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Letter Report: Auditor's Examination of the
Escrow Account Established by Accenture and the
Office of Tax and Revenue (OTR) In Connection with
Contract Number DCFRA #99-C-004

August 25, 2006

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The Honorable Kathleen Patterson, Councilmember, Ward 3
The Honorable Jack Evans, Councilmember, Ward 2
Council of the District of Columbia
1350 Pennsylvania Avenue, NW, Suite 504
Washington, D.C. 20004

Letter Report: Auditor's Examination of the Escrow Account Established by Accenture and the Office of Tax and Revenue (OTR) In Connection with Contract Number DCFRA # 99-C-004

Dear Councilmembers Patterson and Evans:

Pursuant to your requests and in accordance with section 455 of Pub. L. No. 93-198,[1] the District of Columbia Auditor (Auditor) conducted a financial and compliance audit of contract number DCFRA # 99-C-004.[2] The objective of this financial and compliance audit was to determine whether contract funds were adequately managed and appropriately expended. As part of the audit, the Auditor examined the escrow account[3] established by OTR and Accenture personnel. This

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[1] *See* section 455 (b) of the District of Columbia Home Rule Act, approved December 24, 1973 (Pub. L. No. 93-198; 87 Stat. 803); D.C. Code §1-204.55 (b) (2001) which states: "The District of Columbia Auditor shall each year conduct a thorough audit of the accounts and operations of the government of the District in accordance with such principles and procedures and under such rules and regulations as he [she] may prescribe. In the determination of the auditing procedures to be followed and the extent of the examination of vouchers and other documents and records, the District of Columbia Auditor shall give due regard to generally accepted principles of auditing including the effectiveness of the accounting organizations and systems, internal audit and control, and related administrative practices."

[2] Contract between the District of Columbia Financial Responsibility and Management Assistance Authority (the Authority) and Accenture to develop and implement an Integrated Tax System (ITS), November 17, 1998. Accenture was formerly named Andersen Consulting. Andersen Consulting changed the company's name to Accenture in January 2001. Throughout this letter report the contractor is presented as Accenture.

[3] *See* Michael Agnes et. al., *Webster's New World Compact Office Dictionary*, 4th ed., Wiley Publishing, Inc., Cleveland, Ohio, p. 222, means "put in the care of a third party until certain conditions are fulfilled." *See also* Federal Deposit Insurance Corporation (FDIC) Law, Regulations, and Related Acts, § 6500 FDIC Consumer Protection, Part 3500, §3500.17, Escrow Accounts: An escrow account is "any account that a servicer [escrow agent] establishes or controls on behalf of a borrower [a party] to pay...charges that the borrower [the party] and servicer [escrow agent] have voluntarily agreed that the servicer [escrow agent] should collect and pay."

account was to be used as the depository for contract funds withheld as retainage by the District pursuant to Contract Number DCFRA # 99-C-004.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of the examination of the escrow account were to determine whether:

1. internal controls over the establishment, maintenance, and management of the escrow account were adequate to prevent improper use of contract funds; and

2. OCFO staff, including OTR personnel, as well as Accenture representatives complied with the contract and the corresponding escrow agreement when establishing, maintaining, and otherwise managing the activities of the escrow account.

The scope of the examination covered the period October 1, 1998 through March 31, 2004. In conducting this examination, the Auditor: (a) reviewed contract number DCFRA # 99-C-004, the associated escrow agreement, retainage invoices, and monthly escrow account bank statements; and (b) held discussions with OTR staff, Office of Finance and Treasury (OFT) staff, and Accenture personnel.

The examination was conducted in accordance with generally accepted governmental audit standards and included such tests of the records as deemed necessary and appropriate under the circumstances.

BACKGROUND

Contract number DCFRA # 99-C-004 stipulated retaining 5% of each Accenture invoice that contained charges for the Tax Administration System (TAS) Contract Line Item Numbers (CLIN).[4] Further, the contract required that the funds be retained in an interest-bearing escrow account until 90 days after the implementation of the Property Tax System.[5] The contract's retainage provisions were designed to protect the District's best interests by requiring the receipt and acceptance of contracted services and deliverables before the contractor could be paid in full.

