DISTRICT OF COLUMBIA

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

September 30, 2014

DANIEL W. LUCAS
INSPECTOR GENERAL

OIG NO. 15-1-08MA **March 12, 2015**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General

March 12, 2015

The Honorable Muriel Bowser
Mayor
District of Columbia
Mayor's Correspondence Unit, Suite 316
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

The Honorable Phil Mendelson
Chairman
Council of the District of Columbia
John A. Wilson Building, Suite 504
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

Dear Mayor Bowser and Chairman Mendelson:

I am issuing the enclosed final 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* for fiscal year (FY) 2014, submitted by KPMG LLP (KPMG) as part of our contract for the audit of the District of Columbia's general purpose financial statements for FY 2014 (OIG No. 15-1-08MA).

This report identifies six significant deficiencies and disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is important enough to merit attention by those charged with governance. The significant deficiencies identified in the report are weaknesses 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;
    a. Instances of noncompliance or other matters, which are required to be reported under *Government Auditing Standards*.
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.

While the Office of the Inspector General (OIG) will continue to monitor District agencies in pursuing corrective actions, it is the responsibility of District government management to ensure that agencies correct the deficiencies noted in audit reports. The OIG will assess significant deficiency remediation efforts quarterly to help monitor the implementation of recommendations.

If you have questions or need additional information, please contact me or Ronald W. King, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,

Daniel W. Lucas
Inspector General

DWL/sw

Enclosure

cc: See Distribution List

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, the budgetary comparison statement, each major fund, and the aggregate remaining fund information of the Government of the District of Columbia (the District) as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 28, 2014. The financial statements of the District of Columbia Housing Financing Agency, a discretely presented component unit of the District, were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. See findings 2014-01 through 2014-06 in the accompanying schedule of findings and responses.

KPMG

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in finding 2014-02 in the accompanying schedule of findings and responses to this report.

District's Responses to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

January 28, 2015

GOVERNMENT OF THE DISTRICT OF COLUMBIA

Schedule of Findings and Responses

Finding 2014-01 – Weaknesses in the District's General Information Technology Controls

Background:

General Information Technology Controls (GITCs) provide the foundation for a well-controlled technology environment that supports the consistent processing and reporting of operational and financial data in accordance with management's directives. Our audit includes an assessment of selected GITCs in four (4) key control areas: Access to Programs and Data, Program Changes, Program Development, and Computer Operations. During our assessment, we noted that, while the District made progress and remediated certain GITC findings identified during our prior year audit, GITC-related control deficiencies continue to exist within Access to Programs and Data and Program Changes.

Due to the deficiencies noted within the District's Automated Client Eligibility Determination System (ACEDS), PeopleSoft (HR and Payroll system), and Computer Assisted Mass Appraisal (CAMA) and the University of the District of Columbia's (UDC's) Banner System GITC environments that were identified throughout our audit fieldwork, which have ultimately led to one or more ineffective GITC objectives for these environments, we were not able to rely on automated controls or system-generated reports supported by these application environments.

However, we did note that management remediated several control deficiencies from the prior year. There were 45 findings documented in fiscal year (FY) 2013. Of them:

- 11 represented findings that had been remediated during FY 2013 (as part of remediation efforts for FY 2012 findings);
- 23 were fully remediated and an additional 6 were partially remediated during FY 2014; and,
- 1 finding was removed from scope in FY 2014.

As noted above, the District has already remediated several GITC deficiencies during FY 2014. However, as these remediation efforts did not take place until FY 2014 was well under way, the conditions continued to exist during part of the fiscal year and thus are included in this year's report. This is specifically true with CAMA, for which the majority of their findings were remediated within FY 2014.

Our FY 2014 findings included the following:

Access to Programs and Data

Conditions:

1. Failure to consistently restrict privileged and general user access to key financial applications, databases, and servers in accordance with employee job responsibilities or segregation of duties considerations.

2. Inconsistent performance and documentation of logical user access administration activities, including the approval of new user access and access changes, periodic review of user access rights, including whether user access is commensurate with job responsibilities, and timely removal of user access upon employee termination.

3. Use of and/or lack of sufficient control over generic accounts with access to perform system administration or end user functions within key applications.

Program Changes

Conditions:

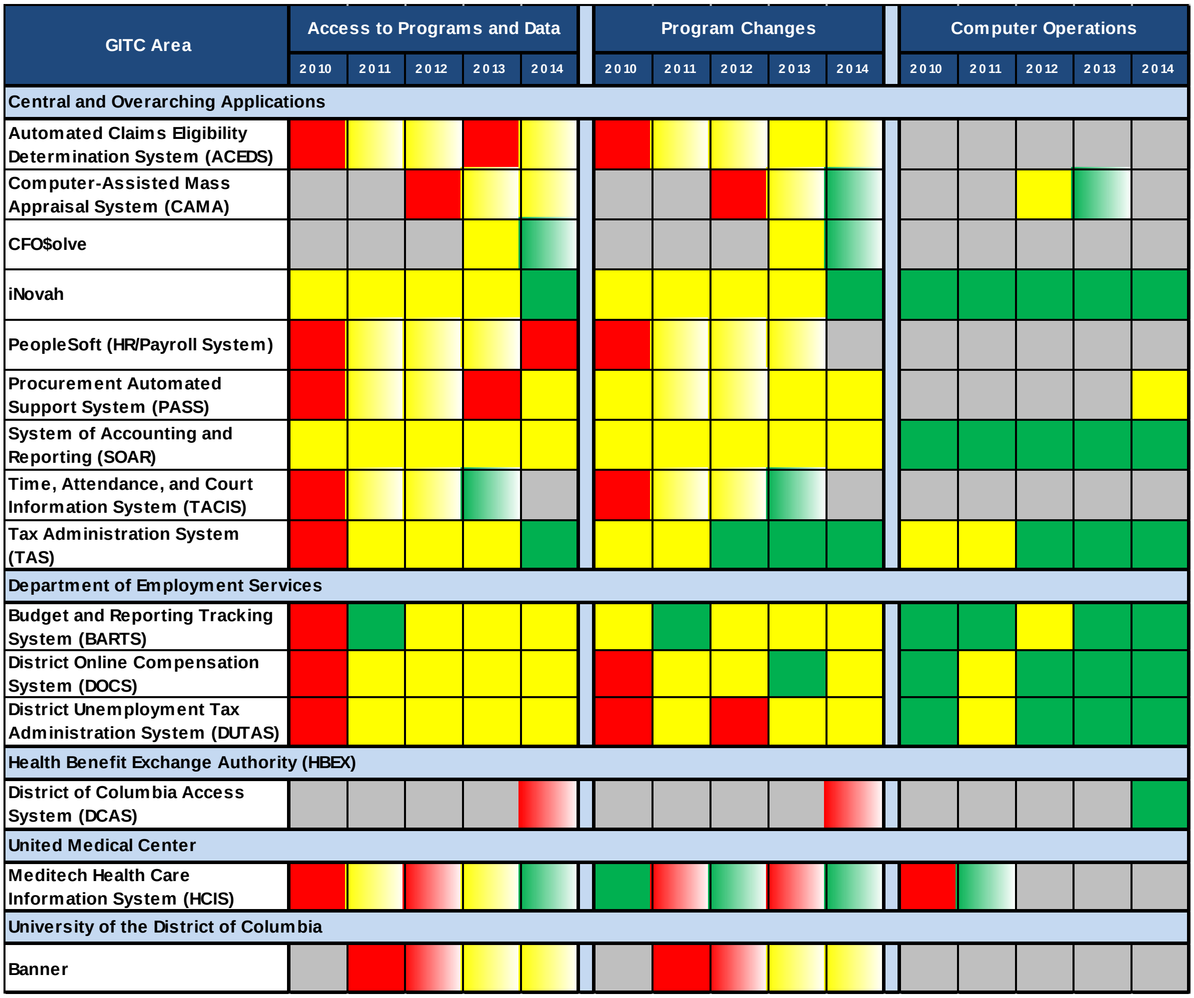
1. Failure to consistently restrict developer access to the production environments of key financial applications in accordance with segregation of duties considerations or, if not feasible, implement independent monitoring controls to help ensure changes applied to the production environment are authorized.

