

**AUDIT OF REMEDIATION EFFORTS  
IN RESPONSE TO  
SIGNIFICANT DEFICIENCIES  
IDENTIFIED IN THE  
FY 2014 INDEPENDENT  
AUDITORS' REPORT**



OIG

**DANIEL W. LUCAS  
INSPECTOR GENERAL**

## Mission

The mission of the Office of the Inspector General (OIG) is to 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 administration and operations; and
- recommend and track the implementation of corrective actions.

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OIG

### Why the OIG Did This Audit

We conducted this audit to assess and report on the progress made by District agencies to remediate significant deficiencies identified by the independent auditors in the FY 2014 CAFR Yellow Book.

During the course of the FY 2015 CAFR audit, we will:

1. Enhance our oversight role to help facilitate a shared understanding between the independent auditors and the affected agencies regarding any tentative findings. This shared understanding should help ensure that an agency change in position does not occur once the FY 2015 Yellow Book report is released.
2. Ensure the independent auditors' Notice of Findings and Recommendations (NFRs) are signed by agency Directors.

A summary of all systemic issues from this audit and the findings related to the nine agencies is included in Appendix A. Verbatim comments from the nine agencies are included in Appendix B.

## AUDIT OF REMEDIATION EFFORTS IN RESPONSE TO SIGNIFICANT DEFICIENCIES IDENTIFIED IN THE FY 2014 INDEPENDENT AUDITORS' REPORT

### What the OIG Found

The audit objectives for this engagement were to determine whether: (1) significant deficiencies identified in the FY 2014 Yellow Book have been remediated; (2) implemented remediation plans were effective in correcting the significant deficiencies as concluded through our FY 2015 verification process; and (3) there are barriers that may impede significant deficiency remediation efforts.

We limited our independent testing to agencies that self-reported 100 percent remediation of all applicable findings. Accordingly, we reviewed the efforts of 9 District agencies who addressed 19 findings identified in the FY 2014 Yellow Book.

Overall, during the course of our engagement, we found systemic issues related to the significant deficiencies identified by the independent auditor, such as inaccurate initial concurrence with the independent auditors' findings and recommendations and resource limitations. We discussed these issues with the affected District agencies.

Regarding remediation efforts, we found that agencies had fully remediated 10 of 19 significant deficiencies. However, while our independent verification indicated agencies had implemented several remediation plans and effectively corrected significant deficiencies, there is a continued risk that the deficiency may reoccur.

Additionally, we determined that 3 of the 19 findings issued by the independent auditors did not require any corrective action. We attribute this condition to a lack of shared understanding between the independent auditors and the affected agencies regarding the conditions that purported to have existed during the course of the audit.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**Office of the Inspector General**



**Inspector General**

December 31, 2015

The Honorable Muriel Bowser  
Mayor of the District of Columbia  
The John A. Wilson Building  
1350 Pennsylvania Avenue, N.W., Suite 504  
Washington, D.C. 20004

The Honorable Phil Mendelson  
Chairman  
Council of the District of Columbia  
1350 Pennsylvania Avenue, N.W., Suite 316  
Washington, D.C. 20004

Dear Mayor Bowser and Chairman Mendelson:

Enclosed is our consolidated report on the *Audit of Remediation Efforts in Response to Significant Deficiencies Identified in the FY 2014 Independent Auditors' Report* (OIG No. 15-2-11MA). This audit was initiated after the February 5, 2015, *Committee of the Whole Public Hearing on FY 2014 Comprehensive Annual Financial Report* (CAFR), wherein we agreed to look into why there continued to be repeat findings during each comprehensive financial audit.

Significant deficiencies were identified in the *Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards* (referred to as the "Yellow Book"). The independent auditor issued the FY 2014 Yellow Book, subsequent to the CAFR, on March 5, 2015.

On March 10, 2015, we notified you that we would examine individual agency remediation efforts. We initiated this engagement with three objectives. First, we wanted to determine whether significant deficiencies identified in the FY 2014 Yellow Book had been remediated. Second, we wanted to determine whether the affected agencies' remediation plans were effective in correcting the significant deficiencies as concluded through our independent verification. Third, we wanted to determine whether there were barriers that may have impeded significant deficiency remediation efforts.

To maximize our own efficiency, we limited our independent testing to agencies that self-reported 100 percent remediation of all applicable significant deficiency findings by July 6, 2015.

We conducted our independent testing at the following nine District agencies:

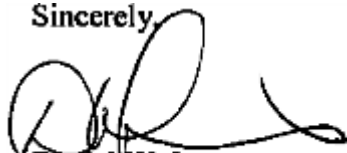
- the Department of Employment Services (DOES);
- the Department on Disability Services (DDS);
- the Health Benefit Exchange Authority (HBEX);
- the D.C. Lottery and Charitable Games Control Board (DCLB);
- the D.C. Public Library (DCPL);
- the Not for Profit Hospital Corporation (United Medical Center);
- the Office of the Chief Financial Officer (OCFO);
- the Office of the Chief Technology Officer (OCTO); and
- the Deputy Mayor for Planning and Economic Development (DMPED).

My Office communicated our findings and received written responses from all of the above listed agencies. Six agencies concurred with our independent testing results. However, the DCLB, UMC, and OCFO disagreed with the independent auditors' original findings and recommendations; therefore, we consider these recommendations unresolved and request that these three agencies reconsider their respective positions. The verbatim responses of the nine agencies are included in Appendix B.

As the FY 2015 CAFR is currently underway, we plan to examine individual agency remediation efforts related to any findings identified by the independent auditors. The scope of this engagement will include both findings identified in FY 2015, as well as any remaining findings from FY 2014 that we did not include as part of this engagement.

We appreciate the cooperation and courtesies extended to our staff during this audit. If you have any questions concerning this report, please contact me or LaDonia Wilkins, Acting Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,



**Daniel W. Lucas**  
**Inspector General**

DWL/fg

Enclosure

cc: See Distribution List

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The Honorable Kathleen Patterson, D.C. Auditor, Office of the D.C. Auditor, Attention: Candace McCrae (via email)  
Mr. Jed Ross, Director and Chief Risk Officer, Office of Risk Management (via email)  
Mr. Graylin (Gray) Smith, Partner, SB and Company, LLC

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# Introduction

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We have completed the *Audit of Remediation Efforts in Response to Significant Deficiencies Identified in the FY 2014 Independent Auditors' Report* (OIG No. 15-2-11MA).

We initiated this audit at the request of the Chairman of the Council of the District of Columbia. On February 5, 2015, during the *Public Oversight Hearing on the Fiscal Year 2014 Comprehensive Annual Financial Report*, the Chairman requested the OIG look into why there continued to be repeat findings during each annual financial report audit.

## Background

**The OIG's Statutory Requirements.** D.C. Code § 1-301.115a(a)(3)(H) (Supp. 2015) requires that we contract with an independent auditor to conduct a comprehensive audit of the District's financial statement, which is referred to as the Comprehensive Annual Financial Report (CAFR). We chair the CAFR audit oversight committee, conduct regular meetings with committee members, and interact with the Office of the Chief Financial Officer (OCFO) and the independent auditor throughout the audit to facilitate an efficient and effective process. The CAFR must be submitted to the Mayor and the Council of the District of Columbia on or before February 1<sup>st</sup> of each year following the end of the fiscal year audited.

**The Yellow Book.** As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, the independent auditors performed tests of District agencies' compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

The results of this testing is communicated in the independent auditors' *Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards*, referred to as the "Yellow Book." The Yellow Book serves to alert the District of deficiencies in its internal controls over financial reporting. This report solely describes the scope of the independent auditors' testing of internal control and compliance, and the results of that testing. It does not provide an opinion on the effectiveness of the District's internal controls or on compliance.

If the independent auditors' testing identified a deficiency, where the design or operation of a control did not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis, they noted the deficiency. The report classified deficiencies into two categories based on severity:



- A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting, that is less severe than a material weakness yet important enough to merit attention by those responsible for oversight of the District's financial reporting.
- A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented or detected on a timely basis. Depending on the deficiency, it can be attributable to a single District agency or multiple District agencies.

Prior to notification that a deficiency exists within a particular District agency, the independent auditor will work with agency leadership to present and obtain concurrence of their findings. This presentation and agreement is captured in a Notice of Findings and Recommendations (NFR). The independent auditor then consolidates all NFRs into the overall Yellow Book report.

**The District's FY 2014 Yellow Book Findings.** The FY 2014 *Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards* (FY 2014 Yellow Book) identified six significant deficiencies. Specifically, there were significant deficiencies in the following areas:

1. Finding 2014-01, General Information Technology Controls;
2. Finding 2014-02, Procurement and Disbursement Controls and Non-Compliance With Laws and Regulations;
3. Finding 2014-03, Internal Controls Over Medicaid, TANF, and SNAP Programs;
4. Finding 2014-04, Internal Controls Over Instant Scratch Tickets;
5. Finding 2014-05, Internal Controls Over the Unemployment Compensation Fund Claimants Payable Accrual Estimate; and
6. Finding 2014-06, Internal Control Over Financial Reporting Related to the Aggregate Discretely Presented Component Units.

## **OIG's Independent Testing and Verification**

We collaborated with the Office of the City Administrator (OCA) and OCFO to conduct our independent testing of District agencies' significant deficiency remediation efforts. OCA provided leadership to District agencies in refocusing their attention to remediate the significant

deficiencies contained in the Yellow Book. OCFO provided us with a significant deficiency remediation status report entitled *Yellow Book Remediation Flash Report* (dated July 6, 2015), which summarized the status of the 57 findings, spread across 15 District agencies. We relied on the *Flash Report* to facilitate our engagement with the affected District agencies, and limited testing to agencies that self-reported 100 percent remediation of applicable deficiency findings.

The *Flash Report* indicated that 2 of the 15 agencies self-reported that their remediation efforts were not 100 percent complete.<sup>1</sup> Therefore, we excluded these 2 agencies, and their associated 17 findings, from our engagement plan. During our initial assessment of the action plans for the remaining 13 agencies, we determined that findings at 4 agencies were not 100 percent remediated as self-reported. Therefore, we excluded those 4 agencies, and their associated 21 findings, from our verification process.<sup>2</sup>

We included the 9 remaining agencies (and their associated 19 findings) within our audit scope:

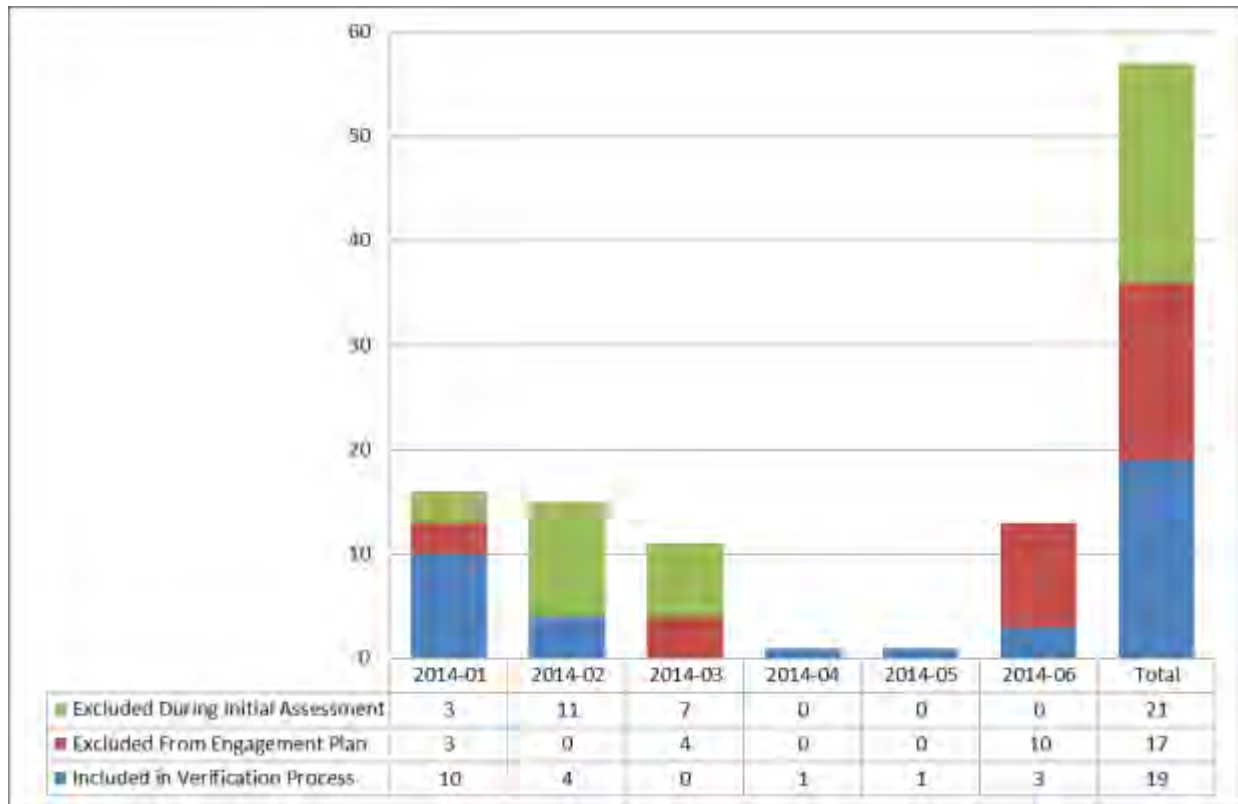
- the Department of Employment Services (DOES);
- the Department on Disability Services (DDS);
- the Health Benefit Exchange Authority (HBEX);
- the D.C. Lottery and Charitable Games Control Board (DCLB);
- the D.C. Public Library (DCPL);
- the Not for Profit Hospital Corporation (United Medical Center);
- the Office of the Chief Financial Officer (OCFO);
- the Office of the Chief Technology Officer (OCTO); and
- the Deputy Mayor for Planning and Economic Development (DMPED).