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[4]The services to be provided under the contract were grouped within separate contract line item numbers (CLIN's). Accenture was required to perform services under the contract consistent with each CLIN's specific technical instructions. *See* contract number DCFRA # 99-C-004, "Payment of Invoices," paragraph (d), p. B-14.

[5]*See* contract number DCFRA # 99-C-004, "Payment of Invoices," paragraph (d), p. B-14

In March 2000, OTR and Accenture representatives entered into an escrow agreement with The Bank of New York and designated the contract's Contracting Officer's Technical Representative (COTR) and the contractor's ITS Project Director as the authorized signatories for the escrow account.[6] Appendix I presents the deposits made into the escrow account between June 2000 and July 2003. Appendix II presents the total dividends earned and fees and expenses paid between July 2000 and August 2003 relative to this escrow account.[7] No additional deposits were made in the escrow account since July 2003. No additional dividends were earned and no additional fees and expenses were paid from the account since August 2003.

On June 16, 2003, the contract's COTR and Accenture's ITS Project Director formally instructed the escrow agent to pay Accenture $1,445,772, which included the principal balance of $1,384,804.90, and dividend income totaling $60,966.14, as of February 28, 2003.[8] On June 30, 2003, the contract's COTR and Accenture's ITS Project Director further instructed the escrow agent to pay Accenture $107,682.16, which was the principal balance in the account as of May 31, 2003.[9] Although the account balance was only $6.71 as of June 30, 2004, the account remained open as of October 12, 2005.[10]

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[6]*See* Escrow Agreement, effective March 15, 2000, by and among the District of Columbia Office of Tax and Revenue, Andersen Consulting [Accenture], and The Bank of New York, serving as escrow agent.

[7]Bank of New York monthly escrow account bank statements used the term "dividends" instead of "interest."

[8]*See* unsigned letter from Accenture and OTR representatives to The Bank of New York, dated March 24, 2003. *See also* letter from Accenture and OTR representatives to The Bank of New York, dated June 16, 2003. *See also* The Bank of New York Cash Statement and Asset List, dated February 28, 2003.

[9]*See* letter from Accenture and OTR representatives to The Bank of New York, dated June 30, 2003. *See also* The Bank of New York Cash Statement and Asset List, dated May 31, 2003. In May 2003, the District deposited $107,682.16 into the account as payment for outstanding invoices. The letter indicated issues concerning these outstanding retainage invoices required further review, discussion, and resolution before payment could be made to Accenture.

[10]The Auditor requested that the escrow agent provide the date on which the escrow account was closed. Bank of New York representatives confirmed that this account was open as of the date of the Auditor's request, October 12, 2005. *See* Auditor's confirmation request, directed to Ms. Regina Jones, Escrow and Insurance Trust Group, The Bank of New York, dated October 12, 2005. Several factors contributed to the delay in closing the account: (1) the account initially remained open to allow time for District officials and Accenture personnel to reconcile billings and payments to ensure the accuracy of the retainage amount released to Accenture; and (2) the COTR discontinued employment with the District government and Accenture changed its representative for the escrow account. Therefore the duly authorized account representatives were not available to officially close the account.

FINDINGS

THE ESCROW AGREEMENT WAS ESTABLISHED WITH INADEQUATE INTERNAL CONTROLS AND OVERSIGHT

The Auditor found that the Authority and OCFO officials did not establish adequate internal controls or oversight to ensure proper management of and accountability for the escrow account. Further contract number DCFRA #99-C-004 simply stated that contract retainage funds were to be maintained in an interest-bearing escrow account.[11] However, the contract failed to specifically indicate the: (a) deadline for establishing the escrow account; (b) procedures for identifying and selecting an escrow agent; (c) guidelines to be used when opening the escrow account; and (d) policies and procedures for determining who would be the signatories or the account representatives who would have authority over the account. The Auditor further found that Accenture and OTR representatives entered into an escrow agreement with The Bank of New York,[12] however, the contract was not modified to incorporate the requirements of the escrow agreement.

The absence of adequate internal control[13]and oversight created a high degree of risk as to whether the contract's COTR and Accenture's ITS Project Director properly managed and utilized the escrow account. Moreover, there was the risk that OCFO staff would make untimely and erroneous escrow account deposits and ineffectively monitor the account's transactions.

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[11]*See* contract number DCFRA #99-C-004, "Payment of Invoices," p. B-14.

