

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

**FOLLOW-UP AUDIT OF PRIOR YEARS' AUDIT RECOMMENDATIONS  
AT THE OFFICE OF FINANCE AND TREASURY**

**OFFICE OF INTEGRITY AND OVERSIGHT**



**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**Office of the Chief Financial Officer**



**Office of Integrity and Oversight**

**MEMORANDUM**

**TO:** Jeffrey Barnette, Deputy Chief Financial Officer/Treasurer  
Office of Finance and Treasury

**FROM:** Mohamad Yusuff, Interim Executive Director,  
Office of Integrity and Oversight

**Date:** May 9, 2013

**SUBJECT:** Final Report: Follow-up Audit of Prior Years' Audit Recommendations at the Office of Finance and Treasury (Report No. OIO-12-02-13-OFT)

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Attached is the final report summarizing the results of OIO's Follow-up Audit of Prior Years' Audit Recommendations at the Office of Finance and Treasury (OIO-12-02-13-OFT). This audit was conducted as part of OIO's oversight role over the functions of the Office of the Chief Financial Officer. This Follow-up audit report covered recommendations made by OIO in reports issued to OFT during FY 2011 and FY 2012.

Our report contains two recommendations for necessary action to correct the described deficiencies. We received your response to the draft report dated April 2, 2013 and received on April, 9, 2013. We consider actions planned and taken by OFT to be responsive to the recommendations. The full text of OFT's response is included herein as Appendix 1.

We appreciate the assistance and cooperation that you and your staff provided to OIO during this audit. Should you have any questions or need additional information, please call me at (202) 442-6433.

**Attachments**

**cc:** Natwar M. Gandhi, Chief Financial Officer  
Angell Jacobs, Chief of Staff, OCFO  
Kathy Crader, Chief Risk Officer, OCFO  
Clarice Wood, Associate Treasurer of Banking and Operations, OFT

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**FOLLOW-UP AUDIT OF PRIOR YEARS' AUDIT RECOMMENDATIONS  
AT THE OFFICE OF FINANCE AND TREASURY**

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**FOLLOW-UP AUDIT OF PRIOR YEARS' AUDIT RECOMMENDATIONS  
AT THE OFFICE OF FINANCE AND TREASURY**

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**ACRONYMS**

CRO Chief Risk Officer

OFT Office of Finance and Treasury

OIO Office of Integrity and Oversight

OMA Office of Management and Administration

OMB Office of Management and Budget

UMC United Medical Center

## **EXECUTIVE DIGEST**

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### **OVERVIEW**

The Office of Integrity and Oversight (OIO) has completed a follow-up audit of Prior Years' Recommendations at the Office of Finance and Treasury to determine whether OFT had taken corrective actions on OIO recommendations made during FY 2011 to FY 2012. This audit was conducted as part of OIO's FY 2012 Audit Plan. The main objective of the follow-up audit was to determine whether OFT had implemented the corrective actions they had agreed to in the agency's response to prior years' audit reports, listed in Table 1 in the Background Section of this report.

### **CONCLUSIONS**

Our audit found that OFT had implemented 20 out of the 29 recommendations made to OFT in the six reports issued during FY 2011 and FY 2012. We also noted that OFT implemented most of these recommendations over a period in excess of one year. Of the 20 recommendations implemented, the agency did not provide us with documentary evidence supporting monitoring activities for 4 recommendations. However, in view of the fact that the deficiencies were not found in those areas during a subsequent OIO audit, we deemed the recommendations implemented.

Our audit confirmed that the remaining 9 recommendations had not been implemented. Out of the 9 recommendations not implemented by OFT, 6 were deemed low risk following a risk assessment conducted by the Chief Risk Officer (CRO). With regards to these 6 recommendations, the CRO decided that due to the hiring of a Chief Financial Officer at UMC, and the fact that the cash collection averaged about \$220 per month, it would not be necessary to open a cashiering site at UMC. The CRO therefore referred these 6 recommendations to the Chief Financial Officer at the United Medical Center (UMC) to take corrective action.

In addition, 2 recommendations are still not implemented and 1 recommendation no longer needed corrective action as the matter pertained to a location that had closed after the recommendation was made. We commend OFT on the 20 corrective actions taken but believe that the time taken to implement OIO recommendations should be reduced to ensure that risks are mitigated promptly.

## **EXECUTIVE DIGEST**

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### **SUMMARY OF RECOMMENDATIONS AND MANAGEMENT ACTIONS**

We directed 2 recommendations to OFT management for necessary action to correct the described deficiencies. The recommendations center on:

1. Completing the implementation of the remaining recommendations to ensure that the cited deficiencies in the prior year reports are remediated.
2. Directing supervisory personnel to document oversight efforts pertaining to the four recommendations that needed ongoing monitoring to comply with required procedures.

