

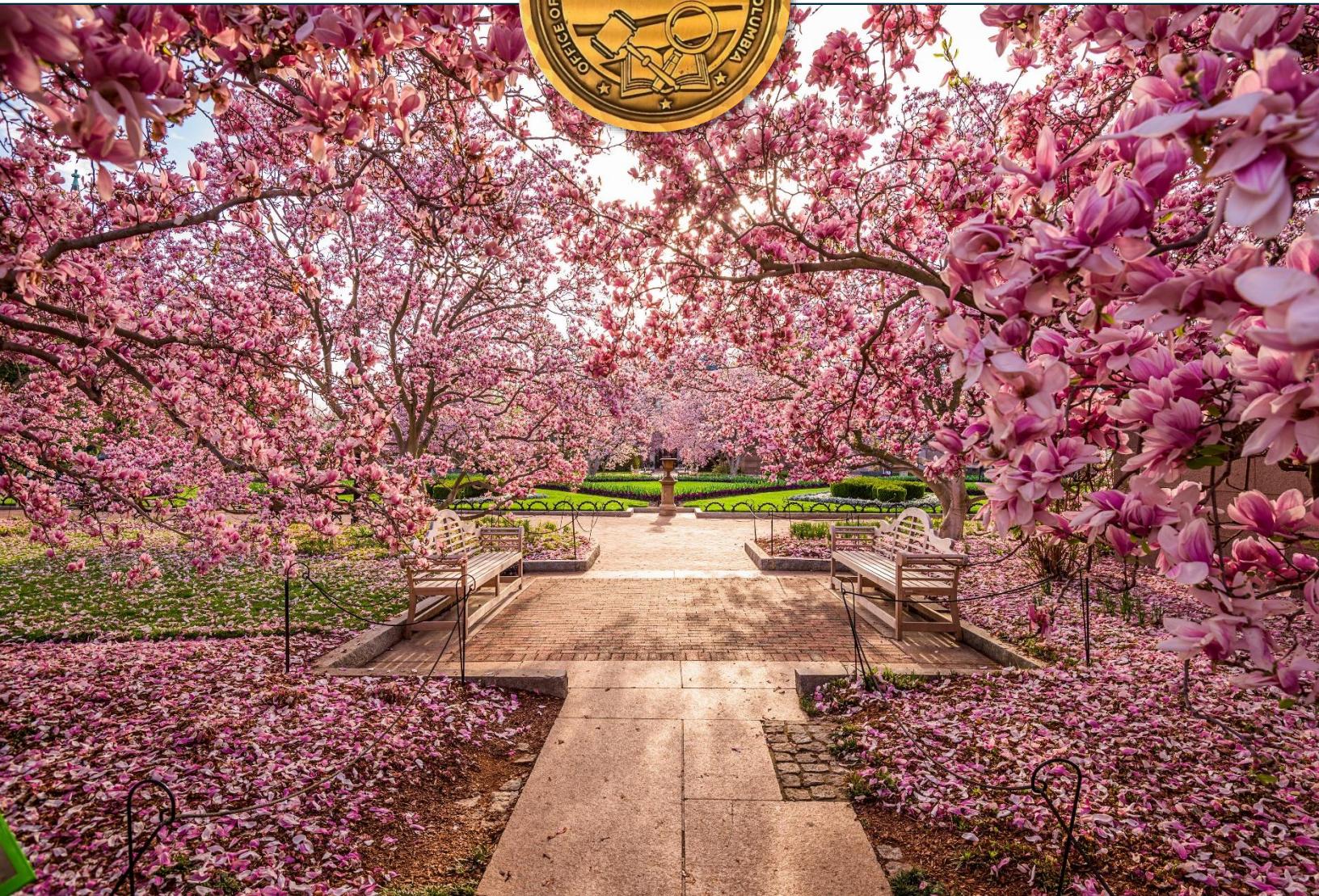
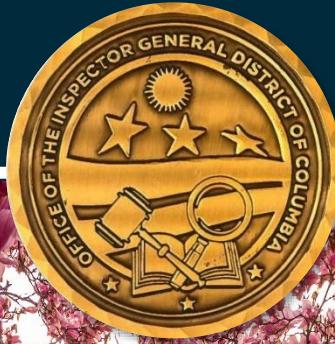
AUDIT REPORT

Unemployment Compensation Fund

Management Recommendations
Fiscal Year 2025

OIG No. 25-1-11BH(a)

February 4, 2026



DANIEL W. LUCAS
INSPECTOR GENERAL

OUR MISSION

We independently audit, inspect, and investigate matters pertaining to the District of Columbia government in order to:

- prevent and detect corruption, mismanagement, waste, fraud, and abuse;
- promote economy, efficiency, effectiveness, and accountability;
- inform stakeholders about issues relating to District programs and operations; and
- recommend and track the implementation of corrective actions.



