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



Office of Integrity and Oversight

MEMORANDUM

TO: Stephen M. Cordi, Deputy Chief Financial Officer
Office of Tax and Revenue

Lasana K. Mack, Treasurer and Deputy Chief Financial Officer
Office of Finance and Treasury

Mike Teller, Chief Information Officer
Office of the Chief Information Officer

Paul Lundquist, Executive Director
Office of Management and Administration

FROM: William J. DiVello, Executive Director
Office of Integrity and Oversight *W. J. DiVello*

DATE: April 20, 2011

SUBJECT: FINAL REPORT: Audit of the Process Used to Collect Tax Revenues through Gov One (Report No.: OIO-10-1-01-OTR (a))

This report summarizes the results of the Office of Integrity and Oversight's (OIO's) Audit of the Process Used to Collect Tax Revenues through Gov One. This is the first of two reports on this collection process, and discusses the administration of the lockbox contract. This audit is part of OIO's continuous audit coverage of the Office of Tax and Revenue (OTR).

The report contains three findings detailing the conditions that we found during the audit. We found that the Office of the Chief Information Officer did not retain the original transactions received from Gov One for more than 15 business days. Weaknesses in the administration of the OTR lockbox contract resulted in: (1) the Office of the Chief Financial Officer incurring unnecessary potential interest charges of \$90,719 for late payments; (2) payments of \$92,003 for contract charges that were not supported, duplicate invoices, and for services that were not provided; (3) absence of assurances of the effectiveness of contractor controls for processing taxpayer data; and (4) requirements for the protection of taxpayer data and personally identifiable information were not included in the contract. Additionally, we identified that the absence of policies and procedures coupled with an ineffective communications process between

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the contracting officer's technical representative, the Returns Processing Administration, and the Tax Systems Group adversely impacted the resolution of issues related to Gov One.

OIO provided 10 recommendations to address the findings cited in the report, which if implemented, should improve the operations for receiving electronic payments from Gov One. The Chief Information Officer and the Executive Director, Office of Management and Administration (OMA) agreed with our recommendations. However, the Executive Director, OMA did not provide projected completion date for one recommendation. In a joint response from OTR and the Office of Finance and Treasury (OFT), they agreed with three recommendations but estimated completion dates were not provided. OFT and OTR did not agree with three recommendations, and alternative solutions were not provided to us. Accordingly, we request that OFT and OTR reconsider their positions and provide a revised response to OIO by May 16, 2011. The following table provides a summary status of the recommendations.

| Responding Office Recommendation Number | Responsive to the Recommendation | Anticipated Completion Date Needed | Did Not Agree with Recommendation |
|---|----------------------------------|------------------------------------|-----------------------------------|
| Chief Information Officer | 1, 2 | | |
| Executive Director, OMA | 7 | 6 | |
| Joint Response OFT and OTR | | 3, 4, 5a, 5b | 8, 9, 10 |

We appreciate the assistance and cooperation that you and your staffs provided to OIO during this audit. Should you have any questions on this report or need additional information, please contact me at (202) 442-6433, or your staff may contact Mohamad Yusuff, Director, Internal Audit at (202) 442-8240, or Tisha N. Edwards, Senior Audit Manager at (202) 442-6446.

Attachments

cc: Natwar M. Gandhi, Chief Financial Officer, Government of the District of Columbia
Angell Jacobs, Chief of Staff, Office of the Chief Financial Officer
Kathy Crader, Chief Risk Officer, Office of the Chief Financial Officer
Glenn Groff, Director of Operations, OTR
Clarice Wood, Associate Treasurer, OFT

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

**AUDIT OF THE PROCESS USED TO
COLLECT TAX REVENUES
THROUGH GOV ONE**

OFFICE OF INTEGRITY AND OVERSIGHT



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Audit of the Process Used to Collect Tax Revenues through Gov One

ACRONYMS

| | |
|-------------|--|
| ACH | Automated Clearing House |
| CIO | Chief Information Officer |
| CO | Contracting Officer |
| COTR | Contracting Officer's Technical Representative |
| DCFO/OFT | Deputy Chief Financial Officer, Office of Finance and Treasury |
| DCFO/OTR | Deputy Chief Financial Officer, Office of Tax and Revenue |
| DCMR | District of Columbia Municipal Regulations |
| DC ST | District of Columbia Code |
| e-checks | Electronic checks |
| e-TSC | Electronic Taxpayer Service Center |
| ED/OMA | Executive Director, Office of Management and Administration |
| FY | Fiscal Year |
| Gov One | govOne Solutions, L.P. |
| IRS | Internal Revenue Service |
| ITS | Integrated Tax System |
| NIST | National Institute of Standards and Technology |
| OCFO | Office of the Chief Financial Officer |
| OCIO | Office of the Chief Information Officer |
| OCTO | Office of the Chief Technology Officer |
| OFT | Office of Finance and Treasury |
| OIO | Office of Integrity and Oversight |
| OMA/OC | Office of Management and Administration, Office of Contracts and Procurement |
| O-Pay | Official Payments Corporation |
| OTR | Office of Tax and Revenue |
| Payment Act | D.C. Quick Payment Act |
| PII | Personally Identifiable Information |
| RAA | Revenue Accounting Administration |
| RPA | Returns Processing Administration |
| SAS – 70 | Statement on Auditing Standards 70, <i>Service Organizations</i> |
| SOAR | System of Accounting and Financial Reporting |
| SP | Special Publication |
| TSG | Tax Systems Group |
| Wachovia | Wachovia Bank, N.A. |

Audit of the Process Used to Collect Tax Revenues through Gov One

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Executive Summary

OVERVIEW

This is the first of two audit reports on the process used by the Office of Tax and Revenue (OTR) to collect tax revenues using an electronic payment process provided by govOne Solutions, L.P. (Gov One). This report focuses on the administration of a lockbox services contract addressing the receipt and processing of electronic payments. The second audit report will address the receipt and processing of those payments by the Returns Processing Administration (RPA) and the Revenue Accounting Administration (RAA). This audit, conducted by the Office of Integrity and Oversight (OIO), is part of the continuous audit coverage of OTR.

Our audit examines the process used by the Office of the Chief Financial Officer (OCFO) to provide the District Government's taxpayers with an electronic option for the payment of employee withholding taxes and real property taxes. OTR is able to provide an electronic payment option for these taxes through a contract with Wachovia Bank, N.A. (Wachovia) for retail and wholesale lockbox services for processing of tax payments. The Office of Finance and Treasury (OFT) provides the oversight of this contract as part of its mission to manage the District Government's banking services.

CONCLUSIONS:

OIO identified three significant weaknesses in the administration and operation of the process used to collect electronic payments for taxes. We found that:

- The original payment transactions provided by the contractor were not retained by the Office of the Chief Information Officer (OCIO) for more than 15 business days;
- Weaknesses in the administration of the lockbox contract resulted in: (1) OCFO incurred unnecessary interest charges of \$90,719 for violation of the D.C. Quick Payment Act (Payment Act);¹ and (2) payment of \$92,003 in charges that were not supported, duplicate payments of invoices, and for services that were not provided. Independent assurances of the effectiveness of the internal controls for processing taxpayer data and requirements for the protection of taxpayer information were not included in the OTR lockbox services contract; and
- Absence of policies and procedures with an ineffective communications process between the contracting officer's technical representative (COTR), the Returns Processing Administration (RPA), and the Tax Systems Group (TSG) adversely impacted the resolution of issues related to Gov One.

¹ The Payment Act is codified in the D.C. Code as section 2-221.01 *et seq.* (DC ST § 2-221.01 *et seq.*)

Executive Summary

SUMMARY OF RECOMMENDATIONS AND MANAGEMENT ACTIONS

Our report contains ten recommendations to address the causes of the conditions noted in the report. OIO addressed two recommendations to the Chief Information Officer (CIO) for the retention of transaction data and the development of a data archive for Gov One transactions. We addressed two recommendations to the Executive Director, Office of Management and Administration (ED/OMA) relating to the improvement of administration process for the OTR lockbox contract. The balance of six recommendations are jointly addressed to the Deputy Chief Financial Officer, OFT (DCFO, OFT) and the Deputy Chief Financial Officer, OTR (DCFO, OTR). The recommendations address development of improved internal controls for the review and payment of contractor invoices, and improvements in the communication process between the COTR and OFT.

Our recommendations, in part, include:

- Developing transaction reports for the Gov One transactions and the development of a data archiving system for all Gov One transactions that comply with records retention requirements.
- Directing the contracting officer (CO) to take action to collect the amounts paid for services that were unsupported or not provided, and for duplicate and erroneous payments.
- Developing of policies, procedures, and systems within OFT and OTR for the timely review, certification, and processing of invoices for the services provided.
- Developing joint policies and procedures by OFT and OTR for the resolution of operational issues impacting the performance of Gov One and Wachovia.

MANAGEMENT RESPONSES AND OIO COMMENTS

OIO received written responses from the Executive Director, OMA on March 29, 2010; a joint response from the DCFO, OFT and the DCFO, OTR on April 11, 2011 and from the CIO on April 12, 2011. We obtained concurrences from the CIO and the Executive Director, OMA on recommendations 1, 2, 6 and 7, respectively. The joint response from the DCFO, OFT and DCFO, OTR concurred with recommendations 3, 4, and 5. The joint response did not concur with our recommendations 8, 9, and 10. A copy of the complete response for the CIO, Executive Director, OMA, and the joint response from the DCFO, OFT and DCFO, OTR are included as Exhibits D through F.

The Executive Director, OMA and the DCFOs from OFT and OTR did agree with our recommendations 3, 4 5 and 6; however, the responses did not include planned completion dates for their corrective actions. We request that the planned completion dates be provided to us by

Executive Summary

May 16, 2011. The joint response from OFT and OTR stated that they did not concur with recommendations 8, 9, and 10. They did not provide us with an alternative corrective action for these recommendations. OIO requests that OFT and OTR reconsider their positions and provide us with a revised response by May 16, 2011.

Introduction

BACKGROUND

The use of electronic transactions, for the payment of goods and services, has become an accepted medium of payment for businesses and individuals. Increasing numbers of individuals and businesses rely on electronic checks (e-checks), Automated Clearing House (ACH) debit and credit transactions, and debit and credit cards as payment mediums. Electronic payments assist in (1) reducing the time necessary to collect the funds, compared with paper checks, (2) reducing the time required to process a transaction, and (3) reducing the amount of human intervention necessary to process the payment.