[12]*See* Escrow Agreement, effective March 15, 2000, by and among the District of Columbia Office of Tax and Revenue, Andersen Consulting [Accenture], and The Bank of New York, serving as escrow agent.

[13]*See* Vincent M. O'Reilly et. al., *Montgomery's Auditing*, 12th Ed., Wiley Publishers, April 1998, p. 9-2. Internal control is defined as "a process–effected by an entity's board of directors, management, and other personnel–designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting; (b) effectiveness and efficiency of operations; and (c) compliance with applicable laws and regulations."

The COTR and Accenture's ITS Project Director Established The Escrow Account Without The Knowledge of Finance Officials in the District's Office of Finance and Treasury

External auditors have noted OFT's inability to provide accurate and complete information on the District's cash accounts.[14] In addition, the District's Chief Financial Officer (CFO) issued guidelines for establishing such accounts.[15] Despite OTR being within the Office of the Chief Financial Officer (OCFO), the Auditor found that the COTR and Accenture's ITS Project Director did not inform OFT officials and personnel that an escrow account had been opened and an escrow agreement had been executed with The Bank of New York.[16]

The Auditor found no indication that OTR staff or other individuals responsible for the contract: (a) notified OFT personnel of the need to establish an escrow account; or (b) sought the assistance or guidance of OFT personnel in establishing the escrow account. The Auditor's initial inquiries in July 2004 of personnel in OFT and the Office of Financial Operations and Systems (OFOS) revealed that the OCFO did not have any record of the existence of this escrow account even though thousands of dollars had been deposited into this account by Accenture after receiving the funds from the District.[17]

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[14]*See* Report on Internal Controls and Compliance With Laws and Regulations and Management Letter for the Fiscal Year Ended September 30, 1998, issued on January 24, 1999 by Mitchell & Titus, LLP. *See also* Report on Internal Controls and Compliance With Laws and Regulations and Management Letter for Fiscal Year Ended September 30, 1999, issued on April 24, 2000, by Mitchell & Titus, LLP.

[15]*See* Financial Administrative Issuance, Financial Management and Control Order No. 01-001, issued August 6, 2002, effective August 6, 2002.

[16]The Auditor found that OTR staff and Accenture personnel contacted two banks regarding the establishment of an escrow account. These included Harris Bank and Trust in Chicago, Illinois and The Bank of New York. On March 15, 2000, representatives from OTR and Accenture entered into an escrow agreement with The Bank of New York. The escrow agreement was signed by OTR's ITS Project Director, who also served as the contract's COTR at the time, and an Accenture partner, who also served as the contractor's ITS Project Director. Under OCFO guidelines at the time the COTR who was also OTR's ITS Project Director could request that an account be opened, however, the Agency Director (OTR) was also to sign the request. The Auditor found no documentation indicating the Agency Director signed the request.

[17]However, follow-up inquiries of OFT staff in January 2006 revealed that this escrow account had been included in OFT's bank account database.

Without the COTR timely notifying OFT personnel regarding the opening of the escrow account, OFT personnel were unable to:

- maintain, in a centralized manner, accurate and complete accounting information about the escrow account;
- ensure that the account was established consistent with OCFO guidelines and other applicable regulations and laws; and
- ensure that the account was established with a bank that the OCFO had awarded a competitively negotiated contract.

<u>RECOMMENDATIONS</u>

1. The CFO require agency directors and agency financial managers to obtain the formal approval of the Deputy CFO for Finance and Treasury before establishing and operating an agency-controlled bank account.

2. The CFO actively enforce the CFO's guidelines regarding the opening and management of an agency-controlled bank account. OCFO employees violating the CFO's guidelines must be immediately held accountable under the appropriate disciplinary or adverse action procedures in the CFO's personnel rules.

3. The CFO develop specific policies and procedures for establishing escrow accounts. The CFO should also develop and implement model contract provisions pertaining to the establishment of escrow agreements that clearly defines escrow account management duties and responsibilities.

<u>OCFO Staff Paid Contract Retainage Funds Totaling $919, 598.16 Directly to Accenture in Violation of the Contract and the Governing Escrow Agreement</u>

According to OCFO personnel, although the escrow account with The Bank of New York was created in the System of Accounting and Reporting (SOAR), as a separate mail code, OCFO staff incorrectly entered some retainage invoices into SOAR that resulted in payments being made directly to Accenture.[18] The Auditor found that despite these payments being made directly to Accenture, OCFO staff inappropriately relied on Accenture to deposit these funds into the escrow account.

