the Council and other officials. This monitoring and timely notification brought additional management emphasis and resources to bear on this project. We issued four Internal Audit Alerts on specific areas that needed attention and provided recommendations. At the executive level, we met with key officials to evaluate progress in the various projects and regularly briefed the CAFR Committee, which included District Government officials, Council staff, and the external CAFR auditor so that key stakeholders were apprised of developments in this area.

By the end of the fiscal year, these priorities were substantially completed, as the external auditor commenced work on the FY 2007 CAFR. As the Chief Financial Officer testified before this Committee at last week's Oversight Hearing, the FY 2007 CAFR is still in progress.

Internal Security Division

In FY 07 as part of OIO's investigative program, we completed 159 background checks on newly hired OCFO employees and 42 investigations of alleged misconduct. Investigations of criminal misconduct were coordinated with federal and District law enforcement agencies. Most significantly, and I might add not widely known, OIO criminal investigators worked closely and vigorously as a member of a federal task force in developing evidence of significant criminal activity involving real property tax refunds at the Office of Tax and Revenue. Our participation in this investigation with the FBI and the United States Attorney is ongoing.

Our investigative program also has a proactive integrity element that is aimed at detecting and preventing fraud and other misconduct within OCFO programs. One aspect of this is a vigorous integrity and ethics program. This includes not only a Code of Conduct issued by the OCFO, which addresses specific requirements and restrictions, such as conflict of interest rules and the requirement to report misconduct, but also general ethical principles of public service to guide employees. In addition, the OCFO issued its Shared Values, a document which describe in more detail how we

are to perform our government service with the highest level of ethics and integrity in all situations, not just those enumerated in the Code of Conduct.

Just issuing rules and values, of course, is not sufficient to have a robust integrity and ethics program. As mandated by the Chief Financial Officer, we conduct annual integrity presentations for OCFO employees in order to keep ethical and integrity issues before the OCFO workforce. OCFO employees are required to attend these presentations. These presentations are designed to give all OCFO personnel face-to-face contact with senior OIO investigators where topical integrity and ethics issues can be discussed. Employees are advised of their responsibility to report misconduct under the OCFO Code of Conduct, and to contact us or the OCFO Ethics Counselor for advice on matters that they are not sure are ethical or integrity issues. We also provide information on how to report misconduct to OIO or to the OIG hotline.

Last year, we completed 17 Annual Integrity Presentations to approximately 1200 OCFO employees. We also made presentations to all new employees within their first 60 days on the job. This is very important since some are new to government and this training can help prevent problems by making it

clear that government service involves unique requirements. Our emphasis makes it clear that that OCFO holds a high expectation of integrity and honesty for all employees, and we cover the Code of Conduct, the Shared Values, how to report misconduct and the expectation to do so.

Fiscal Year 2008

Currently, our Internal Security Division has 14 open investigations involving employees in 5 different offices. We are scheduled to present an integrity presentation to new OCFO employees and to student interns on March 12, and we begin our cycle of annual integrity presentations in May of this year with a presentation to employees in the Office of Tax and Revenue. When the program is completed, we will have made approximately 17 annual integrity presentations to current OCFO employees.

Besides conducting audits and investigations, OIO personnel are presently involved in a number of projects affecting a variety of financial operations in the District government. We have collected and are reviewing the policies and procedure manuals from all OCFO components. Our review will determine whether the policies and procedures are current and function as

adequate internal controls. We are also collecting and reviewing the FY07 financial statements of 50 charter schools to determine the financial condition and operational status of the schools. When this process is complete, we will summarize our observations and issue a report to the Public Charter School Board (PCSB) as we have done for the past two years. In that regard, we are also developing a list of qualified CPAs and CPA firms for the Public Charter School Board to use in preparing their annual financial statements.

We are managing and monitoring 17 federal pass through grants worth \$5.3 million that were contained in the FY08 District Appropriations Act. We will report to Congress whether the recipients of these grants are spending the money in accordance with the intended purpose of the grants.

We are supervising the FY 2007 single audit of federal grants to District agencies. This audit will involve over \$1.8 billion and more than 300 grants. As part of this process we are following up on corrective actions taken by District agencies in response to FY06 single audit findings and recommendations. We are also assisting in an effort with our General

Counsel to avoid having DCPS refund \$1.3 million in grant funds to the U.S. Department of Education based on a finding in the FY04 single audit.

We are coordinating a follow-up audit of the OCFO being conducted by the District OIG regarding the recommendations contained in eight OIG audit reports issued in FY2005 through 2007. During February we assisted outside consultants conducting an extensive vulnerability, or risk assessment of the Office of Finance and Treasury. Two of our auditors were assigned full-time to this task for the entire month.

One of our auditors is assigned full-time to conduct audit work at the D.C. Lottery Board, including monitoring and oversight of the agency's gaming systems and the work of an outside consultant.

We have assigned one auditor to work with the OIG in reviewing the District's Medicaid program. The review involves multiple District agencies and will include a comprehensive description of the process from approving providers to claims. A report will be issued in FY08.

Finally, we are assisting the Office of Finance and Treasury in conducting unscheduled cash audits at eight separate cashiering sites. Surprise audits were conducted at four cashiering sites this past Monday morning.

Mr. Chairman, I will now respond to any questions you or other members of the Committee may have.



GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER

Office of Integrity and Oversight

Promoting Integrity, Efficiency,
and Accountability

Fiscal Year 2007
Annual Report

Sebastian Lorigo
Frank Milligan
Mohamad Yusuff

Executive Director
Director, Internal Security Division
Director, Internal Audit Division

MEMORANDUM

TO: Natwar M. Gandhi, Chief Financial Officer
Government of the District of Columbia

FROM: Sebastian Lorigo, Executive Director
Office of Integrity and Oversight

DATE: December 19, 2007

SUBJECT: Annual Report for Fiscal Year 2007

Attached is the Annual Report of the Office of Integrity and Oversight for FY 2007.

As a result of a serious finding in last year's Comprehensive Annual Financial Report (CAFR) concerning the existence of material weaknesses in certain operations at D.C. Public Schools, we devoted significant audit resources to this subject. An internal audit team spent over six months reviewing and testing corrective actions in this area. This audit project was critical since failure to correct these problems promptly could jeopardize continuation of the external auditor's unqualified "clean" opinion when the FY 07 CAFR is issued and adversely affect the District's financial position.

During this year, we also completed or issued draft reports on 27 audits and reviews covering a wide range of significant financial operations and programs. This includes memorandum reports and management alert reports issued to assist management in timely addressing problems in programs and operations. We also assisted or coordinated five external audits relating to the D.C. Government. Our efforts assured District compliance with federal Single Audit Activities requirements and contributed to meeting the OCFO objective of a successful Comprehensive Annual Financial Report.

During this year, our investigative program completed 159 background checks and 42 investigations of alleged misconduct, which enabled OCFO management to take administrative action. Investigations of criminal misconduct were coordinated with federal and District law enforcement agencies. Most significantly, OIO criminal investigators worked closely and vigorously with the FBI and other agencies in developing evidence of significant criminal activity involving real property tax refunds. Our participation in this investigation is ongoing as of this date.

We continued your emphasis on mandatory annual integrity training for all OCFO employees; we conducted integrity, ethics and other related presentations to over 1,200 OCFO employees. We also addressed a wide range of issues relating to OCFO emergency preparedness and physical security.

The attached report also includes various OIO activities—audit and investigative—in which we assisted non-OCFO District Government agencies in improving their programs and operations. This service demonstrates the ongoing commitment of the OCFO to the “one government” approach to assure the efficiency, effectiveness and integrity of the Government of the District of Columbia.