To leverage the benefits of electronic payments and provide taxpayers with the ability to file and pay taxes electronically the OCFO developed an Electronic Taxpayer Service Center (e-TSC) for income based taxes and returns. This center provides businesses and individuals with the ability to file the required returns electronically and to make electronic payments. The Real Property Tax Service Center provides electronic assistance to taxpayers with their real property tax bills, including electronic payments, through e-checks.

For business taxpayers depositing employee withholding taxes they are provided the option of using Gov One to make the payments. In order to avail themselves of this option, the taxpayer must pre-register with Gov One and then can use the internet, a touch-tone telephone, or operator assistance to make the payment. The taxpayer may use ACH debit and credit transactions, debit and credit cards, or e-checks to effect the transaction. The taxpayer is not charged for this service.

Gov One provides e-checks to taxpayers making a real property tax payment. Gov One does not require pre-registration for this service and payment can be accomplished through the real property tax service center web pages. Again, the taxpayer is not charged for this service.

All of the payments received by Gov One are sent to a bank account that is part of the OTR lockbox services contract with Wachovia. The lockbox contract provides electronic and paper-based processing services for the OTR tax bills and returns. This contract provides OTR assistance in reducing its return processing workload and to take advantage of the economies of scale that lockbox processing offers in repetitive processing of documents. The contract, while directly providing services to OTR, is under the oversight of the Office of Finance and Treasury (OFT) as part of its mission to manage and control the banking services provided to the District Government, and its agencies.

The original lockbox services contract with Wachovia, issued in fiscal year 2004 (FY-2004), as contract number CFOPD-04-C-011, was competitively bid through the OCFO's Office of Management and Administration's (OMA's) Office of Contracts (OC) and Gov One was included as a subcontractor following the procedures that were in place at that time. The contract that provides the basis for this audit is CFOPD-09-C-007 is an extension of the original contract that has been updated to reflect the OCFO's compliance with the Procurement Practices

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Act and its implementing regulations. For the FY-2009 contract the Director, OC is the CO and a banking specialist from OFT is the contracting officer's technical representative (COTR) who is responsible for the oversight of the contractor and the daily operations of the contract. The COTR is responsible for the resolution of contractor performance issues during the life of the contract. Gov One has been considered to be a subcontractor by Wachovia, OFT, and OTR for the lockbox services contract.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of this audit are to: (1) determine whether Gov One, OTR, and OFT are in compliance with the significant terms and conditions of the contract; (2) verify whether OCFO required that Gov One, through Wachovia, provide an annual independent appraisal of the Gov One's system of internal controls for the processing of tax payments; and (3) determine whether Gov One is specifically required to take steps to protect the taxpayers personally identifiable information (PII) and tax data from disclosure or loss. This audit includes transactions during the period October 1, 2008 through April 30, 2010.

To accomplish our objectives, OIO obtained an understanding of the process used to acquire the services provided by Gov One through interviews of the staff and managers within OFT, OTR, OMA/OC, Wachovia, and Gov One. We reviewed the current OTR lockbox services contract to determine the services that would be provided by Gov One, and reviewed a proposal for electronic payment services provided to the District Government by Gov One.

OIO interviewed the RPA managers and staff and the COTR regarding the certification and processing of the Gov One invoices. As part of the interviews, we discussed the process to verify the services listed on the invoices and the process used to validate charges for the files and transactions listed in the invoice.

OIO independently validated the invoices presented by Gov One, during our audit period, for accuracy and to determine whether OFT and OTR provided the necessary assurances that the billings were accurate and that the services billed were provided. Further, we determined whether the OTR and OFT had processes in place that would provide either a payment or protest of the invoice in compliance with the requirements of the Payment Act.

As part of our data testing, we attempted to verify the retention of the original Gov One transactions to support the entries made to the Integrated Tax System (ITS) and to the District Government's bank accounts. Our testing focused on verifying the original Gov One transactions, received by TSG, with the transactions posted in ITS, the system of accounting and financial reporting (SOAR) and the lockbox bank account. We were unable to complete these tests using the original transactions sent by Gov One as the OCFO's Office of the Chief Information Officer (OCIO) did not retain the original transactions, and we were unable to obtain the selected transactions from the District Government's Office of the Chief Technology Officer's (OCTO's) data archiving facilities. Additional information on this area of concern is

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provided in the Findings and Recommendations section of this report, under the heading of "Data Retention."

We conducted this performance audit in accordance with generally accepted government auditing standards, except for the data retention issue discussed in the prior paragraph. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings, conclusions, and recommendations based on the audit's objectives. We believe that the evidence obtained provides a reasonable basis to comply with those standards.

PRIOR AUDIT COVERAGE

In May 2006, OIO completed an audit of *OFT's Lockbox Contracts, Compliance with SAS 70 and Bank Charges* (Report No. OIO:IA:OFT:2601-C02). We reported that the bank charges were in accordance with the approved schedules. Additionally, improvements were necessary in several areas, including requiring the banks providing lockbox services to provide OFT with copies of their Statement on Auditing Standards 70 (SAS – 70) reviews. OFT agreed with our findings and recommendations and stated that going forward OFT would obtain SAS – 70 reviews from the banks providing lockbox services. This report includes a similar finding and recommendation, as part of Finding 2: Contract Administration, for the OTR lockbox contractor and subcontractor.

Findings and Recommendations

FINDING 1: DATA RETENTION

SYNOPSIS

The Tax Systems Group (TSG) does not have a system in place to provide a reasonable assurance that original Gov One transaction files are retained and can be recovered to assist in resolving questions regarding transactions. The original Gov One files are retained in ITS for 15 business days after which the files are then transferred to a data archive facility controlled by OCTO for retention. TSG and OCTO were able to recover only three Gov One transaction files that represented two days of transactions from the forty-three days that we requested.

Additionally, RPA has not formally requested TSG provide them with reports showing the original Gov One transactions contained in the files they receive. RPA uses ITS reports that report only on the transactions successfully processed to verify the Gov One invoices and the amounts deposited in the OTR lockbox account held by Wachovia. As a result, RPA does not obtain a reasonable assurance that all transactions received by TSG have been successfully processed in ITS and any unprocessed transactions are highlighted for resolution by RPA staff.

DISCUSSION

Validation of Transactions

TSG as part of its operation of ITS is responsible for the receipt and processing of the transaction files sent by Gov One. As part of the file processing, TSG maintains a limited archive of original Gov One transaction files. Validation of the accuracy and completeness of the processing rests with the RPA staff.

The District Government's record retention requirements require that the transaction files be held for at least three years following the current fiscal year.² These records and files include, "*Those relating to availability, collection, custody and deposit of funds including appropriate warrants and certificates of deposit*". Further, the Government Accountability Office's publication *Standards for Internal Control in the Federal Government* states that,³

² District of Columbia General Records Schedule 6, items 1.b., "Accountable Officer's Files" and 4. "General Fund Files" found at:

http://www.os.dc.gov/os/frames.asp?doc=/os/lib/os/info/pubrec/pdf/general_records_retention/general_records_06_accountable_officers_account_records.pdf

³ U.S. Government Accountability Office, formerly the U.S. General Accounting Office; *Standards for Internal Control in the Federal Government*; GAO Report Number: GAO/AIMD-00-21.3.1, November, 1999; page 15.

Findings and Recommendations

"Internal control and all transactions and other significant events should be clearly documented, and the documentation should be readily available for examination... All documents and records should be properly managed and maintained."

A knowledgeable TSG staff member told OIO that Gov One each business day⁴ groups the payment transactions received by tax type (employee withholding and real property tax payments), creates a transaction file for each tax type, using the same file name each day, and places those files in a secure web portal that allows ITS to access them. As the transaction files are created, Gov One creates a payment file by tax type⁵ for transmission to the OTR lockbox accounts at Wachovia. During TSG's nightly processing cycle, ITS accesses the Gov One secure portal and download each tax type's transaction file. TSG changes the file name to one that is unique for each tax type and conforms to the TSG and OCTO file naming conventions. These original transaction files are held by ITS for 15 business days. At the conclusion of this period the files are transferred to the OCTO data archiving facility. Upon request, OCTO can retrieve the data files once the specific file name is identified.

To verify that the original Gov One transactions were processing in ITS and posting correctly, OIO requested a judgmental sample of transaction files for 45 days during our audit period. TSG advised us that for the specific dates we requested that:

- TSG and OCTO were able to identify the specific file names for 25 of the 45 days;
- File names could not be identified for 18 days transactions; and
- Gov One did not receive and process payment transactions for February 10 and 15, 2010.

TSG stated that, of the 25 days for which they had file names, OCTO was able to retrieve three files, representing 2 days transactions. We received files with real property payments for December 9, 2009 and March 9, 2010, and a file with employee withholding payments for December 9, 2009.

Retention of the original documentation, in addition to complying with the record retention requirements, allows both TSG and RPA to demonstrate that the transactions are properly posting to the taxpayer accounts and to ITS. The original transactions provide a basis for correcting errors that may have occurred and supports transactions reported by Gov One.

Additionally, OIO identified other issues related to the verification of transactions. These issues include the methods used to identify and process erroneous transactions. The current process does not provide assurances that erroneous or unprocessed transactions will be tracked and resolved timely. The processes used by TSG and RPA to address these transactions are

⁴ Business days for Gov One processing are considered to be Monday through Friday from 4:00:00 p.m. on business day 1 to 3:59:59 on business day 2. Business days do not include certain Federal holidays that fall on those days.

⁵ The payment file data is sent to Wachovia for processing as credits to the OTR lockbox account. These payment transaction files were not included as part of this portion of the audit.

Findings and Recommendations

conflicting and do not ensure resolution. The absence of a viable and unified policy for the identification and resolution of unprocessed transactions creates potentially unidentified and unreconciled differences in the lockbox cash accounts as the payment transaction files are processed by Wachovia and deposited into the OTR lockbox account without regard to the status of the payment transactions in ITS.

When unprocessed transactions occur, according to a knowledgeable TSG manager, TSG will reject the entire file. The file and an explanatory message will be sent to RPA requesting that RPA resolve the issue. TSG believes that RPA, through the COTR, will request that Gov One correct the issue. This manager stated that TSG does not strip the transaction file of the erroneous transaction and process the balance of the file. TSG believes in order to retain the integrity of the process they should not strip the transaction or otherwise alter the file. RPA staff and management believe that TSG does strip transactions and processes the balance of the file. Neither TSG or RPA maintain formalized records of the unprocessed transactions and neither consistently follow up and document the resolution of those items.