The Auditor's examination of relevant escrow account documentation revealed a discrepancy of $957,163.41.[19] According to monthly escrow account statements, $1,789,087.97 was deposited into the account between March 2000 (when the account was established) and July 2003. However, the OCFO's records indicated that the District deposited only $831,924.56 into the account over the same period. Of the $957,163.41 discrepancy noted above, the Auditor found the COTR authorized and approved retainage invoices totaling $919,598.16 for payment to the Bank of New York, however, OCFO staff incorrectly paid Accenture directly. Table I presents a summary of the noted discrepancy.

Table I
Summary of Discrepancy in Escrow Account Deposits

Total Escrow Account Deposits Per the Bank	$1,789,087.97
Amount Deposited into the Escrow Account by OCFO	$831,924.56
Difference	**$957,163.41**
Retainage Funds Authorized by COTR for Payment to Bank of New York Paid Directly to Accenture by OCFO Staff[20]	$919,598.16
Other Amounts Deposited into the Escrow Account by Accenture[21]	$37,565.25
Total	**$957,163.41**

Source: Worksheets and SOAR reports provided by OCFO staff.

[18] Accenture subsequently deposited the amounts received from the District into the escrow account.

[19] $37,565.25 of this amount, deposited by Accenture, were not related to retainage invoices.

[20] Accenture subsequently deposited the amounts received from the District into the escrow account. Of this amount, $498,210.20 was deposited as the initial lump sum payment by Accenture to establish the escrow account.

[21] Per the OCFO, the total amount of retainage invoices received from Accenture was $1,751,522.72; however, $1,789,087.97 was deposited into the escrow account. Thus, total escrow account deposits were $37,565.25 more than the total retainage amount billed to the District.

The Auditor found that OCFO staff failed to independently verify the accuracy and completeness of escrow account deposits and did not establish the necessary system of checks and balances to monitor reconciliations performed and adjustments made by Accenture project management staff. In addition, by relying on Accenture's project management staff in the manner described, OCFO personnel did not implement adequate measures to protect the District's best interests.

The Auditor further found that OCFO staff violated the terms of the contract and the escrow agreement by directly paying invoiced retainage amounts to Accenture before contract performance milestones and conditions were met. Moreover, in accordance with the escrow agreement, the District, not Accenture, should have deposited payments into the escrow account.[22]

RECOMMENDATIONS

1. When an escrow account is established in connection with a contract, OCFO staff must closely monitor the activities in the account and ensure that all deposits to and/or disbursements from the account comply with the terms of the contract and the corresponding escrow agreement. OCFO staff must review the corresponding escrow agreement to fully understand how and when funds are to be deposited into the escrow account and the circumstances under which funds are to be disbursed from the escrow account to designated payees.

2. OCFO staff enter accurate and complete vendor information into SOAR to facilitate timely and accurate payments for goods and/or services received by the District. OCFO staff must ensure that the correct mail code is entered into SOAR for each vendor, including financial institutions that serve as escrow agents, so that payments will be directed to the appropriate facility and address.

3. OCFO staff discontinue the casual practice of relying on contractor staff to deposit, monitor, and reconcile funds deposited to a retainage escrow account pursuant to a contract.

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[22] *See* Escrow Agreement by and among the District of Columbia Office of Tax and Revenue, Andersen Consulting [Accenture] and The Bank of New York, serving as escrow agent, dated March 15, 2000, paragraph 1, p.1.

Delays in Paying Retainage Invoices Violated Provisions of the District's Quick Payment Act Resulting in Potential Interest and Penalties Totaling Approximately $12,550.68

District of Columbia law requires District agencies to pay contractors in a timely manner after receiving goods or services for which the contract was issued. Consistent with the District's Quick Payment Act, agencies that receive goods and services from contractors must pay contractors within 30 days after receiving a proper invoice unless otherwise stipulated in the contract.[23] The District's Quick Payment Act also requires District agencies to pay interest and penalties of not less than one percent to contractors for delinquent payments.[24]

The Auditor noted that pursuant to the contract, payment to Accenture was due within 30 calendar days after Accenture submitted a certified and approved invoice.[25] Moreover, the District accrued interest at a rate of the lesser of one percent per month or the highest rate allowed by law for any invoice that remained unpaid after the requisite 30-day period.[26]

The Auditor found retainage invoices totaling $1,051,597.40, that were not paid within the required 30 days. In several instances, unpaid invoices were outstanding more than six months prior to payment. The Auditor determined that interest and penalties totaling approximately $12,550.68 were due to Accenture for these late payments. Appendix III presents a list of the late payments identified by the Auditor and the amount of accrued interest associated with each late payment.