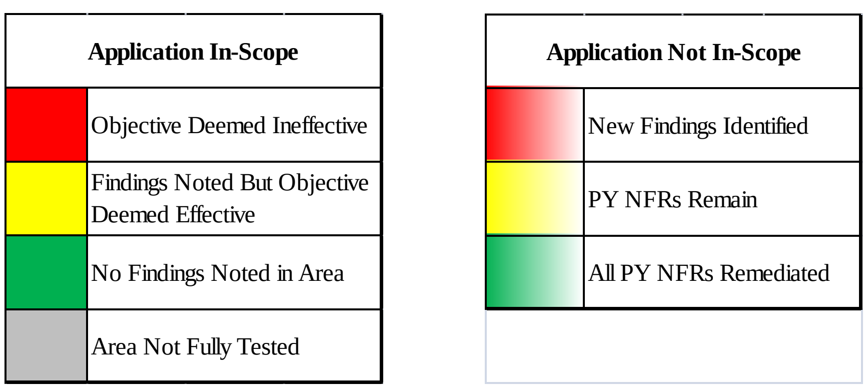
The table on the following page summarizes the key financial applications tested as part of the FY 2014 financial statement audit. It includes findings from all applications, including those not specifically mentioned in the significant deficiency above.

GOVERNMENT OF THE DISTRICT OF COLUMBIA

Schedule of Findings and Responses

Table 1: Summary of Applications Impacted by the Findings





Criteria:

Our internal framework for identifying and testing GITCs can be mapped to several commonly accepted information technology risk and control frameworks including those published by the National Institute of Standards and Technology (NIST), Information Systems Audit and Control Association (ISACA), and the International Standards Organization (ISO). For purposes of our reporting of findings for the District of Columbia Government, we have provided below relevant criteria.

1. The Federal Information Security Management Act (FISMA), passed as part of the Electronic Government Act of 2002, mandates that Federal entities maintain IT security programs in accordance with NIST. The following NIST criteria were considered:

    a. NIST SP 800-12, An Introduction to Computer Security: The NIST Handbook, October 1995;
    b. NIST SP 800-53, Revision 3, Recommended Security Controls for Federal Information Systems and Organizations, August 2009;
    c. NIST SP 800-64, Security Considerations in the System Development Life Cycle, October 2008; and
    d. NIST SP 800-14, Generally Accepted Principles and Practices for Securing Information Technology, September 1996.

2. The Information Systems Audit Control Association (ISACA) Control Objectives for Information and related Technology (COBIT®) 5, 2012.

Cause/Effect:

Although management has made progress remediating previous findings, most notably within Computer Operations as well as the CAMA, MEDITECH HCIS, and PASS Applications, additional improvements in formalizing key GITC processes and creating an effective monitoring function are needed. Both the PeopleSoft and Banner applications have system limitations that need to be corrected before the findings can be remediated. The District is in the process of developing a plan to address those limitations. Furthermore, the ACEDS application is being replaced shortly, and as a result, new developments to support the application have not been approved. The existence of these findings increases the risk that unauthorized changes applied to key financial applications and the data they process adversely affect application processing and data integrity and, as a result, may materially impact the financial statements. Additionally, the existence of these findings impacts the reliability of key application reports and the ability to rely upon automated, configurable controls embedded within key financial applications.

Recommendations:

We recommend that management continue to perform the remediated control activities put in place. Further, we recommend that management monitor the effectiveness of these controls on a regular and periodic basis going-forward.

Specifically, we recommend the following:

- Related to Access to Programs and Data controls, we recommend that management:

  a. Assess and update or, as applicable, develop and document access management policies and procedures for production applications and underlying infrastructure systems. These policies and procedures should address requirements for clearly documenting user access requests and supervisory authorizations, periodic reviews of the appropriateness of user access by agency business management, timely communication of employee separations/transfers, and disablement/removal of the related user access. Management should formally communicate policies and procedures to control owners and performers. Further, management should institute a formalized process to monitor adherence to policies and procedures related to key controls and, as performance deviations are identified, follow up as appropriate.

  b. Develop and implement controls that establish organizational and logical segregation between program development roles, production administration roles, and business end user roles among different individuals or, a process to independently monitor the activities of users provided with conflicting system access. Monitoring activities as well as the outcome of such activities should be documented with the necessary follow-up being completed with regards to any suspicious activity within the system.

  c. Restrict the use of generic IDs or, if such access is required, implement independent monitoring of the activities performed using generic IDs.

- Related to Program Change controls, we recommend that management:

  a. Develop and implement change management processes and controls that establish one or more of the following:

     i. Organizational and logical segregation of program development roles from production system and database administration roles among different individuals; and

     ii. Implementation of one or more independently operated monitoring controls over the activities of the developers (and other individuals) with administrative access that require the documentation of monitoring activities as well as follow-up on any suspicious behavior within the system. Documentation of these monitoring controls should be maintained and should include sign-off of the review as well as notations as to the appropriateness of the actions taken by the developers within the database. Further, sufficient follow-up actions should be taken for any suspicious activity, such as modifications to functionality or data without corresponding change request approvals.

  b. Configure settings or implement monitoring tools to log changes made to application functionality, including all configuration changes.

These procedures should be provided to and discussed with the personnel responsible for enforcing the control activity. Further, management should monitor the personnel responsible for enforcing the control activity periodically.

Management Response:

Management concurs with the findings as reported by the auditors. We will further assess the deficiencies in general information technology controls as reported by the independent auditors and consider their recommendations for improvement. After thoroughly analyzing the factors contributing to each deficiency, we will develop and implement the most feasible and practicable corrective actions. To the extent that measures have already been put in place to remediate findings, we will continue in our efforts to fully resolve all reported issues and will monitor the effectiveness of those measures to prevent recurrence of findings.

Governmental Activities and Major Governmental Funds

The following findings and recommendations relate to control deficiencies noted in our FY 2014 audit of the District's Governmental Activities and Major Governmental Funds that we considered to be significant deficiencies:

Finding 2014-02 – Weaknesses in the District's Procurement and Disbursement Controls and Non-compliance with Laws and Regulations

Background:

During our FY 2014 testwork, we noted that in order to be as efficient and effective as possible, the District has established District-wide policies and procedures to procure goods and services and to make payments for those goods and services at the Office of Contracts and Procurement (OCP), as well as at those agencies that have independent procurement authority. Further, these policies and procedures serve to ensure the District's compliance with various laws and regulations governing procurement and payments, such as the Procurement Practices Act and the Quick Payment Act.

OCP has implemented a comprehensive, multi-year remediation plan to address previously identified deficiencies; however, these efforts are not completed and we still noted deficiencies that continue from previous years. The following section summarizes the results of our FY 2014 tests of compliance and internal controls over District-wide procurement policies and procedures.

Conditions:

For a sample of competitive procurements we noted**:**

- For 3 of 43 sampled items, evidence that the procurement was awarded through the competitive sealed bidding process was not available for review;
- For 8 of 43 sampled items, evidence of the search performed to ensure that the vendor was not included on the excluded party list prior to the execution of the contract was not available for review;
- For 9 of 43 sampled items, evidence of contractor compliance with the District tax code was not available for review;
- For 2 of 43 sampled items, the respective contract/agreement was not available for review; and
- For 2 of 43 samples, although the contract was procured in compliance with applicable District laws and regulations, per review of the contract file, the contract type was incorrectly identified in the District's the Procurement Automated Support System (PASS).

For our sample of emergency procurements we noted:

- For 1 of 3 sampled items, evidence of the City Council's approval of the contract prior to the purchase order being issued was not available for review;
- For 1 of 3 sampled items, evidence of the Office of the Attorney General's review of the contract for legal sufficiency was not available for review;

- For 1 of 3 sampled items, an emergency procurement was awarded due to the existing contract having expired and the service being needed to provide coverage until a competitively awarded contract was executed. Although we noted that the services being procured were to provide coverage for an interim period, the justification for the emergency procurement was a lack of adequate advance planning for the procurement or delays in procurement caused by administrative delays, lack of sufficient procurement personnel, or improper handling of contracts;

- For 1 of 3 sampled items, the respective contract / agreement was not available for review; and

- For 1 of 3 sampled items, the emergency procurement period of performance exceeded the 90-day maximum duration required for an emergency procurement.