Reporting Original Transactions

During our interviews with RPA staff, OIO inquired as to the method used to verify that all transactions received from Gov One were processed or otherwise controlled and accounted for. The RPA staff and management responded that they did not take steps to validate the transaction dollar amounts or the number of transactions with those reported by Gov One. They stated that they did not receive any reports from TSG that would allow them to do this and had to rely solely on the ITS reporting to validate the amounts and transaction counts. The RPA staff indicated that they have over time informally requested that TSG provide them with reports that would report only original Gov One transactions, before ITS processing, and have not received the reports; however, this request has not been documented. As a result, RPA is unable to reasonably assure that all transactions received from Gov One have been processed or identified as erroneous and resolution action taken for these transactions.

The absence of original transaction reporting, given the unreliable data archiving discussed previously, does not allow RPA to provide the necessary assurance that all of the transactions received were processed. This type of reporting may aid in the resolution of issues related to the taxpayer payments that may not have been posted to the correct account. It also allows RPA to verify that Gov One has transmitted the correct data from its systems. Finally, it may aid in identifying transactions that experience timing differences resulting from different transaction cutoff times for Gov One and ITS.

Findings and Recommendations

RECOMMENDATIONS:

The Chief Information Officer take action to:

1. Develop data retention and archiving systems and policies for OCFO taxpayer data that complies with the District's record retention requirements.
2. In consultation with RPA management, develop an electronic report of the daily transactions received from Gov One prior to processing by ITS. This report should be accessible by a wide range of RPA staff and others. Consideration should be given to archiving this report in support of the original transactions.

MANAGEMENT RESPONSES AND OIO COMMENTS

Management Response (Recommendation 1)

The Chief Information Officer concurred with the recommendation. The TSG will work with OTR to develop an assessment of the automated taxpayer data records and retention practices and provide a report that addresses system compliance with the OCFO/OTR Record Retention Schedule for taxpayer data. This report is anticipated to be complete by August 1, 2011. This compliance report will be used as a basis for the development of the data archiving systems policies for OCFO taxpayer data. The report's results will dictate, in part, the length of time necessary to complete the data archiving systems and policies.

OIO Comment

The Chief Information Officer's planned actions are responsive to the recommendation.

Management Response (Recommendation 2)

The Chief Information Officer concurred with the recommendation. TSG in consultation with RPA will develop an electronic report of transactions received from Gov One prior to processing in ITS. The anticipated completion date is June 15, 2011. The report will be adjusted to meet the data provided by Wells Fargo; as the new OTR lockbox contractor brings its electronic payment systems on line.

OIO Comment

The Chief Information Officer's planned actions are responsive to the recommendation.

Findings and Recommendations

FINDING 2: CONTRACT ADMINISTRATION

SYNOPSIS

OIO identified weaknesses in the administration and contract provisions of the lockbox services contract. These weaknesses included: (1) documentation of the relationship between Wachovia and Gov One as a subcontractor; (2) OTR and OFT incurred unnecessary interest liabilities by not complying with the timeliness requirements of the Payment Act, (3) OTR authorizing payments for costs that were not fully documented, and for services that were provided; and (4) OFT authorized payments for duplicate and erroneous billings in the Wachovia banking analysis charges. Also, the contract did not require that Gov One and Wachovia provide an annual independent review of the internal controls for the services provided; and the contract did not specifically require the protection of a taxpayer's personally identifiable information (PII) during the payment process and in the records maintained by Gov One and Wachovia.

OCFO personnel:

- Did not comply with the Payment Act and incurred unnecessary interest liabilities of \$90,719 for the untimely payment of Gov One and Wachovia invoices and statements, respectively.
- Paid \$92,003 for charges, included in invoices, that were not fully supported and for duplicative payments and erroneous charges.
- Did not ensure that the information systems controls for the services provided were functioning as described by the contractor and subcontractors, and that controls and processes were in place to protect taxpayers' PII.

DISCUSSION

Contractual Relationship with Gov One. During OIO's initial interview with the CO, we requested documentation to support the approval of Gov One as the lockbox services subcontractor. Our request was based on the requirements of section I.7.1 of the FY-2009 lockbox services contract requiring written approval of the subcontract. At that time we were told that: (1) it was the responsibility of the prime contractor, Wachovia, to notify the CO of any subcontractors and to request the CO's approval and (2) that requiring that the CO determine whether a prime contractor utilized subcontractors was impractical. The CO stated that Wachovia had not requested approval of the subcontract with Gov One; however he was aware that Gov One functioned as a subcontractor for the lockbox contract.

Findings and Recommendations

In a subsequent meeting with OIO, the CO explained that in FY-2004 the OCFO issued contract CFOPD-04-C-011 to Wachovia for retail and wholesale lockbox services to be provided to OTR. As part of this contract, Wachovia subcontracted the processing of electronic tax payments for employee withholding taxes and real property taxes to Gov One. This contract was issued following the acquisition regulations used by the OCFO at that time. These regulations did not require that the CO explicitly approve the subcontractors and document the approval in the contract file. This contract expired in FY-2008.

In FY-2009 the CO issued a follow-on contract for the lockbox services (CFOPD-09-C-007) to Wachovia. As part of the reissuance of the contract, the OC updated the terms and conditions of the contract to reflect changes imposed by the Procurement Practices Act and its implementing regulations in Title 27 of the District of Columbia Municipal Regulations (27 DCMR). The subcontracting relationship between Wachovia and Gov One continued as part of this contract. The CO explained that 27 DCMR section 2800.1 provides the option for the CO to require consent to subcontract when the CO determines that it is in the best interests of the District. In this instance, the CO felt the risks to the District, for using a subcontractor, were very low. As a result, specific approval for Gov One was not required. This contract expired at the conclusion of FY-2010 and has been extended to allow for an orderly transition to a new lockbox services contract that is expected to be finalized in FY-2011.

While OIO understands that the documentation of the subcontractor approval is not explicitly required by the regulations, in this instance; it is a best business practice to document the specific approval for the subcontractors. This type of documentation: (1) supports the CO's actions; (2) documents that the CO has considered the complexity of the work, the value of the subcontract, whether the OCFO is adequately protected without requiring specific consent, and other relevant factors; and (3) complies with section 2800.6 (d) of 27 DCMR to provide a written justification for not requiring the consent to subcontract. Developing and maintaining documentation for this type of significant contracting event is in keeping with GAO's requirements in the *Standards of Internal Control in the Federal Government*.

Review of the Payment Lag for Gov One Invoices and Wachovia Banking Analysis Charges.

Our review of the contract payments, for the services provided by Gov One, found that both OTR and RPA processes were time consuming, ineffective, and resulted in OCFO incurring unnecessary late payment interest liabilities. Based on the results of our testing, OIO concluded that the current process used by both OTR and OFT do not provide assurances that payments will be made in compliance with the Payment Act.

In order to verify that OTR and OFT had invoice review processes that met the payment standards required by the Payment Act we: (1) reviewed the invoice date and calculated the estimated date that the COTR received the invoice (5 calendar days after the invoice date); (2)

Findings and Recommendations

calculated the “on-time payment date” required by the Payment Act;⁶ (3) obtained, from the OFT Accounts Payable Unit, the check date for each of the payments made during the audit period; and (4) calculated the number of days necessary to both approve the invoice (using e-mails provided by the COTR) and pay the invoice (based on check dates). We calculated the number of days between the on-time payment date and the check date and used the statutory interest rate to determine the Payment Act liability.

Gov One Invoice Approval by OTR

The OTR process, between October 1, 2008 and August 31, 2009⁷ to receive, review, and certify the Gov One invoices averaged a total of 234 days (7.8 months) and ranged from 109 to 315 days. Our analysis found OTR averaged 168 days (5.6 months) to certify the services listed in the invoice from the date it was estimated to be received, by the COTR. An additional 34 days (1.1 months), on average, was consumed between the date of certification and the payment, based on the check date. Our analysis of the data found that OCFO incurred an average of 202 days (6.7 months) of interest costs mandated by the Payment Act. Through August 5, 2010, this interest liability totaled \$27,606. Tables B-1 through B-3 (at Exhibit B) provide additional data and processing times for the invoices we tested.

For those invoices that cannot be processed due to defects in the invoice or for the services provided, the Payment Act provides a 15 calendar day period, from receipt of the invoice, for the CO or COTR to protest the invoice to Wachovia/Gov One.⁸ The Payment Act states in part that, “... *the protest may cover any type of defect in the invoice, delivered goods, property, services or impropriety of any kind ...*” Our testing did not identify any invoices that had been formally protested to Wachovia/Gov One during the 15 day window provided by the Payment Act.

We identified that RPA staff were not fully aware of the system of internal controls and processes necessary to certify the invoices and the process employed by the COTR, OTR and RPA was time consuming and did not ensure the invoice would be certified and or protested in compliance with the Payment Act.

The RPA staff during our interviews and discussions with them uniformly stated that they believed it was inappropriate for RPA to be required to certify the Gov One invoice. The certification was the responsibility of the COTR. However, the present process does not allow the COTR to ensure that all the transactions billed on the invoice were provided. RPA has the ability to access ITS in a manner that would allow it to verify the numbers of files received and the number of transactions processed. Additionally, systems of internal controls generally require that the individuals with actual knowledge of the services provided the approval of the

⁶ Thirty days from receipt of the invoice adding an addition day for each District Government holiday included during the 30 days from the date of receipt (DC ST § 221.02(a)(2)(A))

⁷ Last date that invoices for Gov One had been paid prior to our analysis cutoff of August 5, 2010.

⁸ DC ST § 2-221.02(a)(2)(D).

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charges on the invoice. The RPA staff is in the best position to verify the level of services provided and that the services were acceptable.

We found that the current OTR review and certification process was cumbersome and produced little, if any, added value for the OTR and its staff. The Gov One invoice passed through seven different potential review points prior to the COTR receiving an e-mail message approving the invoice. Exhibit C-1 outlines the invoice review process.

The review process is heavily reliant on the individuals involved receiving the invoice data and acting on it timely. Further, the process is complicated by the absence of some or all the original transaction data for the invoice period (see Finding 1: Data Retention). The absence of the original data adds unnecessary complexity to the reconciliation process and does not ensure that the invoice data for the period is complete. The current process does not ensure that all of the charges billed by Gov One are for services received by OTR.