The Auditor noted that OCFO staff calculated interest penalties for late payments from the date on which the invoice was approved by the ITS Project COTR to the date on which payment was finally made. All of the late payments identified by the Auditor were made within 30 days after the OCFO received approval from the ITS Project COTR. However, all were paid more than 30 days after the invoice date.

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[23] *See* District of Columbia Government Quick Payment Act, as amended, D. C. Law 5-164, D. C. Code § 2-221.01 et seq.

[24] *See* District of Columbia Government Quick Payment Act, as amended, D. C. Law 5-164, D. C. Code § 2-221.02 (b) (1).

[25] *See* contract number DCFRA # 99-C-004, Submission of Invoices, paragraph (a), p. B-13.

[26] Ibid.

The Auditor found that OTR managers and other OCFO officials did not develop and implement the necessary internal controls to ensure that invoices were processed by staff in a timely manner to ensure prompt payment and to avoid incurring interest and penalties authorized by the Quick Payment Act.

RECOMMENDATIONS

1. The Deputy CFO for Tax and Revenue and other OTR personnel, as needed, develop, implement, and distribute policies and procedures setting forth time frames for OTR program staff to review and approve invoices (e.g., five days from the time of receipt from Accounts Payable staff). In so doing, the Deputy CFO for Tax and Revenue and other OTR personnel should also develop a report to track how long it takes OTR program staff to review and approve invoices for payment. Moreover, OTR officials should consider including timeliness of invoice review and approval as a performance measure for employee evaluation purposes.

2. OTR officials hold accountable to the fullest extent permitted by the CFO's personnel rules, OTR employees who repeatedly cause delays in review, approval, and payment of invoices.

3. OCFO managers at OTR closely monitor the timeliness of invoice processing by each accounts payable technician, and consider including timely invoice processing as a performance measure for accounts payable staff.

Approximately $1.4 Million in Escrowed Funds Were Released to Accenture Prior to Required Written Authorization

The Bank of New York was permitted to pay proceeds from the escrow account to Accenture only upon the written directives of an authorized District official.[27] However, the Auditor's review revealed that the escrow agent released $1,445,771.57 to Accenture through a wire transfer to Accenture's Bank One checking account on March 24, 2003.[28] The Auditor's review also revealed that on June 16, 2003, the District's ITS COTR and Accenture's ITS Project Director instructed in

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[27] *See* Escrow Agreement by and among the District of Columbia Office of Tax and Revenue, Andersen Consulting [Accenture] and The Bank of New York, serving as escrow agent, dated March 15, 2000, p.2, paragraph 4.

[28] *See* The Bank of New York Cash Statement and Asset List, dated March 31, 2003.

writing that the escrow agent pay Accenture $1,445,771.57. Thus, the June 2003 directive was prepared after funds had already been released to Accenture and was to serve as supporting documentation for the payment after the transaction had been completed. Because the COTR was, at that time, preparing to resign from her position with OTR, it is likely that this "after-the-fact" documentation was prepared in an attempt to explain the circumstances surrounding the improper release of escrowed funds to Accenture.

The Auditor further noted that the COTR sent a memorandum in June 2003 to the then Deputy CFO for Tax and Revenue requesting his concurrence that the escrowed funds were to be released to Accenture in March 2003 and that the signatures of the District's ITS COTR and Accenture's ITS Project Director were the only ones needed to release these funds.[29] This memorandum completed and signed after the release of the funds was prepared in an effort to include in the contract files the required documentation to support the unauthorized and premature release of escrow funds to Accenture. The COTR and Accenture's ITS Project Director signed this memorandum on June 17, 2003 and the Deputy CFO provided his concurring signature on June 23, 2003, approximately three months after the escrowed funds had already been paid to Accenture.[30]