For our sample of sole source procurements we noted:

- For 3 of 39 sampled items, evidence of the search performed to ensure that the vendor was not included on the excluded party list prior to the execution of the contract was not available for review;

- For 3 of 39 sampled items, evidence of contractor compliance with the District tax code was not available for review;

- For 2 of 39 sampled items, the determination and finding was not available for review;

- For 5 of 39 sampled items, the respective contract / agreement was not available for review;

- For 1 of 39 sampled items, evidence of the City Council's approval of the contract prior to a purchase order being issued was not available for review;

- For 1 of 39 sampled items, evidence of the Office of the Attorney General's review of the contract for legal sufficiency was not available for review;

- For 1 of 39 sampled items, the contracting officer's warrant was not available for review to validate the officer's authorizing power;

- For 1 of 39 sampled items, a sole source procurement was awarded; however, there was no evidence to suggest that there was only one source for the required services. Further, we noted that the services being procured were to ensure continuity and avoid interruption of services until a long term contract could be put in place. However, the justification for the sole source was a lack of adequate advance planning for the procurement, delays in procurement caused by administrative delays, lack of sufficient procurement personnel, or improper handling of contracts, all which are not sufficient justification for use of sole source procurement;

- For 2 of 39 sampled items, the contract did not cover the period of the purchase order. Upon further review, it was noted that the purchase order was issued after the contract expiration date; and

- For 2 of 39 sampled items, although the contract was procured in compliance with applicable District laws and regulations, per review of the contract file, the contract type was incorrectly identified in the District's procurement system PASS.

During our testing over procurement transactions for District agencies with independent procurement authority, we noted the following:

For a sample of competitive procurements we noted:

- For 9 of 37 sampled items tested, approval of purchase orders was granted by individuals that did not have warrant authority to bind the District into a procurement agreement; exceptions relate to the Department of General Services.

- For 4 of 37 sampled items tested, evidence that the procurement was awarded through the competitive sealed bidding process was not available for review; 2 exceptions related to the Deputy Mayor for Planning and Economic Development, and 2 exceptions relate to the Department of Disability Services;

- For 1 of 37 sampled items tested, evidence that a search to ensure that vendors were not included on the Federal or District of Columbia excluded party lists prior to the execution of the contract was not available or was insufficient for review; 1 exception relates to the Department of General Services.

- For 2 of 37 sampled items tested, evidence of contractor compliance with the District tax code was not available for review; all exceptions relate to the Department of General Services.

For a sample of emergency procurements we noted:

- For 1 of 5 sampled items tested, approval of purchase orders was granted by individuals that did not have warrant authority to bind the District into a procurement agreement; exception relates to the Department of General Services.

- For 1 of 5 sampled items tested, evidence that the procurement was awarded through the competitive sealed bidding process was not available for review; exception relates to the Department of General Service.

  For 1 of the 5 sampled items tested, a contract was not available for review; exception relates to the Department of General Services.

For a sample of sole source procurements we noted:

- For 4 of 41 sampled items tested, approval of purchase orders was granted by individuals that did not have warrant authority to bind the District into a procurement agreement; exceptions relate to the Department of General Services.

- For 3 of 41 sampled items tested, a contract was not available for review; 1 exception relates to the Department of the Deputy Mayor for Planning and Economic Development, 1 exception relates to the

District of Columbia Public Library, and 1 exception relates to the Office of the Chief Financial Officer.

- For 1 of 41 sampled items tested, evidence of compliance with the District's tax code was not available for review; the exception relates to the Department of General Services.

During our testing of procurement and disbursement transactions at the District of Columbia Public Schools, (DCPS), we noted that DCPS had a total of $154,443,230 in non-personnel expenditures in FY 2014. During our testwork over a sample of 40 disbursements totaling $16,276,205, we noted that DCPS did not comply with the District of Columbia's Quick Payment Act for eight of the expenditures totaling $1,342,471. Specifically, we noted that payment for all eight transactions was made more than 30 days after the Chief Financial Officer's (CFO) Office received the invoice. The average length of time between receipt of the invoice and payment for the exceptions noted was 46 days.

During our testwork over the purchase card (P-card) transactions, we noted the untimely review of monthly P-card reconciliations between the cardholder transaction statement, receipts and PaymentNet; and the lack of proper authorization for P-card transactions. Specifically, we noted the following:

Of a sample of 40 monthly P-card reconciliations totaling $192,232 and consisting of 315 individual P-card transactions we noted the following:

- For 4 of 40 P-Card reconciliations, approval was not provided for the monthly P-cardholder transactions statement by an Approving Official to demonstrate that the reconciliation was performed. These exceptions relate to the following departments: (1) Office of Administrative Hearings, (2) Department of Human Services, (3) Office of Risk Management, and (4) Office of the Deputy Mayor for Public Safety and Justice.

- For 10 of 40 P-Card reconciliations, approval was not provided for the monthly P-cardholder transaction statements by an Approving Official (AO) by the required approval date stated in the applicable Office of Contracting and Procurement (OCP) policy. Exceptions relate to the following departments: (1) Office of the Inspector General, (2) Council of the District of Columbia, (3) Department of Motor Vehicles, (4) Department of Public Works, (5) Department of General Services, (6) Department of Fire and Emergency Medical Services, (7) Office of the Tenant Advocate, (8) Child and Family Services, and (9) Metropolitan Police Department.

- For 2 of 40 P-Card reconciliations, approval was not provided by an Approving Official (AO) for all transactions within the monthly P-cardholder transactions statements by the required approval date stated in the applicable Office of Contracting and Procurement (OCP) policy. Specifically:

    - 1 transaction on the September statement of a P-cardholder employed by the Department of Human Services lacked evidence of approval.

    - 1 transaction on the September statement of a P-cardholder employed by the Council of the District of Columbia lacked evidence of approval.

In addition, we noted that OCP downloads the monthly purchase cardholder statements via the PaymentNet application, which is operated by Total Systems, Inc. (TSYS), a vendor of JPMorgan Chase, which are then reviewed and approved by an Approving Official. Thus, JPMorgan Chase is a service organization to OCP. Upon inquiry, we determined that OCP obtains and reviews on an annual basis a Type 1 Statement on Standards for Attestation Engagements No. 16 (SSAE 16) *Report on Controls at a Service Organization Relevant to User Entities' Internal Control over Financial Reporting* (i.e. Type 1 SOC report). However, OCP does not have any end user controls in place to ensure information provided by JPMorgan Chase can be relied upon as complete and accurate.

Criteria:

Competitive Procurements

According to the **Procurement Practices Reform Act of 2010, Section 402**, "*Contracts exceeding $100,000 shall be awarded by competitive sealed bidding unless the CPO issues a determination and finding that use of competitive sealed bidding is not practicable or not in the best interest of the District"*.

The **Procurement Practices Reform Act of 2010, Section 202** requires "A certification that the proposed contractor is current with its District and federal taxes or has worked out and is current with a payment schedule approved by the District or federal government."

The **Procurement Practices Reform Act of 2010**, **Section 802** requires the contractor to "Certify that it is not debarred, suspended, or excluded from any federal or District program, including procurement programs."

In addition, District of Columbia Municipal Regulations (DCMR) require the following:

1. Per **Title 27 DCMR, 1202.2 "***The documentation in each contract file maintained by the contract office shall be sufficient to constitute a complete history of the transaction for the following purposes:*

   a) Providing a complete background as a basis for informed decisions at each step of the procurement process;
   (b) Supporting actions taken;
   (c) Providing information for reviews and investigations; and
   (d) Furnishing essential facts in the event of litigation".