Processing of Bank Analysis Charges by OFT

OIO found similar conditions regarding delayed payments to Wachovia for the monthly bank analysis charges (fees for the lockbox services provided by Wachovia). Our review of the banking analysis payments, during the audit period, found that OFT averaged 99 days (3.30 months) from the estimated date of receipt of the invoice to the payment of the charges. The timeline ranged from 34 to 351 days. OFT consumed an average of 37 days (1.2 months) to review and certify the analysis charges. The balance of 62 days (2.1 months) was consumed with the process of scheduling and processing the invoice for payment. These delays resulted in OCFO incurring a Payment Act interest liability of \$63,113, through August 5, 2010.⁹ Table B-3 (Exhibit B) provides additional data on the processing of the invoices and the calculation of individual interest liabilities.

The COTR told us that she was aware that some of the analysis payments were not processed in accordance with the Payment Act's requirements. OFT has taken steps to improve the processing times to ensure that they comply with the Payment Act timelines. We did note, in our testing, that the invoices for August 2009 and January 2010 were paid within the Payment Act requirements.¹⁰

Review of the Detailed Costs within the Gov One Invoices and the Banking Analysis Charges.
OIO identified that the processes used to review detailed costs in both the Gov One invoices and analysis charges was ineffective in the identification of unsupported and improper/erroneous

⁹ The computation of the Payment Act interest liability is net of the charges incurred for the Gov One invoices discussed in the previous section of the report. OIO calculated that Gov One related interest liability charges were \$17,606.

¹⁰ DC ST §221.02(b)(1)(C) allows the District Government agencies to pay invoices for non-perishable goods and services up to 15 days beyond the on-time payment date without incurring an interest liability for late payment.

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charges and duplicate billings. We identified the following deficiencies in our testing of the Gov One invoices:

- 14 of 19 Gov One invoices included charges for the collection of corporate franchise and personal property taxes. The charges indicated that no collections of those tax types occurred during that period. OCFO incurred \$8,800 in charges during the period for these two tax types.
- Three of the FY-2010 invoices (December 2009, February 2010 and March 2010) included charges for touch-tone telephone payments at the rate of \$1.94 per minute. The rate prior and subsequent to these charges was \$0.45 per minute. The change resulted in an increase of 331 percent. The CO and COTR were unaware of the billing change and the RPA staff did not identify it as an issue when reviewing the invoice. The OCFO incurred \$1,095 in additional costs resulting from the rate change.
- The total charges listed on the face of the Gov One invoices were not fully supported by subsidiary detail for the individual invoices in 15 of the 19 invoices tested. We identified \$34,499 in unsupported charges in FY-2009 and \$5,086 of unsupported charges in FY-2010, through April 30. Tables B-4 and B-5 provide a line item summary of the charges for each fiscal year respectively.

Our review of the banking analysis charges during the audit period identified:

- Invoices for the periods March 2008 (\$18,536.89) and May 2008 (\$21,464.85) were included twice in the analysis charges and paid twice resulting in an overpayment of \$40,002.
- The May 2009 Gov One invoice was overpaid to Wachovia. The invoice amount was \$21,464.85 and the amount included in the analysis statement was \$23,986.07 resulting in an overpayment of \$2,521.

The review of the Gov One charges as part of the analysis payments was ineffective. This was due, in part, to the lengthy delays in obtaining an invoice certification from RPA. Delays in Wachovia including the certified invoices in the analysis statements further contributed to the confusion regarding the status of the payment for individual Gov One invoices. Table B-6 provides detailed data on the Gov One invoice payments included in the analysis statements during the audit period.

Effectiveness of Processing Controls and Protection of PII. The lockbox services contract did not require that Wachovia or Gov One provide an independent attestation on the system of internal controls used to process tax payments. Additionally, the contract did not have specific requirements for the safeguarding of taxpayer information and personally identifiable information (PII).

Findings and Recommendations

Absence of Requirements for an Independent Attestation of the System of Internal Controls

It is an accepted business practice for organizations, including governments, to obtain an independent attestation report on the system of internal controls placed in operation by the service organization and the results of the test of their operating effectiveness. This independent attestation is commonly referred to as a SAS – 70 type 2 report. This report includes: (1) a description by the service organization's management of the control objectives and the related controls as they relate to the services provided, (2) a description of the service organization auditor's tests of operating effectiveness, (3) the results of the auditor's tests, and (4) the auditor's opinion on the system of controls. This report could allow the CO, COTR, and management from OFT and OTR to make an informed assessment of the control risks and determine whether the organization is taking adequate steps to protect the taxpayers' data.

Gov One did provide the CO and COTR with a self-assessment of their controls and control environment. This assessment was dated January 14, 2008. The document is helpful in outlining the control environment for processing the tax payments; however, it does not provide the level of assurance necessary for either OFT or OTR to ensure the taxpayer's data is protected. Our inquiries disclosed that neither the CO nor COTR requested that Wachovia and Gov One provide them with copies of any SAS - 70 reports for the periods covered by the contract. Additionally, the contract itself does not require that this information be provided. While the contract does state that the contractor is responsible for the protecting the data it does not specifically address the level of controls and protection that must be applied.

Protection of PII by Wachovia and Gov One

The Office of Management and Budget defines PII as,¹¹

"... the term Personally Identifiable Information means any information about an individual maintained by an agency, including, but not limited to education, financial transactions, medical history, criminal or employment history and information which can be used to distinguish or trace an individual's identity, such as their name, social security number, and place of birth, mother's maiden name, biometric records, etc., including any other personal information which is linked or linkable to an individual."

The standard for safeguarding taxpayer data is the requirements to which the Internal Revenue Service (IRS) is held. These requirements are outlined in Title 26 of the U.S. Code section 6103. While these regulations do not directly apply to the OCFO they can be used as a baseline to build in protections for the taxpayer's returns and PII by OCFO and its contractors.

Both Wachovia and Gov One are required by other laws and regulations, for example, Gram-Leach Bliley Act, the Federal Trade Commission's Financial Privacy and Safeguard Rules to

¹¹ Office of Management and Budget; Memorandum for Chief Information Officers: *Reporting Incidents Involving Personally Identifiable Information and Incorporating the Cost of Security in Agency Information Technology Investments*; M-06-19; July 12, 2006; page 1 footnote 1.

Findings and Recommendations

safeguard an individual's financial transactions and PII. These laws and regulations may be as stringent as those governing the Internal Revenue Service. However, due to the absence of specific requirements for protection of taxpayer data and PII in the contract safeguards from these laws and regulations may not be in place for the taxpayer's data.

In addition to the IRS' own requirements, they have developed requirements for protection of taxpayer information. IRS Publication 1075 titled *Tax Information Security Guidelines For Federal, State and Local Agencies* outlines the guidelines for protecting Federal tax data. These guidelines incorporate the requirements outlined in several National Institute of Standards and Technology (NIST) publications. NIST Special Publication (SP) 800-122 *Guide to Protecting the Confidentiality of Personally Identifiable Information (PII)* discusses the protection of PII in computer systems and provides guidelines for development of computer based protection methodologies. Specifically IRS Publication 1075 refers to the requirements of NIST SP 800-53, *Recommended Security Controls for Federal Information Systems* (revision 3) and its annexes. The recommended controls are set at a moderate risk level. Further, IRS Publication 4557, *Safeguarding Taxpayer Data – A Guide for your Business* provides additional information on sources best practices and safeguards, which they reviewed.

The lockbox services contract requires that Wachovia and Gov One provide an ordinary level of care to ensure the safety of the data that they process. The contract does not include specific requirements as to the protection of PII or taxpayer data. Given the absence of specific requirements regarding protection of PII and taxpayer data, erroneous handling, potential loss, or actual loss of taxpayer data and PII may not be reported to the OCFO and steps taken, to initiate the recovery of the data and to notify taxpayers that their data and PII may have been compromised.

RECOMMENDATIONS

The DCFO, OTR and the DCFO, OFT should jointly:

3. Mandate development of a joint review and certification process for the review and approval of all Wachovia banking analysis statements and Gov One invoices. This revised review and certification process should provide a reasonable assurance that both OTR and OFT will comply with the payment timeline requirements of the Payment Act.
4. Mandate the development of specific requirements to be included in the lockbox services contract which address 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 Publications 1075 and 4557 and NIST SP 800-122 and SP 800-53. The requirements should include a process for notification of OCFO should a potential or actual loss of PII by a contractor occur.

Findings and Recommendations

5. Request the CO to amend the OTR lockbox services contract to include:
 - a. Specific requirements that the prime and all subcontractors processing tax payments or data to annually submit a SAS – 70 type 2 report prepared by an independent source to the CO and COTR, and the COTR perform periodic site visits.
 - b. Requirements for the protection of taxpayer data and PII, including the procedures to address data and PII that may have been lost or compromised. These requirements should be provided by OTR and OFT.

The Executive Director, OMA take the following actions to:

6. Require the OC to provide written justification in the contract file for decisions not to require the CO's consent to subcontract or documentation approving the subcontractor(s).
7. Take action to: (a) determine whether the unsupported charges were for services provided to OTR; (b) recover the \$8,800 for payment receipt services that were not provided; (c) recover the \$1,095 of overcharges for the touch-tone telephone payments made in December 2009, February, and March 2010; and (d) recover funds for any costs that were not fully supported and services were not provided to OTR.

MANAGEMENT RESPONSES AND OIO COMMENTS

Management Response (Recommendation 3)

The DCFO, OFT and the DCFO, OTR generally concurred with the recommendation. They stated that as an interim procedure the COTR, and representatives for OTR and OMA will meet monthly and jointly review and approve the prior month's banking analysis statements and the Gov One charges. This review will be done within a time period that complies with the Quick Payment Act requirements. Additionally, the response stated that as Wells Fargo implements new electronic payment processing systems as part of the OTR lockbox contract these procedures may change.

OIO Comment

The OFT and OTR planned actions are responsive to the recommendation. OFT and OTR did not provide a date when they expect to complete implementation of the interim procedure. OIO requests that OFT and OTR provide an anticipated completion date of the interim procedure by May 16, 2011.

Findings and Recommendations

Management Response (Recommendation 4)

OFT agreed with the recommendation and stated that they would work with OMA to have the appropriate language inserted into the new banking services contract. The language would require that the prime and any subcontractors comply with IRS Publication 1075, and NIST Special Publications 800-53 and 800-122.