## INTRODUCTION

### BACKGROUND

In order to ensure sound internal controls, management should promptly evaluate and determine proper actions in response to known deficiencies, reported audit and other findings, and related recommendations. All actions that correct or otherwise resolve the appropriate matters brought to management's attention should be completed within a reasonable timeframe. OCFO officials and managers are responsible for implementing corrective actions that they have agreed to undertake in response to the Office of Integrity and Oversight (OIO) audit reports. In addition, as part of its oversight responsibilities, the OIO periodically conducts follow-up audits to verify that pledged actions have been taken and are effective in correcting reported deficiencies.

During FY 2011 and FY 2012, OIO issued six reports containing a total of 29 recommendations that required corrective actions to be taken by OFT. Following is a Table listing the six reports that contained OIO recommendations that needed OFT corrective action:

**Table 1 List of Reports Containing OIO Recommendations to OFT**

No.	Title of Audit	Issue Date	No of Recommendations
1	Management Alert Report on Internal Control Significant Deficiencies over Cashiering Operations at the United Medical Center OIO No. 10-02-25-OFT	10/27/2010	7
2	Audit of the Process Used to Collect Tax Revenue through Gov One (OFT related recommendations) OIO No. 10-01-01-OTRa	4/20/2011	2
3	Audit of the Office of Finance and Treasury's Cashiering Operations at the Main and DCRA OIO No. 10-1-08-OFT (a)	5/20/2011	5
4	Audit of the Office of Finance and Treasury's Cashiering Operations the DMV, MPD and UDC OIO No. 10-1-08-OFT (b)	5/23/2011	10
5	Audit of the Vendor Center Unit Operations OIO No. 11-01-12-OFT	11/8/2011	3
6	Wire Transfer Processing at the Office of Finance and Treasury (OFT) OIO No. 12-01-04-OFT	9/12/2012	2
Total			29

## INTRODUCTION

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### **OBJECTIVES SCOPE AND METHODOLOGY:**

The overall objective of the audit was to determine the status of recommendations included in OIO reports issued to OFT during FY 2011 and FY 2012.

In order to accomplish our objective, we provided OFT with a list of 29 recommendations issued during the period FY 2011 to FY 2012 (See attached Exhibit B). These recommendations were included in six reports that had been issued by OIO during the period FY 2011 to FY 2012. We also requested OFT to provide us with the status of the recommendations and the corrective actions that had been taken since the audit reports were issued. In addition, we met with the OFT officials responsible for taking corrective actions and verified what actions had been taken. We verified the status of all the 29 recommendations.

We conducted this audit in accordance with generally accepted government auditing standards. 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 the findings and conclusions based on our audit objectives.



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## FINDING AND RECOMMENDATIONS

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<b>FINDING: IMPLEMENTATION OF CORRECTIVE ACTIONS NOT COMPLETED TIMELY</b>
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### SYNOPSIS

Our audit found that OFT had implemented 20 out of the 29 recommendations made to OFT in the six reports issued during FY 2011 and FY 2012. We, however, noted that OFT implemented most of these recommendations over a period in excess of one year. Of the 20 recommendations implemented, the agency did not provide us with documentary evidence supporting monitoring activities for 4 recommendations.

This was due to some of the recommendations being deemed low risk by the Chief Risk Officer and delays in coordinating with other agencies, where required. Delay in implementing recommendations resulted in continued exposure to the risks that were identified in the audit reports.

### DISCUSSION

Our audit found that out of the 29 recommendations made to OFT in the six reports issued during FY 2011 and FY 2012, OFT had completed the implementation 20 recommendations. We also noted that OFT implemented most of these recommendations over a period in excess of year. Of the 20 recommendations implemented, the agency did not provide us with documentary evidence supporting monitoring activities for 4 recommendations. However in view of the fact that the deficiencies were not found in those areas during a subsequent OIO audit, we deemed the recommendations implemented.

We also found that 2 recommendations had not yet been implemented and 6 recommendations had been referred to the Chief Financial Officer at the United Medical Center (UMC) following a risk assessment conducted by the Chief Risk Officer. In addition, one recommendation no longer needed implementation since the location in question had been closed. With regards to the 6 recommendations referred to UMC, The Chief Risk Officer decided that due to the hiring of a Chief Financial Officer at UMC, and the fact that the cash collection averaged about \$220 per month, it was classified as a low risk activity.