Finally, with the additional resources you have committed to OIO in FY 08 dedicated exclusively to auditing the Office of Tax and Revenue, we look forward to providing the necessary specialized audit coverage of this critical area. This approach will assure that auditors trained in auditing tax systems will focus exclusively on the integrity of tax administration.

Attachment 2

**OFFICE OF INTEGRITY AND OVERSIGHT
ANNUAL REPORT FOR FISCAL YEAR 2007**

Introduction

On July 20, 2000, the Chief Financial Officer announced the formation of an Office of Internal Audit and Internal Security within the Office of the Chief Financial Officer (OCFO). The Internal Audit and Internal Security Administration of the Office of Tax and Revenue and the Internal Control Unit within the Office of Financial Operations and Systems were consolidated into the OCFO Office of Internal Audit and Internal Security.

This Office was subsequently reorganized into the Office of Integrity and Oversight (OIO), consisting of two divisions: Internal Audit and Internal Security. On January 29, 2003, the Chief Financial Officer issued Financial Management and Control Order No. 01-002, concerning the authority and responsibilities of the Office of Integrity and Oversight.

Mission

The mission of the Office of Integrity and Oversight is to ensure that accountability, integrity and efficiency are maintained in the financial management and tax administration systems of the Government of the District of Columbia. Through its audit and investigative programs, OIO provides the Chief Financial Officer with an independent review and appraisal of OCFO operations and assures the highest standards of integrity and security of OCFO employees.

INTERNAL SECURITY DIVISION

Internal Security activities protect the integrity and security of OCFO employees and detect and prevent fraud and other misconduct within OCFO programs. Internal Security responsibilities include:

- Investigating allegations of misconduct by OCFO employees, as well as external attempts to corrupt OCFO employees.
- Conducting background investigations on OCFO employees to determine suitability for employment with the OCFO.
- Developing and monitoring an active integrity and ethics awareness program and plan including:
 - Conducting proactive probes to detect and deter fraud and abuse in OCFO programs.
 - Conducting integrity awareness presentations to OCFO employees.
- Administering the emergency response program for the OCFO.

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ACCOMPLISHMENTS

Criminal and Administrative Investigations

A staffing shortage in the program throughout the fiscal year presented challenges in how we managed our workload. Nevertheless, we were able to accomplish our objectives as follows:

This fiscal year began with a balance of two cases from the prior year. An additional 50 cases were opened during the year. A total of 42 cases were closed, leaving a balance of ten cases at the end of the fiscal year. The following tables show the types of violations investigated and the disposition of these cases.

**Table 1
Closed Cases (October 1, 2006 to September 30, 2007)**

<i>Violation</i>	<i>Number of Cases</i>
Threats	2
Theft/Embezzlement	7
Bribery	1
Assault	2
Offer/Receipt of Gratuity	8
Harassment/Sexual Harassment/ Retaliation/Discrimination	2
Illegal Drugs	1
Misuse of Office	6
Leave Abuse/Falsification of Timecards	3
Falsification of Documents	2
False Official Statement	1
Other	7
Total	42

**Table 2
Dispositions (October 1, 2006 to September 30, 2007)**

<i>Administrative Action</i>	<i>Number of Cases</i>
Removal/Reassignment	1
Voluntary Termination/Transfer/Retire.	4
Verbal /Written Reprimand/Counseling	4
Management Correction	5
Suspension	3
Referral to Another Agency for Investigation	7

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Unfounded/Insufficient Evidence to Prove	4
Closed Without Action*	5
Compliance Notifications to Taxpayers on Gratuities Received	8
Pending With Management	2
Total**	43

- * This category includes gratuities received from unidentified taxpayers, proactive projects, requests for assistance from other investigative agencies, discontinued investigations, information-only items, etc.
- ** Administrative actions outnumber closed cases due to multiple administrative actions on a single case and due to multiple subjects on a single case.)

Gratuities Reported to Internal Security

During this fiscal year, OCFO employees reported eight instances of gratuities given to them by persons with whom they had official business relationships. Internal Security investigated these matters to determine if the gifts were provided as an expression of appreciation without any indication of improper intent to influence, or whether there was possible criminal activity, such as a bribery overture.

After evaluating the circumstances, all of these situations were resolved by Internal Security investigators contacting the gift givers, returning the gifts, explaining why such gifts are unacceptable, and advising of the proper manner to acknowledge the performance of OCFO employees. The OCFO employees who reported the gratuities were commended for their actions in these cases.

Sampling of Investigative Activity

- When notified by the FBI of its investigation of fraudulent activity by OTR employees and others concerning real property tax refunds, Internal Security joined the federal task force and was responsible for identifying numerous additional questionable transactions. By the end of the reporting period, this included 31 questionable transactions totaling in excess of \$20 million. Our participation in the investigation is ongoing.
- An investigation of serious time and attendance abuse and unauthorized supplemental payments involving OCFO employees, including a manager, resulted in the manager resigning while under investigation and the termination of another employee. The head of office was reassigned (and subsequent resigned) for failing to take corrective action.

Systemic Issues Identified During Investigations

OIO investigations of misconduct and other issues led to the identification of systemic problems, which were brought to the attention of OCFO management for corrective action:

- A District taxpayer complained that the Office of Tax and Revenue (OTR) had sent correspondence containing her social security number and name to a third party (tax bill mailed to wrong address) and thereby had made her vulnerable to identity theft. OIO

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recommended to OTR that OTR adopt the practice of masking all or part of social security numbers on correspondences to taxpayers. In a letter dated, January 3, 2007, OTR advised that they would adopt the policy of masking the first five digits of a taxpayer's social security number in all future correspondence.

- The Public Safety and Justice Cluster inadvertently released the social security numbers of approximately 1,900 MPD officers while responding to an ANC commissioner's "FOIA" request. Investigation disclosed that the agency was not following established OCFO policy regarding FOIA requests. OIO recommended that the OCFO policy be re-distributed throughout the OCFO. Additional action was taken by informing MPD of what had happened and by providing free credit monitoring services to all affected officers for one year.
- The Office of Finance and Treasury (OFT) expressed concerns about the existing process in which undeliverable taxpayer checks were returned unnecessarily to OFT. This process required OFT to waste resources to inventory and package checks prior to transporting them to the Office of Tax and Revenue (OTR). OIO facilitated the changing of the return address on the checks so that checks were returned directly to OTR.
- Our investigations of the theft of the government owned IT equipment frequently identified systemic problems concerning property management and accountability, as well as security practices. In each case, we reported our findings and made recommendations to agency management. Thefts were down substantially this year, including in the important area of computer equipment. We addressed a total of seven cases, which included computer equipment and software, as well as personal items, such as cash and other personal possessions in the office.

Background Investigations

Requests for background investigations exceeded last year's level. We received 195 cases for investigation, and closed 159, including 15 that were closed after having been referred for administrative adjudication. The chart below shows the distribution of administrative actions in these cases:

Terminated	6
Counseled	3
No Action	5
Resigned During Adjudication	1

At the end of the fiscal year, we had a total of 46 cases that we completed but were still considered open since they are pending administrative adjudication. We have addressed the status of these cases pending with the Office of the Chief Financial Officer.

