

# DISTRICT OF COLUMBIA OFFICE OF THE INSPECTOR GENERAL

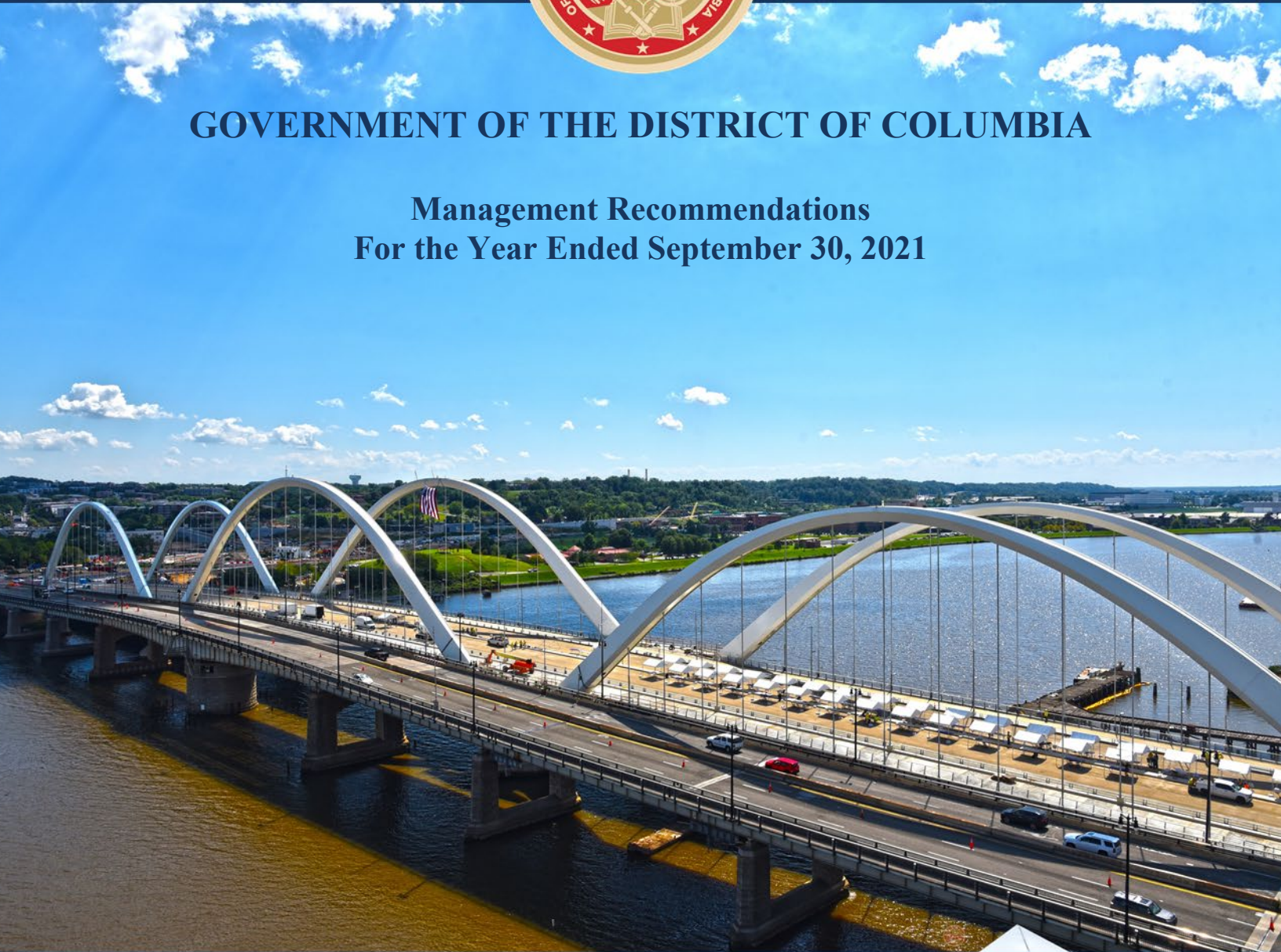
OIG Project No. 22-1-07MA(a)