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<sup>1</sup> We excluded the Department of Health Care Finance (4 findings) and the University of the District of Columbia (13 findings) from our scope.

<sup>2</sup> We excluded the Office of Contracting and Procurement (7 findings), the Department of Human Services (10 findings), the Department of General Services (3 findings), and the D.C. Public Schools (1 finding) from the verification process.

Chart 1, below, presents the independent auditors' 57 findings that were aggregated into the 6 significant deficiency categories. The chart provides a visual representation of the findings that: (red columns) were not included in our scope because agencies had not self-reported 100 percent remediation; (green columns) had not been remediated as reported by the agencies and were removed from our scope; and, (blue columns) we evaluated during the course of this audit.



**Chart 1 – Comparison of Significant Deficiencies and Findings Included in the OIG’s Verification Process**

# Audit Objectives and Overall Conclusion

The three audit objectives for this engagement were to determine:

1. Whether significant deficiencies identified in the FY 2014 Yellow Book report had been remediated.
2. Whether affected District agency remediation plans were effective in correcting the significant deficiency findings.
3. Whether there were any barriers that may have impeded significant deficiency remediation efforts.

**Overall Conclusion.** Overall, we found that 10 of the 19 significant deficiencies identified for 9 District agencies in the FY 2014 Yellow Book report have been fully remediated. However, while our independent verification indicated agencies had implemented several remediation plans and effectively corrected significant deficiencies, there is a continued risk that the deficiencies may reoccur as root causes have not been adequately addressed for 6 of the 19 findings.

Additionally, we determined that 3 of the 19 findings did not require any corrective action. We attribute this condition to a lack of shared understanding between the independent auditors and the affected agencies of the underlying conditions that were perceived to have existed at the time of the audit. Chart 2, below, summarizes our findings.

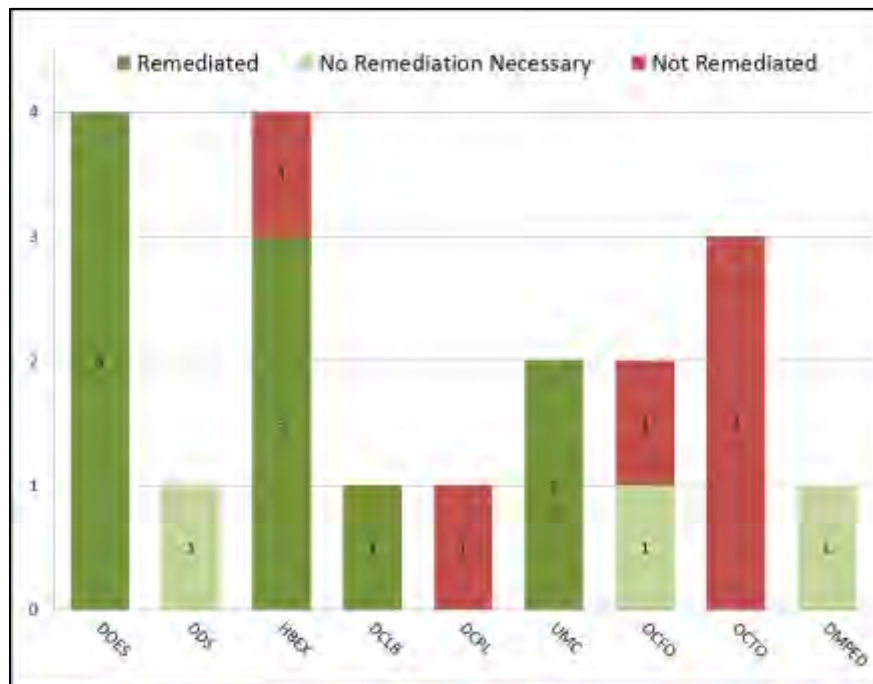


Chart 2 - Overall Remediation Results by Agency

# Results

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## Systemic Issues

During our audit, we noted certain systemic issues where agencies had changed position from “Agree” to “Disagree” based on the independent auditors’ NFR. We reconciled the independent auditors’ findings against the agencies’ change in position. The below paragraphs summarize the independent auditors’ initial findings, the agencies’ justifications for the change, and our independent analysis.

- DCLB changed its position with regard to the independent auditors’ recommendation that it needed to provide additional training to retailers responsible for the administration of the Instant Scratch Tickets program. DCLB stated that they had formalized training methods in place used to educate 475-500 lottery retailers in the instant scratch ticket rules, regulations, policies, and procedures. DCLB also stated that those methods had always existed and are efficient, economical, effective, and sufficient best practices to ensure retailers are compliant. We concluded that DCLB did not need additional training as recommended by the independent auditors. Therefore, DCLB’s initial concurrence with the independent auditors’ recommendation was inaccurate.
- HBX changed its position with regard to the independent auditors’ recommendation that it needed to provide additional training to control performers. HBX has stated that disabling an account is a basic operational function that is an expected capability of all LINUX administrators. We concluded that HBX did not need additional training as recommended by the independent auditors. Therefore, HBX’s initial concurrence with the independent auditors’ recommendation was inaccurate.
- DMPED changed its position with regard to the independent auditors’ finding that: (1) for 4 of 37 sampled competitive procurements tested at independent agencies, 2 procurement actions at the DMPED were not supported by evidence that a competitive sealed bidding procurement process was used; and (2) for 3 of 41 sampled sole source procurements tested at independent agencies, 1 DMPED contract was not available for review. Based on our independent testing, we concluded there was no significant deficiency related to the two competitive procurement actions and one sole source contract as identified in the FY 2014 Yellow Book report. Therefore, DMPED’s initial concurrence with the independent auditors’ recommendation was inaccurate.
- DDS disagreed with its initial response provided to the independent auditors’ finding that for a sampled item tested, evidence that the procurement was awarded through the competitive sealed bidding process was not available for review. Subsequent to the initial agreement, the DDS stated that its procurements are made under Chapter 19 of 27

DCMR - Selection of Human Care Service Providers. This section does not require the competitive sealed bidding process. We concluded: (1) there was no significant deficiency related to noncompliance with District procurement laws and regulations as identified in the FY 2014 Yellow Book report; and (2) the DDS' initial concurrence with the independent auditors' findings and recommendations was inaccurate.

- The Office of Contracts within OCFO disagreed with its initial response provided to the independent auditors' finding that for a sample of sole source procurements, one contract was not available for review. The Office of Contracts stated that the procurement identified by the independent auditors did not require a contract because it was exempt from competition under D.C. Code § 2-354.13(11). We concluded: (1) there was no significant deficiency related to noncompliance with District procurement laws and regulations as identified in the FY 2014 Yellow Book report, and (2) the Office of Contract's initial concurrence with the independent auditors' findings and recommendations was inaccurate.
- UMC disagreed with its initial response provided to the independent auditors' finding that it improperly included prior year grant revenue for FY 2014, which resulted in an overstatement of \$120,070. UMC officials stated that based on discussions held with the independent auditors, it was their understanding that the finding was "off the table," as the independent auditors did not show any evidence to justify their conclusion. In addition, the finding was not part of the issues raised when management concurred and signed the summary of findings. We disagree with UMC's assertion that the finding was not part of the issues raised when management concurred and signed the summary of findings, because the UMC concurred and signed the independent auditors' NFR. In UMC's response to our draft report, they stated a monthly reconciliation process was implemented over grant revenue to prevent reoccurrence of this finding; however, we did not assess this process during our engagement.

To address the root causes of these systemic issues, we enhanced our oversight role during the course of the FY 2015 CAFR audit to help facilitate a shared understanding between the independent auditors and the affected agencies on any perceived adverse condition that could translate into a tentative finding. This shared understanding should help prevent agencies from changing their position on a finding once the FY 2015 Yellow Book report is released.

In the next section, we discuss the progress of remediation efforts made by each of the nine District agencies that were included in our independent verification process. We present original conditions noted by the independent auditors; the recommendations made by the independent auditors; and management's response to the independent auditors. Then we present our overall conclusion on the agency's remediation efforts, a discussion of findings based on our independent verification, the agency's comments to our draft report, and finally our comments to the agency's response to our engagement.

# Agency 1 – Department of Employment Services

## Conditions Noted by the Independent Auditors

During the FY 2014 CAFR audit, the independent auditors identified the following condition related to DOES' process of estimating unemployment insurance (UI) claims payable accruals:

- DOES records an estimate to accrue for benefit payments for claimants that have applied for unemployment insurance as of September 30, 2014, and have been determined eligible to receive benefits during the period of October 1-20, 2014. As part of the process, management relies on a system-generated report that details the “number of first time payees” approved to receive benefits during this period, which is a key assumption used in the accrual. The auditors noted an incorrect “number of first time payees” receiving state unemployment insurance was used in the calculation of the estimated accrual and that the calculation excluded the “number of first time payees” receiving federal benefits.

## Recommendations Made by the Independent Auditors

On January 27, 2015, the independent auditors recommended that DOES:

- Improve controls that are currently in effect to ensure that underlying information used in claimants payable accrual estimates is complete and accurate and that management implement a review process for payable accrual to ensure that amounts are accurately recorded in the financial statements.

## Management Response to Independent Auditors' Findings and Recommendations

On February 5, 2015, DOES management provided the following responses to the independent auditors' findings and recommendations:

- Management concurs with the findings and recommendations. However, management claimed that there were adequate policies and procedures in place, which were applied consistently in all fiscal years when estimating accrued benefit liabilities for claimants.
- Management concurs with the need to update its existing policies and procedures to further strengthen controls that would help validate ad hoc data used for such specialized reports against standard federal reports, and to ensure accuracy and completeness for accounting and financial reporting purposes.

## OIG Overall Conclusion on Agency Remediation Efforts

Overall, we found the incorrect “number of first time payees” receiving state unemployment insurance used in the calculation of the 2014 state unemployment insurance tax payable, and the excluded “number of first payees” receiving federal benefits identified in the FY 2014 Yellow Book report have been remediated. DOES has implemented remediation plans that were effective in correcting the significant deficiencies. However, a barrier may be impeding significant deficiency remediation efforts related to the revision of existing policies and procedures.

### Discussion

Significant deficiencies related to the overstatement of claimant liability and unemployment benefit expenses, and the understatement of "Due from the Federal Government" and Federal Reimbursements identified in the FY 2014 Yellow Book report, have been remediated. To correct the “number of the first time payees,” the DOES created a query to generate a report that lists all UI benefit payments that were made between October 1-20, 2014, for claims that were filed prior to October 1, 2014, for the respective audit year.

**Completeness and Accuracy of Data.** During the course of our limited testing, we verified that DOES management had put additional controls in place to ensure the underlying data used in estimating UI benefits were complete and correct. We found that the additional controls provided reasonable assurance that the underlying data used in estimating UI benefits were complete and accurate.

Our FY 2015 verification process concluded that implemented remediation plans were effective in correcting identified deficiencies.