The Auditor also found that although the escrowed funds were paid to Accenture, the criteria for paying Accenture had not been met[31] because the Real Property Module had not been implemented. In her justification for releasing the funds to Accenture, the COTR indicated that OTR delayed the implementation of the Real Property Billing component due to budget constraints. The first phase of the Real Property Module, Assessment and Evaluation, however, was completed. The COTR further indicated that the mission critical portions of ITS, Business Tax and Individual Income Tax, were fully implemented and had been operational for three tax filing seasons. The COTR also stated that the District could possibly use its human resources to complete the necessary programming for the Real Property Billing component.[32] The Auditor subsequently learned that Accenture completed the required work needed to implement the Real Property Module in FY 2004.

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[29]*See* memorandum from Coleta Brueck, Director, Information Systems Administration to Phil Brand, Deputy Chief Financial Officer, Office of Tax and Revenue, signed on June 17, 2003 by J. Christian Stauffer of Accenture and Coleta Brueck, of OTR on June 17, 2003, and by Phil Brand, on June 23, 2003.

[30]Ibid.

[31]*See* contract number DCFRA # 99-C-004, Payment of Invoices, paragraph (d) which states: "Each invoice that contains TAS System Components CLIN's...shall show 5% of the TAS System Component payments to be retained by the Authority until 90 days after the Property Tax System is put into production."

[32]*See* memorandum from Coleta Brueck, Office of Tax and Revenue, to Claudia Booker, Contracting Officer, OCFO Office of Management and Administration, dated March 19, 2003.

RECOMMENDATION

When a contract stipulates that an escrow account is to be established, the Contracting Officer closely monitor the establishment of the account and the account's activity, including all deposits into and disbursements from the escrow account. The Contracting Officer should ensure that the account is maintained in compliance with the contract and the governing escrow agreement.

CONCLUSION

The Auditor's examination of the ITS contract retainage escrow account revealed several internal control weaknesses, operational inefficiencies, and issues of non-compliance. Specifically, the Auditor found that:

- the COTR and Accenture's ITS Project Director established the escrow account without the prior knowledge of personnel within the Office of Finance and Treasury (OFT);

- OCFO Accounts Payable staff paid contract retainage directly to Accenture rather than depositing the invoiced amounts into the escrow account;

- OCFO staff violated provisions of the District's Quick Payment Act by not paying retainage amounts in a timely manner; and

- the COTR and Accenture's ITS Project Director did not formally instruct the escrow agent to pay the full escrow account balance to Accenture, as required by the contract.

OTR managers and other OCFO officials must put into place the necessary controls and procedures to ensure adequate and effective administration of future escrow accounts. OCFO officials should review its guidelines for opening agency-controlled bank accounts, update them as needed, and distribute updated standardized policies and procedures for opening such accounts, including escrow accounts, to all District agencies.

Furthermore, OCFO officials must require close monitoring of transactions that flow through agency-controlled bank accounts to ensure compliance with District guidelines or other applicable requirements. In addition, OCFO managers should closely monitor the invoice payment process and implement the appropriate measures to minimize or otherwise prevent violations of the District's Quick Payment Act.

Respectfully submitted,

Deborah K. Nichols
District of Columbia Auditor

APPENDICES

APPENDIX I

Deposits Made to ITS Escrow Account
June 2000 to July 2003
(Per Bank of New York Statements)

Month	Amount
June 2000	$ 498,210.20
July 2000	179,902.27
August 2000	90,314.09
September 2000	75,907.47
October 2000	-
November 2000	-
December 2000	54,499.50
January 2001	112,408.20
February 2001	116,397.44
March 2001	21,030.20
April 2001	37,254.89
May 2001	-
June 2001	9,324.78
July 2001	60,990.50
August 2001	-
September 2001	-
October 2001	84,115.69
November 2001	-
December 2001	-
January 2002	-
February 2002	-
March 2002	-
April 2002	43,284.61
May 2002	-
June 2002	-
July 2002	-
August 2002	-
September 2002	-
October 2002	-
November 2002	-
December 2002	1,165.06
January 2003	-
February 2003	-
March 2003	60,972.67
April 2003	-
May 2003	107,682.16
June 2003	-
July 2003	235,628.24
TOTAL	**$ 1,789,087.97**

Source: Compiled from monthly escrow account statements issued by The Bank of New York.