OIO Comment

The OFT planned actions are responsive to the recommendation. OFT did not provide a date when they expected to have the requirements included in the banking services contract. OIO requests that OFT provide us with the anticipated completion date of the interim procedure by May 16, 2011.

Management Response (Recommendation 5)

OFT concurred with the recommendations in conjunction with OMA to insert language into the banking services contract that requires: (1) the prime contractor and subcontractors provide a SAS – 70 type 2 report, prepared by an independent source to the CO and COTR; (2) that requirements be included in the contract for protection of taxpayer data and PII; and (3) procedures to address taxpayer data or PII that may have been lost or compromised. OTR also agreed to include having the COTR perform periodic site visits.

OIO Comment

The OFT planned actions are responsive to the recommendation. OFT did not provide a date when they expected to have the requirements included in the banking services contract. OIO requests OFT provide us with the anticipated completion date of the interim procedure by May 16, 2011.

Management Response (Recommendation 6)

The Executive Director, OMA concurred with the recommendation. He stated that OCFO COs will comply with requirements of 27 DCMR § 2800 including providing a written justification for not requiring the approval of subcontractors.

OIO Comment

The OMA planned actions are responsive to the recommendation. OMA did not provide a date when they expected to implement procedures that require the COs to comply with 27 DCMR § 2800. OIO requests that OMA provide us with the anticipated completion date of the interim procedure by May 16, 2011.

Findings and Recommendations

FINDING 3: COMMUNICATION BETWEEN OCFO ORGANIZATIONS

SYNOPSIS

The communications process between the COTR and the OCFO organizations is significantly flawed and adversely impacted the operations and resolution of issues related to Gov One. We found that all of the issues related to the Gov One appeared to be directed to the COTR to resolve; however, the COTR and the OTR organizations did not document these issues for themselves; and both the COTR and OTR did not follow-up on issues to obtain resolution within a timely manner. Further, we found that the process of having all the problems and resolutions passing through the COTR may have a deleterious impact on the timely resolution of information systems issues impacting the Gov One process. As a result, the communications process for Gov One is ineffective and leads to lengthy delays in obtaining resolution for Gov One related issues.

DISCUSSION

The OTR lockbox services contract, subsections G.1(b) and (c), places responsibility for oversight of the daily operations of the contract with the program manager and COTR, who are the same individual for this contract. The COTR becomes the lynchpin for communications between the OTR units involved with the contract and the prime contractor. Both OTR and OFT emphasized the single point of contact by directing that all communications with Wachovia and Gov One would be done by and through the COTR, only.

In the interviews and discussions with OTR, RPA, and TSG staff conducted by OIO, we were informed that: (1) individuals responsible for operations impacted by Gov One had not been briefed on Gov One's capabilities and requirements for acceptance and reporting of tax payments; (2) periodic meetings between the COTR and the managers of the operational staff were not conducted; (3) the process for the resolution of issues was drawn out and did not ensure timely resolution; and (4) the resolution of information systems and technical issues were significantly impacted as the technical information was filtered through several individuals instead of being directed directly to the technical staffs at Gov One and TSG. Additionally, OIO found that issues were generally not documented by the individuals raising them, and were not pursued with the COTR periodically. While the COTR maintained a tracking system, for some of the issues raised, this system was not complete and did not include issues related to the revision of daily processing files to address erroneous tax types or filing frequencies. We were told that resolution of deposit and filing issues often consumed several weeks if not months. However, we were unable to verify this as neither OTR, as a whole, or the COTR documented communicating the issues to Gov One or following up on issues raised.

Findings and Recommendations

OIO found that OTR and its subordinate units did not request that the COTR provide periodic briefings on the status of various issues raised. Similarly, the COTR did not offer to address open issues and their resolution timelines with the responsible OTR management. It appeared that issues were addressed only when they became pressing issues. Periodic briefings would provide the OTR management and the COTR with updated information on issues resolution. Also, these briefings may prevent some issues from adversely impacting both Gov One and ITS operations.

The briefings have a second purpose to provide a basis to document the prime and the subcontractor's performance over the life of the contract. Documenting the prime and subcontractor's performance may assist the CO in determining whether a contract should be extended, if appropriate, or if future contracts should be awarded to the prime contractor or subcontractors.

Neither the OTR or OFT had individually or jointly developed written policies and procedures addressing the process used to report contracting and performance issues to the program manager and the COTR. While staff stated that all of the issues were provided to the COTR, there was no assurance that it was done due to the lack of documentation.

OIO found that information systems and technical issues were not brought forward to the COTR in a timely manner, and the resolution of the issues was impacted by the number of levels of non-technical staff that were involved. For example, should one of the nightly transaction files abend, the current practice described to us, is for TSG to research the problem and provide to a specific RPA staff member data on the issue. The RPA staff member would take the information and forward it to the Special Assistant to the DCFO/OTR, who then forwards the data to the COTR, who forwards it to Wachovia and Gov One for resolution. This process relies on several e-mails and timely transmission of the issue to the correct individual. The OTR staff and the COTR stated that this process could involve several days before the issue is brought to Gov One. According to the TSG staff, the ability to speak directly with the Gov One technical staff would enable them to quickly bring the issue to the attention of the staff involved in correcting it. It could also allow for a quick replacement of the transaction file if necessary.

RECOMMENDATIONS

We recommend that the DCFO/OFT and the DCFO/OTR jointly:

8. Mandate the development of policies and procedures for the raising, tracking, and resolution of operational issues that impact a contractor's performance.
9. Revise the communication procedures to allow TSG staff to raise technical issues directly with the Gov One technical staff. Reporting these issues and their resolution to the COTR can be done on an after the fact basis.

Findings and Recommendations

10. Request that the CO include an additional COTR, from OTR, in the lockbox services contract. This additional COTR could be responsible for addressing the operational issues raised by the OTR units directly with the prime contractor.

MANAGEMENT RESPONSES AND OIO COMMENTS

Management Response (Recommendation 8)

OFT stated that the current process of the COTR using a spreadsheet to track complaints and resolution would remain in place until Wells Fargo had implemented its new gateway payment system. At that time, OFT would reevaluate the COTR's problem resolution process and make changes as necessary.

OIO Comment

OIO does not agree with the OFT's intent to remain status quo with the current system to track issues raised regarding the contractor and subcontractor operations. Documenting and resolving contractor and subcontractor performance issues is one of the prime duties of the COTR and program manager. Our fieldwork identified that the current system was not providing management with the necessary oversight over the contractor and there was little assurance that operational issues were raised with the contractor and resolution obtained. A robust problem resolution system assists the program manager and COTR with both tracking issues and their resolution and providing support to evaluate the contractor's performance. OIO request OFT reconsider its position and provide us with a revised response including estimated dates of completion by May 16, 2011.

Management Response (Recommendation 9)

OFT and OTR did not agree with this recommendation. Their response stated that the recommendation conflicted with OMA's requirements for the COTR.

OIO Comment

OIO disagrees with OFT and OTR's position. Communication of technical issues between the TSG staff and the contractor is critical to rapid correction of issues. The direct communication also reduces the chances of miscommunication between technical and non-technical individuals. We believe that with reasonable oversight by the COTR and the CO it is possible to have this type of direct communication and not interfere with the COTR's responsibilities. OIO request OFT and OTR to reconsider their position and provide a revised response to us by May 16, 2011.

Findings and Recommendations

Management Response (Recommendation 10)

OFT did not concur with this recommendation. They responded that a second COTR could create a condition where unintended consequences occur and that cost of operating the contract may increase. Further, OFT stated that the new payment gateway that will be established by Wells Fargo will eliminate the problems that were encountered with the Gov One operations.

OIO Comment

OIO disagrees with OFT and OTR's position. A second COTR or program manager responsible for the operations side of the contract, we believe, will improve oversight of the contractor operations. The current situation does not provide the COTR with visibility for the operations impacted by the contract. This visibility is critical in assessing the contractor's operations and to help resolve problems that can arise. By working in concert the COTRs or program managers from OFT and OTR can provide the necessary oversight and keep management in both areas aware of issues that arise with the contract and what is being done by the contractor to correct them. OIO request OFT and OTR to reconsider their position and provide a revised response to us by May 16, 2011.

Exhibit A: Summary of Potential Benefits Resulting from Audit

| Recommendation | Executive Director, Management and Administration | Chief Information Officer | Deputy Chief Financial Officer - Finance & Treasury | Deputy Chief Financial Officer - Tax and Revenue | Description of Benefit | Amount and Type of Benefit | Agency Reported Estimated Completion Date | Status ¹² |
|----------------|---|---------------------------|---|--|---|--|---|----------------------|
| 1 | | X | | | Develops archiving system for all contractor provided transactions | Internal Control | Aug. 1, 2011 | Open |
| 2 | | X | | | Develops a reporting process for contractor provided transactions | Internal Control | Jun. 15, 2011 | Open |
| 3 | | | X | X | Develops timely certification process for invoices | Compliance and Potential Cost Avoidance \$90,719 | TBD | Open |
| 4 | | | X | X | Develop procedures that mandate the protection of PII by the lockbox service contractor. | Internal Control and Compliance | TBD | Open |
| 5a | | | X | X | Ensures that the prime and subcontractors have controls to protect taxpayer data. | Internal Control and Compliance | TBD | Open |
| 5b | | | X | X | Ensures controls are in place for the protection of and reporting of the compromise of taxpayer PII | Internal Control and Compliance | TBD | Open |
| 6 | X | | | | Document approval of subcontractors | Compliance | TBD | Open |

¹² This column provides the status of the 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 the action is not complete. "Closed" means that management advised the OIO that the action needed to correct the condition is complete. If a completion date was not provided, the date of management's response was used. "Unresolved" means that management has neither agreed to take the recommended action nor proposed satisfactory alternative actions to correct the condition.