Table 2 below is a Table shows the status of OFT's corrective actions.

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**FINDINGS AND RECOMMENDATIONS**

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**Table 2 Status of OFT Corrective Actions**

<b>Status of Corrective Actions Taken by OFT</b>	<b>Number</b>
Action Taken	16
Action Taken but needing ongoing supervisory oversight	4
No action taken/In process	2
Action Referred to UMC	6
Action no longer needed	1
<b>Total Number of Recommendations</b>	<b>29</b>

Best practices, such as the guidelines found in the Office of Management and Budget’s Circular, OMB A-12, Section II Establishing Management Controls - Resolution of Audit Findings, requires that management should evaluate and respond to audit findings and related recommendations promptly. Although OFT has taken corrective action on 20 out of the 29 recommendations, we found that the period taken for implementation of some of recommendations was too long (over 12 months). We also noted that some of the corrective actions taken involved monitoring of processes by supervisors. Since monitoring is an ongoing activity, oversight by OFT management will be crucial. We commend OFT on the corrective actions taken on 20 of OIO recommendations. We, however, believe that the time taken to implement OIO recommendations should be reduced to ensure that deficiencies are promptly addressed.

**RECOMMENDATIONS:**

We recommend that the Deputy CFO/Treasurer, OFT:

1. Complete the implementation of the remaining two recommendations to ensure that the cited findings in the prior year’s reports are remediated.
2. Direct supervisory personnel to document oversight efforts pertaining to the four recommendations that needed ongoing monitoring to comply with required procedures.

## **FINDINGS AND RECOMMENDATIONS**

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### **MANAGEMENT RESPONSE AND OIO COMMENTS**

#### **OFT's Response (Recommendation No.1)**

OFT stated that with regards to the two remaining recommendations, the following actions are being taken:

- a) With regards to the recommendation pertaining to the lockbox contract, the Office of Management and Administration (OMA) Office of Contracts has taken action to include the requirements recommended.
- b) Pertaining to the Sungard Treasury Workstation OFT has improved the documentation process and will begin to gather information on treasury workstations that are flexible and may work with different G/L systems.

#### **OIO's Comments**

The action taken by OFT is responsive to the recommendation and when fully implemented should address the noted deficiencies.

#### **OFT's Response (Recommendation No. 2)**

OFT agreed with OIO's recommendation and stated that documentable checks will be included in the monthly and quarterly audits to add additional level of monitoring for compliance, and they will share the results with OIO.

#### **OIO's Comments**

The action taken by OFT is responsive to the recommendation and when fully implemented should address the deficiency.

**EXHIBIT A: SUMMARY OF POTENTIAL BENEFITS RESULTING FROM  
AUDIT**

No.	Recommendations	Type of Benefit	Agency Reported Estimated Completion Date	Status <sup>1</sup>
1	Complete the implementation of the remaining two recommendations to ensure that the cited findings in the prior years' reports are remediated.	Compliance/Internal control	In Process	Open
2	Ensure that attention is paid to the four recommendations that needed ongoing monitoring to ascertain continued compliance with required procedures.	Compliance/Internal control	Closed	Open

<sup>1</sup> This column provides the status of a recommendation as of the report date. For final reports, "open" means management and the OIO are in agreement on the action to be taken, but is not complete. "Closed" means management has advised that action necessary to correct the deficiency is complete. If a completion date was not provided, the date of management's response is used. "Unresolved" means that management has neither agreed to take the recommended action nor proposed a satisfactory alternative action to correct the condition.

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**EXHIBIT B: STATUS OF OFT'S PRIOR YEARS' AUDIT  
RECOMMENDATIONS**

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This Exhibit presents the Recommendations made in OIO's Prior Years' Audit Reports Listed in Table 1, Page 1 of this report:



**Exhibit B: Follow-up Audit of Prior Year Audit Recommendations at the Office of Finance and Treasury (OIO: 12-02-13 OFT)**