2. Per Title **27 DCMR Chapter 47 (Department of General Service procurement policy**) "*The CCO may delegate his or her contracting authority to employees of the Department, or employees of the District of Columbia government acting on behalf of the Department, who shall be designated as "Contracting Officers." Any such delegation shall be in writing and shall specify any limits on a Contracting Officer's delegated authority (for example, limits on the dollar value of contracts the individual is authorized to award). In no case shall a Contracting Officer's authority exceed the CCO's authority. All such delegations shall be made publicly available on the Department's website".*

Emergency Procurements

In addition, District of Columbia Municipal Regulations (DCMR) require the following:

1. Per Title **27 DCMR, 1710.3,** "*The justification for emergency procurement shall not be based solely on internal governmental circumstances. In the absence of an emergency condition, an emergency procurement shall not be justified on the basis of any of the following circumstances:*

    (a) The lack of adequate advance planning for the procurement of required supplies, services, or construction;

    (b) Delays in procurement caused by administrative delays, lack of sufficient procurement personnel, or improper handling of procurement requests or competitive procedures; or

    (c) Pending expiration of budget authority".

2. Per Title **27 DCMR, 1710.5,** "*The emergency procurement of services shall be limited to a period of not more than ninety (90) days*".

3. Per Title 27 **DCMR, 1711.1,** "*When an emergency procurement is proposed, the contracting officer shall prepare a written determination and findings (D&F) that sets forth the justification for the emergency procurement".*

Sole Source Procurements

According to Title 27 DCMR 1002.4, "*each delegation of contracting authority by an agency head to an official under his or her administrative control shall be in writing and shall include clear instructions on the limitations of the contracting authority being delegated*".

Tax Compliance

Per Title 27 **DCMR, 2212.1** "*unless there is a compelling reason to do otherwise, agencies shall not solicit offers from, award contracts to, or consent to subcontract with a debarred or suspended contractor".*

Per Title 27 **DCMR, 2200.4 (f)** "a prospective contractor shall meet compliance with the applicable District licensing and tax laws and regulations".

According to the District of Columbia's Office of Contracting and Procurement Purchase Card *Program Policies and Procedures No.2009-01,* the following shall apply:

Official Government Use: An individual who is issued a purchase card under the DC Purchase Card Program shall use the purchase card to buy commercially available goods and services, for official government business only, with a value that does not exceed $2,500 per single transaction and a total amount of $2,500 per card per day and $10,000 per card account per monthly cycle unless otherwise specified by the CPO in the delegation of contracting authority. Only purchases of goods, supplies, and services that are directly related to the programmatic function of the cardholder's agency programs shall be made.

Data Verification*:* By the 27th of each month, the Approving Official (AO) shall obtain original receipts from cardholders under their jurisdiction and ensure that the cardholders have reviewed all transactions in PaymentNet. The AO shall review each transaction to verify that the goods or services were received, that the nature of the purchase was within programmatic guidelines, and that the receipts match the amount listed in PaymentNet. The Approving Official will note any discrepancies in PaymentNet and will mark each transaction as Approved.

Reconciliation Time Frame*:* By the 3rd of the month, the AO shall mark each transaction as Approved in PaymentNet. The AO shall provide original receipts to the APC.

Electronic Usage. A cardholder may make purchases using electronic method. Payments using PayPal or other payment intermediaries are prohibited.

According to the District of Columbia's Office of Contracting and Procurement *Purchase Card Program Policies and Procedures No.2009.02,* effective September 2, 2014, the following shall apply:

Official Government Use: An individual who is issued a PCard under the PCard Program shall use the PCard to buy commercially available goods and services, for **Official Government Business Only.** Each purchase may not exceed $5,000 per transaction for goods; $2,500 for services; and $2,000 for construction, alteration or repair of public works. A cardholder may not exceed a total amount of $20,000 per card account monthly cycle, unless otherwise specified by the CPO in a temporary Delegation of Contracting Authority. Only purchases of goods, supplies, and services that are directly related to the programmatic function of the cardholder's agency programs shall be made.

Data Verification: By the 25th of the month, the cardholder shall log into PaymentNet and verify that each transaction charge is correct and matches the details of the original receipt. If Level 3 item detail is not provided, the cardholder shall also select the appropriate account object code and comptroller source code for each transaction. The cardholder shall upload receipts for each transaction in the PDF format in the PaymentNet system. The cardholder shall enter relevant information in the notes section of the Transaction Detail Screen and if applicable, the cardholder shall explain any missing receipts in the Notes section. The CH shall verify that any refunds or cancellations are reflected. The cardholder shall mark each item as Reviewed and select the name of his/her AO or Alternate AO**.**

Reconciliation Time Frame: By the 30th of each month, the AO shall mark each transaction listed as Approved or Disapproved if applicable in PaymentNet.

Electronic Usage: A cardholder may make purchases using electronic methods. Payments using PayPal or other payment intermediaries are allowed but discouraged.

The Quick Payment Act of 1984, codified in Chapter 17 of District of Columbia Municipal Regulations, requires District agencies to make payments to vendors timely upon receipt of invoices for goods and services. Section 1702 of the act states:

> Agencies shall make payments as close as possible to, but not later than, the required payment dates specified in Section 1707.

Section 1707.2 of the Act states:

> If a contract does not specify a payment date, the required payment date shall be one of the following:
>
> 1) Meat and meat food products – the seventh (7^{th}) day after the date of delivery of the meat or meat product;
>
> 2) Perishable agricultural commodities – the tenth (10^{th}) day after the date of delivery of the perishable agricultural commodity; or
>
> 3) All other goods and services – the thirtieth (30^{th}) day after the receipt of a proper invoice by the designated payment officer.

Furthermore, section 1717.2 of the Act addresses various requirements for payment of interest and penalties and includes provisions regarding required reports as follows:

> 3) Each District agency shall file with the Mayor and the Chief Financial Officer a detailed report on any interest penalty payments made pursuant to this subchapter during the preceding fiscal year.
>
> 2) The report shall include the numbers, amounts, and frequency of interest penalty payments, and the reason the payments were not avoided by prompt payment, and shall be delivered to the Mayor and the Chief Financial Officer within 60 days after conclusion of the fiscal year.

3) The Chief Financial Officer shall submit to the Mayor and the Council within 120 days after the conclusion of each fiscal year a report on District agency compliance with the requirements.

Cause/Effect:

OCP and Agencies with independent procurement authority did not consistently adhere to established policies and procedures and remediation efforts to ensure compliance with District laws and regulations due to lack of oversight and monitoring after remediation efforts were put into place.

Approving Officials and cardholders are not adhering to the established purchase card program policies and procedures. In addition, OCP was unaware that they should be performing some sort of monitoring over JPMorgan Chase, such as implementing complementary end-user controls to ensure completeness and accuracy of bank statements.

DCPS did not have sufficient procedures in place to ensure payments were made in a timely manner. Specifically, we noted that receiving reports for five of the disbursements were not approved timely in the Purchasing Automated Support System (PASS) by the related school or program office, which caused the payment to be delayed. In addition, the invoices for three of the disbursements were not timely approved for payment in PASS by the Accounts Payable department.

Without adequate controls in place to ensure OCP and Agencies with independent procurement authority are adhering to the procurement rules established by District law, the District could be non-compliant with procurement laws and regulations of the District of Columbia.

Without proper and timely review and reconciliation of P-card transactions, the District may not detect and prevent fraudulent charges and abuse of purchases. Failure to identify and address risks related to information produced and provided by a service organization could result in failure to identify erroneous, inaccurate or incomplete P-card transaction information.

Recommendations:

We recommend that OCP and Agencies with independent procurement authority ensure adherence to internal controls over procurements to ensure compliance with District of Columbia procurement laws and regulations, and to ensure all contract documentation that can serve as an audit trail is properly retained by establishing increased training and oversight and monitoring.

In addition, we recommend that OCP strengthen internal controls surrounding the review and approval of P-card transactions and reconciliations to ensure adherence to the District's policies and procedures. We also recommend that OCP implement complementary end-user controls to monitor the operating effectiveness of internal controls at its service organizations.

We recommend that DCPS implement procedures to monitor receiving reports and invoices processed in PASS to ensure they are approved in a timely manner. In the event that an invoice is not paid within 30 days due to vendor errors, evidence supporting the fact that payment was withheld until issues with the goods or services received or amounts invoiced were resolved should be appropriately documented.