**Implemented Action Plans.** We noted that in July 2015, the DOES implemented additional controls to ensure the underlying data used in estimating UI benefits are complete and accurate prior to recording the accrued liability. As part of the remediation process, accruals are now performed on a quarterly basis instead of at year-end.

We used a DOES Memorandum (memo), dated July 1, 2015, to validate the added controls. The memo presents the accrual for UI payments for the quarter ended March 31, 2015. To verify the completeness and accuracy of the underlying data used to generate the accrual amount, we compared the aggregate amount to the detail query data maintained in the DOCS system. Our comparison indicated that accrual amounts were complete and accurate.



The DOES had a single barrier that may be impeding its significant deficiency remediation efforts.

**Lack of formalized policies and procedures.** We noted that the DOES neither revised its existing policies and procedures, nor formalized the newly added controls.

### **DOES Response to OIG Observation on Agency Remediation**

DOES officials provided us with a written response to a draft of our review on October 7, 2015, in which it concurs with our conclusions. In its response, DOES expressed confidence that the conditions that caused the significant weakness have been remediated. DOES has formalized the implemented policies and procedures; hired a new Associate Director for the Unemployment Division to review internal processes and implement additional internal controls, as necessary; and has established a unit specifically responsible for ensuring that existing policies and procedures are updated timely and that new policies are created to cover any processes where one does not exist throughout the agency. Further, DOES created an internal audit unit, which has started scheduling regular quarterly monitoring to ensure that the processes put in place to correct the significant deficiencies are sustained. The complete text of the DOES response is included in Appendix B.

### **OIG Comments**

We consider the actions taken or planned by DOES to be responsive and meet the intent of our observation.

## **Agency 2 – Department on Disability Services**

### **Conditions Noted by the Independent Auditors**

During the FY 2014 CAFR Audit, the independent auditors identified the following condition related to DDS' compliance with District of Columbia procurement laws and regulations:

- For 4 of 37 samples of competitive procurements tested at independent agencies, 2 procurement actions at the DDS were not supported by evidence that a competitive sealed bidding procurement process was used.<sup>3</sup>

### **Recommendations Made by the Independent Auditors**

On January 20, 2015, the independent auditors recommended that independent agencies, including DDS:

- Adhere to internal controls over procurements to ensure (1) compliance with District of Columbia procurement laws and regulations, and (2) that all contract documentation that can serve as an audit trail is properly retained.

### **Management Response to Independent Auditors' Findings and Recommendations**

On January 26, 2015, DDS management concurred with the independent auditors' finding and recommendation.

### **OIG Overall Conclusion on Agency Remediation**

Overall, we found there was no significant deficiency related to noncompliance with District procurement laws and regulations as identified in the FY 2014 Yellow Book report. The DDS did not need to implement remediation plans to correct the significant deficiency. Our independent verification process indicated that there were no significant deficiencies related to DDS' procurement actions as identified in the FY 2014 Yellow Book report. Therefore, there were no barriers impeding significant deficiency remediation efforts.

### **Discussion**

We concluded there was no significant deficiency related to two competitive procurement actions identified in the FY 2014 Yellow Book report.

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<sup>3</sup> The other two procurements did not relate to DDS contracts.

**Competitive Procurement Actions.** According to the independent auditors, the two procurement actions in question were contract numbers DCJM-2014-E-0017 and DCJM-2014-H0006-02. Due to personnel changes at DDS, we were unable to determine why the procurement documentation was not available for the independent auditors.

- During the course of our audit, the Chief Contracting Officer (CCO) provided us with relevant supporting documentation related to contract number DCJM-2014-E-0017. Our review of the solicitation, *Business Clearance Memorandum*, and the corresponding contract, indicated that the procurement was properly awarded through the competitive sealed bidding process.
- The CCO also provided us with relevant supporting documentation related to contract number DCJM-2014-H0006-02. Our review indicated that this procurement action was made to acquire human care services. Specifically, we noted that the human care service contract in question was properly executed under Title 27 District of Columbia Municipal Regulations (DCMR) § 1905. Therefore, the competitive sealed bidding process requirements did not apply to this procurement action.

We concluded that DDS did not need to implement remediation plans to correct the noted significant deficiency related to noncompliance with District procurement laws and regulations. Our independent verification process indicated that there were no significant deficiencies related to DDS' procurement actions as identified in the FY 2014 Yellow Book report. Therefore, we found DDS' initial concurrence with the independent auditors' findings and recommendations was inaccurate.

There are no barriers that may impede significant deficiency remediation efforts.

### **DDS Response to OIG Observation on Agency Remediation**

DDS officials provided us with a written response to a draft of our review on October 21, 2015, in which it agreed with our conclusion that there was no significant deficiency related to the two procurement actions identified in the FY 2014 Yellow Book report. The complete text of DDS' response is included in Appendix B.

### **OIG Comments**

We consider the actions taken or planned by the DDS to be responsive and meet the intent of our observation.

## **Agency 3 – District of Columbia Health Benefit Exchange Authority**

### **Conditions Noted by the Independent Auditors**

During the FY 2014 CAFR audit, the independent auditors identified weaknesses in general information technology (IT) controls related to HBX. The general IT control weaknesses related to:

- District of Columbia Access System (DCAS) Access Review – a periodic review over system user access within the DCAS had not been performed.
- DCAS password settings – required password parameters outlined within the DCAS Identification and Authentication Policy had not been consistently applied to the application, operating system, and database layers for the system.
- LINUX servers supporting the DCAS environment – administrative access to the LINUX servers supporting the DCAS environment had not been adequately monitored.

The independent auditors also reported the following condition related to HBX's financial reporting:

- The assessment receivable and deferred inflow balances reported in HBX's draft FY 2014 financial statements were understated by \$10,617,797. HBX corrected this misstatement in its final financial statements.

### **Recommendations Made by the Independent Auditors**

In January 2015, the independent auditors recommended that HBX management:

1. Perform a periodic access review over the user accounts within the DCAS.
2. Verify access modification requests to ensure compliance with the DCAS Access Control Policy.
3. Update the DCAS Access Control Policy to reflect newly added control activities.
4. Enforce the password setting requirements to comply with the DCAS Identification and Authentication Policy.

5. Implement procedures to monitor and remediate deviations from defined security policies.
6. Disable the capability for individuals with knowledge of the root password to directly login to the root account via remote login protocols such as Secure Shell (SSH).
7. Develop formal hardening guidelines and supporting procedures for managed servers.
8. Implement a process to review the switch user (SU) activity log on a periodic basis.
9. Revoke the logical access rights of accounts that possessed access to Super User Do (SUDO) to root privileges when no longer required.
10. Implement a process to review accounts with SUDO access to root privilege on a periodic basis.
11. Develop and implement policies and procedures to require a more detailed review of significant new transactions to ensure financial statements are complete, accurate, and prepared in accordance with the Governmental Accounting Standard Board (GASB) Codification.

### **Management Response to Independent Auditors' Findings and Recommendations**

On January 28, 2015, and February 12, 2015, HBX concurred with the independent auditors' findings and recommendations.

### **OIG Overall Conclusion on Agency Remediation**

Overall, we found the general IT control weaknesses related to HBX's DCAS user access review and DCAS password settings, as identified in the FY 2014 Yellow Book report, have been remediated. However, HBX has not fully remediated the general IT control weakness relating to LINUX servers supporting the DCAS environment.

HBX management has developed and implemented policies and procedures to require a more detailed review of significant new transactions to ensure that the financial statements are complete, accurate, and prepared in accordance with the GASB Codification.

Although HBX has implemented remediation plans that were effective in correcting the root causes of the significant deficiencies, there are barriers that may be impeding significant deficiency remediation efforts.

## Discussion

HBX has remediated the following significant deficiencies from the FY 2014 Yellow Book report: (1) DCAS user access review, and (2) DCAS password settings. However, HBX has not fully remediated the general IT control weakness related to LINUX system administration.

**DCAS Access Review.** The independent auditors noted that a periodic review of user access within the DCAS was not performed. To remediate this condition, on February 1, 2015, HBX management established semi-annual and annual review processes for privileged and regular users, respectively. For FY 2015, we noted that user access reviews were completed in May 2015.

**DCAS Password Settings.** The independent auditors noted that a process to monitor deviations from the required password parameters outlined within the DCAS Identification and Authentication Policy was not established. To remediate this condition, on June 1, 2015, HBX management revised the DCAS Identification and Authentication Policy in accordance with the independent auditors' recommendations. We concluded that the deficiencies noted by the independent auditors have been remediated.

**LINUX Servers Supporting the DCAS Environment.** The independent auditors recommended that HBX: (1) disable the capability for individuals with knowledge of the root password to directly login to the root account via remote login protocols; and (2) establish procedures to perform periodic reviews of SU activity in LINUX environments.

- We discussed these conditions with an HBX official who indicated that the logical access rights of 15 of 17 users have been revoked. We noted that only two individuals currently have access to root privileges. Therefore, we concluded that the actions taken by HBX management met the intent of the independent auditors' recommendation.
- To remediate the condition related to lack of procedures to perform periodic review of SU activity, HBX established a practice to perform daily reviews of SU activity in LINUX environments. The daily reviews are performed by qualified individuals who are able to gauge which users should have permission to access the privileged accounts. However, we noted that, as of June 30, 2015, HBX had not formalized its policies and procedures to define, identify, and follow-up on suspicious activity. Therefore, the lack of established procedures to monitor SU activities identified by the independent auditors has not been remediated.

**Assessments Receivable and Deferred Account.** The independent auditors recommended that HBX develop and implement policies and procedures to require a more detailed review of significant new transactions to ensure that the financial statements are complete, accurate, and prepared in accordance with the GASB Codification. We noted that on June 30, 2015, HBX updated its policies and procedures related to the Assessments Receivable and Deferred Account.

The implemented remediation plans were effective in correcting the deficiencies as concluded through our FY 2015 verification process.

We randomly selected a sample of 15 user accounts from the comprehensive system generated report, and determined that HBX management is:

- Performing periodic user access reviews in accordance with the revised policy.
- Approving access modification requests in accordance with the DCAS Access Control Policy.
- Updating periodic password setting requirements in accordance with the DCAS Identification and Authentication Policy.

However, HBX had barriers that may be impeding its significant deficiency remediation efforts.

**Lack of formalized policies and procedures.** HBX has neither revised its existing policies and procedures, nor formalized the newly added controls to perform periodic reviews of SU activity in LINUX environments. Documenting and updating policies and procedures will help the HBX strengthen its user access controls.

**Lack of training of Control Performers.** HBX did not provide training on the revised policies and procedures related to the strengthened internal controls, as recommended by the independent auditors. To ensure effective remediation of identified significant deficiencies, the HBX should provide requisite training to ensure that staff sufficiently understands and implements revised policies and procedures.

### **HBX Response to OIG Observations on Agency Remediation**

HBX officials provided us with a written response to the draft of our review on November 16, 2015, in which it provided a copy of signed policies and procedures that included a requirement to perform periodic reviews of SU activity in LINUX environments. However, HBX changed its position from its initial response to the independent auditors' recommendation that that HBX needed to provide additional training to control performers. HBX stated in its response to the

OIG that disabling an account is a very basic operational function that is an expected capability of all LINUX administrators; therefore, additional training is not appropriate. The complete text of the HBX response is included in Appendix B.

### **OIG Comments**

We consider the actions taken or planned by HBX to be responsive and meet the intent of our observations.



# **Agency 4 – District of Columbia Lottery and Charitable Games Control Board**

## **Conditions Noted by the Independent Auditors**

During the FY 2014 CAFR audit, the independent auditors identified the following internal control weaknesses over the DCLB Instant Scratch Ticket program:

- The controls over inventorying and monitoring Instant Scratch Tickets were inadequate and would not, therefore, prevent errors in recording and reporting ticket sales. More specifically, the process in place to monitor tickets ordered, mailed to, and activated by retailers, as well as those tickets that were obtained by retailers from DCLB cash and carry locations, would not minimize or otherwise eliminate the risk of impropriety. The auditors also noted that retailers had the ability to activate only those ticket packs that contained winning tickets, thus retailers could manipulate the amounts owed to DCLB for tickets received.

## **Recommendations Made by the Independent Auditors**

On February 2, 2015, the independent auditors recommended that DCLB:

1. test the design and operating effectiveness of the newly established policies, procedures, and internal controls as soon as possible to ensure they adequately address the control deficiencies noted in the Instant Scratch Ticket program; and
2. provide additional training to staff and retailers responsible for administration of the Instant Scratch Ticket program.