January 2022



## GOVERNMENT OF THE DISTRICT OF COLUMBIA

### Management Recommendations For the Year Ended September 30, 2021



### *Guiding Principles*

*Workforce Engagement \* Stakeholders Engagement \* Process-oriented \* Innovation  
\* Accountability \* Professionalism \* Objectivity and Independence \* Communication \* Collaboration  
\* Diversity \* Measurement \* Continuous Improvement*

## **Mission**

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

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

## **Vision**

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

## **Core Values**

Excellence \* Integrity \* Respect \* Creativity \* Ownership  
\* Transparency \* Empowerment \* Courage \* Passion  
\* Leadership



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

**Inspector General**



January 31, 2022

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

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

Dear Mayor Bowser and Chairman Mendelson:

Enclosed is the final report entitled *Government of the District of Columbia Management Recommendations for the Year Ended September 30, 2021* (OIG No. 22-1-07MA(a)). McConnell Jones, LLP (MJ) submitted this report as part of our overall contract for the audit of the District of Columbia's general-purpose financial statements for fiscal year 2021.

On January 24, 2022, MJ issued three recommendations intended to improve the effectiveness of internal controls over the District operations and programs. When addressed, these improvements can increase assurances that District agencies run their operations efficiently and effectively, report reliable information about their operations, and comply with applicable laws and regulations. The report also includes 3 of 17 prior year management recommendations as open and unresolved.

If you have questions about this report, please contact me or Fekede Gindaba, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,

Daniel W. Lucas  
Inspector General

DWL/ws

Enclosure

cc: See Distribution List

DISTRIBUTION (via email):

Mr. Kevin Donahue, City Administrator for the District of Columbia, Office of the City Administrator  
Mr. Barry Kreiswirth, General Counsel, Office of the City Administrator, District of Columbia  
Mr. Eugene Adams, Director, Mayor's Office of Legal Counsel  
Mr. John Falcicchio, Deputy Mayor for Planning and Economic Development and Chief of Staff, Executive Office of the Mayor  
The Honorable Kenyan R. McDuffie, Chair Pro Tempore, Council of the District of Columbia  
The Honorable Anita Bonds, At-Large Councilmember, Council of the District of Columbia  
The Honorable Christina Henderson, At-Large Councilmember, Council of the District of Columbia  
The Honorable Elissa Silverman, At-Large Councilmember, Council of the District of Columbia  
The Honorable Robert C. White, Jr., At-Large Councilmember, Council of the District of Columbia  
The Honorable Brianne K. Nadeau, Ward 1 Councilmember, Council of the District of Columbia  
The Honorable Brooke Pinto, Ward 2 Councilmember, Council of the District of Columbia  
The Honorable Mary M. Cheh, Ward 3 Councilmember, Council of the District of Columbia  
The Honorable Janeese Lewis George, Ward 4 Councilmember, Council of the District of Columbia  
The Honorable Charles Allen, Ward 6 Councilmember, Council of the District of Columbia  
The Honorable Vincent C. Gray, Ward 7 Councilmember, Council of the District of Columbia  
The Honorable Trayon White, Sr., Ward 8 Councilmember, Council of the District of Columbia  
Ms. LaToya Foster, Director of Communications, Office of Communications, Executive Office of the Mayor  
Ms. Jennifer Reed, Director, Office of Budget and Performance Management, Office of the City Administrator  
Ms. Nyasha Smith, Secretary to the Council  
The Honorable Karl Racine, Attorney General for the District of Columbia  
Dr. Fitzroy Lee, Acting Chief Financial Officer, Office of the Chief Financial Officer  
Mr. Timothy Barry, Executive Director, Office of Integrity and Oversight, Office of the Chief Financial Officer  
The Honorable Kathy Patterson, D.C. Auditor, Office of the D.C. Auditor  
Mr. Jed Ross, Director and Chief Risk Officer, Office of Risk Management  
Mr. Wayne McConnell, Managing Partner, McConnell & Jones LLP