Management Response:

Management concurs with the facts of the findings as reported by the independent auditors. The District's Office of Contracting and Procurement as well as the affected agencies with independent contracting authority will work collaboratively to analyze the reported findings and develop and implement the needed corrective actions. To the extent that remediation is in progress for certain deficiencies, we will continue our efforts until the issues are fully resolved. In addition, DCPS will take the necessary actions to improve compliance with the Quick Payment Act.

Finding 2014-03 – Weaknesses in the District's Internal Controls over Medicaid, TANF and SNAP Programs

Background:

For the District of Columbia, Medicaid is administered by the Department of Health Care Finance (DHCF). The U.S. Department of Health and Human Services (HHS), Centers for Medicare and Medicaid Services (CMS) represents the Federal side of the program. Medicaid operates as a vendor payment program in which states reimburse individual and institutional providers of medical services. Medicaid eligibility is based on categorical (e.g., elderly, blind, and disabled) and financial (e.g. income/resources) considerations. Applicants are required to submit applications through the DC Health-Link (Modified Adjusted Gross Income (MAGI)-eligible only) or at one of five Economic Security Administration (ESA) Centers which are located throughout the District (non-MAGI eligible). Provider eligibility is determined via an application and review process conducted by various agencies according to the provider category (i.e. hospitals, pharmacies, Intermediate Care Facilities, etc.) All providers must complete an enrollment application and submit it along with the provider-specific required documentation in order to begin the enrollment process.

Additionally, the application form for both the Temporary Assistance for Needy Families (TANF) and the Supplemental Nutrition Assistance Program (SNAP) is a combined application with Medicaid as noted above.

During our FY 2014 audit, we continued to note deficiencies in the District's internal controls over the administration and financial reporting of the Medicaid, TANF, and the SNAP programs that we believe rise to the level of being a significant deficiency when considered in the aggregate and when you consider that most of these findings are repeat findings that we have previously reported to management and, with minor exceptions, no significant corrective action has been taken to remediate these control deficiencies.

Conditions:

Specifically we noted the following:

<u>Beneficiary and Provider Eligibility</u>

During testing over beneficiary eligibility for Medicaid benefits, we noted that ESA was unable to provide sufficient documentation to support certain beneficiaries' eligibility determinations during the FY 2014 audit. Specifically, in our sample of 65 beneficiary disbursements tested, we noted the following exceptions:

- Seven (7) instances in which ESA was unable to provide the beneficiary application and/or recertification package.
- One (1) instance in which ESA was unable to provide proof of citizenship.
- Two (2) instances in which ESA was unable to provide proof of residency within the District of Columbia.
- Three (3) instances in which ESA was unable to provide the "Requests to Add Newborn" reports for birth of the beneficiaries who are under the parent's Medicaid case numbers.

During our testing over Medicaid provider eligibility, we noted that the Department of Health Care Finance (DHCF) was unable to provide sufficient documentation to support the providers' eligibility determination during the FY 2014 audit. Specifically, of a sample of 65 Medicaid providers, we noted the following exceptions:

- Three (3) instances in which DHCF was unable to provide the Medicaid provider files.
- Fifty-one (51) instances in which DHCF was unable to provide evidence of valid provider liability insurance for the period under audit (e.g. insurance was expired or absent).

- Eleven (11) instances in which DHCF was unable to provide evidence of valid practitioner licensure information for the period under audit (e.g. licensure was expired or absent).

During testing over beneficiary eligibility for the TANF program, we noted that ESA was unable to provide sufficient documentation to support certain beneficiaries' eligibility determination during the FY 2014 audit. Specifically, of a sample of 65 beneficiary disbursements tested, we noted the following exceptions:

- Eleven (11) instances in which ESA was unable to provide birth certificates.
- Seventeen (17) instances in which ESA was unable to provide letters establishing residence.
- One (1) instance in which the benefits for the individual were appropriately terminated based on review of the case; however, the appropriate changes were not updated in ACEDS.
- Sixteen (16) instances in which ESA was unable to provide evidence that the Interface/IEVS check was performed.
- Three (3) instances in which the customer had received TANF benefits from Federal sourcing for more than 60 months in the amount of $899.43. The Federal funding limit is 60 months.

During testing over beneficiary eligibility for the SNAP program, we noted that ESA was unable to provide sufficient documentation to support certain beneficiaries' eligibility determination during the FY 2014 audit. Specifically, of a sample of 65 beneficiary disbursements tested, we noted the following exceptions:

- Twenty four (24) instances in which ESA was unable to provide the dated and signed application or most recent recertification.
- Seven (7) instances in which ESA was unable to provide proof of residence within the District.
- Five (5) instances in which the beneficiaries were approved for benefits by a Social Service Representative (SSR) who did not appear on the list of SSRs with "authority to act".

Social Security Representatives with Authority to Act

Personnel at ESA are responsible for determining beneficiary eligibility for the Medicaid, TANF, and SNAP programs. In order to determine eligibility, the ESA Social Service Representatives (SSRs) record information from potential beneficiaries into the Automated Client Eligibility Determination System (ACEDS). Once a beneficiary is determined to be eligible, the SSRs are responsible for recording any further case actions - e.g. updates of personal information, termination of benefits, and renewal of benefits. Case actions including initial determination of eligibility can be recorded in ACEDS by all SSRs; however, only SSRs with "authority to act" can record actions without supervisory review and approval. As a result, controls over the entry and processing of beneficiary cases in ACEDS are not properly designed and implemented to ensure segregation of duties. Specifically, SSRs with authority to act have the ability to both record and authorize beneficiary case actions in ACEDS.

Control Operations and System Interfaces

Controls over management's review of exception reports resulting from the interface reports from the Automated Client Eligibility Determination System (ACEDS) and the Electronic Benefits Transfer (EBT) systems and from the interface of the Automated Client Eligibility Determination System (ACEDS) and the Medicaid Management Information System (MMIS) are not sufficiently documented, designed, and implemented. Specifically, we noted the following:

- Two (2) instances out of a sample of 25 days in which DHS was unable to provide evidence of review of the daily ACEDS to EBT interface exception report; and
- One (1) instance in which the District was unable to provide evidence to support the investigation and resolution of identified errors in the ACEDS to MMIS interface exception report.

Additionally, controls over management's review of the Medicaid Management Information System MMIS SSAE 16 report are not sufficiently designed, documented, and implemented effectively. Additionally, we noted that the controls in place to address end user control considerations were not operating effectively. Specifically, we noted:

- Management's review of the SSAE 16 report was not sufficiently documented to present considerations made by the Department of Health Care Finance (DHCF) and the potential impact of the report conclusion (i.e., qualified opinion) on DHCF's operations and financial reporting.

- Additionally, as part of the review process, management did not perform a timely analysis over the complementary user entity control considerations noted in the report. We noted the analysis was performed only as a result of audit inquiries.

- As part of our testing of the complementary user entity controls over system access we noted that controls in place to address system access risks were not adequate. Specifically, DHCF does not perform a sufficient review of a complete list of MMIS users (active and inactive) to ensure access to MMIS is restricted to authorized users and the authorized users' access levels remain appropriate over time.

- Further, we noted Xerox/MMIS uses the subservice organization Xerox Information Technology Services and Shared Services. Upon requests by the auditors, DHCF was unable to provide a current SSAE 16 report for the subservice organization to cover the full audit period.

Medicaid Accrual

Controls over management's review of the Medicaid accrual are not designed and implemented effectively to ensure accrual estimates are made based on properly supported data elements in which documentation is readily available. Additionally, the review is not performed at a sufficient level of precision as described by the Department of Health Care Finance (DHCF). During our walkthrough of the control, DHCF stated that there is no dollar threshold or materiality considerations applied when reviewing the Medicaid grant accrual and, as such, all amounts are subject to review. However, during our audit of the FY 2014 accrual we noted the following:

- DHCF estimated Health Insure Provider Fees (HIPF) based on a projected total recoupment cap of $11.5 billion. This amount was based on discussion with the DHCF's actuary; however, we noted that subsequent to audit inquiry, DHCF provided documentation supporting a cap of $11.3 billion. DHCF was also unable to provide support for the HIPF tax rate of 2.5% used to calculate the HIPF tax portion of the accrual. KPMG performed an independent analysis of the HIPF tax accrual amount based on determining rates per data presented on the IRS website related to this tax. As a result, we determined that the applicable rate that should have been used in the estimate is 1.5%. The consolidated result of these two conditions results in a potential overstatement of the Medicaid accrual of approximately $7.8 million ($2.1 million local and $5.7 million federal).