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Examples of background investigations referred for administrative action this year follow:

- During a background investigation on an employee hired for a position with the Office of Tax and Revenue, we uncovered serious derogatory information that warranted suspension of further investigation and immediate referral of the case to the Director of Human Resources for administrative action. Specifically, the investigation revealed an undisclosed felony conviction for embezzlement in connection with a prior employment and an undisclosed felony charge for theft in connection with another employer. Before suspending the investigation, we were also addressing indications of other false statements on the employment documents relating to prior employment and a claimed college degree. As a result of our referral, the OCFO was able to take prompt administrative action and terminated the employee.
- An employee was terminated by the OCFO as a result of a background investigation which disclosed fraudulent educational claims. The investigation disclosed that a claimed master's degree was issued by a diploma mill. When confronted with this information, the employee denied knowing that the organization was not a bona fide accredited institution. He identified the college where he obtained his undergraduate degree, which was a recognized accredited college. When further investigation disclosed no record of the employee having attended that college, or having obtained any credits from another college he cited, the employee was provided an opportunity to produce the undergraduate degree, which he failed to do.
- An employee resigned while administrative action was pending by the OCFO as a result of a background investigation which disclosed that the employee did not have the associate's degree claimed.
- An employee was terminated by the OCFO as a result of a background investigation that disclosed that the employee did not list a misdemeanor criminal charge on the Background Investigation Questionnaire, as required. The criminal record check also disclosed that there was an active warrant issued on this charge, which we confirmed by contacting the police. The employee subsequently turned herself in to the police.

Other accomplishments in the background investigation program include:

- We provided substantial guidance and detailed procedures to the OCFO, resulting in the implementation of background investigations on prospective contractor employees for the D.C. Lottery and Charitable Games Control Board.
- We successfully completed an extensive transition process from our background investigation database to a new case management system.

Assistance to Other Agencies

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- We continued to share information on our background investigation program with other interested agencies, such as the D.C. Child and Family Services Agency.
- We assisted the Office of General Counsel, OCFO, in developing adjudication procedures for contractor employee background investigations.
- We assisted the Office of the United States Attorney with its request for potential impeachment information (“Giglio request”) on OCFO employees scheduled to testify as witnesses in criminal case.
- We conducted an Employee Integrity and Ethics Presentation for the State Education Office (SEO). We presented a 24-minute video about the importance of integrity in the workplace, presented scenarios regarding the Do’s and Don’ts of being a DC Government employee, provided safety measures for protecting personal property as well as government property, and answered questions regarding ethics in the workplace.
- We conducted a presentation on the integrity program of the Office of the Chief Financial Officer at a conference of state tax officials (the Northeastern State Tax Officials Association).

Integrity Development Program

Presentations

Each year, we develop integrity presentations for OCFO employees in order to keep ethical and integrity issues before the OCFO workforce. These presentations are designed to give all OCFO personnel a face-to-face contact with senior Internal Security investigators where topical integrity and ethics issues can be discussed. Employees are advised of their responsibility to report misconduct under the OCFO Code of Conduct, inherent integrity risks in the workplace, and how to avoid such risks. Examples follow:

- We completed the mandatory Annual Integrity Presentation for all OCFO employees. These presentations are the lynchpin for promoting integrity awareness and ethical principles throughout the OCFO. We completed 17 Annual Integrity Presentations to approximately 1,186 OCFO employees.
- We also completed five New Employee Integrity Presentations. These presentations are given to all new OCFO employees during their first 60 days of employment and ensure that everyone is clear that the OCFO holds a high expectation of integrity and honesty for all employees. Not only are all employees advised about the Code of Conduct and ethical standards within the OCFO, they are also advised on how to report possible misconduct and of the expectation to do so.
- An integrity review revealed that high school interns hired within OCFO did not attend any of the mandatory New Employee Integrity Presentations (NEIP) provided to all new

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employees. We took necessary steps with OCFO Human Resources and Employee Development to schedule the newly hired interns to attend the NEIP. OIO now provides all high school interns with the standards and expectations of the highest ethical behavior from the outset of their employment.

Annual Planning

- We conducted integrity discussions with OCFO executives, then devised and submitted the Comprehensive Integrity Plan. The CIP is the blueprint for all ethics and integrity activities conducted by the Internal Security Integrity Team each year. By first reaching out to senior OCFO managers to receive their input regarding integrity concerns, we ensured that the program remained focused on real issues and problems that confront OCFO employees and operations. We distributed the CIP to Deputy and Associate Chief Financial Officers advising them of the overall integrity goals for the OCFO and the specific planned integrity reviews in their area of operations.
- Our planning includes our own observations of OCFO programs based on OIO investigations and audits of the OCFO, and from “scanning the environment” at large concerning criminal activity and other integrity issues in other jurisdiction that may be relevant to our mission.

Completed Projects/Assignments

- We completed a review of tax certifications by the Office of Tax and Revenue concerning D.C. government contractors. This review was initiated based on prior investigations where contractors were approved despite not being in tax compliance. We reviewed 44 case files of approvals for each Revenue Officer who conducted such reviews for the past year to determine if any businesses were reported being in compliance when in fact they were not. We found the 44 cases to be properly documented and entered into the Integrated Tax System with supervisory control. The review revealed the OTR Collection Division developed a new unit to conduct Contract Clearance Requests to lessen the risks of Tax Examiners and Revenue Officers inadvertently or intentionally reporting vendors in compliance when they are not. The current procedures appear to ensure accurate reporting by Tax Examiners and Revenue Officers. We provided the final report of this review with recommendations to the DCFO- OTR.
- We completed our annual Operational Review of the Security Department at the D.C Lottery (DCLB). The review included verification of compliance with the policy of the multi-state lottery organization, effective investigation of lottery agent complaints and investigation of agents’ activities, effective security procedures regarding access and control to facilities, and effective emergency procedures and practices. The review also revealed that the DCLB Complaint Hotline has been established to receive complaints from the public and lottery agents.
- We developed an article reminding all OCFO employees of their obligation to comply with all tax filing and payment requirements, as required by the OCFO Code of Conduct. We also

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issued an annual article to all OCFO employees during the holiday season reminding employees of the legal and OCFO Code of Conduct rules on accepting gifts from outside sources.

- We completed and distributed 2007 Ethics Wallet Calendar Cards for OCFO employees. These cards provide employees with the ethics decision making model as a reminder of the importance of making responsible decisions in the work place.
- We attended and reported the results of Emergency Preparedness Council meetings. These meetings which included representation from all District agencies provide a venue for the OCFO to prepare for and participate in city-wide emergency response and planning activities. We also reviewed Department of Homeland Security reports and other issuances to ensure the OCFO is advised of any real or potential threats to our personnel or operations.
- As part of our ongoing efforts to provide advice on security in the workplace, we obtained MPD Theft Prevention Brochures, one regarding property and the other regarding computer information. We provided these brochures and prepared a written introduction to the OCFO Office of Communications for dissemination to all OCFO employees.
- We performed various activities to assist the OCFO with its physical security needs

Policies and Procedures

We finalized our input to the Implementation Plan between the OCFO and the IRS concerning access to federal tax information. This agreement, which was subsequently approved by both organizations, provides procedures for authorized OCFO entities, including OIO, to obtain federal tax information for state tax administration. For OIO, it provided the process for requesting federal tax information on conduct-related investigations of state tax agency employees. OIO also has access to federal tax information in connection with its designation as the state auditing agency in the IRS-OCFO agreement. We continued working with the IRS and the OCFO on developing an Addendum to the Implementation Plan on other unresolved issues.

Working with the OTR Federal-State Tax Coordinator, we developed and submitted OIO's processes for safeguarding federal tax information in its custody for review by the IRS.

We assisted the Executive Director, OIO, in several high impact areas, such as testimony before the Council, briefings of senior District Government officials, the issuance of sensitive OIO reports, and in his capacity as Chairman of the District's Anti-Deficiency Review Board.

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Internal Audit Division

Mission

Internal Audit is primarily committed to assisting the District's financial managers in the promotion of integrity, economy, efficiency, and effectiveness in the administration of District programs and operations; and that the overall financial management system is providing accurate, complete, reliable, relevant, and timely financial information to meet the needs of all users of the District's financial services, including the citizens of the District. Our review of agencies and their functions will be conducted on a cyclical basis.