## **Management Response to Independent Auditors' Findings and Recommendations**

On March 6, 2015, DCLB management concurred with the independent auditors' findings.

## **OIG Overall Conclusion on Agency Remediation**

Overall, we found that the internal control weaknesses over inventorying and monitoring the Instant Scratch Ticket Program to prevent errors in recording and reporting of ticket sales, as identified in the FY 2014 Yellow Book report, have been remediated. Although the DCLB has implemented remediation plans that were effective in correcting the root cause of the significant deficiencies, a barrier may be impeding enduring significant deficiency remediation efforts.

## Discussion

The DCLB has remediated the following significant deficiencies from the FY 2014 Yellow Book report: (1) increased risk that errors and irregularities in reporting of ticket sales, as well as in the administration of the Instant Scratch Ticket program, could go undetected; and (2) Instant Scratch Ticket revenues may be understated. The implemented remediation plans were effective in correcting the deficiencies as concluded through our FY 2015 verification process.

**Revised Policies and Procedures.** On March 24, 2015, DCLB implemented new, more restrictive policies and procedures to improve controls associated with safeguarding and monitoring tickets and recording ticket sales. We tested the effectiveness of these new controls and found that they provide reasonable assurance that recording and reporting of Instant Scratch Ticket sales are complete and accurate.

**Implemented Action Plans.** On March 24, 2015, DCLB updated its business processes for the warehousing, ordering, shipping, and settlement of Instant Scratch Tickets. DCLB also implemented the following controls: (1) discontinued warehousing for cash and carry locations; (2) the Agency Fiscal Officer reviews in-transit reports of Instant Scratch Tickets daily activity; (3) issue invoices to Instant Scratch Ticket retailers within 45 days after activating a pack of tickets instead of the noted 90 days; (4) Instant Scratch Ticket retailers activate packs of Instant Scratch Tickets within 30 days from the date of receipt of the order; and (5) trained sales and finance personnel responsible for administration of the Instant Scratch Ticket Program.

We randomly selected 25 Instant Scratch Ticket packs from the daily inventory report to test the effectiveness of these newly added controls. Our testing indicated that the added controls are effective in correcting the internal control weaknesses.

DCLB had a barrier that may be impeding its significant deficiency remediation efforts.

**Lack of training of DCLB Instant Scratch Tickets Program Retailers.** DCLB did not provide training to retailers for the Instant Scratch Ticket program, as recommended. Training will help DCLB comply with the independent auditors' recommendation.

### DCLB Response to OIG Observation on Agency Remediation

DCLB officials provided us with a written response to a draft of our review on October 9, 2015, in which it concurred with our reported results that significant deficiencies have been remediated, and implemented remediation plans were effective in correction of the significant deficiencies. However, DCLB changed its position with regard to the independent auditors' recommendation that it needed to provide additional training to retailers responsible for the administration of the Instant Scratch Ticket program. As articulated by DCLB officials during

our exit brief, they have formal training methods in place used to educate 475-500 lottery retailers in the instant scratch ticket rules, regulations, policies, and procedures. DCLB also stated that those methods have always existed and are efficient, economical, effective, and sufficient best practices to ensure retailers are compliant. The complete text of DCLB's response is included in Appendix B.

### **OIG Comments**

We consider the actions taken or planned by DCLB to be responsive and meet the intent of our observations.

## Agency 5 – District of Columbia Public Library

### Conditions Noted by the Independent Auditors

During the FY 2014 CAFR Audit, the independent auditors identified the following condition related to DCPL's compliance with District of Columbia procurement laws and regulations:

- For 3 of 41 sampled sole source procurements tested at independent agencies, 1 DCPL contract was not available for review.

### Recommendations Made by the Independent Auditors

On January 20, 2015, the independent auditors recommended that independent agencies:

- Adhere to internal controls over procurements to ensure (1) compliance with District of Columbia procurement laws and regulations, and (2) all contract documentation that can serve as an audit trail is properly retained.

### Management Response to Independent Auditors Findings and Recommendations

On January 26, 2015, DCPL management concurred with the independent auditor's finding and recommendation.

### OIG Overall Conclusion on Agency Remediation

Overall, we found that the significant deficiency related to noncompliance with District procurement laws and regulations identified in the FY 2014 Yellow Book report had not been remediated. DCPL implemented a remediation plan that was effective in correcting the significant deficiency. However, barriers may be impeding significant deficiency remediation efforts.

### Discussion

The significant deficiency related to a sole source contract identified in the FY 2014 Yellow Book report has not been remediated.

**Sole Source Contract.** The independent auditors noted that a written contract to support purchase order (PO) PO469808, valued at \$217,140, for an online database subscription was not available for review. To identify the PO in question, we relied on the Chief Contracting Officer's (CCO) statement regarding the independent auditors' sample

selection. We reviewed the contract file and noted that the signed sole source contract in question was not available for our review. We discussed this condition with CCO, who indicated that the sole source contract has not been located and may not have been executed.

Our FY 2015 verification process concluded that the implemented remediation plan was effective in correcting the identified deficiency.

**Implemented Action Plan.** We noted that in calendar year 2014, DCPL implemented an additional control to ensure procurement actions are in compliance with District of Columbia procurement laws and regulations, all procurement actions are documented, and all documents are properly retained to establish a proper audit trail. As part of the remediation process, DCPL now executes and documents a PO agreement for sole source procurement actions. On July 28, 2015, the CCO executed a PO agreement, signed by the District and a vendor (same vendor previously tested in FY 2014 by the independent auditors), to procure an online database subscription for the period of August 1, 2015, through July 31, 2016.

To test the effectiveness of the newly added control, we judgmentally selected 11 POs in FY 2015 for review. Our review indicated that all 11 POs were supported by signed contracts, including PO agreements for sole source procurements. Therefore, the added control is effective in correcting the internal control weakness identified in the FY 2014 Yellow Book report.

There are barriers that may be impeding significant deficiency remediation efforts.

**Lack of Formalized Policies and Procedures.** DCPL has not revised its existing policies and procedures to include the newly added control. Documenting and updating policies and procedures are integral parts of recommended adherence to internal controls over procurements to ensure compliance with applicable laws and regulations.

**Failure to Follow Title 19 DCMR.** Title 19 DCMR § 4320.7 states, “[w]hen a sole source procurement is proposed, the CCO shall prepare a written Determination and Findings (D&F) that justifies the sole source procurement. The Library’s Procurement Executive shall approve all D&Fs in excess of fifty thousand [dollars] (\$50,000) before issuance of solicitation.” Our review of FY 2015 sole source procurement actions indicated that the CCO, as opposed to the Library’s Procurement Executive,<sup>4</sup> approved all D&Fs valued in excess of \$50,000.

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<sup>4</sup> The regulations designate the DCPL Executive Director or the Chief Librarian as the “Procurement Executive.” 19 DCMR § 4301.1.

## **DCPL Response to OIG Observation on Agency Remediation**

DCPL officials provided us with a written response to a draft of our review on October 19, 2015, in which it disagreed with our observation relating to a lack of formalized policies and procedures and initiated a revision to Title 19 DCMR § 4320.7 to replace the Library Procurement Executive with the CCO as the approving official for all sole-source D&Fs. We noted that as of December 24, 2015, the law remains unchanged. The complete text of the DCPL response is included in Appendix B.

### **OIG Comments**

DCPL's response is noted but does not explicitly address both barriers observed. While the agency implemented corrective action plans to prevent future errors, the control enhancements that include the use of PO agreements were not incorporated into existing policies and procedures created or revised in March 2008. Policies and procedures, which will help DCPL carry out the requirements of the DCMR, will also help to formalize control activities to help the organization achieve objectives and address risks in the internal control system. Relating to the second barrier, we consider the actions taken or planned by DCLB to be responsive.

## **Agency 6 – Not-for-Profit Hospital Corporation (United Medical Center)**

### **Conditions Noted by the Independent Auditors**

During the FY 2014 CAFR audit, the independent auditors identified the following control exceptions over UMC's financial reporting:

- Management review of manual journal entries and financial transactions: the auditors noted certain instances where there was a lack of precision regarding management's review of financial transactions and the related journal entries in that certain discrepancies regarding the accuracy of these transactions and related journal entries recorded were not identified.
- Monitoring of procurement and vendor management: the auditors noted that management places significant reliance on the information held within the material management system and thus should continue to enhance its monitoring controls to ensure accuracy of the underlying data. The auditors also noted that management subsequently implemented additional controls in the latter part of FY 2014 to enhance the proper review of the vendor master list.

### **Recommendations Made by the Independent Auditors**

On February 2, 2015, the independent auditors recommended that UMC continue to strengthen the:

- Process to ensure financial transactions and each manual journal entry are properly reviewed and recorded accurately.
- Current control environment related to segregation of duties over procurement to ensure the appropriate level of monitoring.

### **Management Response to Independent Auditors Findings and Recommendations**

On February 23, 2015, UMC management provided the following responses to the independent auditors' findings and recommendations:

- Management concurs with the need to ensure precision regarding management's review of manual journal entries. Management will enhance the review procedures already in

place to ensure that all discrepancies in journal entries and related transactions are identified and properly resolved before journal entries are posted to the general ledger.

- Management concurs with the need to enhance its monitoring of procurement and vendor management. Management will continue to closely monitor the effectiveness of the additional controls that have been implemented in FY 2015. Specifically, to strengthen the segregation of duties over procurement, new vendor setups are currently being reviewed and approved by the CFO before they are processed and entered into the system.

## **OIG Overall Conclusion on Agency Remediation**

Overall, we found the lack of management review of manual journal entries and financial transactions, and monitoring of procurement and vendor management identified in the FY 2014 Yellow Book report to have been substantially remediated. Additionally, UMC has implemented remediation plans that were effective in correcting the significant deficiencies. However, a barrier may be impeding significant deficiency remediation efforts.

## **Discussion**

Significant deficiencies related to the lack of (1) management review of manual journal entries and financial transactions, and (2) monitoring of procurement and vendor management identified in the FY 2014 Yellow Book report have been substantially remediated.

**Management Review of Manual Journal Entries and Financial Transactions.** Four of the five independent auditors' noted instances have been remediated.

- We used KPMG's Notification of Findings and Recommendations (NFRs) "matrix" to identify the five manual journal entries in question. We examined the entries and found that the UMC corrected four of the five journal entries cited in the NFR. However, we noted that the UMC disagreed with the remaining journal entry.
- We did not follow up on the finding relating to monitoring of procurement and vendor management because, according to the independent auditors' report, unauthorized access to make changes to vendor information in the Meditech (GL system) without having the approval from Director of Material Management has been remediated. The report reads, in part, "KPMG noted that a mitigating control was implemented in March of 2014 and we tested that it was operating effectively as of fiscal year 2014 year end...."



The implemented remediation plans were effective in correcting the deficiencies as concluded through our FY 2015 verification process.

**Implemented Action Plans.** We noted that in March 2015, UMC implemented additional controls to enhance the review of manual journal entries and financial transactions. As part of the remediation process, journal entries are now reviewed at three different levels that include the Senior Accountant, the Controller, and the Chief Financial Officer. The Accounting Supervisor reviews and signs off on each journal entry. The Controller, followed by the Chief Financial Officer, both review the journal summary and concur with the supervisor's approval of the individual journal entries.

UMC had a barrier that may be impeding its significant deficiency remediation efforts.

**Lack of Formalized Policies and Procedures.** We noted that UMC neither revised its policies and procedures, nor formalized the newly added controls.

### **Other Matters**

In response to the independent auditors' finding, UMC disagreed that it improperly included prior year grant revenue for FY 2014, which resulted in an overstatement of grant revenue by \$120,070.

- UMC stated that based on discussions with the independent auditors, it understood that this issue would not be a part of the finding because the independent auditors did not show any evidence to justify their point. In addition, the UMC was not aware that this issue was included in the NFR.
- Notwithstanding UMC's lack of knowledge about the finding at the time they responded to the independent auditors' NFR, we disagree with their reasoning about whether the revenue should have been included.

### **UMC Response to OIG Observation on Agency Remediation**

UMC officials provided us with a written response to the draft of our review on September 16, 2015, in which it concurred with our conclusions. UMC was in the process of developing and revising its current policies and procedures to include the newly added controls. The process was projected to be completed during the first quarter of FY 2016.