- DHCF did not consider the potential impact of Medicaid-ineligible individuals that were deemed eligible and who may be erroneously receiving Medicaid benefits due to system defects in the newly implemented HealthLink system. Based on our audit requests, DHCF subsequently prepared an estimate for the amount of potentially disallowed costs associated with the HealthLink system defects in the amount of $372 thousand. KPMG performed an independent estimate noting the potential impact to be $1 million.

- DHCF used estimated amounts over actual cost data to estimate certain revenues and expenditures associated with consulting services for 2013 and 2014. A comparison of the estimated amount to the actual amount resulted in an under accrual for 2013 local costs in the amount of $185 thousand and an over accrual for 2014 local costs in the amount of $38 thousand.

- We noted in the Non-Cost Reporting Providers (Managed Care) accrual support that DHCF erroneously excluded two months (April 2013 and December 2013) from the detail of the FY 2011 and FY 2012 rate calculations, respectively. The impact of the excluded months on the total accrual amount was only $2 thousand, which is clearly inconsequential. However, excluded months are indicative that the management review process is not performed to the level of precision described.

Additionally, we noted that the accrual "Look-back Analysis "' process implemented by DHCF several years ago in response to a prior finding could be improved as DHCF did not consider all prior year outflows in the current fiscal year. Specifically, per review of the Affordable Care Act (ACA), the HIPF tax should have been accrued in FY 2013 resulting in total HIPF taxes of $7.9 million. The local portion of this is $2.2 million and the federal portion is $5.7 million.

Criteria:

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) *Internal Control—Integrated Framework* states:

- *Control activities are the actions established through policies and procedures that help ensure that management's directives to mitigate risks to the achievement of objectives are carried out. Control activities are performed at all levels of the entity, at various stages within business processes, and over the technology environment. They may be preventive or detective in nature and may encompass a range of manual and automated activities such as authorizations and approvals, verifications, reconciliations, and business performance reviews. Segregation of duties is typically built into the selection and development of control activities. Where segregation of duties is not practical, management selects and develops alternative control activities*

- *Ongoing evaluations, separate evaluations, or some combination of the two are used to ascertain whether each of the five components of internal control, including controls to effect the principles within each component, is present and functioning. Ongoing evaluations, built into business processes at different levels of the entity, provide timely information. Separate evaluations, conducted*

> *periodically, will vary in scope and frequency depending on assessment of risks, effectiveness of ongoing evaluations, and other management considerations. Findings are evaluated against criteria established by regulators, standard-setting bodies, or management and the board of directors, and deficiencies are communicated to management and the board of directors as appropriate. Ongoing evaluations, separate evaluations, or some combination of the two are used to ascertain whether each of the five components of internal control, including controls to effect the principles within each component, is present and functioning.*

Medicaid State Plan: Citation 42 *CFR 431.17AT-79-29, Section:* 4.7 *Maintenance of Records* The Medicaid agency maintains or supervises the maintenance of records necessary for the proper and efficient operation of the plan, including records regarding applications, determination of eligibility, the provision of medical assistance, and administrative costs and statistical, fiscal and other records necessary for reporting and accountability, and retains these records in accordance with Federal requirements. All requirements of 42 CFR 431.17 are met.

ESA Policy Manual Section: STANDARDS FOR CASE RECORD DOCUMENTATION 1.3 All eligibility criteria and clarifying information are documented on the Record of Case Action, Form 1052. The case record should speak for itself. An outside reviewer shall be able to follow the chronology of events in the case by reading the narrative. All application documents including verification and correspondence must be date-stamped. For working recipients, the record should include the dates pay is received and how often the recipient is paid. When the recipient's statement is the best available source, the record should include both the applicant/recipient's and the agency's efforts to verify the information. All address changes should be documented.

Title XIX requires that the District of Columbia enter into written agreements with persons or institutions providing services under the State's plan for Medical Assistance. It also requires that the providers, when applicable, must (1) be licensed in the jurisdiction where located and/or the District of Columbia; (2) be currently in compliance with standards for licensure; (3) services be administered by a licensed or certified practitioner; and (4) comply with applicable federal and District standards for participation in the Title XIX of the Social Security Act.

42 CFR 455 states:

> "455.412 Verification of provider licenses…
>
> > The State Medicaid agency must—… (b) Confirm that the provider's license has not expired and that there are no current limitations on the provider's license….
>
> §455.414 Revalidation of enrollment.
>
> > The State Medicaid agency must revalidate the enrollment of all providers regardless of provider type at least every 5 years….
>
> §455.416 Termination or denial of enrollment.

> The State Medicaid agency—
>
> (a) Must terminate the enrollment of any provider where any person with a 5 percent or greater direct or indirect ownership interest in the provider did not submit timely and accurate information and cooperate with any screening methods required under this subpart."

45 CFR 92.42: Department of Health and Human Services Retention and Access Requirements for Records. Length of retention period. (1) Except as otherwise provided, records must be retained for three years from […] the day the grantee or subgrantee submits to the awarding agency its single or last expenditure report for that period.

Medicaid Management Information System (MMIS) SSAE 16 report, states that "the services provided by Xerox for the processing and maintenance of the MMIS and the related data were designed with the expectation that certain controls would be implemented by the user organization. The application of such controls by the user organization is necessary to achieve certain control objectives identified in this report. User auditors should consider whether controls have been placed in operation at user organization to address the following:

- Access to the user organization's network and client computers is restricted to authorized users.
- Claims submissions are properly authorized by providers.
- Data transmissions to Xerox are monitored for security, accuracy and completeness.
- System output and reports are adequately controlled and safeguarded."

Cause/Effect:

The review of provider eligibility determinations is not sufficient to ensure that the District is adhering to their internal controls regarding provider eligibility determinations and proper file maintenance. Additionally, this lack of review and oversight caused the District to not adhere to its documentation retention policies and procedures for maintaining case record documentation. As such, without proper review of files and failure to maintain sufficient documentation to support eligibility determinations, ineligible Medicaid providers could receive payments for Medicaid services provided. In addition, failure to maintain sufficient documentation to support the eligibility determination for providers could result in disallowances. Lastly, failure to review and maintain proper documentation, the District could be paying benefits to participants who are ineligible.

Related to entering and approving grant applications entered into ACEDS for eligibility determination, the District's ESA has not implemented adequate segregation of duties due to a lack of sufficient staff/resources. As a result, beneficiary cases recorded and authorized by an SSR with the authority to act could be erroneous and/or inappropriate.

Policies and procedures over the review of the ACEDS to EBT interface are not sufficiently documented to adequately address document retention relating to the review of the ACEDS to EBT interface. As such, failure to review the daily response files from the interface increases the risk of errors in benefits processing. However, ACEDS is being replaced with a new system and remediation efforts have been spent on ensuring that that system has proper review and interface parameters in place.

Further, DHS policies are not sufficient to explain and identify specific criteria for which exceptions, noted in the ACEDS to MMIS interface, require investigation and resolution. Thus, failure to review and resolve exceptions from ACEDS to MMIS interface could result in errors in Medicaid benefits processing.

DHCF does not have adequate policies and procedures in place to ensure the timely analysis and documented consideration of the complementary user entity controls per the MMIS SSAE 16 report. Additionally, DHCF lacks processes to ensure controls are designed and implemented effectively to address the risks identified in the SSAE 16 report. Failure to implement controls increases the risk of unapproved access to MMIS and processing of inaccurate benefit information by the service provider.