OUR VISION

We strive to be a world-class Office of the Inspector General that is customer focused and sets the standard for oversight excellence!

OUR VALUES

Accountability: We recognize that our duty extends beyond oversight; it encompasses responsibility. By holding ourselves accountable, we ensure that every action we take contributes to the greater good of the District.

Continuous Improvement: We view challenges not as obstacles, but as opportunities for growth. Our commitment to continuous improvement drives us to evolve, adapt, and enhance our practices.

Excellence: Mediocrity has no place in our lexicon. We strive for excellence in every facet of our work.

Integrity: Our integrity is non-negotiable. We act with honesty, transparency, and unwavering ethics. Upholding the public's trust demands nothing less.

Professionalism: As stewards of oversight, we maintain the utmost professionalism. Our interactions, decisions, and conduct exemplify the dignity of our role.

Transparency: Sunlight is our ally. Transparency illuminates our processes, decisions, and outcomes. By sharing information openly, we empower stakeholders, promote understanding, and reinforce our commitment to accountability.



MEMORANDUM

To: The Honorable Muriel Bowser
Mayor of the District of Columbia

The Honorable Phil Mendelson
Chairman, Council of the District of Columbia

From: Daniel W. Lucas 
Inspector General

Date: February 4, 2026

Subject: **Unemployment Compensation Fund Management
Recommendations | OIG No. 25-1-11BH(a)**

This memorandum transmits the final report *Unemployment Compensation Fund Management Recommendations* for fiscal year 2025. CliftonLarsonAllen LLP (CLA) provided this report to the Office of the Inspector General as part of the annual audit of the District of Columbia's general-purpose financial statements for fiscal year 2024.

On January 5, 2026, CLA issued a management letter, noting three internal control deficiencies discovered during the audit. CLA provided three recommendations to enhance internal control over financial reporting.

Should you have questions or concerns, please contact me or Dr. Slemo Warigon, Assistant Inspector General for Audits, at (202) 792-5684.



CliftonLarsonAllen LLP
CLAconnect.com

Management
District of Columbia Unemployment Compensation Fund
Washington, DC

In planning and performing our audit of the financial statements of the District of Columbia Unemployment Compensation Fund (the Fund) as of and for the year ended September 30, 2025, in accordance with auditing standards generally accepted in the United States of America, we considered the entity's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

However, during our audit we became aware of deficiencies in internal control other than significant deficiencies and material weaknesses and other matters that are opportunities to strengthen your internal control and improve the efficiency of your operations. Our comments and suggestions regarding those matters are summarized below. We previously provided a written communication dated January 5, 2026, on the entity's internal control. This letter does not affect our report on the financial statements dated January 5, 2026, nor our internal control communication dated January 5, 2026.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various entity personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Management's written responses to the above deficiencies have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not provide any assurance on the responses.

This communication is intended solely for the information and use of management, To the Mayor, Members of the Council of the Government of the District of Columbia, and Inspector General of the Government of the District of Columbia, and others within the entity, and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Arlington, Virginia
January 5, 2026

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

2025-001: IT Organization, Logical Access and Backup & Recovery

The entity was unable to provide evidence of several key controls, including management's review of the SOC report for a certain vendor and the formally documented annual review and recertification of network user access.

The OCTO System and Services Acquisition Policy and the OCTO Access Control Policy require agencies to implement and document key access control procedures, including management review of System and Organization Control (SOC) reports and the formal annual recertification of network user access. These controls are intended to ensure that access to systems is appropriately authorized, monitored, and reviewed on a periodic basis.