**Status of OFT's Prior Year Audit Recommendations**

Report No. and Title	Date Issued	Recommendations	Management Actions	Date Completed	Remarks
OIO-10-01-01-OTR(a) Audit of the Process Used to Collect Tax Revenue through Gov One (OFT) related	4/20/2011	8. Mandate the development of policies and procedures for the raising, tracking, and resolution of operational issues that impact a contractor's performance.	Implemented	11/12/2013	
		9. Mandate the development of specific requirements to be included in the lockbox services contract which addresses the protection of PII by the prime and subcontractors. These requirements should be developed using the guidance provided in Title 31 section 6103 of the U.S. Code, IRS Publication 1075 and 4557 and NIST SP800-122 and SP 800-53. The requirements should include a process for notification of the OCFPO should a potential or actual loss of PII by a contractor occur. Develop procedures that mandate the protection of PII by the lockbox service contractor.	Not fully implemented.	N/A	Action to be taken by Office of Management Administration's Office of Contracts
OIO-10-1-08-OFT (a) Audit of the Office of Finance and Treasury's Cashiering Operations at the Main and DCRA	5/20/2011	10. Ensure that it's Standard Operating Procedures manual prescribing daily deposits of cash receipts are adhered to. Cash deposits should be made daily to ensure deposits are made in a timely manner and funds are adequately safeguarded.	Implemented	Implemented	OIO Follow-up audit report found no deficiencies
		11. Take action to segregate the cigarette tax stamps duties, such that the receiving and the recording of cigarette tax stamps transactions are not centered in only one individual.	Implemented	1/1/2012	OIO Follow-up audit report found no deficiencies

**Exhibit B: Follow-up Audit of Prior Year Audit Recommendations at the Office of Finance and Treasury (OIO: 12-02-13 OFT)**

**Status of OFT's Prior Year Audit Recommendations**

Report No. and Title	Date Issued	Recommendations	Management Actions	Date Completed	Remarks
		12. Establish and monitor cigarette tax stamps functions including a review of the monthly cigarette tax stamps reconciliations, as evidenced by signing and dating applicable inventory records and investigate any variances.	Implemented	1/1/2012	OIO Follow-up audit report found no deficiencies
		13. Establish and maintain effective internal control to provide reasonable assurance that operations are being performed effectively and efficiently, with adequate controls (segregation of duties) to safeguard assets.	Implemented	Date not provided	The lack of findings in subsequent OIO audit reports
		14. Update and issue Policies and Procedures Manual to ensure that the OFT cashiering operations unit are applying the proper procedures to the over/under ring credit card transactions that complies with the OFT Cashiering Operations instructions on credit card over/under ring.	Implemented	7/25/2012	Updated procedures provided.
OIO-10-1-08-OFT (b): Audit of the Office of Finance and Treasury's Cashiering Operations the DMV, MPD and UDC	5/23/2011	15. Implement stringent internal controls over passwords and logons and prohibit the sharing of codes/keys by the cashiers.	Implemented	10/12/2010	Form completed by the Cashier Operations Supervisor requesting the respective system sign-on for each cashier provided



**Exhibit B: Follow-up Audit of Prior Year Audit Recommendations at the Office of Finance and Treasury (OIO: 12-02-13 OFT)**

**Status of OFT's Prior Year Audit Recommendations**

Report No. and Title	Date Issued	Recommendations	Management Actions	Date Completed	Remarks
		16. Monitor cashiers activities over passwords and logons to ensure compliance with agency procedures.	Implemented	ongoing activity	During last audit. No issues found.
		17. Increase supervision at all levels of the OFT cashiering operations to safeguard assets.	Implemented	ongoing activity	During last audit. No issues found.
		18. Ensure that cash deposits are made daily as required by agency rules to assure timely deposits and adequate safeguard of District funds.	Implemented	ongoing activity	During last audit. No issues found.
		19. Establish a process of regular supervisory checks on the timeliness of deposits and to report and correct instances of noncompliance.	Implemented	ongoing activity	During last audit. No issues found.
		20. Re-examine physical security set-up at all its DMV cashiering sites and implement necessary physical infrastructure modifications to safeguard personnel and assets.	Implemented	N/A	Visited by OIO Auditor
		21. Implement our previous recommendation to repair or replace the push-button security alarm.	Implemented	N/A	Visited by OIO Auditor
		22. Inspect and take action to improve the workplace condition at DMV, 3222 M Street, NW.	No Action taken	N/A	Cash Center moved to new location
		23. Review its policies and procedures manual on cashiering operations to correct deficiencies noted.	Implemented	7/25/2012	Review Copy of the Manual (provide updated policy)
		24. Institute a policy requiring a second level review of its policies and procedures manual before they are issued in final form to assure accuracy and correctness.	Implemented	7/25/2012	Review Copy of the Manual (provide updated policy)

**Exhibit B: Follow-up Audit of Prior Year Audit Recommendations at the Office of Finance and Treasury (OIO: 12-02-13 OFT)**