Scope of Work

In order to achieve the mission and to provide the services and support required by management to discharge its responsibilities, Internal Audit is charged with conducting audits and reviews of District agencies and departments to independently ensure:

- The financial integrity of systems and programs.
- That the system of internal controls is operating as designed; and
- That all funded programs with third parties are providing the desired results or benefits for which funding was approved.

In addition to performing audits and reviews, Internal Audit supports District Government priorities in the following two key financial areas:

Comprehensive Annual Financial Report (CAFR) Follow-up Review

- Provide support to the independent auditors in meeting the overall goals of the District's Comprehensive Annual Financial Report (CAFR) preparation.
- Review Agencies' Responses to Independent Auditor's Finding and Recommendations
- Follow-up on Agencies' Corrective Action Plans on CAFR Findings

Grant Compliance and Contracts Review

- Ensure that District departments, agencies, and offices are in compliance with the rules and regulations governing the funding and administration of Federal and other grant programs.

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Special Internal Audit Project at D.C. Public Schools

A serious finding reported in last year's Comprehensive Annual Financial Report (CAFR) concerning operations at D.C. Public Schools (DCPS) required that Internal Audit dedicate a significant commitment of resources to address this District priority. Specifically, the CAFR reported the existence of material weaknesses relating to the operations of D.C. Public Schools in the areas of grants management, human resources/payroll, procurement, and the Medicaid program.

Having a material weakness cited, which is a serious deficiency in internal controls over financial reporting, is significant since failure to correct these problems promptly could have repercussions in next year's CAFR and damage the District's financial standing.

Our strategy was to have key OCFO officials work closely with agency officials in developing a detailed plan of action, keep senior officials of the District Government informed, coordinate with the external auditors to ensure their approval of the plan, and then monitor the plan as it is executed by the agency.

Our monitoring concluded that the project underway at DCPS was insufficient and would likely not succeed in preventing a negative assessment in the subsequent CAFR. We alerted the Chief Financial Officer, who notified the Council and other officials. This monitoring and timely notification brought additional management emphasis and resources to bear on this project. We issued four Internal Audit Alerts on specific areas that needed attention and provided recommendations. At the executive level, the Executive Director of OIO participated in weekly meetings with key officials to evaluate progress in the various projects. He also conducted monthly briefings at the CAFR Committee, which included District Government officials, Council staff, and the external CAFR auditor so that key stakeholders were apprised of developments in this area.

By the end of the fiscal year, these priorities were substantially completed, as the external auditor commenced work on the FY 2007 CAFR.

In a related area, the Executive Director of OIO worked closely with, and provided technical guidance to, the Office of the Mayor concerning the Mayor's initiative to procure external audit services for various purposes at DCPS, including a forensic audit. We provided substantial input into developing the Statement of Work, and provided guidance on the different types of audits (e.g. financial, performance, forensic, etc. and their objectives) in order to avoid duplication of effort and assure that the District obtains the value of these audits by performing them in proper sequence. As a result, the Mayor adopted an approach in which two audit firms were selected to focus on DCPS finances and management.

ACCOMPLISHMENTS

In fiscal year 2007, Internal Audit conducted or initiated 32 assignments. Several Internal Audit position vacancies occurred during the year, limiting additional audit activity. Nevertheless, 27

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audits/reviews reports were completed and issued, which included nine final and follow-up reports, ten draft reports, and eight memorandum and management alert reports. The remaining are either ongoing or on-hold. In addition, we assisted or coordinated five projects for external agencies within and outside the District government, such as the D.C. Inspector General, and the United States Government Accountability Office.

- Twenty-seven reviews were conducted on agencies within the OCFO cluster, disclosing various deficiencies in the internal control structure; some were managerial or external factors outside the control of the agencies being audited.
- As a result of internal audit/review, there are discernible internal control improvement and monetary savings. One notable area concerned resolving A-133 Single Audits Questioned Costs that saved the District approximately \$5.2 million.
- In these audits and reviews, we made recommendations to assist management in their decision making process, which when implemented, would improve:
 - agency's policies and procedures
 - management performance and management advisory services
 - strengthening of controls over payroll and cash
 - methods and procedures used to safeguard District assets and records
 - compliance with the laws and regulations
 - the efficiency and effectiveness of the overall operations
 - long run cost savings.

Audits may have a combination of financial and performance audits objectives or may have objectives limited to only some aspects of one audit type. We have grouped our audits conducted during the fiscal year 2007 into these categories:

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Types of Audits	Number of Audits/ Reviews Conducted
I. Final and Follow-Up (Financial and Operational Reviews) Reports	9
Draft (Financial and Operational Reviews) Reports	10
Memorandum / Management Alert Reports	8
II. External Audit Assistance - GAO, OIG, and Other Agencies	5
Total	32
III. Single Audit Coordination	All District Agencies

Summary of Reports on Reviews Performed in FY 2007

Final Reports

DCLB

1. Final Report On Follow-Up Review Of Prior-Years Internal Audit Findings At The District Of Columbia Lottery And Charitable Games Control Board (DCLB) Report No: IA:DCLB: 2509-C15, Date Issued: September 17, 2007.

The purpose of the review was to determine whether DCLB management took effective remedial actions to correct prior years audit findings.

Our follow-up review objective covered areas of findings and deficiencies noted in a prior year audit report (Report No.: AT:DCLB:DCLB:2012-M01). To accomplish the objective, we reviewed pertinent agency records and associated data to corroborate corrective actions taken by DCLB on prior year findings. We also conducted interviews and discussed these findings, with key agency officials. We reviewed the OIO/IA Follow-up Review of Prior-Years Audit Findings at DCLB, dated June, 2001 (Report No.: AT:DCLB:DCLB:2012-M01).

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2. Final Report on Review of Internal Controls Over Agents Non-Sufficient Fund (NSF) Process at the D.C. Lottery and Charitable Game Board (Report No.: IA: DCLB:2606-C18), Date Issued: April 3, 2007.

This compliance review covers the agents NSF occurred during the fiscal years ended September 30, 2004 and 2005 (January 1, 2004 to May 31, 2005 and the accounts receivable listing as of September 30, 2005). The review was to determine DCLB compliance with the internal operational policies and procedures with the view of strengthening internal controls.

Our review identified certain internal control weaknesses, which DCLB management explained are due to the recent reorganization process at DCLB. In the reorganization, the number of FTEs that handled agents' NSF processing was significantly reduced from four staff and one Treasurer to one Treasurer with no staff. As such, many of the NSF internal control procedures, including the practice of recording the agent's NSF occurrence and subsequent settlement into the agent's NSF ledger, were discontinued; and checks and balances were either eliminated or severely curtailed.

3. Final Report on the Assessment of "Top Ten Lottery Risks" (Report No: IA: DCLB:2509-C14), Date Issued: August 8, 2007

Pursuant to the amended annual OIO work plan, the internal auditors of this office performed an assessment of "Top Ten Lottery Risks" identified at the 2005 North American Association of State and Provincial Lotteries (NASPL) Audit Subcommittee Conference, to determine whether DCLB has placed mitigating controls to alleviate those risks.

Our report noted certain internal controls deficiencies that need improvement and appropriate agency actions. The report also contained appropriate recommendations to address these findings. Our assessment revealed that that while DCLB has some kind of prevention strategy to mitigate the noted risks, the agency is lacking in some of its awareness methodology and procedures detailing response readiness if such incidents do occur.