**GOVERNMENT OF  
THE DISTRICT OF COLUMBIA**

**MANAGEMENT RECOMMENDATIONS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2021**

## **TABLE OF CONTENTS**

### **I CURRENT YEAR FINDINGS**

<b>2021-001</b>	<b>OCTO should have in place a process to identify, prioritize, remediate, and track the status of vulnerabilities.</b>	<b>2</b>
<b>2021-002</b>	<b>DGS should develop a plan to maintain a comprehensive inventory of District leases.</b>	<b>3</b>
<b>2021-003</b>	<b>DGS should develop procedures to ensure all lease revenues are accurately and completely collected, deposited, or written off.</b>	<b>4</b>

### **II PRIOR YEAR FINDINGS**

<b>Status of Prior Year Findings and Recommendations</b>	<b>7</b>
--	----------





# McConnell Jones

To the Mayor, Members of the Council of the District of Columbia,  
Inspector General of the District of Columbia, and  
Chief Financial Officer of the District of Columbia

In planning and performing our audit of the basic financial statements of the Government of the District of Columbia and related entities (the District) as of and for the year ended September 30, 2021, in accordance with 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, we considered the District's internal controls over financial reporting (internal controls) as a basis for designing audit procedures that were appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal controls. Accordingly, we did not express an opinion on the effectiveness of the District's internal controls over financial reporting.

Our consideration of internal controls was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal controls that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. Although no matter of a material weakness was noted, other recommendations have been noted which we believe will further improve the District's internal controls or operating effectiveness.

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.

This letter does not affect our report dated January 24, 2022, on the financial statements of the District. Our comments and recommendations, which have been discussed with appropriate members of management, are intended to improve the internal controls or result in other operating improvements.

This report is intended solely for the information and use of management, others within the organization, the Mayor and Members of the Council of the District of Columbia, the Inspector General of the District of Columbia, and the Chief Financial Officer of the District of Columbia, and is not to be and should not be used by anyone other than these specified parties. We will be pleased to discuss these comments with you and, if desired, to assist you in implementing any of the suggestions.

Washington, D.C.  
January 24, 2022

5101 Wisconsin Ave. NW  
Suite 210  
Washington, D.C. 20016  
Phone: 202.207.3570  
Fax: 202.846.6310

WWW.MCCONNELLJONES.COM



# McConnell Jones

## I. CURRENT YEAR FINDINGS

### OFFICE OF THE CHIEF TECHNOLOGY OFFICER (OCTO)

***Finding 2021-001 – OCTO should have in place a process to identify, prioritize, remediate, and track the status of vulnerabilities.***

OCTO defines vulnerability as a risk that may affect confidentiality, integrity, and availability to the District information infrastructure. However, OCTO did not establish a process to prioritize vulnerabilities for remediation actions as required by OCTO policy. According to the OCTO Vulnerability Management policy dated February 22, 2021, “[a]ll vulnerabilities must be prioritized for remediation with the timeline according to their severity level.”

We discussed the lack of a formalized process with OCTO officials who stated that OCTO was in the process of developing and documenting the OCTO *Risk Management Framework*, but the document was in draft form.

As a result, system vulnerabilities may not be remediated timely, allowing the possibility of data compromise from hackers, internal threats, and accidental leakage.

### Recommendations

1. OCTO should develop and implement a process to track, prioritize, and remediate vulnerabilities. The process should include tracking the following information:
  - Name of Vulnerability
  - Date discovered
  - Source of discovery
  - Party Responsible for remediation
  - Project Manager (if applicable)
  - Risk
  - Priority
  - Remediation steps/milestones
  - Status of remediation
  - Planned date of completion
  - Close date
2. OCTO should obtain a listing of the vulnerabilities that were identified by other District agencies to ensure risks are mitigated timely.





# McConnell Jones

## Management Response

OCTO acknowledges the finding and is in the process of developing and implementing a process to track remediation of vulnerabilities, thereby reducing the risk of data compromise from hackers, internal threats, and accidental leakage.