**Status of OFT's Prior Year Audit Recommendations**

Report No. and Title	Date Issued	Recommendations	Management Actions	Date Completed	Remarks
OIO-11-01-12-OFT Audit of the Vendor Center Unit Operations	11/8/2011	25. Develop procedures for handling returned checks that includes timely tracking and reconciliation and report the result of your first reconciliation to OIO.	Implemented	2/1/12 and 9/17/2012	Procedures provided
		26. Research the transactions that did not have support to determine their validity and report the results to OIO.	Implemented	Provided at end of audit	Documents provided
		27. Review and revamp the document retention procedures and ensure that they are communicated to appropriate staff.	Implemented	N/A	
OIO-12-01-04-OFT Wire Transfer Processing at the Office of Finance and Treasury (OFT)	9/12/2012	28. Develop a reliable in-house Tracking System or acquire a database system that can interface with the Financial Management System to track wire transfers and enable monitoring and data analysis by staff and management	Not Implemented	N/A	
		29. Review and update the wire transfer procedures to reflect the changes made in FY 2010 (disbanding SunGard and reverting to a manual process) and ensure that these changes are communicated to appropriate staff	Implemented	5/23/2012	Updated Procedures provided

## APPENDIX 1: AGENCY RESPONSE

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

Office of Finance and Treasury



### MEMORANDUM

**TO:** Mohamad Yusuff, Interim Executive Director  
Office of Integrity and Oversight (OIO)

**FROM:** Jeffrey Barnett, Treasurer and Deputy Chief Financial Officer  
Office of Finance and Treasury (OFT) *J. Barnett*

**DATE:** April 2, 2013

**SUBJECT:** Office of Finance and Treasury's (OFT) Response to Follow-up Audit of Prior Year Audit Recommendations at OFT Report No. 12-02-13-OFT

This memo is in response to the OIO Report of Audit Findings and Recommendations for the OCFO dated March 26, 2013. Below please find OFT's response.

**Recommendation 1: Completing the implementation of the remaining recommendations to ensure that cited deficiencies in the prior year reports are remediated.**

1. Mandate the development of specific requirements to be included in the lockbox services contract which addresses the protection of PII by the prime and subcontractors. These requirements should be developed using the guidance provided in Title 31 section 6103 of the U.S. Code, IRS Publication 1075 and 4357 and NIST SP800-127 and SP 800-53. The requirements should include a process for notification of the OCFO should a potential or actual loss of PII by a contractor occur. Develop procedures that mandate the protection of PII by the lockbox service contractor.

#### OMA Response:

We have been working with the OCFO banks to determine the current requirements based on statutory and regulatory provisions. It is our understanding that the requirement may have changed. Once we determine the current requirement, each contract will be modified with appropriate language. In the interim, it is our feeling that the current clauses in the contract I.16 – Disclosure of Information and I.17 Rights in Data will provide a basic level of protection. In addition, the RFP had a requirement that each respondent comply with IRS 1075.

2. Develop a reliable in-house Tracking System or acquire a database system that can interface with the Financial Management System to track wire transfers and enable monitoring and data analysis by staff and management.

#### OFT Response:

As a result of the termination of the SunGard Treasury workstation Cash Management implemented an internal system to track transfers received from outside parties. However, the primary mission of the Cash Management unit is to ensure transfers are executed timely and accurately with the proper paperwork and

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## APPENDIX 1: AGENCY RESPONSE

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that the paper work is filed and cataloged appropriately. The ultimate database for wire transfers is the bank account from where the transfer was executed. We obtain yearly a data feed for transfers executed from the District's main operating account to provide the auditors for the CAFR audit. The Cash Management unit was delaying the process of looking at a new treasury workstation until the new G/L system was implemented to ensure compatibility. As of February 2013 the new G/L system has been placed on hold until 2014. Cash Management will begin to gather information on treasury workstations that are flexible and that may work different G/L systems.

**Recommendation 2: Directing supervisory personnel to document oversight efforts pertaining to the four recommendations that needed ongoing monitoring to comply with required procedures.**

1. Monitor cashiers activities over passwords and logons to ensure compliance with agency procedures.
2. Increase supervision at all levels of the OFT cashing operations to safeguard assets.
3. Ensure that cash deposits are made daily as required by agency rules to assure timely deposits and adequate safeguard of District funds.
4. Establish a process of regular supervisory checks on the timeliness of deposits and to report and correct instances of noncompliance.

**OFT Response:**

As demonstrated in the FY2013 OIG main office cashing audit, none of the above deficiencies continue. Sufficient procedures and oversight are in place. Clarice Wood will work with the Cashier Operations Supervisor to develop specific, documentable checks that will be included in the monthly and quarterly audits to add an additional level of monitoring and compliance to the above recommendations. Once the checks are developed, OFT will share them with OIG.

Cc: John Henry  
Ingrid Richards  
Clarice Wood