UMC changed its position to “disagree” with the independent auditors’ conclusion that the UMC improperly included prior year grant revenue for FY 2014, which resulted in an overstatement of \$120,070. UMC was not aware that the finding was included in the NFR until the detail was presented during the OIG’s audit. The complete text of UMC’s response is included in Appendix B.

### **OIG Comments**

We consider the actions taken or planned by UMC related to formalizing policies and procedures to be responsive and meet the intent of our observation. However, our observation related to the overstatement of grant revenue continues to be unresolved.

## **Agency 7 – Office of the Chief Financial Officer**

### **Conditions Noted by the Independent Auditors**

During the FY 2014 CAFR Audit, the independent auditors identified the following conditions related to OCFO: (1) compliance with District procurement laws and regulations; and (2) administrative access to the Computer Assisted Mass Appraisal (CAMA) database:

- For 3 of 41 sampled sole source procurements tested at independent agencies, 1 contract related to OCFO was not available for review.<sup>5</sup>
- During FY 2012 testing, it was determined that one business end user for the CAMA system was granted access to make changes to the CAMA database, including assessment values, through a direct open database connectivity (ODBC) connection on an ongoing basis. In May 2014, an upgraded CAMA system was implemented along with a review process by which the Director of the Real Property Tax Administration (RPTA) would review a sample of the changes made to ensure that they appeared appropriate. However, no supporting change management documentation has been maintained at the time that changes are made, and no evidence was available to substantiate the appropriateness of the changes at the time of review.

### **Recommendations Made by the Independent Auditors**

On January 20, 2015, the independent auditors recommended that independent agencies:

- Adhere to internal controls over procurements to ensure compliance with District of Columbia procurement laws and regulations, and to ensure that all contract documentation that can serve as an audit trail is properly retained.

On December 5, 2014, the independent auditors recommended that Office of Tax and Revenue (OTR):

- Enhance the current processes by which changes are made directly against the CAMA database by maintaining supporting change management documentation to evidence the rationale for each change made through this mechanism. Based on this change management documentation, the review process implemented should be modified to tie

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<sup>5</sup> The other two procurements did not relate to OCFO contracts.

back all changes appearing on the system-generated audit log to this change management documentation and validate that all changes were appropriate. The review should be formally documented and any suspicious activity identified followed-up upon.

## **Management Response to Independent Auditors Findings and Recommendations**

On January 26, 2015, OCFO management concurred with the independent auditors' findings and recommendations.

## **OIG Overall Observation on Agency Remediation**

Overall, we concluded there was no significant deficiency related to noncompliance with District procurement laws and regulations as identified in the FY 2014 Yellow Book report. However, the significant deficiency related to management reviews over administrative access to the CAMA database identified in the FY 2014 Yellow Book report has not been remediated. Additionally, OCFO has not implemented remediation plans that were effective in correcting the root cause of the significant deficiency related to the CAMA database. Therefore, barriers exist that may be impeding significant deficiency remediation efforts.

## **Discussion**

We conclude there was no significant deficiency related to a sole source contract identified in the FY 2014 Yellow Book report. However, the significant deficiency related to the lack of documentation to support changes made directly to the CAMA database identified in the report.

**Sole Source Contract.** The independent auditors noted that a written contract to support purchase order PO484219 was not available for review. However, the independent auditors did review the purchase order. To identify the purchase order in question, we reviewed the independent auditors' original sample selection provided to OCFO on December 11, 2014, via email. Our review of the supporting documentation indicated that the purchase order, valued at \$170,000, was for the purchase of postage supplies, which are exempt from the competition requirements under D.C. Code § 2-354.13 (11). We determined that the purchase order provided for our review was adequate to meet the requirement of a written contract. Therefore, we found OCFO's initial concurrence with the independent auditors' finding and recommendation was inaccurate.

**Documentation to Support Changes.** The independent auditors noted that supporting documentation was not maintained to substantiate changes to the CAMA database. We discussed this condition with OCFO officials, who indicated that no evidence was available to retrospectively substantiate that the changes made in FY 2014 were authorized. Currently, the OCFO maintains documentation, but the documentation was not sufficient to trace database changes back to the approval to substantiate the changes.

We conclude that OCFO did not need to implement remediation plans to correct the independent auditors' noted deficiency related to noncompliance with District procurement laws and regulations. However, the implemented remediation plans were not effective in correcting the noted deficiency related to management reviews of administrative access to the CAMA database as concluded from our FY 2015 verification process.

**Implemented Action Plans.** We noted that the four remediation steps to control ODBC changes to the CAMA database were ineffective in correcting the deficiencies noted by the independent auditors. Specifically, one business end user continued to have access to modify the tables of the CAMA database directly through an ODBC connection, and management did not provide supporting documentation to verify the specific data changes made through the ODBC connection were authorized.

We conclude OCFO had two barriers that may be impeding its significant deficiency remediation efforts.

**Lack of Formalized Policies and Procedures.** We noted that OCFO neither revised its policies and procedures, nor formalized the newly added controls for conducting the CAMA database administrative access review.

**Inadequate System Generated Audit Log.** OCFO indicated that the system-generated audit log utilized in the CAMA database administrative access review process is adequate. We noted that the current system-generated audit log did not allow us to independently validate that all changes were appropriate. Specifically, the review process has not been modified to record exact ODBC changes that can be tied back to the change management documentation as recommended by the independent auditors.

### **OCFO Response to OIG Conclusion on Agency Remediation**

OCFO officials provided us with a written response to a draft of our review on October 22, 2015, in which it changed the initial response it provided to the independent auditors' recommendation in regard to maintaining change management supporting documentation to evidence the rationale for each change made through CAMA database administrative access.<sup>6</sup> Specifically, OCFO "disagree[d] with the OIG's assessment that the controls implemented do not address the concerns with the separation of duties as identified in the finding..." They further state that knowing the value of the specific change will not "yield any meaningful insights into

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<sup>6</sup> OCFO made no comment regarding the sole source contract finding.

impropriety.” Additionally, OCFO intends to document formal policies and procedures and implement further steps to enhance existing controls regarding CAMA database administrative access. The complete text of the OCFO response is included in Appendix B.

### **OIG Comments**

OCFO’s response is responsive, but does not fully meet the intent of the independent auditors’ recommendation. OCFO stated in their response that certain mitigating controls, not previously reviewed by the OIG when evaluated in conjunction with the current action plan, will be effective in identifying suspicious activity. Additionally, OCFO plans to implement further steps to enhance and formalize the existing controls. We consider the actions taken or planned by OCFO to formalize policies and procedures to be responsive and meet the intent of the recommendations.

## **Agency 8 – Office of the Chief Technology Officer**

### **Conditions Noted by the Independent Auditors**

During the FY 2014 CAFR audit, the independent auditors identified weaknesses in general information technology (IT) controls at OCTO related to:

- PeopleSoft Application Periodic Access Review – reviews of IT support roles, including system administrator roles within OCTO’s Enterprise Systems team, were not adequately designed to identify users, other than those on the Enterprise Systems team, that no longer required access. Additionally, a review process to evaluate and validate the appropriateness of payroll processing role assignments to user accounts within PeopleSoft was not performed.
- Monitoring of Privileged UNIX Operating System Access – a review process of highly privileged accounts was not comprehensive of all servers supporting PASS and PeopleSoft applications, and did not account for switch-user (SU) commands. Further, SU logs were not available for the entire FY 2014.
- Access to Change Passwords – over 200 individuals across agencies, outside those principally responsible through the OCTO Help Desk, had access to change PeopleSoft passwords.

### **Recommendations Made by the Independent Auditors**

On October 31, 2014, the independent auditors recommended that OCTO:

- Reconstruct the PeopleSoft periodic access review of IT support roles to be based on specific roles deemed critical by management (and all users that hold these levels of access) rather than being focused solely on the access held by individuals on the Enterprise Systems team.
- Identify critical payroll processing roles within PeopleSoft that should be subject to a periodic review of access, and implement a process to perform such a review on a quarterly or semi-annual basis.
- Train control performers on the new processes and monitor adherence to the control activities periodically.
- Monitor privileged user account activity, including SU activity, for all critical enterprise servers.

- Restrict access to change passwords to only members of the PeopleSoft application team and the OCTO Help Desk.
- Implement changes to the PeopleSoft application periodic access review of IT support roles to validate that change password access remains restricted to individuals requiring this functionality in accordance with their job responsibilities.

## **Management Response to Independent Auditors Findings and Recommendations**

In January 2015, OCTO management concurred with the independent auditors' findings and recommendations.

## **OIG Overall Conclusion on Agency Remediation**

Overall, we found OCTO has not remediated the significant deficiencies related to: (1) PeopleSoft application periodic access review; (2) monitoring of privileged UNIX operating system access; and (3) PeopleSoft access to change passwords. Additionally, our independent verification process indicated that OCTO has not implemented remediation plans that were effective in correcting the root causes of the significant deficiencies. Therefore, barriers exist that may be impeding significant deficiency remediation efforts.

## **Discussion**

We concluded that OCTO has not remediated the significant deficiencies related to: (1) a lack of defined policies to require a periodic review of critical payroll processing roles within the PeopleSoft System; (2) a lack of adequate security policy to require monitoring of SU activity; and (3) allowing agencies utilizing PeopleSoft to change passwords.

**PeopleSoft Application Periodic Access Review.** The independent auditors noted that: (1) reviews of IT support roles, including system administrator roles within OCTO's Enterprise Systems team, were not adequately designed to identify users, other than those on the Enterprise Systems team, that no longer required access; and (2) a review process to evaluate and validate the appropriateness of payroll processing role assignments to user accounts within PeopleSoft were not performed. As of June 30, 2015, OCTO management had not defined and incorporated a policy to achieve these access control objectives. Therefore, the lack of defined policies identified by the independent auditors has not been remediated.

**Monitoring of Privileged UNIX Access.** The independent auditors noted that: (1) adequate periodic reviews of SU activity in LINUX environments were not incorporated into security policies and performed; and (2) all critical enterprise servers (PASS and PeopleSoft) were not monitored. To remediate these issues, OCTO has established a



practice to: (1) perform quarterly periodic reviews of SU activity in LINUX environments; and (2) add all PASS and PeopleSoft servers in access governance protocols. However, we noted that, as of June 30, 2015, OCTO did not formalize its security policies to define, identify, and follow-up on actions constituting suspicious activity or revise access governance protocols to ensure all critical enterprise servers are monitored. Therefore, the lack of security policies to monitor SU activity identified by the independent auditors has not been remediated.

**PeopleSoft Access to Change Passwords.** The independent auditors noted that OCTO did not restrict change password access to only members of the PeopleSoft application team and the OCTO Help Desk. We discussed this condition with OCTO officials who indicated that restricting change password access to members of the PeopleSoft application team was completed. However, due to resource limitations that prevent the OCTO Help Desk from responding promptly to all requests for password change, OCTO will continue to allow business owners at various agencies change password access. We concluded that the change password access deficiency noted by the independent auditors has not been fully remediated.

Our FY 2015 verification process concluded that implemented remediation plans were not effective in correcting the identified deficiencies.

**Implemented Action Plans.** Subsequent to the Yellow Book report, OCTO implemented the following actions: (1) provided PeopleSoft system business owner agencies<sup>7</sup> with a report of IT users in their agencies for review; (2) revised an existing practice to review PASS and PeopleSoft privileged user access quarterly; and (3) facilitated a process to identify and remove PeopleSoft users with the change password permission.

To test the design and effectiveness of the newly added controls, we evaluated OCTO's remediation plans against the condition identified by the independent auditors. On April 30, 2015, OCTO provided system business owner agencies with a report identifying users with IT roles so that these agencies could perform a PeopleSoft application periodic access review. Additionally, OCTO has implemented a daily PeopleSoft security scanning process that identifies personnel changes (i.e., termination, transfer, location change, job change, and position change) for individual agency review. However, these practices were not adequately designed to evaluate all users with critical IT support and payroll processing roles assigned throughout the District. Therefore, remediation steps implemented by OCTO did not fully correct the noted condition.

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<sup>7</sup> Business owner agencies include: OCTO, D.C. Department of Human Resources (DCHR), and the Office of Pay and Retirement Services within the Office of the Chief Financial Officer.