Exhibit A: Summary of Potential Benefits Resulting from Audit

| Recommendation | Executive Director, Management and Administration | Chief Information Officer | Deputy Chief Financial Officer - Finance & Treasury | Deputy Chief Financial Officer - Tax and Revenue | Description of Benefit | Amount and Type of Benefit | Agency Reported Estimated Completion Date | Status |
|----------------|---|---------------------------|---|--|---|--|---|------------|
| | | | | | | | | |
| 7 | X | | | | Determine whether recovery of funds from contractor is appropriate | Compliance and Potential Cost Reduction \$92,003 | Apr. 12, 2011 | Open |
| 8 | | | X | X | Development of policies and procedures to address joint operational issues | Internal Control | TBD | Unresolved |
| 9 | | | X | X | Direct contact between TSG and Gov One staffs on technical issues. | Internal Control | TBD | Unresolved |
| 10 | | | X | X | Request an additional COTR for the OTR portion of the lockbox services contract | Efficiency and Effectiveness | TBD | Unresolved |

Exhibit B: Tables Supporting Calculation of Liability for Late Payments and Unsupported Costs and Interest (1 of 5)

Table B-1 Estimated Delay in Approval of Gov One Invoices Through August 5, 2010

| Invoice Period | Invoice Date | Assumed Receipt Date ^a | Estimated on Time Payment Date ^b | Approval Date Based on E-Mail Message | Lag Days | Payment Date ^c | Lag Days |
|---|--------------|-----------------------------------|---|---------------------------------------|----------|---------------------------|----------|
| 2008 Invoices | | | | | | | |
| October | Nov. 7, 2008 | Nov. 12, 2008 | Dec. 14, 2008 | Oct. 2, 2009 | 293 | Sep. 22, 2009 | 283 |
| November | Dec. 1, 2008 | Dec. 6, 2008 | Jan. 6, 2009 | Oct. 2, 2009 | 268 | | 258 |
| December | Jan. 2, 2009 | Jan. 7, 2009 | Feb. 8, 2009 | Oct. 2, 2009 | 237 | | 227 |
| 2009 Invoices | | | | | | | |
| January | Feb. 2, 2009 | Feb. 7, 2009 | Mar. 10, 2009 | Oct. 2, 2009 | 206 | Sep. 22, 2009 | 196 |
| February | Mar. 1, 2009 | Mar. 6, 2009 | Apr. 5, 2009 | Oct. 2, 2009 | 180 | | 170 |
| March | Apr. 1, 2009 | Apr. 6, 2009 | May 7, 2009 | Oct. 2, 2009 | 148 | | 138 |
| April | May 1, 2009 | May 6, 2009 | Jun. 6, 2009 | Oct. 2, 2009 | 118 | | 108 |
| May | Jun. 4, 2009 | Jun. 9, 2009 | Jul. 9, 2009 | Mar. 5, 2010 | 238 | | 74 |
| June | Jul. 1, 2009 | Jul. 6, 2009 | Aug. 6, 2009 | Mar. 5, 2010 | 212 | May 20, 2010 | 288 |
| July | Aug. 1, 2009 | Aug. 6, 2009 | Sep. 5, 2009 | Mar. 5, 2010 | 181 | | 257 |
| August | Sep. 1, 2009 | Sep. 6, 2009 | Oct. 7, 2009 | Mar. 5, 2010 | 149 | Through Aug. 5, 2010 | 302 |
| September | Oct. 1, 2009 | Oct. 6, 2009 | Nov. 6, 2009 | Mar. 5, 2010 | 119 | | 272 |
| October | Nov. 1, 2009 | Nov. 6, 2009 | Dec. 8, 2009 | Mar. 5, 2010 | 87 | | 240 |
| November | Dec. 1, 2009 | Dec. 6, 2009 | Jan. 6, 2010 | Mar. 5, 2010 | 57 | | 210 |
| December | Jan. 4, 2009 | Jan. 9, 2010 | Feb. 10, 2010 | Mar. 5, 2010 | 24 | | 177 |
| 2010 Invoices ^d | | | | | | | |
| January | Feb. 1, 2010 | Feb. 6, 2010 | Mar 9, 2010 | Not Approved as of Aug. 5, 2010 | 149 | Through Aug. 5, 2010 | 149 |
| February | Mar. 1, 2010 | Mar. 6, 2010 | Apr. 5, 2010 | | 122 | | 122 |
| March | Apr. 1, 2010 | Apr. 6, 2010 | May 7, 2010 | | 90 | | 90 |
| April | May 1, 2010 | May 6, 2010 | Jun 6, 2010 | | 60 | | 60 |
| Average Number of Days between On Time Payment and Invoice Approval | | | | | 168 | | |
| Average Number of Days between On Time Payment and Actual Payment Date | | | | | 202 | | |

Source: OIO analysis of the Gov One invoices and e-mail messages provided by the OTR Lockbox Services contract COTR.

- Notes: ^a Assumed receipt 5 days after the invoice date – records were not maintained to support the receipt date.
^b Calculated based on DC ST § 221.02(a)(2)(A) – 30 calendar days and DC Government holidays.
^c Check date per DC ST § 221.06(b)(2)
^d The COTR has not received approval for the 2010 invoices as of August 5, 2010. The number of lag days does not include invoices awaiting approval as of August 5, 2010.

Exhibit B: Tables Supporting Calculation of Liability for Late Payments and Unsupported Costs and Interest (2 of 5)

Table B-2 Estimated Interest Liability for Delays in Payment of Gov One Invoices Through August 5, 2010

| Invoice Period | Invoice Date | Assumed Receipt Date ^a | Estimated on Time Payment Date ^b | Payment Date ^c | Lag Days ^d | Invoice Amount | Estimate of Interest Liability |
|--|--------------|-----------------------------------|---|---|-----------------------|----------------|--------------------------------|
| 2008 Invoices | | | | | | | |
| October | Nov. 7, 2008 | Nov. 12, 2008 | Dec. 14, 2008 | Sep. 22, 2009 | 283 | 21,246.13 | 2,222.82 |
| November | Dec. 1, 2008 | Dec. 6, 2008 | Jan. 6, 2009 | Sep. 22, 2009 | 258 | 20,172.12 | 1,889.83 |
| December | Jan. 2, 2009 | Jan. 7, 2009 | Feb. 8, 2009 | Sep. 22, 2009 | 227 | 23,144.90 | 1,917.17 |
| 2009 Invoices | | | | | | | |
| January | Feb. 2, 2009 | Feb. 7, 2009 | Mar. 10, 2009 | Sep. 22, 2009 | 196 | 17,464.94 | 1,259.84 |
| February | Mar. 1, 2009 | Mar. 6, 2009 | Apr. 5, 2009 | Sep. 22, 2009 | 170 | 20,312.41 | 1,249.62 |
| March | Apr. 1, 2009 | Apr. 6, 2009 | May 7, 2009 | Sep. 22, 2009 | 138 | 20,770.57 | 1,059.51 |
| April | May 1, 2009 | May 6, 2009 | Jun. 6, 2009 | Sep. 22, 2009 | 108 | 23,986.07 | 973.93 |
| May | Jun. 4, 2009 | Jun. 9, 2009 | Jul. 9, 2009 | Sep. 22, 2009 | 74 | 21,464.85 | 650.41 |
| June | Jul. 1, 2009 | Jul. 6, 2009 | Aug. 6, 2009 | May 20, 2010 | 288 | 24,172.90 | 2,529.02 |
| July | Aug. 1, 2009 | Aug. 6, 2009 | Sep. 5, 2009 | May 20, 2010 | 257 | 21,974.18 | 2,058.66 |
| August | Sep. 1, 2009 | Sep. 6, 2009 | Oct. 7, 2009 | May 20, 2010 | 225 | 21,660.69 | 1,794.73 |
| September | Oct. 1, 2009 | Oct. 6, 2009 | Nov. 6, 2009 | Interest Calculated through Aug. 5, 2010 | 272 | 23,537.36 | 2,462.53 |
| October | Nov. 1, 2009 | Nov. 6, 2009 | Dec. 8, 2009 | | 240 | 22,783.85 | 1,887.79 |
| November | Dec. 1, 2009 | Dec. 6, 2009 | Jan. 6, 2010 | | 210 | 19,359.92 | 1,396.53 |
| December | Jan. 4, 2010 | Jan. 9, 2010 | Feb. 10, 2010 | | 177 | 22,741.15 | 1,640.20 |
| 2010 Invoices | | | | | | | |
| January | Feb. 1, 2010 | Feb. 6, 2010 | Mar 9, 2010 | Interest Calculated through Aug. 5, 2010 | 149 | 17,743.63 | 880.19 |
| February | Mar. 1, 2010 | Mar. 6, 2010 | Apr. 5, 2010 | | 122 | 12,948.23 | 660.49 |
| March | Apr. 1, 2010 | Apr. 6, 2010 | May 7, 2010 | | 90 | 25,263.24 | 765.50 |
| April | May 1, 2010 | May 6, 2010 | Jun 6, 2010 | | 60 | 15,275.09 | 307.03 |
| Average of Days between On Time Payment Date and Actual Payment | | | | | 202 | | |
| Estimated Interest Liability for Late Payment Invoices | | | | | | | 27,606.34 |

Source: OIO analysis of the Gov One invoices and e-mail messages provided by the OTR Lockbox Services contract COTR.

- Notes: ^a Assumed receipt 5 days after the invoice date – records were not maintained to support the receipt date.
^b Calculated based on DC ST § 221.02(a)(2)(A) – 30 calendar days and DC Government holidays.
^c Check date per DC ST § 221.06(b)(2)
^d Difference between the On-Time Payment date and the date of the check for payment.