The OCTO GRC Manager will be leading the effort to develop the plan and implement the tracking process in accordance with the OCTO Vulnerability Management Policy.

## DEPARTMENT OF GENERAL SERVICES (DGS)

*Finding 2021-002 – DGS should develop a plan to maintain a comprehensive inventory of District leases.*

The District is required to implement Governmental Accounting Standards Board (GASB) Statement No. 87, lease accounting standard which is effective for the fiscal year ended September 30, 2022. DGS did not maintain a comprehensive and reconciled listing of all leases to successfully implement GASB Statement No. 87 accounting standard requirements. We attribute the District's lack of readiness for GASB Statement No. 87 implementation to DGS's failure to dedicate appropriate resources to ensure compliance with generally accepted accounting principles (GAAP) requirements around accounting for lease transactions.

GAAP requires that lease transactions are recorded utilizing the current measurement focus of accounting. However, we also noted that the District did not recognize lease revenue using the current measurement focus of accounting as required. We attribute the lease revenue recording issue to DGS's incorrect use of the cash basis of accounting method which, recognizes revenue when cash is received instead of when earned.

Failure to maintain a comprehensive listing of leases will make it difficult to timely implement requirements of GASB Statement No. 87. As a result of the use of an incorrect accounting method, we estimate that \$3.4 million in lease revenues were understated for the fiscal year ended September 30, 2021.

## Recommendations

1. Develop a plan to maintain a comprehensive and reconciled listing of all leases where the District is the lessor to successfully implement the GASB Statement No. 87 accounting standard.



# McConnell Jones

2. Develop a procedure and make accounting adjustments to ensure DGS recognizes and records lease revenue based on the current measurement focus of accounting as required by GAAP.

## Management Response

We concur with the auditor's finding related to the District's need to improve accounting and financial reporting around leases as part of the implementation of GASB-87-lease standard in fiscal year 2022.

...

With transitioning from manually tabulating cash receipts from Outlease tenants, after years with no formal lease administration process in place, the team continues to face challenges to completing a full reconciliation of the entire Outlease portfolio given the complex history of the tenant portfolio.

...

We will continue to refine the lease administration process to support the implementation of GASB-87. We will work to complete an inventory of tenant balances for [fiscal year] FY20 and FY21 by the end of January 2022.

DGS's response is included in its entirety as Appendix A of this report.

### ***Finding 2021-003 – DGS should develop procedures to ensure all lease revenues are accurately and completely collected, deposited, or written off***

D.C. Code § 10-551.02(3)(D) requires DGS Management to coordinate rent collection for entities leasing District-Owned or -leased properties. DGS did not perform periodic reconciliations of the accounts receivable balances. For example, our review of the July 31, 2021 and September 30, 2021, lease aging reports indicated an unreconciled understatement of receivable balance amounting to \$2.8 million. The July 31, 2021, lease aging report reflected an outstanding accounts receivable balance of \$4.9 million and the September 30, 2021, lease aging report reflected a balance of \$2.1 million. Performing periodic reconciliation of accounts receivable would have allowed DGS to identify errors and substantiate changes in accounts balances.

Multiple factors contributed to the lack of control over accounts receivable. Some of the factors were:

- Monthly invoices sent to tenants by DGS do not reflect past due balances.
- DGS does not have an automated platform for tenants to view open invoices, payment history, and invoice details to make direct payments or dispute such invoices if necessary.