4. Final Report on the Review of Instant Tickets Inventory and Distributions at the D.C. Lottery and Charitable Games Control Board (Report No: IA: DCLB:2609-C21), March 30, 2007

This review covers the instant tickets inventory and distribution operations since the beginning of fiscal year 2006, i.e., October 2005 to May 2006. (Year-to-date data since the instant ticket operations was contracted out to the Scientific Games).

The review was to determine whether DCLB's internal controls over Instant Ticket Inventory and Distribution Operations are adequately designed and effectively

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implemented. In addition, the review was to ascertain whether Scientific Games has provided DCLB with the correct information related to the instant ticket operations on a timely basis so that meaningful management decision and contract monitoring could take place.

DCPS

5. Final Report on Review of Selected Operations at the DCPS' Division of Transportation Report No.: IA:DCPS:2607-C14, Date Issued: April 2, 2007.

This audit was initially requested by DCPS' Chief Financial Officer amid concerns over various issues and processes within DOT. The purpose of this review was to determine whether the DOT operations are in compliance with all applicable laws, regulations and court orders. The purpose was also to determine whether expenditures are properly approved before payment, and to assure the integrity of financial operations.

Our review examined several areas of DCPS-DOT operations, with particular emphasis on procurement. We identified several instances of noncompliance with procurement practices used by DCPS.

6. Final Report on the Analysis of the District of Columbia Public Schools Central Investment Fund for Fiscal Year 2005 through May 31, 2006 (Report No.: IA: DCPS: 2610-C24), Date Issued: February 6, 2007.

The purpose of the CIF, according to the DCPS Procedures Manual, is to ensure the fiscal integrity of the donations/grants from private sources. We noted that the funds within the CIF consist of contributions and donations, except for an interest account and Charter School Board fees. The Fund includes fees received by the Board of Education and the Charter School Board for the administrative, monitoring, assessment, and evaluation of Charter Schools.

From a total of 127 Subaccounts in the Central Investment Fund, we selected 11 accounts to review. We expended the most audit effort on the Subaccount for Neediest Kids (NKF) and Charter School Fees. The other Subaccounts selected had little or no activity. We visited four schools, which consisted of two elementary schools, one high school, and one middle school.

WMATA

7. Final Report on Review of the WMATA Subsidy and District Funds Held by WMATA for FY01 to FY06 (Report No.: IA:DDOT:2704-C10), Date Issued: May 1, 2007

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The purpose of this review was to ensure that payments made to WMATA are proper, made in accordance with jurisdictional formula, and whether adequate controls over the payment process are adequate. The purpose was also to examine the propriety of advanced (prepaid) District funds held by WMATA.

Our review found that based on the information supplied by WMATA, the calculated budgeted bus, rail and debt service subsidy amounts for FY 2005 were accurate (with immaterial differences). WMATA's audit adjustment (credit) to the District for FY 2005 was calculated correctly. The billings agreed with the approved operational budgeted amounts for FY 2001 through FY 2006. We also found that payments for FY 2006 made to WMATA were in agreement to billings, and proper approvals were made before the payments were released. Our review of interest rates earned on District funds held by WMATA indicated that the rates were reasonable.

OCFO

8. Final Report on Review of Purchase Cards Administration District-Wide (Report No.: IA: OCFO: 2605-C09), July 20, 2007.

The purpose of this review was to follow-up and verify whether the Associate Chief Financial Officers of the various clusters under the Office of the Chief Financial Officer (OCFO), and the Office of Contract and Procurement (OCP) implemented the corrective actions as stated in their corrective action plans to address the findings noted in the prior purchase card review conducted in fiscal year 2003 (*Review of Purchase Card Administration for the period FY 2002 to FY 2003, Report No.: IA: OCFO: 2309-C16*), by our office. The purpose also was to evaluate whether the corrective actions, which were implemented, have resolved the findings noted in our prior report and satisfied the intent of our recommendations.

This follow-up examination revealed that most of the issues identified in our prior review have been resolved by OCP through instituting new and improved purchase card policies and procedures, and by the five ACFO Clusters, with some exceptions.

OFT

9. Final Report on Review of the District's Revenue Bond Program at the Office Of Planning and Economic Development during FY 2001 – 2005 (Report No.: OIO: IA:OFT:2601-C03), Date Issued: October 30, 2006.

The District's Revenue Bond Program (RBP) was formerly known as the Industrial Revenue Bond Program, within the Office of the Deputy Mayor for Planning and Economic Development (DMPED). The purpose of this review was to determine whether the program fees and related expenses were properly recorded and adequately accounted for in accordance with program requirements and District laws

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and regulations; and, also to assure compliance of the Revenue Bond Program with agency policies and procedures.

We tested and analyzed 33 bond transactions closed during Fiscal Years 2001 through 2005 and selected and reviewed 48 Non-Personal Services (NPS) expenditures from Fiscal Years 2004 and 2005. Our review revealed that the Revenue Bond program fees were correctly calculated and accounted for by the RBP Unit and the Office of Finance and Treasury (OFT). However, we have identified the following deficiencies:

- Excessive program fee reduction
- No reconciliation performed between fees recorded by the RBP Unit and fees recorded in SOAR:
- RBP expenditures not separately identifiable in SOAR:
- Bond Counsel filing requirement not being met:
- Follow-up on bond issuance transactions not consistently performed:
- District Agency approval letters missing from internal files and internal files not properly organized:
- District Agency approval letters missing an expiration date
- Poorly prepared Program Fee Agreements:
- RBP files not properly safeguarded:

Draft Reports

DCLB

1. Draft Report on the Review of Payments to Lottery Technology Enterprises (LTE) and the Multi-State Lottery Association (MUSL) at the D.C. Lottery and Charitable Games Control Board (Report No: IA: DCLB:2608-C19). Date Issued: August 8, 2007.

The review was to determine whether the DCLB internal controls over Payments or Wire Transfers Made to the Lottery Technology enterprises, Inc. (LTE) and Multi-State Lottery Association (MUSL), are adequately designed and effectively implemented.

Based on the review of the process and examinations of the source documents of payments to LTE and MUSL for the fiscal years 2005 and 2006 (current year-to-date), we have the following findings:

- No Evidence that the MUSL Sales and Lower Tier Prizes Data Produced By MUSL Were Checked Against the DCLB Gaming System.
- There Was No Written Standard Operating Procedures (SOP) for Payments or Wire Transfers Made to LTE or MUSL:
- Monthly and Year-End Closing Routines Related LTE and MUSL Payments and Accruals Are Not Explicitly Stated.

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2. Draft Report on Follow-Up Review of Agents Licensing Process at DCLB (Report No.: IA:DCLB:2710-C13). Date Issued: September 18, 2007.

The purpose of the follow-up review of the DCLB agents licensing process was to ensure that management planned actions are implemented, efficient, and effective as anticipated. This follow-up review covered the DCLB implemented actions that occurred during the period of December 2005 through February 2007.

Our follow-up review revealed that there was a definite progress made by the DCLB in addressing the noted internal controls deficiencies stated in the previous report. However, the following internal controls deficiencies are still noted for further improvement and appropriate agency actions:

- Credit or Criminal Checks Documentation Were Missing from The Renewal Section of the Agent's File.
- The Agent's Federal Tax Identification Number and D.C. Licensing Information in the Agent's Information Database Were Different than that Shown in the Agent's Licensing File.
- There is a Lack of Documentation of The Reviewed Agent's Clean Hands Information in the Agent's Licensing Files.
- The Details of the Retiring Agent Financial Settlement Information Are Not Consistently Documented in the Agent's Licensing File.
- New or Agent's Licensing Renewal Checklists Not Complete Because Of Missing Documents.

3. Draft Report on the Follow-Up Review of Employees' Travel, Conferences, Training and Other Related Expenses at DCLB (Report No.: IA:DCLB:2710-C12). Date Issued: September 18, 2007.