We examined OCTO's practice to monitor privileged UNIX access quarterly. Our examination indicated that all critical production enterprise servers (PASS and PeopleSoft) are being monitored for SU activity in LINUX environments. We tested the remediation steps to restrict change PeopleSoft password access to the OCTO Help Desk and the PeopleSoft application team. We noted that OCTO has implemented change password access to two roles within the PeopleSoft application team as recommended. Further, as part of the remediation process: (1) OCTO identified 337 users at various business owner agencies with change password access; (2) OCTO determined that 265 of 337 users did not perform a change password activity within 1 year; (3) OCTO provided the DCHR with a list of the 265 users; (4) the DCHR reviewed the list of 265 users and authorized removal of their change password access; (5) OCTO removed change password access as authorized by the DCHR; and (6) OCTO notified the affected users that their change password access was removed. However, the remaining 72 users continue to have change password access even though they are not members of the OCTO Help Desk.

There are barriers that may be impeding significant deficiency remediation efforts.

**Lack of Formalized Policies and Procedures.** OCTO has neither revised its existing policies and procedures, nor formalized the newly added controls. The independent auditors reported that failure to document and update policies and procedures is a primary cause for the identified weakness in general IT controls.

**Resource Limitations.** OCTO did not restrict change password access to only members of the OCTO Help Desk due to resource limitations that prevent the OCTO Help Desk from responding promptly to all requests for password reset. As a result, individuals within each agency utilizing PeopleSoft retain the change password privilege.

### **OCTO Response to OIG Observation on Agency Remediation**

OCTO officials provided us with a written response to a draft of our review on November 16, 2015, in which it partly agreed with the independent auditors' recommendations. OCTO stated in their response that they will publish policies and formalize practices regarding control enhancements as recommended by the CAFR auditors. However, OCTO accepts the risk and will continue to allow DCHR advisors PeopleSoft password reset access until DCHR agrees to limit access to OCTO HelpDesk personnel. The complete text of OCTO's response is included in Appendix B.

### **OIG Comments**

We consider the actions taken or planned by OCTO to publish policies and formalize practices to be responsive and meet the intent of our observations. However, as noted by OCTO, they have chosen to accept the risk related to PeopleSoft access controls.

## **Agency 9 – Office of the Deputy Mayor for Planning and Economic Development**

### **Conditions Noted by the Independent Auditors**

During the FY 2014 CAFR audit, the independent auditors identified the following conditions related to the Office of the Deputy Mayor for Planning and Economic Development's (DMPED) compliance with District of Columbia procurement laws and regulations:

- For 4 of 37 sampled competitive procurements tested at independent agencies, 2 procurement actions at DMPED were not supported by evidence that a competitive sealed bidding process was used.<sup>8</sup>
- For 3 of 41 sampled sole source procurements tested at independent agencies, 1 DMPED contract was not available for review.<sup>9</sup>

### **Recommendations Made by the Independent Auditors**

On January 20, 2015, the independent auditors recommended that independent agencies:

- Adhere to internal controls over procurements to ensure (1) compliance with District of Columbia procurement laws and regulations, and (2) all contract documentation that can serve as an audit trail is properly retained.

### **Management Response to Independent Auditors Findings and Recommendations**

On January 26, 2015, DMPED management concurred with the independent auditors' findings and recommendations "with exception," and a note to "see attached consent order."

### **OIG Overall Conclusion on Agency Remediation**

Overall, we found there was no significant deficiency related to noncompliance with District procurement laws and regulations. DMPED did not need to implement remediation plans to correct the significant deficiencies. Therefore, there were no barriers impeding significant deficiency remediation efforts.

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<sup>8</sup> The other two procurements did not relate to DMPED contracts.

<sup>9</sup> The other two procurements did not relate to DMPED contracts.

## Discussion

We concluded there were no significant deficiencies related to two competitive procurement actions and one sole source contract identified in the FY 2014 Yellow Book report.

**Competitive Procurement Actions.** According to the Chief Contracting Officer (CCO), the two procurement actions in question were: 1) construction services for the temporary West End Fire Station; and 2) office supplies.

- We concluded the independent auditors were able to review all applicable documentation at the time of their review to support these procurement actions.
- During the course of our audit, DMPED officials provided us with relevant supporting documentation related to the procurement of construction services for the temporary West End Fire Station. Our review of the documentation provided indicated that this procurement was exempt from the Procurement Practices Reform Act of 2010 (PPRA). Therefore, the competitive sealed bidding process requirements did not apply to this procurement action.
- We also obtained and reviewed relevant supporting documentation related to the procurement of office supplies. This procurement action was made under purchase order (PO) number (PO490998) in the amount of \$20,685.99, and was properly executed under the District's small purchase procedures (27 DCMR § 1800.1).

**Sole Source Contract.** The independent auditors noted that a written contract to support a sole source procurement action was not available for review. To identify the purchase order in question, we relied on the CCO's statement regarding the independent auditors' sample selection. We reviewed the contract file and noted that the signed sole source contract in question was not available for our review. We discussed this condition with the CCO, who indicated that a written contract was not needed to support the procurement action in question, and provided us with a copy of the consent order referenced in DMPED's response to the independent auditors' findings and recommendations. We evaluated the consent order and determined that the PO was issued to fund legally-required reimbursement expenses related to an eminent domain proceeding as part of the Skyland Shopping Center development project. Therefore, we concluded that a written contract was not needed to support the PO in question. Due to the change in the CAFR auditor in FY 2015, we were unable to determine why the consent order was not available for review during the FY 2014 CAFR audit.

We concluded that DMPED did not need to implement remediation plans to correct the reported deficiencies.

Since there are no applicable significant deficiencies, there are also no barriers that may impede remediation efforts.

### **DMPED Response to OIG Conclusion on Agency Remediation**

DMPED officials provided us with a written response to a draft of our review on November 13, 2015, in which it agreed with our conclusion that there was no significant deficiency related to two competitive procurement actions and one sole source contract identified in the FY 2014 Yellow Book report. DMPED initially agreed (erroneously) with the independent auditors' finding. DMPED noted that it has created an in-house Office of General Counsel to assist in preventing matters like this from reoccurring in the future. The complete text of the DMPED response is included in Appendix B.

### **OIG Comments**

We consider the actions taken or planned by DMPED to be responsive and meet the intent of our observation.

# General Audit Information

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We conducted the audit from March 2015 through December 2015 under project OIG No. 15-2-11MA.

The scope of this audit included affected District agency remediation efforts as of July 6, 2015. These remediation efforts were undertaken by District agencies as a result of significant deficiencies initially identified by the independent auditors in the 2014 CAFR. Once an agency reported 100 percent remediation of its significant deficiencies, we conducted our independent testing.

We relied on agency self-reported remediation efforts tracked by OCFO's Office of Financial Operations and Systems (OFOS). OFOS provided us with *Flash Reports* that helped to drive our engagement strategy. We also obtained and utilized the independent auditors' Notice of Findings and Recommendations (NFRs) to identify conditions and criteria that led to their identification of deficiencies.

We conducted this limited-scope engagement in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We relied on computer-processed data from agency systems for detailed information identified in some of the Yellow Book findings. Although we did not perform a formal reliability assessment of the computer-processed data, we performed necessary audit procedures to verify the accuracy and completeness of the data.

## Appendix A – Status of Systemic Issues Observed

This section has specific issues identified during the course of our independent assessment of significant remediation efforts. Also included is a summary of agency comments for each issue. Verbatim agency comments are in Appendix B.

Agency	OIG Observations	Agency Response	Current Status
Agency 1: Department of Employment Services	We noted that DOES neither revised its existing policies and procedures, nor formalized the newly added controls.	This barrier no longer exists, as subsequent to the OIG site visit, the policies and procedures have been formalized and implemented.	Based on additional information provided to us subsequent to the audit, we determined this barrier no longer exists.
Agency 2: Department on Disability Services	There are no barriers that may impede significant deficiency remediation efforts.	N/A	N/A
Agency 3: District of Columbia Health Benefit Exchange Authority	HBX has neither revised its existing policies and procedures, nor formalized the newly added controls to perform periodic reviews of SU activity in LINUX environments. Documenting and updating policies and procedures will help HBX strengthen its user access controls.	Subsequent to the OIG draft audit report, the policies and procedures have been formalized and implemented.	Based on additional information provided to us subsequent to the audit, we determined these two barriers no longer exist.
	HBX did not provide training on the revised policies and procedures related to the strengthened internal controls, as recommended by the independent auditors. To ensure effective remediation of identified significant deficiencies, HBX should provide requisite training to ensure that staff sufficiently understands and implements revised policies and procedures.	HBX strongly disagrees with the recommendation made by the independent auditors stating that training was not the root cause of the finding. Disabling an account is a basic operational function that is an expected capability of all LINUX administrators.	

Agency	OIG Observations	Agency Response	Current Status
Agency 4: District of Columbia Lottery and Charitable Games Control Board	DCLB did not provide training to retailers for the Instant Scratch Ticket program as recommended. Provision of training will help DCLB comply with the independent auditors' recommendation.	DCLB disagrees with the recommendation made by the independent auditors stating that training was not the root cause of the finding as DCLB has formalized training methods in place used to educate its 475 – 500 retailers on the instant scratch ticket rules, regulations, policies, and procedures. These methods have always existed and are efficient, economical, effective, and sufficient best practices that ensure retailers are compliant.	Based on additional information provided to us subsequent to the audit, we determined this barrier no longer exists.
Agency 5: District of Columbia Public Library	DCPL has neither revised its existing policies and procedures, nor formalized the newly added control. Documenting and updating policies and procedures are integral parts of the recommended adherence to internal controls over procurements to ensure compliance with applicable laws and regulations.	The DCPL takes exceptions to the assertion that the DCPL lacks formalized policies and procedures because it has a procurement manual dated March 2008. DCPL believes it does not need to update its procurement manual because it is already bound to follow applicable regulations.	Based on additional information provided to us subsequent to the audit, we determined a single barrier continues to exist.
	Title 19 DCMR § 4320.7 states, “[w]hen a sole source procurement is proposed, the CCO shall prepare a written determination and findings (D&F) that justifies the sole source procurement. The Library’s Procurement Executive shall approve all D&Fs in excess of . . . [\$50,000] before issuance of a solicitation.” Our review of FY 2015 sole source procurement actions indicated that the CCO, as opposed to the Library’s Procurement Executive, approved all D&Fs valued in excess of \$50,000.	DCPL has issued a Notice of Rulemaking which modifies 19 DCMR § 4320.7. The Notice of Rulemaking replaces the Library Procurement Executive with the CCO as the approving official for all sole-source D&Fs.	



Agency	OIG Observations	Agency Response	Current Status
Agency 6: Not-for-Profit Hospital Corporation (United Medical Center)	We noted that UMC neither revised its policies and procedures, nor formalized the newly added controls.	UMC is in the process of developing and revising the current policies and procedures and this process was projected to be completed during the first quarter of FY 2016.	Based on additional information provided to us subsequent to the audit, we determined this barrier continues to exist because revisions have not been completed..
	We noted that UMC changed its position to disagree with the independent auditors' conclusion that the UMC improperly included prior year grant revenue for FY 2014, which resulted in an overstatement of grant revenue by \$120,070.	UMC was not aware that the finding was included in the NFR until the detail was presented during the OIG's audit.	Based on additional information provided to us subsequent to the audit, we determined this matter continues to be unresolved.
Agency 7: Office of the Chief Financial Officer	We noted that OCFO neither revised its policies and procedures, nor formalized the newly added controls for conducting the CAMA database administrative access review.	Written policies and procedures will be updated and promulgated to reflect the newly added controls.	Based on additional information provided to us subsequent to the audit, we determined these two barriers continue to exist.
	OCFO indicated that the system-generated audit log utilized in the CAMA database administrative access review process is adequate. We noted that the current system-generated audit log did not allow us to independently validate that all changes were appropriate. Specifically, the review process has not been modified to record exact ODBC changes that can be tied back to the change management documentation as recommended by the independent auditors.	OCFO disagrees with the independent auditors' recommendation that the review process should be modified to tie back changes appearing on the system-generated audit log to the change management documentation. OCFO has certain mitigating controls that, when evaluated in conjunction with the current action plan, will be effective in identifying suspicious activity.	