# McConnell Jones

- Cash receipts were not properly reconciled between the aging report and the general ledger.
- The management of the accounts receivable function is optional in the scope of the services of the third-party lease administrator. We noted that the contractor was not performing the billing, collection, and receivable management services accurately. DGS was not adequately monitoring the performance of the billing services performed by the contractor. Application of payment against the open invoices appears to be based on judgement instead of DGS properly applying the payments based on the review of the reliable and verifiable documentation provided.
- The monthly cash receipt reconciliation, completed by the outsourced lease administrator, was not reviewed by DGS personnel to ensure cash receipts were applied properly to the correct invoices.
- During our course of audit, we noted no evidence that DGS is following up on delinquent accounts by submitting them to the central collection unit (CCU) of the District as required by statute.
- DGS has not developed written policies and procedures for approval and recording of account write-offs or enforcing collections for tenants with past due balances. Additionally, DGS's current collection/follow up or legal action process does not appear to be time-bound.
- DGS has not established a late fee policy for tenants whose leases payments were overdue.
- Documentation was not created or maintained to substantiate changes to the receivable balance were authorized.

Although DGS made changes to tenants account balances, in the form of credit adjustments and abatements, DGS was unable to provide documentation to justify the basis for these actions. In addition, DGS has not established formal credit policies to approve repayment plans, abatements and other extenuating circumstances related to COVID-19 or other emergencies.

As a result, DGS cannot assure that all lease revenues were accurately and completely collected, deposited, or written off.

## **Recommendations**

1. DGS produce monthly statements that reflect past due balances to ensure that tenants are notified of overdue balances on a monthly basis.
2. DGS modernizes the billing process by implementing an industry standard automated billing system for leases to enable tenants to view their account balances online and to make electronic payments timely.
3. The cash receipts are properly reconciled between the aging report and the general ledger.



# McConnell Jones

4. The third-party contract for billing and receivable management services should be amended to reflect the full scope of services and deliverables. We also recommend that DGS perform adequate oversight on the entire billing process on a regular basis.
5. The monthly cash receipt reconciliation be reviewed by designated personnel at DGS to ensure proper cash receipts are applied to the correct invoices.
6. DGS follows up on the amounts not collected in a timely manner and sends the list to the CCU on a periodic basis.
7. DGS implement a formal collection and write off policy and procedure to ensure that all write off adjustments are properly reviewed, approved, and documented by the appropriate authority consistently.
8. DGS implement and enforce a late fee policy for tenants with past due amounts, as this can be an effective collection tool. Additionally, we recommend that DGS establish a fixed timeline to resolve past due balances.
9. DGS implement a formal set of policies to approve repayment plans, abatements, and other extenuating circumstances. DGS should also designate an approver to follow the pre-defined criteria prior to approving such items.

## **Management Response**

We concur with the auditor's finding related to the District's need to improve accounting and financial reporting around leases[.]

This includes revising the current format of tenant invoices to reflect past due balances; developing a written policy for the collection of past due balances (keeping in mind that leases from across years and decades do not necessarily have consistent default and/or late fee provisions); developing a written policy for the approval of repayment plans, abatements and other extenuating circumstances related to COVID-19 or other emergencies; investigating the budgetary and operational implications for implementing a new payment system that enables tenants to view their account balances online and make electronic payments online; and, ensuring that the monthly cash receipt reconciliations are reviewed by the Asset Management Specialist in the Portfolio Management Division. With the advent of a new direct payment system, the calculation, demand and payment of late fees can be more efficiently processed because real time payment data will be available instead of the current system that requires a retroactive, manual review of bank statements to confirm when payments have been made. We will work to complete an inventory of tenant balances for FY20 and FY21 by the end of January 2022. We believe the aforementioned steps will [resolve] the issues identified in the audit[.]

DGS's response is included in its entirety as Appendix A of this report.



## II. PRIOR YEAR FINDINGS

### STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

The District of Columbia Management Recommendations for the FY ended September 30, 2020, included 17 audit recommendations. During FY 2021 13 of 17 recommendations were fully implemented. The following chart outlines the status of the three prior year management recommendations that were not fully implemented as of September 30, 2021.

MANAGEMENT RECOMMENDATIONS – FY20		
	RECOMMENDATIONS	STATUS
<b>OFFICE OF CONTRACTING AND PROCUREMENT</b>		
2020-11	Controls Over Emergency Procurement Were Not Operating Effectively.	In FY20, we tested the direct voucher payment process and identified 18 transactions that were not appropriately supported. Although the District paid for these 18 transactions in advance of receipt of goods, OCP did not maintain proof of receipts.  In FY21, OCP provided additional supporting documentation related to the one of the 18 transactions valued at \$422,125. For the remaining 17 transactions valued at \$28,247,607, OCP was unable to provide proof of receipts.