This follow-up review covers the DCLB implemented corrective actions during fiscal year 2006.

Our review revealed that DCLB generally complied with the Federal Travel Per Diem rates guidelines and the D.C. Government Financial Procedures Manual Travel Policies and Procedures, has improved its internal controls and compliance with OCFO Travel Policies and Procedures, and has implemented effective corrective actions with regard to findings number 1, 3, 6 and 7. However, OIO still noted the following repeat non-compliance matters and weaknesses in internal controls, such as:

- Federal Lodging Per Diem Rate Guidance Not Observed.
- Traveling Advances Were Not Accounted For In A Timely Manner.
- Travel Expense Reports Were Not Submitted In A Timely Manner.
- Travel Advance Requests Were Not Submitted In A Timely Manner.

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4. Draft Report on Review of Lottery Technology Enterprises, Inc. (LTE) Contract (Report No: IA: DCLB:2701-C02). Date Issued: January 7, 2007.

Pursuant to a request from the OCFO, we performed a review and analysis of the Lottery Technology Enterprises, Inc. (LTE), current contractor (Contract No.: DC-RP-99-00-K16) for operating the Lottery's gaming system covering the 10 year period of November 1999 through November 2009. The review was to determine whether the LTE current contract costs to the District of Columbia Government are fair and reasonable, and evaluates the advantages and disadvantages of the above mentioned contract to DCLB and to the District of Columbia Government.

The results of our review were referred to the OCFO General Counsel.

5. Draft Report on the Follow-Up Review of the Information Systems Assessment at DCLB (Report No.: IA:DCLB:2709-C10). Date Issued: October 4, 2007.

The purpose of the follow-up review was to ascertain whether the agency's planned actions outlined in the Response Letter dated June 17, 2005, have been implemented, and operating effectively and efficiently as anticipated.

Our assessment noted below revealed that while there is progress in implementing the corrective action plans, the Lottery has not kept pace with the planned action schedule for implementing the original plan to address the challenges that faced the IT department mentioned above:

- Comprehensive and Integrated IT Department Policies and Procedures and Operations Manual Still in Development.
- System Development, Data Warehousing, or Data Mining Capabilities Have Been Started, But Not Yet Fully Implemented or Completed.
- Comprehensive Disaster Recovery/Business Continuity Plan, Procedure, or Policy Still In Risk Analysis Phase.
- There Is Still No Agency-wide Integrated System, And No Common Database.
- Lack of Infrastructure Forward Planning.
- The Telecommunication Network Is Still A Combination Of Analog and Radio Frequency With Possibility Systemic Outage and Spoofing Vulnerability Issues.
- The IT Modernization Report Should Be Thoroughly Analyzed and Costs and Benefits Analysis Be Performed.

OCFO

6. Draft Report on Follow-Up Review of Travel Cards Administration for the Period October 2005 through January 2006 (Report No.: IA: OCFO: 2609-C24), Date Issued: October 30, 2006.

The purpose of this follow up review was to determine whether corrective action plans submitted by agency clusters in response to the Report on Review of Travel

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Card Administration (Report No.: IA: OCFO 2309-C17) have been implemented, and to evaluate whether those corrective actions are effective in addressing the issues noted in the above referenced report.

Based on our review of 632 purchases (\$159,920.76) made by 73 cardholders during the period of October 2005 through January 2006, it appears that corrective actions have been implemented. However, there are recurring issues addressed in the prior year's report that have not been resolved, including:

- cardholders incurred excessive travel costs
- travel cards used to acquire prohibited items
- lack of adequate documentation to support purchases made, and
- sales tax paid by cardholders

As a result of the prior year review, OCP developed the Agency Review Team (ART) and the Management Audit Team (MAT). It is the responsibility of the ART and MAT teams to identify unusual activity, non-compliance with travel card procedures, to enforce travel card policies and procedures, and to recommend corrective actions for non-compliance. During our review we noted that the ART and MAT teams did not consistently detect the above mentioned irregularities.

OFT

7. Draft Report on Operational Risk Assessment and Internal Controls Evaluation at the Office of Finance and Treasury (Report No: IA: OFT: 2612-C23). Report Issued: February 13, 2007.

The purpose of this review was to enable OFT officials to manage risk by identifying problems and suggesting improvements that add value to or strengthen the agency's operations. Our main focus was to identify and prioritize areas in OFT's operations that may be exposed to potential vulnerabilities and possible consequences or threats and to assess whether the systems and controls are effective and efficient to identify, monitor and manage the risks arising from operations.

Our assessment revealed OFT's operational areas of potential vulnerabilities and three possible consequences or threats that may affect the OFT's operations. We assigned a risk level of high, moderate, or low for each area of vulnerability to show the possible effect of damage if these threats were to occur. OFT's main area of operations were identified as: (1) Debt and Grants; (2) Asset Management, and; (3) Operations.

8. Draft Report on Review of Office of Finance and Treasury's (OFT) Check Verification Process and Collection on Dishonored Checks (Report No.: IA:OFT:2701-C03). Date Issued: May 15, 2007.

The purpose of our review was to ensure that adequate internal controls are in place over the check verification and collection process, and also to make recommendations

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to strengthen collection of dishonored checks and reduce agencies' acceptance of bad checks and related loss of revenues.

Based on our review, we identified the internal control weaknesses highlighted below that we believe, if appropriately addressed, should strengthen operations and improve collections of dishonored checks. Our findings are as follows:

- Timeframe for Check Processing Excessive, Averaging Six Weeks to a Year.
- Uncollected Bad Checks Not Reported to Affected Agency Timely.
- Inadequate Tracking and Monitoring of Checks Returned to Agencies for Collection Action.
- Uncollected Checks Not Reported to the District Systems for Future Recovery.
- Current Contract with Telecheck Does Not Guarantee the Payment of Checks.
- Loss Revenues of approximately \$450,000 in FY 2005 and \$900,000 in FY 2006.
- Non-Treasury Cashiers at some agencies do not use Telecheck.

9. Draft Report on Review of Non-Treasury Cash Sites at District Agencies for Fiscal Year 2006. (Report No.: IA:OCFO:2701-C01). Dated Issued: May 29, 2007.

The purpose of this review was to identify and confirm the number of Non-Treasury cash sites in the District and to ensure that cash collected is deposited timely. In addition, we assessed the system of internal controls over the entire cash collections and deposits in order to determine whether these processes are operating effectively and in accordance with the District's Standard Cash Procedures established by the Office of Finance and Treasury (OFT).

Our review identified 33 Non-Treasury cash sites within the five financial clusters, including one site previously identified in our report, dated May 10, 2006, report no.: IA:OAH:2601-C06. The review of the remaining 32 sites is reported in this report.

The results of our review were as follows:

- The financial internal controls over the cash collection and deposit process at Non-Treasury cash sites are adequate.
- Cash collected is deposited timely.
- Cash collected and deposited for these 32 sites totaled \$ 81,811,192, during the period reviewed.
- OFT does not properly monitor deposits by Non-Treasury cash sites.

NCRC

10. Draft Report on the Review of Procurement Practices and Other Operations at the National Capital Revitalization Corporation (NCRC) and the RLA

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**Revitalization Corporation (RLARC) covering the period FY 2002 to FY 2006.
(Report No.: IA:DHCD:2705-C05). Dated Issued: September 11, 2007.**

The purpose of this review was to determine whether the NCRC/RLARC operations are in compliance with applicable Federal and District laws and regulations. In particular, the objectives of our review were to: (1) determine if the selection of contractors was justified and in accordance with applicable policies and procedures; (2) determine whether RLARC's land disposition projects are monitored and comply with Housing and Urban Development's Community Development Block Grants (CDBG) requirements; and, (3) determine whether program income and fees are properly accounted for and meet CDBG/HUD requirements.