Although there has been improvement over DHCF's policies and procedures related to the review and approval of the Medicaid grant accrual, we noted that they are still not properly documented and reinforced to ensure an appropriate level of precision is applied, estimates are made based on supported data elements, and documentation is readily available. The conditions associated with HIPF tax results in an overstatement in FY 2014 GAAP Fund 400 Human Support Services expenditures and Operating Grants revenues of approximately $11.4 million; and an overstatement in GAAP Fund 400 Accrued Liabilities and Due from Federal Government of approximately $5.7 million.

Recommendations:

We recommend that the District consistently adhere to policies and procedures for maintaining case record documentation and improve its controls over monitoring compliance. We observed that the District is in the process of implementing a new automated eligibility system, District of Columbia Access System (DCAS), which will help address the condition over time. Additionally, we recommend that the District develop policies and procedures to properly evaluate and review the eligibility of providers consistent with 42 CFR 455 by collecting and retaining proper documentation listed above to consistently support Medicaid provider eligibility determinations.

We also recommend that ESA strengthen its current policies and procedures to require the SSR duties of recording and authorizing beneficiary case actions in ACEDS to be segregated.

Additionally, we recommend that DHS formalize and implement policies and procedures to address document retention in support of the review of system interface exception reports and that DHS revise existing policies to formalize the portions related to specific review criteria and documentation requirements for the review. Furthermore, we recommend that DHCF create and implement formal policies and procedures to document its analysis of the MMIS SSAE 16 report and ensure the complementary user entity controls are properly designed and implemented.

Lastly, we recommend that DHCF develop and implement formal policies and procedures to ensure proper review and approval of the Medicaid grant accrual entry is performed. The policies and procedures should include metrics, thresholds, or other criteria that are to be consistently followed in the operation of the review and the definition of outliers and exceptions.

Management Response:

Beneficiary and Provider Eligibility

Medicaid

Management concurs with the auditors' findings. Effective March 31, 2015, the Department of Human Services (DHS) will: (1) put monitoring controls in place to ensure that cases in ACEDS and DCAS have a case record in DIMS, and (2) will monitor and enforce staff compliance with document management and retention policies and procedures.

TANF

Management concurs with the auditors' findings related to 19 cases in the TANF sample. The auditors reviewed cases in DIMS; however, they found that DIMS did not present the requisite supporting documentation.

Management disagrees with the findings related to the "60 month" cases, in which the auditor cited certain cases as "Received TANF benefits from federal sources for more than 60 months." In accordance with Federal and District law, the District is allowed to fund 20% of its TANF cases exceeding 60 months.

Management concurs with the finding with respect to the sampled cases for which the auditor noted "No lnterface/IEVS information found, or there is no evidence that the IEVS check was done." The auditors reviewed the cases in DIMS; however, they found that DIMS did not present the requisite supporting documentation.

SNAP

Management concurs with the auditors' findings. Regarding the five instances in which beneficiaries were approved for benefits by a Social Service Representative (SSR) who did not appear on the list of SSRs with "authority to act," the number which the auditor cited for one of the five SSRs (HSRCR40) was invalid and does not exist in the District's ACEDS system. As for the other four SSRs, it is correctly stated that they did not appear on the list of SSRs with "authority to act." However, there were no staff members who exercised the "authority to act" who did not, in fact, have the "authority to act". Consequently, it is less likely than reported by the auditors that the District is possibly paying benefits to participants who are ineligible.

Social Security Representatives with Authority to Act

Management does not agree with the finding as presented by the independent auditors. The Department of Human Services' (DHS's) existing supervisory case review policy and procedures help ensure that management's directives are carried out and necessary actions are taken to address the risks that may hinder the achievement of the agency's objectives.

A requirement of the SSR position includes the expectation that the SSR will exercise sound professional judgment and determine eligibility as necessary in the performance of his/her duties. The "authority to act" designation is formally bestowed based on an employee's performance and grade level. Consequently, an SSR acquires the "Authority to Act" upon demonstrating ability to consistently and correctly determine eligibility and process customer benefits. An SSR's ability to continue to exercise proper judgment in determining eligibility and processing benefits is constantly monitored and reflected in the annual Performance Evaluations. If an SSR displays diminished competency in their ability to "Act," that responsibility is summarily taken away.

Moreover, it is acceptable in general business and accounting practices when duties cannot be adequately separated, that **"compensating controls"** be put in place. Compensating controls are internal controls that are intended to reduce the risk of an existing or potential control weakness. DHS affirms that its supervisory case review policy and procedures are the agency's compensating controls. DHS's existing supervisory case review policy and procedures, which involves three levels of review by supervisors and managers, were established in October 2010 and have been consistently and sufficiently revised to facilitate the assurance of program accuracy and adherence to eligibility determination policies and procedures by SSRs, including those that have "Authority to Act".

In recent years, the public services industry has been changing to streamline processes and reduce costs. With such changes, as long as adequate monitoring and quality assurance controls are in place, states have been encouraged by the federal and local funding partners to find ways to streamline processes. Given the local and federal policies and regulations relative to timeliness in processing actions for customer benefits, increasing caseloads and the limited number of supervisory SSRs to authorize actions, acting upon the auditor's recommendation that "ESA strengthen its current policies and procedures to require the SSR duties of recording and authorizing to be separated is not feasible and would negatively impact timely actions, at this time.

Control Operations and System Interfaces

Management concurs with the reported findings in this area.

DHS's Division of Information Systems (DIS) has established a Control Report Log and process for sequentially tracking and reconciling the EBT Response Files which are reviewed and acted upon by DIS Management.

In addition, the Department of Human Services (DHS) will collaborate with the Department of Health Care (DHCF), which initiates the MMIS Exception Reports, to narrow down those elements of the report that specifically pertain to DHS and to develop guidance for responding to those elements requiring DHS action.

The exception report which the auditor cited (dated February 3, 2014) was thoroughly reviewed by DHS's Division of Information Systems staff and the appropriate address changes, code changes and case terminations (due to a customer's death) were verified and/or completed. There were no cases on the exception report that were not reviewed or acted upon. Consequently the situation in question would not result in an error in Medicaid benefit processing.

Medicaid Accrual

The Department of Health Care Finance Office of the Chief Financial Officer (DHCF-OCFO) concurs, *in part,* with this finding. DHCF-OCFO has a process for calculating and reviewing the Medicaid accrual that includes planning meetings with the analysts who pull the data and do the analysis, as well as multiple levels of review with the Reimbursement Supervisor, the Agency Fiscal Officer, and ultimately the Associate CFO for Human Support Services. Nonetheless, the DHCF-OCFO will formalize that process into a set of policies and procedures for calculating the Medicaid accrual as recommended. These policies and procedures will include the data sources to be used, the calculations to be performed, timeframes for completing the steps in the analysis, the logical tests that any accrual calculation must pass, and the levels of review required. Explicit descriptions of the required calculations and levels of review should prevent the recurrence of reported issues.

In addition, the DHCF-OCFO will add the sections outlined below to the Medicaid accrual policies and procedures.

- A section addressing how to calculate the accrual for the Health Insurance Provider Fee that incorporates the data sources and process KPMG used in its independent analysis.

- A section addressing when and how to calculate accruals for potential disallowances of federal Medicaid funding that includes both potential administrative disallowances and federal audit findings.

- A section addressing the preparation of the Look-Back Analysis for the prior year Medicaid accrual including timeframes and specific considerations for the analysis. This will allow DHCF-OCFO to make better use of the Look-Back Analysis.

KPMG's Response:

We have reviewed management's response and our findings and recommendations remain as stated.

Business-Type Activities and Major Proprietary Funds

The following findings and recommendations relate to control deficiencies noted as a result of our FY 2014 audit of the District's Business-Type Activities and Major Proprietary Funds that we consider to be significant deficiencies:

Finding 2014-04 – Weaknesses in Internal Controls over Instant Scratch Tickets

Conditions:

The controls over the inventorying and monitoring of the Instant Scratch Tickets were inadequate and would not, therefore, prevent errors in the recording and reporting of 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 the retailers from the Lottery's cash and carry locations would not minimize or otherwise eliminate the risk of impropriety. It was also noted that retailers had the ability to activate only those ticket packs that contained winning tickets, thus manipulating the amounts owed to the Lottery for tickets received.