During the review, CLA noted that the entity was unable to provide evidence demonstrating management's review of the SOC report for UIBS or documentation supporting a formally conducted annual recertification of network user access. Although SOC reports for vendors were received, a formalized and documented review process was not in place to evidence compliance with policy requirements.

Management indicated that these reviews do occur; however, formal documentation was not maintained. Without periodically reviewing and recertifying system access and retaining supporting documentation, DCHA is at risk of allowing excessive, unnecessary, or unauthorized privileges to persist on user accounts, potentially increasing security and compliance risks.

Recommendation:

CLA recommends having a formally documented process in place for reviewing SOC reports annually and performing annual Network user access reviews

Management Response:

DOES has a process in place to document ser moves, additions, and changes, as well as Active Directory privilege changes and performs a review of the SOC 2 report from the vendor on a yearly basis.

2025-002: Stale Liabilities/Escheat Property

The Fund held approximately \$4.2 million in refund amounts owed to employers as of September 30, 2025 that have been outstanding for greater than three years.

Section 41-154.01-03 of the Code of the District of Columbia requires holders of property presumed abandoned and subject to the custody of the Administrator to report such property in a record submitted to the Administrator. Except as otherwise provided, these reports must be filed annually by November 1 and must cover the 12-month period ending June 30 of that year. This requirement is intended to ensure timely reporting and transfer of unclaimed property in accordance with District law.

For the period under review, the Authority held approximately \$4.2 million in refund amounts owed to employers that had remained outstanding for more than three years. These amounts met the criteria for property presumed abandoned and subject to reporting and transfer to the District.

The Authority did not transfer the property due to its interpretation of District law. As a result, failure to escheat these payments in a timely manner may result in noncompliance with District regulations and could expose the Authority to potential penalties and interest.

Recommendation:

We recommend the Fund review and identify all outstanding checks/payables and determine if they need to be transferred to the respective governmental.

Management Response:

Management currently reviews refunds and credit balances on inactive accounts that qualify for write-off which ensures compliance with the statute and proper handling of inactive account credits.

2025-003: Receivables related to Penalty and Interest for Employer Taxes

The Fund held approximately \$7.8 and \$1.3 million in accounts receivables related to penalties and interest related to unpaid employer taxes as of September 30, 2025, that are not recorded in the financial statements of the Fund or District.

Section 51(m)(4)(A) and (B) of the Code of the District of Columbia provides that, for calendar quarters beginning after September 30, 2007, administrative funding assessments that are not paid when due are subject to interest and penalties. Specifically, unpaid assessments accrue interest at a rate of 1.5 percent per month, or fraction thereof, from the due date until payment is made. In addition, if an assessment is not paid on or before the first day of the second month following the close of the applicable calendar quarter, a penalty equal to 10 percent of the amount due is assessed, subject to a minimum of \$100. Penalties may be waived for good cause at the discretion of the Director of the Department of Employment Services.

As of September 30, 2025, the Authority held approximately \$7.8 million in interest receivables and \$1.3 million in penalty receivables related to unpaid employer taxes. These amounts were not recorded in the financial statements of either the Fund or the District, despite representing enforceable amounts associated with statutory assessments.

Management of the Fund indicated that the receivables related to penalties and interest should be recorded in the District's general fund rather than in the Fund's financial statements. As a result, the related revenue and associated receivables for penalties and interest on unpaid employer taxes are not being reported in the financial statements, leading to an incomplete presentation of financial activity.

Recommendation:

We recommend the Fund identify and report all outstanding receivables related to penalties and interest for employer taxes in the financial statements.

Management Response:

District of Columbia Code Title 51, Section 114(b)(1), establishes a special fund within the General Fund of the District of Columbia, separate and apart from the District Unemployment Fund, known as the Special Administrative Expense Fund. Pursuant to Section 114(b)(1)(A)–(C), this fund consists of interest and penalties collected from employers, as well as dishonored check penalties.

Because these monies are not part of the Unemployment Insurance Trust Fund (UITF) and are governed by legislation separate from the Federal Unemployment Tax Act (FUTA), they are not reported in the UITF financial statements. Instead, the funds support the administration of the UITF and are not used for benefit contributions. Revenues and receivables related to the Special Administrative Expense Fund are tracked and reported through the District's independent unemployment insurance system (DUTAS).

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