Our review found that RLARC did not follow all required CDBG and DCMR 27 procurement regulations when selecting vendors. In particular, we found:

- Poor maintenance of contract files;
- Insufficient documentation in the contract files;
- Procedures that did not encourage competition;
- RLARC disposed of some properties well below book value;
- RLARC did not have an OMB A-133 audit performed during the four years it has been in existence.
- Organizational financial statement audits covering FY 2005 and FY 2006 had not been completed.

We did not perform an in-depth review of program income and fees; however, based on the information reviewed, we did not find any violations with regard to the program income that was reported to DHCD by RLARC.

Memorandum / Management Alert Report Completed and Issued to Agencies

Memorandum Reports

DCPS

1. Analysis of Public Charter Schools' Audited Financial Statements for Fiscal Year 2006 (Report No.: IA:DCPS:2705-C08). Date Issued: July 3, 2007.

The purpose of the analysis was to review the schools' financial statements to determine uniformity and consistency in financial reporting and to provide our assessment of the financial statements and the accompanying auditors' reports. The objective also was to convey our observations and comments on our assessment of the schools' Annual Financial Statements for FY 2006 and the accompanying Auditor's Reports; and to communicate our findings and recommendations on the process of the Schools' oversight monitoring process of the financial statements audits.

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Based on our analysis, we noted the following findings:

- Based on observations noted from the analysis of FY 2006 Public Charter Schools Audited Financial Statements, program management oversight follow-up needs to be undertaken.
- There was no mention in the Audit Reports that the audit was conducted in accordance with the auditing standards established pursuant to the District of Columbia School Reform Act, as required by the RFP.
- Policies and Procedures for the Audits of DC Public Charter Schools need to be updated annually and communicated to the Independent Auditors and Public School Leaders before the next round of the fiscal year audits.
- Public Charter Schools Financial Statements “Audit Compliance and Management Oversight (ACMO)” Unit Needs to be Established.

In addition, we issued comments and observations on the schools’ submitted annual financial statements for FY 2006.

OCP

2. Analysis and Compilation of Capital Project Contracts No. DCFRA #00-C-031 and its Modifications Managed by The Temple Group (TTG) and The Jair Lynch Consulting/Alpha Corporation (JLC/A) for the Department of Parks and Recreations (DPR) (Report No.: IA:OCP:2611-M11). Date Issued: October 30, 2006.

The purpose of this analysis was to assist the Office of Contracting and Procurement (OCP) to compile and reconcile the original contract amounts and related modifications in order to determine the total contract costs and payments to date, and to provide recommendations to senior officials of OCP on their plan to have these contracts audited.

Based on inquiries, discussions with agency personnel and analysis of the contract documents, we noted the following:

- Overall, the documentation of information relating to the project was improperly managed.
- Contract files were not available for review and easy reference.
- OCP project personnel do not have access to information and data about the chronology of events, activities and costs associated with the projects in order to make informed decisions prior to authorizing payments and/or further extensions.
- We were unable to determine the total project costs because there were inadequate records of transactions pertaining to the project; hence, we could not reconcile the information in the contract files received. The whole project seemed to be a

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“never-ending” project and project personnel do not seem to know when it will be finally completed.

- There were inadequate controls over the number of modifications made to contracts. We were informed that the agreements between DPR and the contractors expired in September 2005; but, there remained a certain number of modifications that were previously approved that needed to be completed.
- According to discussions with OCP personnel assigned to this project, there was inadequate documentation of the chronology of events relating to the contract. We reviewed the contract files and concurred with OCP that the files were incomplete. We found modifications made that were not on file for our review; hence, we could not include them in our analysis.
- The total project costs indicated above is not conclusive because supporting documents available were incomplete.
- There was high turnover of contract/project management personnel which resulted in poor management of the projects.

Internal Audit Alert Reports

DCPS

1. Internal Audit Alert on DCPS’ Internal Control Structure and Implementation of Auditors’ Recommendations and Agency’s Corrective Actions (Report No.: IA:DCPS:2705-M01) Date Issued: May 16, 2007.

The purpose of this Internal Audit Alert (No.:IA:DCPS:2705-M01) was to advise DCPS of an important management control issue that came to our attention during our monitoring of the implementation by DCPS of various audit recommendations made by the Office of the Inspector General and by the District’s Independent Auditor in connection with the Comprehensive Annual Financial Report (CAFR) for 2006.

During our monitoring and testing activities, we experienced difficulties in determining the status of corrective actions, and the need in some cases to inform senior management of the reported findings and their responsibility for implementing corrective actions stated in agency responses to prior reports. Additionally, we found that newly appointed officials were unaware of the existence of external audit reports, a circumstance which hindered them from assuming their inherent responsibility for implementing auditors’ recommendations.

Specifically, our internal auditors found that DCPS did not have an audit resolution process that included:

- designating an individual or group the responsibility for collecting all of DCPS’ audit reports;

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- assigning responsibility for addressing auditors' recommendations, including the development of corrective actions, planned actions, estimated milestones and completion dates;
- coordinating with all areas when auditors' recommendations cross over various divisions and organizations including DCPS' Office of the Chief Financial Officer;
- monitoring the implementation of corrective action plans, including coordinating the transfer of responsibility when designated officials are transferred or separated from DCPS; and
- reporting the results of monitoring activities to officials with the authority to take corrective action.

2. Internal Audit Alert on DCPS' Safeguarding of Confidential and Sensitive Personnel Information (Report No.:IA:DCPS:2705-M02). Date Issued: July 3, 2007.

The purpose of this second Internal Audit Alert was to advise DCPS of an important issue that came to our attention during our monitoring of the implementation by DCPS of various audit recommendations made by the District's Inspector General and by the District's Independent Auditor in connection with the Comprehensive Annual Financial Report for 2006.

During an onsite visit at the DCPS Office of Human Resources, we observed a significant number of documents containing confidential and sensitive personnel information that were not adequately safeguarded and maintained to prevent unauthorized disclosure. The documents we observed contained personal identifying information, including social security numbers.

In addition to the fundamental privacy issue concerning employee personnel matters, failure to adequately safeguard this information exposes DCPS employees to a significant risk of identity theft, should this information be lost or stolen.

3. Internal Audit Alert on Overtime Issues at DCPS (Report No.: IA:DCPS:2705-M03). Date Issued: July 3, 2007.

The purpose of this Internal Audit Alert was to advise DCPS of an important management control issue that came to our attention during our monitoring and follow-up on the status of recommendations made by the District of Columbia Office of the Inspector General (OIG) in the audit report entitled Audit of the District of Columbia Public Schools Overtime (OIG No. 05-2-09GA).

Based on our observation during our walkthrough of the personnel process at DCPS, we identified issues involving overtime that warrant immediate action by DCPS. These control issues, which concern the DCPS HR Office and the DCPS OCFO Budget Office, were as follows:

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- There was no official policy on overtime;
- There were no documented procedures on how to process overtime;
- Personnel action forms are incomplete relating to overtime eligibility;
- There was a lack of supervisory review and approval; and
- There was a lack of disseminated listings of positions concerning overtime eligibility.

4. Internal Audit Alert on DCPS Acquisition Planning (Report No.: IA:DCPS:2705-M04). Date Issued: July 3, 2007.

The purpose of this Internal Audit Alert was to advise DCPS of an important management control issue that came to our attention during our monitoring and follow-up on the status of recommendations made by the District of Columbia Office of the Inspector General (OIG) in their audit report entitled, Audit of the District of Columbia Public Schools (DCPS) Procurement of School Security Services, OIG No. 03-2-14GA(e).