We noted that Lottery management identified the internal control weaknesses in the Instant Scratch Ticket inventorying and monitoring processes and we understand that the Lottery has developed and implemented new, more restrictive policies and procedures to improve practices associated with the safeguarding and monitoring of tickets and the recording of ticket sales. However, because the Lottery implemented such changes subsequent to the end of the fiscal year, we did not test the design and operating effectiveness of these new controls that were not implemented until fiscal year 2015.

Criteria:

Best practices require the existence of internal controls to ensure that the inventory of instant scratch tickets is properly accounted for and that revenue is recognized when measurable in a timely manner. A robust internal control environment will reduce if not prevent the opportunities for fraud; this should therefore be the aim of the agency.

COSO *Internal Control—Integrated Framework* as previously described under "Criteria" at finding 2014-03.

Cause/Effect:

The Lottery did not have adequate policies, procedures and internal controls to safeguard the integrity of the Instant Scratch Tickets program. Additionally, Lottery's personnel were not adequately trained in warehousing, distribution and monitoring of the Lottery's Instant Scratch Tickets.

Without proper internal controls, there is an increased risk that errors and irregularities in the reporting of ticket sales as well as in the administration of the Instant Scratch Ticket program could occur and go undetected. Additionally, Instant Scratch Ticket revenues may be understated.

Recommendations:

We recommend that the Lottery 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. We also recommend that the Lottery provide additional training to staff and retailers responsible for administration of the Instant Scratch Ticket program.

Management Response:

The D.C. Lottery concurs with the finding.

The DCLB, through its own internal review process, identified the control deficiencies described herein, and implemented the necessary policy, procedure and process changes to remediate the deficiencies described. With the assistance of the Chief Risk Officer, the DCLB developed and implemented the following key measures:

- **Dedicated employees to oversee retailer inventory ordering and monitor the regulated receipt time frame of distributed inventory.** *This measure eliminates the ability of a retailer to order inventory at will and prevents the stock piling of that inventory. It also eliminates inventory sitting in an "in transit" status beyond a 24 hour time frame.*

- **Instituted new regulations that require retailer acceptance of distributed inventory within 24 hours of receipt and the activation of that inventory within 30 days of issuance.** *These new regulations allow DCLB to change the inventory "status" in our inventory management system should the retailer fail to adhere to the regulated time frames. The measures also allow DCLB to take administrative action on the retailers for failure to adhere.*

- **Implemented an 80/45 billing rule.** The new rule allows DCLB to invoice retailers once 80% of low tier prizes are awarded or 45 days after activation (whichever occurs first). *This measure allows DCLB to invoice and collect payment for distributed inventory more quickly, increasing cash flow to support operations and the general fund.*

- **Moved the warehouse/ inventory management responsibility from the Sales Department to the Agency Fiscal Office.** *This measure allows technical and financial oversight of inventory by individuals who have the finance and accounting background and expertise to evaluate and analyze processes which have financial impact, and translate that activity into financial transactions.*

The D.C. Lottery believes the steps taken have remediated the finding and will prevent recurrence in the future. In keeping with the auditors' recommendation, we will continue to test the effectiveness of the newly implemented controls and ensure that staff and retailers responsible for administration of the Instant Scratch Ticket program are adequately trained on the new policies and procedures.

Finding 2014-05 Weaknesses in Internal Controls over the Unemployment Compensation Fund Claimants Payable Accrual Estimate

Conditions:

The District of Columbia Department of Employment Services (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 from October 1, 2015 through October 20, 2015. As part of the process, management relies on a system generated report (ETA 5159 Claims and Payment Activities) that details the 'number of first time payees' approved to receive benefits during this period which is a key assumption used in the estimated accrual. During our testing over the claimants payable accrual as of September 30, 2014 in the Unemployment Compensation Fund, we 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.

Criteria:

COSO *Internal Control—Integrated Framework* as previously described under "Criteria" at finding 2014-03.

Cause/Effect:

DOES does not have adequate controls in place to ensure the underlying data used in the estimate is complete and accurate prior to recording the liability. Additionally, we noted that management's review of the estimate, including the inputs used in the estimate, is not designed at a precise enough level to identify all significant errors in the accrual estimate.

Without proper controls in place to ensure the underlying data used in the estimate is complete and accurate, a misstatement could exist in the financial statements of the Unemployment Compensation Fund.

Recommendations:

We recommend that DOES management improve current controls in place to ensure that the underlying information used in the claimants payable accrual estimates are complete and accurate and that management implement a review process related to the claimants payable accrual to ensure that amounts are accurately recorded in the Unemployment Compensation Fund financial statements.

Management Response:

Management concurs with the findings and recommendations as reported by the auditors. However, it should be noted that there are adequate policies and procedures in place which have been and continue to be applied consistently when estimating accrued benefit liabilities for claimants.

With the objective of further strengthening internal controls, management will continue to update its existing policies and procedures to validate ad hoc data used for such specialized reports against standard federal reports, and to ensure its accuracy and completeness for purposes of accounting and financial reporting.

Aggregate Discretely Presented Component Units

The following findings and recommendations relate to control deficiencies noted in our FY 2014 audit of the financial statements of the District's aggregate discretely presented component units. We consider these control deficiencies to be a significant deficiency at the aggregate discretely presented component unit level when considered in the aggregate.

2014-06: Weaknesses in Internal Control over Financial Reporting related to the Aggregate Discretely Presented Component Units

Background:

The District of Columbia financial reporting entity consists of the primary government and its five discretely presented component units: Health Benefit Exchange Authority (HBEA); Housing Finance Agency; Not-for-Profit Hospital Corporation (d/b/a United Medical Center) (UMC); University of the District of Columbia (UDC), and the Washington Convention and Sports Authority.

Conditions:

During the FY 2014 audit of the financial statements of the District's aggregate discretely presented component units, we noted the following control deficiencies:

- Lack of segregation of duties within the procurement function (UDC and UMC). We noted that UMC implemented additional controls during the latter part of fiscal year 2014 to address this control deficiency;
- Untimely preparation and review of monthly bank reconciliations (UDC);
- Inadequate review of journal entries (UDC and UMC);
- Insufficient accounting policies and procedures to ensure all assessments receivable and deferred inflows are reflected in the financial statements at year end (HBEA);
- Untimely monitoring of compliance with the District's Investment and Spending Policy (UDC);
- Inadequate review and approval of expenditures to ensure costs are being properly classified between capitalized assets and program expenses as well as the proper classification within capital assets (UDC);
- Insufficient review of grant expenditures to ensure funds are not being expended in excess of the grant award or being reported in the wrong period (UDC); and
- Lack of formal written accounting policies and procedures for certain transactions which has led to changes in accounting methodologies and accounting positions that resulted in adjustments to the financial statements during the fiscal year (UDC).

Criteria:

COSO *Internal Control—Integrated Framework* as previously described under "Criteria" for finding 2014-03.

Cause/Effect:

Deficiencies in internal controls, inadequate policies and procedures, and lack of proper training and oversight resulted in the conditions noted. Without proper internal controls, adequate policies and procedures and proper training and oversight, there is an increased risk for errors in the District's aggregate discretely presented component unit financial statements as well as an increased risk of noncompliance with District laws and regulations.

Recommendations:

We recommend that the discretely presented component units strengthen their internal controls over financial reporting and compliance with laws and regulations. We also recommend that the District implement monitoring controls to ensure that component unit control deficiencies are remediated on a timely basis.

Management Response:

With the exception of the control deficiency associated with monitoring compliance with the District's Investment and Spending Policy, management concurs with the findings and recommendations and will assist the component units in developing a corrective action plan to remediate the noted control deficiencies. We will also implement appropriate monitoring controls to ensure these corrective actions are completed by the component units on a timely basis. Management disagrees with the noted control deficiency pertaining to monitoring compliance with the District's Investment and Spending Policy. We recognize that there are differences between the auditors' interpretation of this policy and those of management. We will take the observations and recommendations of the auditors under advisement and will take the necessary actions to either clarify the policy or revise current practices, as needed**.**