Agency	OIG Observations	Agency Response	Current Status
Agency 8: Office of the Chief Technology Officer	OCTO has neither revised its existing policies and procedures, nor formalized the newly added controls. The independent auditors reported that failure to document and update policies and procedures is a primary cause for the identified weakness in general IT controls.	Policies and procedures will be developed and implemented to reflect the newly added controls by the end of the 3 <sup>rd</sup> quarter of FY 2016.	Based on the additional information provided to us subsequent to the audit, we determined these two barriers continue to exist.
	OCTO did not restrict PeopleSoft change password access to only members of the OCTO Help Desk due to resource limitations that prevent the OCTO Help Desk from responding promptly to all requests for password reset. As a result, individuals within each agency utilizing PeopleSoft retain the change password privilege.	OCTO agrees that the ability to reset passwords should be limited to the OCTO Help Desk but believes the risks associated with this access are low. Therefore, OCTO will continue to allow this reset access to HR Advisors until such time as DCHR agrees to limit password reset access to OCTO Help Desk personnel by promoting the self-service reset function and gradually eliminating the need for HR Advisor access.	
Agency 9: Office of the Deputy Mayor for Planning and Economic Development.	There was no significant deficiency related to noncompliance with District procurement laws and regulations identified in the FY 2014 Yellow Book report.	DMPED agrees with the OIG's observation stating the independent auditors misunderstood the relevant laws and regulations. DMPED did not flag these initial findings as potentially erroneous, leading to an official finding.	N/A

# Appendix B – Agency Comments

## Department of Employment Services’ Response to the Draft Audit Report



and procedures have been formalized and implemented. A copy of each of the formalized policies and procedures are attached for your records.

DOES has also hired a new Associate Director for the Unemployment Insurance Division; the new Associate Director is carefully reviewing many of the processes and identifying controls that would further strengthen and greatly improve internal controls within the UI division.

In addition, DOES has established a unit specifically responsible for ensuring that existing policies and procedures are updated timely and that new policies are created to cover any processes where one does not exist throughout the agency.

We look forward to working with the OIG team in the future, to demonstrate that DOES has taken the necessary steps to prevent any future audit significant audit deficiencies.

Should you have any questions, please feel free to contact [REDACTED] or myself.

Sincerely,



Deborah Carroll  
Director

cc: Rashad M. Young, City Administrator

# Department on Disability Services' Response to the Draft Audit Report



GOVERNMENT OF THE DISTRICT OF COLUMBIA  
**DEPARTMENT ON DISABILITY SERVICES**

October 21, 2015

Daniel W. Lucas, Inspector General  
 Office of the Inspector General  
 717 14<sup>th</sup> Street, N.W.  
 Washington, DC 20005

Mr. Lucas,

Upon review of the "OIG No. 15-2-11MA, Audit of Remediation Efforts at the Office of the DDS - Draft Report" pertaining to the FY2014 CAFR Audit performed by independent auditors, we are pleased and concur with your review and findings. In addition, your report was clear and concise. Your report notes in the overall conclusion found on page 6, "DDS did not need to implement remediation plans to correct the significant deficiencies related to the DDS' procurement actions as identified in the FY 2014 Yellow Book report. Therefore, there were no barriers impeding significant deficiency remediation efforts." However, in an effort to create more clear and concise records of procurement processes, the below is a summary of the two exceptions noted in the audit, as well as DDS remedy provided:

Exception Cited	DDS Remedy
<p>Discrepancies between the solicitation number (DCJM-2013-R-0017) and contract number (DCJM-2014-E-0017) for Liberty Clinicians award:</p> <p>There is no way to indicate or tie the two numbers together to show that the award was made based upon a competitive procurement solicited through the DCJM-2013-R-0017.</p> <p>The number was changed prior to award to reflect the year that the award was made.</p>	<p>Until such time DDS utilize the E-Sourcing process under the transition of contracting staff to OCP Central which will be effective October 18, 2015 we will manually assign numbers using the Procurement Instrument Number (PIN) system previously used by OCP. We will be cautious to ensure the awarded contract reflects the solicitation number and incorporate the solicitation number on the first page of the awarded contract, only changing the alpha character that identifies the procurement method (i.e., RFP, RFQ, IFB, RTOP) is changed to the alpha character that identifies the type of contract awarded (i.e. as in this case, "R" for Request for Proposal and then "E" for requirements contract).</p>
<p>Evidence of competition for award of Human Care Agreements</p>	<p>This process was erroneously identified as an exception and no other action is required.</p>



1125 15th Street, NW ★ Washington, DC 20005 ★ 202-730-1700 ★ [www.dds.dc.gov](http://www.dds.dc.gov)



Please let us know if you require any additional information.

Sincerely,

A handwritten signature in blue ink, which appears to read 'Laura Nuss', is positioned below the word 'Sincerely,'.

Laura Nuss  
Director

Cc: [REDACTED] OIG



# District of Columbia Health Benefit Exchange Authority's Response to the Draft Audit Report



November 16, 2015

Daniel Lucas  
Inspector General  
Office of Inspector General  
Government of the District of Columbia  
717 14<sup>th</sup> Street, NW, 5<sup>th</sup> Floor  
Washington, DC 20005

**RE: OIG No. 15-2-11MA**

Dear Inspector General Lucas:

Thank you for the opportunity to provide you with feedback to the draft report of *Audit of Remediation Efforts in Response to Significant Deficiencies Identified in the FY 2014 Independent Auditors' Report at D.C. Health Benefit Exchange Authority* (OIG No. 15-2-11MA). The DC Health Benefit Exchange Authority (HBX) concurs with the District of Columbia Office of Inspector General (DC-OIG) that "[s]ignificant deficiencies identified in the FY 2014 Yellow Book report have been remediated" and that HBX "[i]mplemented remediation plans were effective in correcting the significant deficiencies." Additionally, based on recommendations during a meeting with DC-OIG on Thursday, November 12, 2015, HBX has formalized its already established procedures related to switch user (SU) activity referenced in the DC-OIG draft report.

There is one recommendation made by the District of Columbia's Comprehensive Annual Financial Report (CAFR) audit with which HBX strongly disagrees. The Notification of Findings and Recommendations states that "[c]ontrol performers should be trained on this procedure as well as the procedures for removing access of separated personnel." DC-OIG flagged this as an issue of not providing the Linux system administrators training on how to disable accounts that were no longer needed. DC-OIG states, "HBX did not provide training on the revised policies and procedures related to the strengthened internal controls, as recommended by the independent auditors."

HBX clarified for DC-OIG that disabling an account is a very basic operational function that is an expected capability of all LINUX administrators. This is demonstrated by HBX' LINUX Administrator job description, which was provided to DC-OIG on October 1, 2015. Additional HBX training is not appropriate. If a LINUX Administrator were to not have this capability, they would not be retained in the role.



1225 Eye Street NW, 4th Floor, Washington, DC 20005

HBX appreciates the professionalism with which your staff conducted this work and appreciates the advice on best practices.

Sincerely,



Mila Kofman, J.D.  
Executive Director  
DC Health Benefit Exchange Authority

Cc: Mr. Rashad M. Young, City Administrator, District of Columbia



# District of Columbia Lottery and Charitable Games Control Board's Response to the Draft Audit Report

On Oct 9, 2015, at 5:05 PM, Cohen, Tracey (DCLB) [REDACTED] wrote:

Daniel and [REDACTED],

It was a pleasure to meet you in person today. Below is our official response to Objective #3.

Please let me know if you have any additional questions.

Thank you.

## Audit Results – Objective #3

**Objective #3 Conclusion:** The DCLB had a barrier that may be impeding its significant deficiency remediation efforts.

- **Lack of training of DCLB Instant Scratch Tickets Program (retailers):** The DCLB did not provide training to retailers for the Instant Scratch Tickets program as recommended. Provision of training will help DCLB comply with the independent auditor's recommendation.

The D.C. Lottery (DCLB) has formalized training methods in place used to educate our 475 – 500 retailers on our instant scratch ticket rules, regulations, policies and procedures. These methods have always existed and are efficient, economical, effective and sufficient best practices that make sure our retailers are compliant. We are confident that these methods fully remediate the issue long term.

[Tracey Cohen](#)  
Interim Executive Director  
DC Lottery  
2235 Shannon Place, SE  
Washington, DC 20020  
Phone: [REDACTED]

# District of Columbia Public Library's Response to the Draft Audit Report



October 19, 2015

Daniel W. Lucas  
Inspector General  
717 14<sup>th</sup> St. NW  
Washington, DC 20005

**Subject:** DCPL Response to Draft Report – Audit of Remediation Efforts in Response to Significant Deficiencies Identified in the FY 2014 Independent Auditors' Report at the D.C. Public Library (OIG No. 15-2-11MA)

Dear Mr. Lucas:

Thank you for the opportunity to respond to the above referenced report. The District of Columbia Public Library (DCPL) has reviewed the report in depth and hereby provides the following response to the audit result:

### Objective 3

**Conclusion:** There are barriers that may be impeding significant deficiency remediation efforts.

**Response:** DCPL takes exception to this Conclusion and more specifically to the assertion of "Lack of formalized policies and procedures." The Office of Procurement within DCPL consistently executes contracting and procurement actions in accordance with its two hundred and twelve (212) page manual titled: DC Public Library Procurement Manual dated March 2008 which sets forth formal agency specific policies and procedures in addition to Title 19 DCMR Chapter 43. In reference to sole-source contracting, DCPL adheres to procedures found in Title 19 DCMR Chapter 43 which establishes appropriate procedures and required documentation, thus no need for revisions or formalization. Further, and in reference to the FY 2014 CAFR Audit, it is understood that out of approximately 7 sampled DCPL contract actions only 1 action, an online newspaper database subscription, was deficient in terms of the contract document itself not available for review. However, all proper documentation leading up to the award of the contract was evident. In our opinion, this finding does not rise to the level of "significant deficiency" and "lack of formalized policies and procedures".

Last, with regards to "Failure to follow Title 19 DCMR", DCPL has issued a Notice of Rulemaking which modifies Title 19 DCMR 4320.7. Appropriately, the Notice of Rulemaking replaces the Library Procurement Executive with the CCO as the approving official for all sole-source D&Fs.

Again, we thank you for the opportunity to respond and we will continue to maintain the highest standards and compliance efforts related to contracting and procurement. If there are any questions, please feel free to contact me or [REDACTED] Chief Business Officer at [REDACTED]

Sincerely,

  
Richard Reyes-Gavilan  
Executive Director

cc: [REDACTED] Acting Assisting Inspector General for Audits  
[REDACTED] DCPL Chief Business Officer

DC Public Library | 901 G Street, NW | Washington, DC 20001 | [delibrary.org](http://delibrary.org) | 202.727.0321

# Not-for-Profit Hospital Corporation's (United Medical Center) Response to the Draft Audit Report



NOT-FOR-PROFIT HOSPITAL CORPORATION

September 16, 2015

Daniel W. Lucas  
Inspector General  
Government of the District of Columbia  
Office of the Inspector General  
717 14<sup>th</sup> Street, NW  
Washington, DC 20005

Dear Mr. Lucas,

The United Medical Center (UMC) is in receipt of your report entitled *Audit of Remediation Efforts in Response to Significant Deficiencies Identified in the FY2014 Independent Auditor's Report for the Not-for-Profit Hospital Corporation (OIG No 15-2-11MA)*.

In response to your findings, we concur with the following:

**Objective 1 Conclusion** – Significant deficiencies related to the lack of (1) management review of journal entries and financial transactions, and (2) monitoring of procurement and vendor management identified in the FY2014 Yellow Book Report have been substantially remediated.

- Management review of manual journal entries and financial transactions – Four of the five CAPR independent auditor's notes have been remediated. As noted, UMC disagreed with the remaining entry.
- Monitoring of procurement and vendor management – This control was implemented in March of 2014, has been tested and was deemed to be operating effectively as of fiscal year 2014 year end.

**Objective 2 Conclusion** – The implemented remediation plans were effective in correcting the deficiencies as concluded through your FY2015 verification process.

- UMC has implemented additional controls to enhance the proper review of manual journal entries and financial transactions. As a part of the remediation process, journal entries are reviewed at three different levels that include the Senior Accountant, the Controller and the Chief Financial Officer. The Senior Accountant reviews and signs off on each journal entry. The Controller, followed by the Chief Financial Officer, both review the journal summary and concur with the supervisor's approval of the individual journal entries.

**Objective 3 Conclusion** – UMC had a barrier that may be impeding its significant deficiency remediation efforts.

- Lack of formalized policies and procedures – it was noted that UMC neither revised its policies and procedures, nor formalized the newly added controls. However, UMC is in the process of developing and revising the current policies and procedures and this process is projected to be completed during the first quarter of FY16.