MANAGEMENT RECOMMENDATIONS – FY18		
	RECOMMENDATIONS	STATUS
<b>GENERAL GOVERNMENT</b>		
2	Implement a Risk Management Framework to Comply with National Institute of Standards and Technology (NIST) Publication 800-37.	Office of Chief Technology Officer is in the process of developing and implementing the risk management framework with full implementation in FY24.



# McConnell Jones

MANAGEMENT RECOMMENDATIONS – FY18		
	RECOMMENDATIONS	STATUS
7	Improve the Controls Over the Out-Lease Monthly Cash Receipts.	This comment is superseded with management letter comment 2021-002 and 2021-003.



# Appendix A

## GOVERNMENT OF THE DISTRICT OF COLUMBIA DEPARTMENT OF GENERAL SERVICES



TO: Deepa S. Chandrie, Senior Assurance Manager  
McCormell & Jones, LLP

FROM: Keith A. Anderson, Director  
Department of General Services (“DGS”)



DATE: December 2, 2021

SUBJECT: *DGS’ Response to Notice of Finding and Recommendation – Improve Accounting and Financial Reporting Relating to Implementation of GASB-No. 87 – Leases and Improve Controls Over Lease Revenues and Receipts Are Not Operating Effectively*

---

### PURPOSE:

The purpose of this Memorandum is to provide a response to the subject Notice of Finding and Recommendation.

### MANAGEMENT RESPONSE:

We concur with the auditor’s finding related to the District’s need to improve accounting and financial reporting around leases as part of the implementation of GASB-87-lease standard in fiscal year 2022. Since January 2018, the Portfolio Management Division has worked with its consultant team Jones Lang LaSalle Americas Inc. (JLL) to reconcile the DGS’ Outlease portfolio and develop the necessary protocols to actively administer the Outlease portfolio within ARCHIBUS, the agency’s Integrated Workplace Management System. Prior to this engagement, DGS did not have an active centralized information technology system to administer its Outlease portfolio. With transitioning from manually tabulating cash receipts from Outlease tenants, after years with no formal lease administration process in place, the team continues to face challenges to completing a full reconciliation of the entire Outlease portfolio given the complex history of the tenant portfolio.

Since 2018, the District has compiled and abstracted all active and expired lease/license agreements that comprise the Outlease portfolio. Invoicing and reconciling of tenant accounts has occurred on a monthly basis within ARCHIBUS since October 1, 2019. We will continue to refine the lease administration process to support the implementation of GASB-87. This includes

GOVERNMENT OF THE DISTRICT OF COLUMBIA  
DEPARTMENT OF GENERAL SERVICES



revising the current format of tenant invoices to reflect past due balances; developing a written policy for the collection of past due balances (keeping in mind that leases from across years and decades do not necessarily have consistent default and/or late fee provisions); developing a written policy for the approval of repayment plans, abatements and other extenuating circumstances related to COVID-19 or other emergencies; investigating the budgetary and operational implications for implementing a new payment system that enables tenants to view their account balances online and make electronic payments online; and, ensuring that the monthly cash receipt reconciliations are reviewed by the Asset Management Specialist in the Portfolio Management Division. With the advent of a new direct payment system, the calculation, demand and payment of late fees can be more efficiently processed because real time payment data will be available instead of the current system that requires a retroactive, manual review of bank statements to confirm when payments have been made. We will work to complete an inventory of tenant balances for FY20 and FY21 by the end of January 2022. We believe the aforementioned steps will solve for the issues identified in the audit,



**To report fraud, waste, abuse, or mismanagement:**

(202) 724-TIPS (8477) and (800) 521-1639



<http://oig.dc.gov>



[oig@dc.gov](mailto:oig@dc.gov)