Exhibit B: Tables Supporting Calculation of Liability for Late Payments and Unsupported Costs and Interest (3 of 5)

Table B-3 Estimated Interest Liability for Delays in Payment of Bank Analysis Charges Through August 5, 2010

| Invoice Period | Invoice Date | Assumed Receipt Date ^a | Estimated on Time Payment Date ^b | Payment Date ^c | Lag Days ^d | Invoice Amount ^f | Estimate of Interest Liability ^g |
|--|---------------|-----------------------------------|---|---------------------------|-----------------------|-----------------------------|---|
| 2008 Invoices | | | | | | | |
| October | Dec. 1, 2008 | Dec 6, 2008 | Jan. 7, 2009 | Mar. 16, 2009 | 68 | 291,604.34 | 8,835.90 |
| November ^e | Jan. 15, 2009 | Jan. 20, 2009 | Feb. 21, 2009 | May 11, 2009 | 79 | 120,229.55 | 3,643.08 |
| December | Feb. 2, 2009 | Feb. 7, 2009 | Mar. 10, 2009 | May 11, 2009 | 62 | 96,611.51 | 3,600.86 |
| 2009 Invoices | | | | | | | |
| January | May 21, 2009 | May 26, 2009 | Jun. 26, 2009 | Jul. 13, 2009 | 17 | 98,706.12 | 987.06 |
| February | May 21, 2009 | May 26, 2009 | Jun. 26, 2009 | Jul. 13, 2009 | 17 | 126,733.66 | 1,267.33 |
| March | May 21, 2009 | May 26, 2009 | Jun. 26, 2009 | Jul. 13, 2009 | 17 | 65,381.39 | 653.81 |
| April | May 21, 2009 | May 26, 2009 | Jun. 26, 2009 | Aug. 18, 2009 | 53 | 118,836.48 | 2,388.61 |
| May | Jul. 2, 2009 | Jul. 7, 2009 | Aug. 7, 2009 | Sep. 22, 2009 | 46 | 322,944.86 | 3,103.10 |
| June | Jul. 22, 2009 | Jul. 27, 2009 | Aug. 26, 2009 | Sep 22, 2009 | 27 | 141,801.18 | 1,418.01 |
| July | Aug. 14, 2009 | Aug. 19, 2009 | Sep. 18, 2009 | Aug. 5, 2010 | 321 | 146,041.01 | 16,892.32 |
| August | Sep. 10, 2009 | Sep. 15, 2009 | Oct. 16, 2009 | Oct 19, 2009 | 3 | 145,584.65 | 0.00 |
| September | Oct. 12, 2009 | Oct. 17, 2009 | Nov. 17, 2009 | Aug. 5, 2010 | 261 | 87,731.81 | 8,219.18 |
| October | Nov. 12, 2009 | Nov. 17, 2009 | Dec. 18, 2009 | Mar. 22, 2010 | 94 | 70,083.09 | 92.39 |
| November | Dec. 10, 2009 | Dec. 15, 2009 | Jan. 16, 2010 | Mar. 22, 2010 | 65 | 143,676.82 | 4,353.55 |
| December | Jan. 11, 2010 | Jan. 16, 2010 | Feb. 16, 2010 | Mar. 30, 2010 | 42 | 45,127.48 | 907.06 |
| 2010 Invoices | | | | | | | |
| January | Feb. 17, 2010 | Feb. 22, 2010 | Mar. 24, 2010 | Mar. 29, 2010 | 5 | 35,915.85 | 0.00 |
| February | Mar. 15, 2010 | Mar. 20, 2010 | Apr. 20, 2010 | May 20, 2010 | 30 | 313,785.58 | 3,137.86 |
| March | Apr. 19, 2010 | Apr. 24, 2010 | May 24, 2010 | Jul. 1, 2010 | 38 | 109,363.87 | 2,198.21 |
| April | May 11, 2010 | May 16, 2010 | Jun 16, 2010 | Aug. 5, 2010 | 50 | 70,370.06 | 1,414.44 |
| Average of Days between On Time Payment Date and Actual Payment | | | | | 68 | | |
| Estimated Interest Liability for Late Payment Invoices through August 5, 2010 | | | | | | | 63,112.78 |

Source: OIO analysis of the Gov One invoices and e-mail messages provided by the OTR Lockbox Services contract COTR.

- Notes: ^a Assumed receipt 5 days after the invoice date – records was not maintained to support the receipt date.
^b Calculated based on DC ST § 221.02(a)(2)(A) – 30 calendar days and DC Government holidays.
^c Check date per DC ST § 221.06(b)(2)
^d Difference between the On-Time Payment date and the date of the check for payment.
^e Dates are estimated for this invoice. The payment date is the actual date.
^f Reflects the net invoice amount after credit is taken for interest earnings during the period.
^g Interest adjusted to reflect the payment of the Gov One invoices on Sep. 22, 2009 and May 20, 2010. The liability is calculated on the remaining balance. Gov One invoices paid on those dates were \$147,097.14 and \$67,807.77 respectively. Table B-6 provides additional detail.

**Exhibit B: Tables Supporting Calculation of Liability for Late Payments and
Unsupported Costs and Interest (4 of 5)**

Table B-4 Unsupported Charges – FY-2009

| Item Description | Unit Cost | Units Charged | Cost Incurred |
|--|-----------|---------------|------------------|
| Touch-tone telephone payments (per minute) | 0.45 | 5,542 | 2,493.90 |
| Enrollment Add (Manual) | 2.50 | 1 | 2.50 |
| Enrollment Edit (Manual) | 2.50 | (1) | (2.50) |
| Number of Total Locations Stored | 0.25 | 638 | 159.50 |
| Customer Service Calls | 5.00 | 35 | 175.00 |
| Posting Files | 7.50 | 2,110 | 15,825.00 |
| Posting Files – Records Sent | 0.01 | 518 | 5.18 |
| Outgoing Transmissions | 0.06 | 261 | 15.66 |
| Files Transmitted | 7.50 | 2,110 | 15,825.00 |
| Total FY-2009 Unsupported Charges | | | 34,499.24 |

Source: OIO analysis of Gov One invoices provided by the COTR.

**Table B-5 Unsupported Charges – FY-2010
Through April 30, 2010**

| Item Description | Unit Cost | Units Charged | Cost Incurred |
|--|-----------|---------------|-----------------|
| Real Property Payments | 1.00 | (389) | (389.00) |
| Touch-tone telephone payments (per minute) | 0.45 | 768 | 345.60 |
| Number of Total Locations Stored | 0.25 | 159 | 39.75 |
| Customer Service Calls | 5.00 | 9 | 45.00 |
| Posting Files | 7.50 | 347 | 2,602.50 |
| Posting Files – Records Sent | 0.01 | 122 | 1.22 |
| Outgoing Transmissions | 0.06 | 62 | 3.72 |
| Files Transmitted | 7.50 | 325 | 2,437.50 |
| Total FY-2009 Unsupported Charges | | | 5,086.29 |

Source: OIO analysis of Gov One invoices provided by the COTR.

Exhibit B: Tables Supporting Calculation of Liability for Late Payments and Unsupported Costs and Interest (5 of 5)

**Table B-6
Gov One Invoices Included in the Bank Analysis Charge Payments**

| Billing Month | Amount of the Invoice (Net) ^a | Gov One Invoice Included (Month) ^b | Amount of the Gov One Invoice | Gov One Charges Paid |
|---------------|--|---|-------------------------------|-------------------------|
| October 2008 | 291,604.34 | November 2007 ^b | 20,724.66 | 39,261.55 |
| | | March 2008 ^b | 18,536.89 | |
| May 2009 | 322,944.86 | July 2008 ^b | 18,881.61 | 178,551.01 ^c |
| | | August 2008 ^b | 15,296.30 | |
| | | September 2008 ^b | 21,262.03 | |
| | | October 2008 | 21,246.13 | |
| | | November 2008 | 20,172.12 | |
| | | December 2008 | 23,144.90 | |
| | | January 2009 | 17,464.94 | |
| | | February 2009 | 20,312.41 | |
| | | March 2009 | 20,770.57 | |
| June 2009 | 141,801.18 | May 2009 | 23,986.07 | 23,986.07 ^c |
| February 2010 | 313,785.58 | March 2008 ^b | 18,176.15 | 170,365.93 ^c |
| | | April 2008 ^b | 23,669.87 | |
| | | May 2008 ^b | 20,580.61 | |
| | | May 2008 ^b | 21,464.85 | |
| | | June 2008 ^b | 18,666.68 | |
| | | June 2009 | 24,172.90 | |
| | | July 2009 | 21,974.18 | |
| | | August 2009 | 21,660.69 | |
| Total | 1,070,135.96 | | | 412,164.56 |

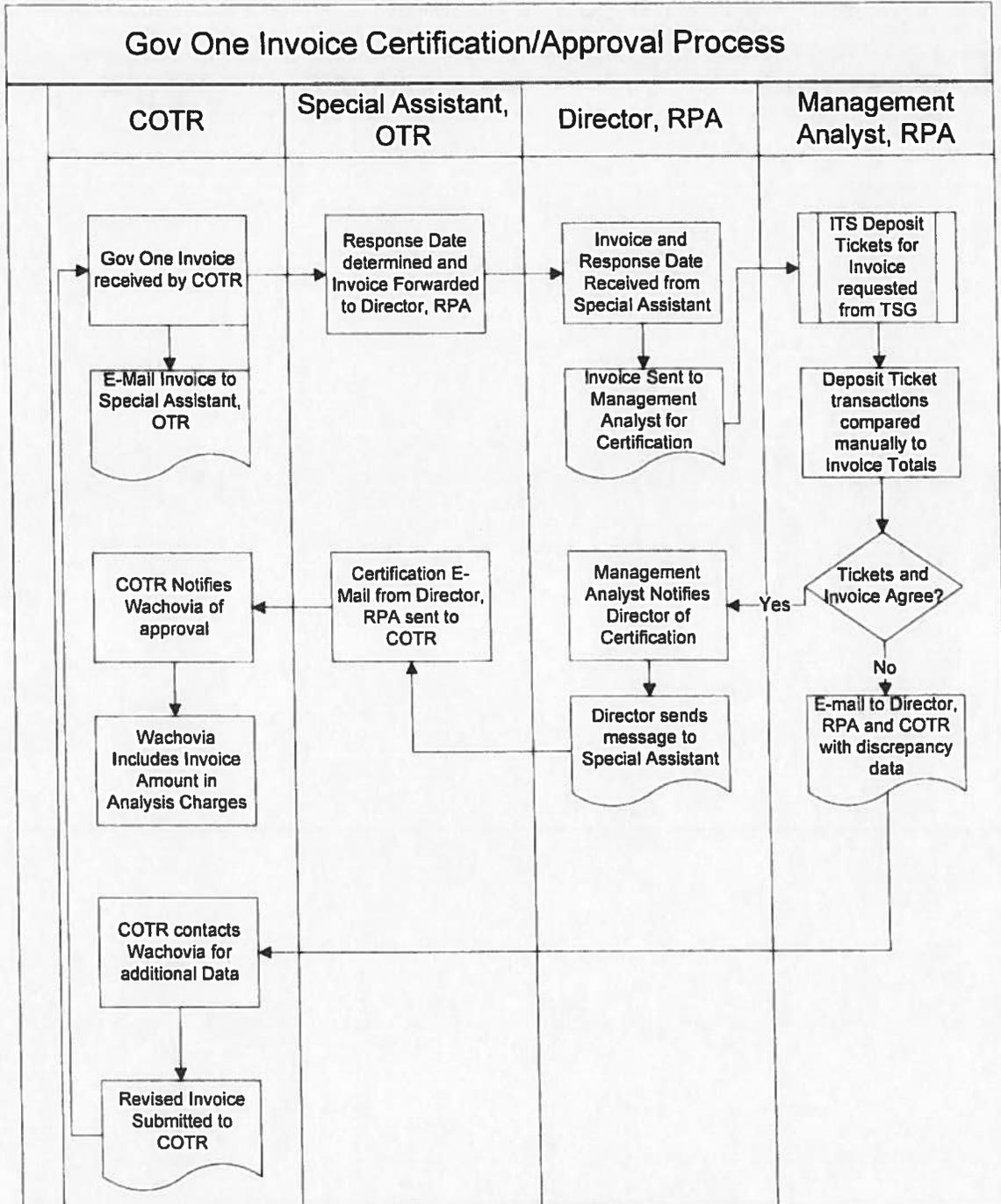
Source: OIO review of the bank analysis statements and comparison with the Gov One invoices and the amounts included in the analysis statements.