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Page 2

Unresolved Finding – UMC disagreed that it improperly included prior year grant revenue for FY 2014, which resulted in an overstatement of grant revenue by \$120,070.

- Based on UMC's discussion with the independent auditors, UMC's understanding was that it would not constitute part of the findings as the independent auditors did not provide any evidence to justify their point. However, UMC was not aware that the finding was included in the NER until the detail was presented during the OIG's audit. To ensure that grant revenues are recorded appropriately, UMC has implemented a monthly reconciliation of grant revenues. The reconciliation is reviewed and approved by the Controller and the Chief Financial Officer. UMC will continue to monitor this process to prevent reoccurrences of this finding.
- We will continue to strengthen internal controls to properly record and reconcile grant revenues on a monthly basis.

Please feel free to contact me should you have additional concerns or issues.

Sincerely,



Andrew Davis  
Interim, Chief Executive Officer

# Office of the Chief Financial Officer's Response to the Draft Audit Report

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



**Jeffrey S. DeWitt**  
Chief Financial Officer

October 22, 2015

Daniel W. Lucas  
Inspector General  
Government of the District of Columbia  
717 14<sup>th</sup> Street, NW, Suite 500  
Washington, DC 20005

Dear Mr. Lucas:

This is in response to the Office of the Inspector General's (OIG) draft report on the *Audit of Remediation Efforts in Response to Deficiencies Identified in the FY2014 Independent Auditors' Report at the D.C. Office of the Chief Financial Officer* (OIG No. 15-2-11MA), dated October 8, 2015. My office has reviewed the results contained in the draft report and is providing the following written responses:

We disagree with OIG's assessment that the controls implemented do not address the concerns with the separation of duties as identified in the finding NFR IT -2014-29 and as per NIST SP 800-53, Rev3, Access control (AC-5).

We have implemented the following, in response to the CAFR auditor's recommendations, to ensure proper separation of duties.

- A separation of duties has been established by ensuring that the database administration group that provides access to CAMA (Computer Aided Mass Appraisal) tables is different from the CAMA user with the elevated privilege.
- Tables approved by the real property director and /or chief assessor are the only tables that would be allowed ODBC (open Database Connectivity) access by the CAMA user with ODBC access.
- Real property director and/or chief assessor are the only users that can request to expand or remove the list of tables with ODBC access.
- SQL server auditing is turned on the tables that allow for ODBC. Only the database administration group has the ability to access the audit log. CAMA users with elevated privilege will not be able to access or alter the SQL server audit log.
- An email alert is sent to the supervisors when a user with elevated privilege logs on to the system to perform ODBC update.

- A monthly review is conducted to verify the logging and the user managed log are being handled appropriately.

If at any time any impropriety is suspected as a result of the additional controls, or by the review of the supervisors, or by the assessors that are in charge of the valuation, the updates made by the CAMA user with the elevated privilege will be available for inspection, and so is the state of the CAMA database before and after the update.

We further disagree that the before and after values of the updates made on a particular table and column would yield any meaningful insights into impropriety. The valuation of the property and the variances would be an effective indicator in catching the suspicious activity when used in conjunction with the following subsequent mitigating controls:

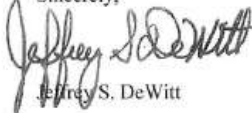
- The annual valuation review process that subjects all property to review utilizing system generated reports, including the percent change report and the old-to-new report. These reports require both appraiser and supervisor review and approval.
- All taxable assessments are mailed to property owners and published on the Internet for scrutiny and transparency.
- All assessments are subject to an established three-level appeal process.
- Assessors and Maps and Titles supervisors follow documented assessment roll correction procedures.

However, we will implement the additional steps below to further enhance existing controls:

- Before the CAMA user with elevated privileges performs ODBC activity, he/she shall seek prior approval, via e-mail notification, from his immediate supervisor, deputy chief appraiser, chief appraiser and director. Only when approval has been obtained by one of the above, shall the CAMA user with elevated privileges proceed with the ODBC update. Because of the nature of the activity, the preapproval may be general rather than specific.
- When logs indicate that only one parcel has been affected by the actions of ODBC, that parcel will be subject to additional review.
- When subsequent mitigating controls indicate more scrutiny is warranted, additional review procedures will be followed.
- Written policies and procedures will be updated and promulgated to reflect the above approval process and to include procedures and techniques to be used for more detailed review when found to be warranted.

If you have any questions or require additional information, please feel free to contact me or [REDACTED]

Sincerely,



Jeffrey S. DeWitt

cc: Rashad M. Young, City Administrator

# Office of the Chief Technology Officer's Response to the Draft Audit Report

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



Daniel W. Lucas  
Inspector General, District of Columbia  
717 14<sup>th</sup> St. NW  
Washington, DC 20005

**Re: OIG Audit—OCTO CAFR Remediation (OIG NO. 15-2 IMA)**

Dear Mr. Lucas:

I am writing to provide the response of the Office of the Chief Technology Officer (OCTO) to the Office of the Inspector General (OIG) draft report on the above-cited audit. We appreciate the time your staff took to conduct an exit conference this week and found their comments helpful in outlining the next steps discussed here.

Your audit addressed OCTO's remediation of three outstanding findings from the 2014 Consolidated Annual Financial Audit (CAFR):

- NFR IT-2014-20: PeopleSoft Periodic Review of Access
- NFR IT-2014-16: Monitoring of Privileged UNIX Access
- NFR IT-2014-30: PeopleSoft Access to Change Passwords

We appreciate OIG's concerns and recommendations to strengthen remediation. We plan to conduct further remediation as recommended by OIG. Specifically:

**NFR IT-2014-20: PeopleSoft Periodic Review of Access:** The NFR found that reviews of IT support roles were not adequately defined to identify users who no longer needed access, and there was not a review to validate the appropriateness of payroll processing role assignments to user accounts in PeopleSoft. OCTO's remediation effort, comprising a total of 20 action steps, entailed defining and implementing a detailed process to require periodic review of critical payroll processing roles in PeopleSoft. However, the OIG report considered remediation incomplete because even though OCTO has implemented the desired periodic review of critical payroll processing roles in PeopleSoft, OCTO has not yet published a related policy to formalize this practice. We accept OIG's recommendation and plan to develop and implement the recommended policy by the end of the 2<sup>nd</sup> Quarter in FY 2016.

**NFR IT-2014-16: Monitoring of Privileged UNIX Access:** The NFR found that a review of highly privileged accounts did not encompass all servers supporting PASS and PeopleSoft, and did not account for switch-user (SU) commands; and SU logs were not available for all of FY 2014. OCTO's remediation effort, comprising a total of six action steps and accepted by OCFO as full remediation, entailed establishing a process to 1)

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perform periodic review of SU activity in LINUX environments and 2) add all PASS and PeopleSoft servers in access governance protocols. However, the OIG report considered remediation incomplete because even though OCTO has implemented the desired practice to define, identify, and follow up on suspicious activity, and to revise access protocols to ensure monitoring of all critical enterprise servers, OCTO has not yet published a related policy to formalize the intent of this practice. We accept OIG's recommendation and plan to develop and publish the recommended policy and protocol by the end of the 3<sup>rd</sup> Quarter in FY 2016.

**NFR IT-2014-30: PeopleSoft Access to Change Passwords:** The NFR found that OCTO did not restrict change password access to only members of the OCTO HelpDesk and PeopleSoft support team, but instead over 200 other PeopleSoft users had change password access. First, it should be noted that OCTO believes that the NFR's use of the term "change passwords" is incorrect, as OCTO technically only provisions access to "reset passwords". Changing a password implies that a user with access is overwriting the end-user's password and then communicating that new password to the end-user. However, in actuality the PeopleSoft system is only configured to allow a password reset, which involves the user with access clicking a "reset" button that automatically sends an email with a new temporary password to the end-user. As such, OCTO believes that the risk of providing this level of access to select users is relatively low. Nevertheless, OCTO did attempt to remediate this finding by reducing the number of PeopleSoft users with "reset password" access.

OCTO's remediation effort, comprising a total of three action steps, entailed working with the DC Department of Human Resources (DCHR), a business owner of PeopleSoft, to review and authorize removal of 265 users. This remediation effort left access limited to 72 individuals including OCTO staff and HR Advisors designated by DCHR and OPRS to help agency users reset their passwords. OIG recommends that OCTO go further and take steps to limit change password access to only members of the OCTO HelpDesk. PeopleSoft has a robust employee self-service (ESS) change-password function that permits employees to reset their password themselves in a simple, easy to follow process, prompts them to do so frequently, and requires use of strong passwords. This function makes it largely unnecessary to have HR advisors help employees change their passwords. OCTO agrees with the OIG's recommendation, but because the risk is low OCTO can accept continued password reset access for HR Advisors until such time as DCHR agrees to limit password reset access to OCTO HelpDesk staff only by promoting the ESS change password function and gradually eliminating change password access among HR advisors.

We appreciate the OIG's attention and assistance. If you have any questions about this response, please contact [REDACTED]

Sincerely,



David Bishop  
Interim Chief Technology Officer

Cc: [REDACTED] OIG  
[REDACTED] OCTO

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# Office of the Deputy Mayor for Planning and Economic Development's Response to the Draft Audit Report



GOVERNMENT OF THE DISTRICT OF COLUMBIA  
Executive Office of the Mayor  
Office of the Deputy Mayor for Planning and Economic Development



Daniel W. Lucas  
Inspector General  
Office of the Inspector General  
717 14<sup>th</sup> Street, NW  
Washington, DC 20005

Dear Mr. Lucas:

I would like to thank you and your team for your work on the October 2015 Audit of Remediation Efforts in Response to Significant Deficiencies Identified in the FY 2014 Independent Auditors' Report, OIG No. 15-2-11MA. On November 10, 2015, our respective staffs had a follow up call to discuss the results.

We agree that there was no significant deficient related to non-compliance with District procurement laws and regulations. The independent CAFR auditors misunderstood the relevant laws and regulations as they apply to the Office of the Deputy Mayor for Planning and Economic Development (DMPED). Even so, DMPED did not flag these initial findings as potentially erroneous, leading to an official finding in the Yellow Book.

Since the initial CAFR findings, we have made a few changes that will help ensure such a situation does not occur again. Perhaps most importantly, earlier this year we created an internal General Counsel's office, which includes 7 in-house attorneys. Prior to this, we relied on the Office of the Attorney General's Commercial Division for all of our legal needs. While they provided excellent service, their focus was often on real estate projects. Now that we have a dedicated team of staff attorneys, we are better equipped to obtain legal advice and assistance on matters such as this.

Along with the creation of this team, we have also worked hard to ensure we are following best practices in operational policies. As it relates to this finding, we have notified all staff that senior leadership and our general counsel should be made aware of audits and investigations as well as any draft findings, to ensure that there are no misunderstandings such as this moving forward.

Thanks again for your assistance on this matter.

Sincerely,

Chief of Staff  
On behalf of Deputy Mayor, Brian T. Kenner  
Per DMPED Office Order 2015

BRIAN T. KENNER  
DEPUTY MAYOR

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# Acronyms and Abbreviations

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CAFR	Comprehensive Annual Financial Report
CAMA	Computer Assisted Mass Appraisal
CCO	Chief Contracting Officer
D&F	Determination and Findings
DCAS	District of Columbia Access System
DCHR	District of Columbia Department of Human Resources
DCLB	District of Columbia Lottery and Charitable-Games Control Board
DCPL	District of Columbia Public Library
DDS	Department on Disability Services
DMPED	Deputy Mayor for Planning and Economic Development
DOCS	District Online Compensation System
DOES	Department of Employment Services
FY	Fiscal Year
GAGAS	Generally Accepted Government Auditing Standards
GASB	Governmental Accounting Standards Board
GL	General Ledger
HBX	Health Benefit Exchange Authority
IT	Information Technology
NFR	Notification of Findings and Recommendations
OCA	Office of the City Administrator
OCFO	Office of the Chief Financial Officer
OCFO/OFOS	OCFO Office of Financial Operations and Systems
OCTO	Office of the Chief Technology Officer

ODBC	Open Database Connectivity
OIG	Office of the Inspector General
OTR	Office of Tax and Revenue
PO	Purchase Order
SSH	Secure Shell
SU	Switch User
SUDO	Super User Do
UI	Unemployment Insurance
UMC	United Medical Center