During our monitoring and testing activities of procurement files, as well as discussions with the staff in the Office of Contracts and Acquisitions (OCA), we found that, as noted by OIG in April 2004, there continues to be a lack of consistent acquisition planning within DCPS. Title 27, DCMR §1210.5 requires that agencies begin procurement planning as soon as the agency identifies the need, preferably well in advance of the fiscal year that the contract award is necessary. Ideally, this procurement planning should be handled in conjunction with the formulation of the budget and tied to quarterly spending plans.

As a result of this lack of acquisition planning, we found:

- Letter contracts are used for longer than 90 days due to the urgency of the request, yet all of the contract details have not been resolved.
- Options on contracts may expire, leaving a lapse in service and/or entering into letter contracts.
- There is an appearance that most purchases are handled in “emergency” mode within OCA, which may lead to more sole-source contracts and reduce the opportunity to negotiate in order to obtain the best price for DCPS.

OTR

5. Internal Audit Alert on Collection Misstatement of Receivables (Report No.: IA:OTR:2709-M01). Date Issued: August 13, 2007.

The purpose of this Internal Audit Alert was to advise Office of Tax and Revenue (OTR) of a management control issue within OTR that came to our attention during

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our investigation of a taxpayer's allegation of misconduct involving an OTR employee.

Our investigation noted the following issues:

- The taxpayer had three open and active accounts for one business.
- The amount due by the taxpayer, as reflected in the court documents, did not agree with the amount recorded in ITS.
- Taxpayer assessments were posted to the inactive taxpayer account; however, they were not removed after the taxpayer filed original assessments under the correct account number.
- As early as February 2006, a Collection employee notated ITS that the invalid EIN should not be used; however, the invalid EIN was not adjusted to accurately reflect the taxpayer's account status and activity.
- The taxpayer account was assigned to two revenue officers—who were unaware for some time that they were working the same case.
- Collection approved the Clean Hands Self-Certification for the taxpayer, who was under investigation and had not filed and paid all taxes due at the time. The ITS notes section referred all personnel who viewed the taxpayer's account to direct all communication to the Criminal Investigation investigator.
- In the Clean Hands certification, the Collection employee accepted a check from the taxpayer for tax due and issued the Clean Hands certification without waiting for the check to clear.

UDC

6. Internal Audit Alert on Overtime, Budget and Organization at UDC (Report No.: IA: UDC:2705:M05). Date Issued: July 25, 2007.

The purpose of this Internal Audit Alert was to advise the University of the District of Columbia (UDC) of management control issues that came to our attention during our investigation of alleged misconduct in the Office of the Chief Financial Officer at UDC.

Our investigations noted the following issues:

- There was a serious breakdown in the controls relating to the overtime process for employees in the OCFO/UDC.
- Based on information available to us as of that time, there was uncertainty about the operation of the UDC President's Reserve Fund.
- During the investigation, we received information that raised questions about the relationship between the OCFO/UDC staff and the UDC program staff.

EXTERNAL AUDIT ASSISTANCE

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CFO Directive 01-02 establishes policies and responsibilities for the timely and efficient handling of, and responses to, external audit reports (from the Government Accountability Office, the DC Inspector General, or the District Council Auditor) on issues relating to OCFO programs. External audits of agency programs that involve the OCFO in some limited way are also covered. The guidelines that follow are intended to help the OCFO deal with such external audits and the resulting reports in a more efficient and consistent way, recognizing that the responses to such reports are important to how the public and other important constituencies view the OCFO.

The Executive Director of the Office of Integrity and Oversight assisted the overall process of coordinating and responding to external audit reports. This responsibility included the following actions:

- Working closely with Deputy CFOs and Agency CFOs to ensure their awareness of, and involvement in, specific audits.
- Arranging and attending opening and closing meetings.
- Providing periodic status reports to the OCFO on all external audits, to include information such as the number of audits in process, their stage in the process (e.g., data gathering, interviewing, report writing), likely timetables for issuance, etc.
- Performing follow-up reviews on all external report recommendations.

The following lists technical assistance provided by the Internal Auditors of OIO to Agencies within the OCFO for external audits performed by Office of the Inspector General (OIG), and the Government Accountability Office (GAO), and other matter:

- **OIG:** Coordinated and assisted with Agency (DOT/DPW) Response (September 17, 2007) to the OIG's Draft report: "Audit of the Local Roads Construction and Maintenance Fund" issued July 2, 2007.
- **OIG:** Coordinated and assisted in the search for vendor payment information on certain DC vendor (May 15, 2007) requested by the United States Attorney's Office.
- **GAO:** Coordinated and assisted Agency (DCPS) with regard to the GAO (September 19, 2007) Review of DC's Initial Reform Efforts for the District of Columbia's Public School system.
- **OCFO/DCPS:** Assisted in drafting of the restructuring plan to transfer the DCPS Medicaid Recovery Unit from the Office of Special Education to the Office of the Chief Financial Officer (April 17, 2007).
- **UDC:** Assisted Agency (UDC) in drafting of the Scope of Work for the Request for Proposal on the procurement of a contractor to conduct a University-wide assessment of academic affairs, student support services, internal operational processes and systems, policies and procedures, and make recommendations (September 7, 2007).

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II. SINGLE AUDIT COMPLIANCE -
OMB Circular Single A-133 Audit Activities

The A-133 Single Audit Activities were transferred from the Office of the Inspector General to the Office of the Chief Financial Officer in Fiscal Year 2000. The District of Columbia went to a risk-based approach for its Single Audit in Fiscal Year 1999/2000.

Since the transfer of the A-133 Single audit management to the Office of the Integrity and Oversight, we have facilitated the completion of A-133 Single Audits through fiscal year 2006 (See attached schedules). This will bring the District's A-133 reports up to date and in compliance with the OMB Circular. Thus far, with the audit resolution process for the Single Audit, we have avoided Questioned Costs in the amount of approximately \$5.2 million for the District at-large in FY 2006. We are currently working with the federal and District agencies to resolve issues regarding remaining questioned costs of \$3.99 million and other outstanding issues.

Single Audit Status

No.	Agency	Single Audit: Completed and Issued as of FY 2006			
		FY 2003	FY 2004	FY 2005	FY 2006
1.	Department of Employment Services (DOES)	4	4	4	4
2.	Department of Health (DOH)	4	4	4	4
3.	Department of Human Services (DHS)	4	4	4	4
4.	Office on Aging (DCOA)	N/A	4	N/A	N/A
5.	Energy Office	N/A	4	4	N/A
6.	Public Safety Cluster Office of Emergency Preparedness Office of Justice Grants Administration	4 N/A N/A	N/A 4 4	N/A N/A 4	N/A N/A 4
7.	Department of Housing and Community Development (DHCD)	4	4	4	4
8.	Department of Public Works (DPW)	N/A	4	4	N/A
9.	Water and Sewer Authority (WASA)	4	4	4	4
10.	DC Public School (DCPS)	4	4	4	4
11.	University of the District of Columbia (UDC)	4	N/A	N/A	4
12.	Child and Family Services	4	4	4	4
13.	DC Housing Authority	4	4	4	4
14.	State Education Office - Office of Finance and Resource Mgmt	4	4	N/A	4
15.	Office of the Attorney General	4	4	4	4
16.	Homeland Security - Federal Grant	4	4	4	4
	Total	13	16	13	13

Source: Compiled by Office of Internal Audit

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Legend: N/A = Agency did not meet the dollar threshold for the Risk Based Approach, which in FY 2006 was \$5,484,205; Questioned Cost was \$3,995,700)
4 = Audit completed and report is issued)