Notes ^a Net reflects the charges paid to Wachovia after taking the credit for interest earnings during the month

^b Invoice reflects charges prior to the audit period.

^c Gov One invoices for the audit period and included in these invoices are \$123,111.07, \$23,986.07, and \$67,807.77, respectively.

Exhibit C: OFT and OTR Approval Process for Gov One Invoices



Source: Interviews with RPA staff, the OTR Special Assistant and the COTR.

Exhibit D: Chief Information Officer's Response

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



Office of the Chief Information Officer

MEMORANDUM

TO: William J. DiVello, Executive Director
Office of Integrity and Oversight

FROM: Mike Teller, Chief Information Officer *Mike Teller*
Office of the Chief Information Officer

Date: April 12, 2011

Subject: Revised Draft Report: Office of Tax and Revenue and Office of
Finance and Treasury Audit of the Process Used to Collect Tax
Revenues through Gov One (Report No. OIO:10-01-1-OTR)

The revised draft report dated March 15, 2011, requested written comments on the audit recommendations concerning the administration of the lockbox services contract and the receipt and processing of electronic payments through Gov One. Below please find the response of the OCIO outlining actions taken or contemplated to provide response to recommendations 1 and 2. If there are any further concerns, please contact Mike Teller, Chief Information Officer, OCIO (202.727.1906).

Recommendation 1:

Develop data retention and archiving systems and policies for OCFO taxpayer data that complies with the District's record retention requirements.

Response:

The OCIO will work with the Office of Tax and Revenue (OTR) to perform an assessment of current automated taxpayer data records retention practices and provide a data retention report detailing system compliance with the OCFO/OTR Record Retention Schedule for taxpayer data. The target date for this report will be 08/01/2011. This report will be the basis for development of data retention and archiving systems and

Exhibit D: Chief Information Officer's Response

policies for OCFO taxpayer data. Upon completion of the assessment and the data retention report the OCIO will provide a target date for implementation of the data retention and archiving systems and policies.

Recommendation 2:

In consultation with Returns Processing Administration (RPA) management, develop an electronic report of the daily transactions received from Gov One prior to processing by ITS. This report should be accessible by a wide range of RPA staff and others. Consideration should be given to archiving this report in support of the original transactions.

Response:

The OCIO, in consultation with RPA management, will develop an electronic report of the daily transactions received from Gov One prior to processing by ITS. The target date for this implementation is 06/15/2011.

In the future the OCIO will modify this report for payments received from Wells Fargo, the new payment provider, to maintain compliance with this recommendation.

cc: Stephen Cordi, Deputy Chief Financial Officer, OTR
Lasana Mack, Deputy Chief Financial Officer, OFT
Paul Lundquist, Executive Director, OMA
Glen Groff, Director of Operations, OTR
Clarice Wood, Associate Treasurer, OFT
James Hightower, Director, OCIO

Exhibit E: Executive Director, Office of Management and Administration's Response

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



Office of Management & Administration

MEMORANDUM

TO: William J. DiVello, Executive Director
Office of Integrity & Oversight

FROM: Paul Lundquist 
Executive Director

DATE: March 29, 2011

SUBJECT: Response to Revised Draft Report on the Audit of the Process Used to Collect
Tax Revenues through Gov One (OIO No. 10-01-1-OTR)

Thank you for the opportunity to respond to the draft report of the audit conducted by your office of the process used to collect tax revenue through Gov One (OIO Report No. 10-01-1-OTR). We concur with the findings as they relate to contract administration, have noted the deficiencies that were identified and are taking corrective actions as detailed below.

FINDING 2: CONTRACT ADMINISTRATION

Recommendation 6: Document approval of subcontractors

The OCFO Contracting Officers (COs) will comply with the requirements of 27 DCMR, section 2800. Specifically, the COs will continue to review each contract solicitation for the suitability of a subcontractor clause that would require CO approval of a proposed subcontractor. For the solicitations specified in section 2800.6 (d), the CO will provide for the contract file the written justification for not requiring approval of proposed subcontractors.

Recommendation 7: Recover funds from contractor as appropriate

The OCFO Office of Contracts (OC) has begun the review of the unsupported charges that were identified in the draft report in order to determine the total amount of charges for services that were not provided to the OCFO. The total will include the \$9,895 of charges already determined to be unsupported or overcharged. The OC plans to complete the review and initiate the recovery process by April 12, 2011. The recovery of improper charges is governed by the District dispute statutes under which the OC will file.

Please contact me if you have any questions or need additional information.

**Exhibit F: Deputy Chief Financial Officer, Finance and Treasury and Deputy
Chief Financial Officer, Tax and Revenue's Response**

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



Office of Finance and Treasury

MEMORANDUM

TO: William J. DiVello, Executive Director
Office of Integrity and Oversight (OIO)

FROM: Stephen M. Cordi, Deputy Chief Financial Officer
Office of Tax and Revenue (OTR)

Lasana K. Mack, Treasurer and Deputy Chief Financial Officer
Office of Finance and Treasury (OFT)

DATE: March 28, 2011

SUBJECT: Revised Draft Report: Office of Tax and Revenue and Office of
Finance and Treasury Audit of the Process Used to Collect Tax
Revenues through Gov One (Report No. OIO:10-01-1-OTR)



The revised draft report dated March 15, 2011, requested written comments on the audit recommendations concerning the administration of the lockbox services contract and the receipt and processing of electronic payments through Gov One. Below please find the joint response of OTR and OFT outlining actions taken or contemplated to provide response to recommendations 3-5 and 8-10. If there are any further concerns, please contact the respective Deputy Chief Financial Officer, Glen Groff, Director of Operations, OTR (202-442-6499) or Clarice Wood, Associate Treasurer, OFT (202-727-0760).

Recommendation 3:

Mandate development of a joint review and certification process for the review and approval of all Wachovia banking analysis statements and Gov One invoices. This revised review and certification process should provide a reasonable assurance that both OTR and OFT will comply with the payment timeline requirements of the DC Quick Payment Act.

Exhibit F: Deputy Chief Financial Officer, Finance and Treasury and Deputy Chief Financial Officer, Tax and Revenue's Response

Response:

OFT, OTR and Wells Fargo Bank (aka Wachovia Bank) are reviewing a replacement for the current Gov One tax revenue collection system. Gov One is a sub-contractual relationship through Wells Fargo Bank. Wells Fargo is working with OFT and OTR to implement a new payment gateway system to collect the tax revenue. As an interim operating procedure, a representative from OFT (Gloria Vines), OTR (TBD), and the Office of Management and Administration (OMA, Lisa Pierson) will meet monthly to review and approve the prior month's bank analysis statement and invoices from Gov One. Modified review procedures may be implemented, as needed, with the implementation of the successor service. The interim operating procedure and any modifications will comply with the DC Quick Payment Act.

Recommendation 4:

Mandate the development of specific requirements to be included in the lockbox services contract which address 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 US code, IRS Publications 1075 and 4557 and NIST SP 800-122 and SP 800-53. The requirements should include a process for notification of OCFO should a potential or actual loss of PII by a contractor occur.

Response:

We concur with your recommendation. OFT will work with OMA to have the appropriate language inserted into the new banking contract to have the bank contractor(s) and any sub-contractor(s) comply with the guidelines set forth in Pub 1075 and NIST SP 800-122 and SP-53.

Recommendation 5:

Request the CO to amend the OTR lockbox services contract to include:

- a. Specific requirements that the prime and all sub contractors process tax payments or data to annually submit a SAS -70 type 2 report prepared by an independent source to the CO and COTR, and the COTR perform periodic site visits.
- b. Requirements for the protection of taxpayer data and PII, including the procedures to address data and PII that may have been lost or compromised. These requirements should be provided by OTR and OFT.

Response:

Response: We concur with your recommendations.

Exhibit F: Deputy Chief Financial Officer, Finance and Treasury and Deputy Chief Financial Officer, Tax and Revenue's Response

Recommendation 8:

Mandate the development of policies and procedures for the raising, tracking, and resolution of operational issues that impact a contractor's performance.

Response:

As there exists currently, the COTR (Gloria Vines) implemented a tracking procedure for lockbox problems and their resolution between the District government and Wells Fargo Bank. The document seeks to document the problem, report date, Bank personnel assigned to resolve, proposed next steps, and the follow-up date. The process works to raise, track, and resolve lockbox operational issues. This process will be continued and the documentation shared with the OMA COTR.

With the implementation of the new payment gateway system, a modified procedure may be required. Within a reasonable time period, the final procedures would be implemented.

Recommendation 9:

Revise the communication procedures allow TSG staff to raise technical issues directly with the Gov One technical staff. Reporting these issues and their resolution to the COTR can be done on an after the fact basis.

Response:

OTR and OFT cannot implement this recommendation as it directly conflicts with OMA's requirements of the COTR.

Recommendation 10:

Request that the CO include an additional COTR, from OTR, in the lockbox services contract. This additional COTR could be responsible for addressing the operational issues raised by the OTR units directly with the prime contractor.

Response:

We do not concur with this recommendation. The addition of a second COTR outside of the OFT will create the capability for unintended consequences in the administration of the contract that may impact the contract expense. The new payment gateway will virtually eliminate the problems encountered by OTR with Gov One. The addition of the

**Exhibit F: Deputy Chief Financial Officer, Finance and Treasury and Deputy
Chief Financial Officer, Tax and Revenue's Response**

OMA COTR will also strengthen the communications between all District agencies involved to escalate any pending issues or problems.

cc: Joseph Giddis
Gloria Vines