ITS Escrow Account
(With the Bank of New York)
Summary of Dividends Earned and Fees Paid

APPENDIX II

	Income Activity		
Month	Dividends Paid	Fees and Expenses	Net Income Earned
July 2000	$ 194.14	$ (13.25)	$ 180.89
August 2000	2,547.83	(175.77)	2,372.06
September 2000	3,051.23	(204.70)	2,846.53
October 2000	3,550.52	(229.48)	3,321.04
November 2000	3,904.52	(253.26)	3,651.26
December 2000	3,853.34	(246.08)	3,607.26
January 2001	4,006.05	(256.94)	3,749.11
February 2001	4,406.17	(282.40)	4,123.77
March 2001	4,196.46	(299.83)	3,896.63
April 2001	4,222.28	(345.07)	3,877.21
May 2001	3,913.96	(346.75)	3,567.21
June 2001	3,480.07	(362.71)	3,117.36
July 2001	2,957.88	(353.04)	2,604.84
August 2001	2,889.80	(370.78)	2,519.02
September 2001	2,935.06	(386.01)	2,549.05
October 2001	2,612.31	(374.34)	2,237.97
November 2001	2,412.36	(393.19)	2,019.17
December 2001	1,958.26	(399.89)	1,558.37
January 2002	1,346.62	(413.60)	933.02
February 2002	1,120.44	(413.89)	706.55
March 2002	937.79	(374.07)	563.72
April 2002	1,081.84	(414.24)	667.60
May 2002	1,117.93	(406.50)	711.43
June 2002	1,187.76	(427.57)	760.19
July 2002	1,168.47	(413.87)	754.60
August 2002	1,214.93	(427.93)	787.00
September 2002	1,210.75	(428.19)	782.56
October 2002	1,158.90	(414.66)	744.24
November 2002	1,084.22	(428.60)	655.62
December 2002	962.29	(415.03)	547.26
January 2003	855.97	(429.00)	426.97
February 2003	556.09	(429.46)	126.63
March 2003	394.44	(387.91)	6.53
April 2003	337.05	(335.88)	1.17
May 2003	-	-	-
June 2003	7.75	(9.81)	(2.06)
July 2003	24.37	(31.61)	(7.24)
August 2003	6.71	-	6.71
TOTAL	**$ 72,866.56**	**$ (11,895.31)**	**$ 60,971.25**

Source: Compiled from the monthly escrow account statements furnished by the Bank of New York.

Late Payments - Accenture's Retainage Invoices

APPENDIX III

Invoice Number	Invoice Date	Invoice Amount	Date Approved for Payment	Date Paid	Payment Due Date	# of Days Late	# of days Late (For Interest Calculation)	Percentage of 30 Days	Interest Factor	Accrued Interest *(at Time of Payment)*
RETAINAGES - 1	03/24/00	$ 404,037.34	06/12/00	06/26/00	04/23/00	64	49	163.3%	1.0%	$ 6,599.28
0215349277	05/05/00	1,571.62	06/27/00	07/11/00	06/04/00	37	22	73.3%	1.0%	11.53
0215349273	05/05/00	31,750.00	06/27/00	07/11/00	06/04/00	37	22	73.3%	1.0%	232.83
0215349275	05/11/00	23,296.07	06/27/00	07/11/00	06/10/00	31	16	53.3%	1.0%	124.25
0215349729	07/07/00	1,733.40	07/07/00	08/16/00	08/06/00	10	-	0.0%	1.0%	-
0215349723	07/07/00	48,000.00	07/07/00	08/16/00	08/06/00	10	-	0.0%	1.0%	-
0215349725	07/07/00	40,580.69	07/07/00	08/16/00	08/06/00	10	-	0.0%	1.0%	-
0215350522	10/06/00	42,000.00	10/26/00	11/22/00	11/05/00	17	2	6.7%	1.0%	28.00
0215350553	10/06/00	1,524.51	10/26/00	11/22/00	11/05/00	17	2	6.7%	1.0%	1.02
0215350554	10/06/00	1,245.16	10/26/00	11/22/00	11/05/00	17	2	6.7%	1.0%	0.83
0215350555	10/06/00	1,193.53	10/26/00	11/22/00	11/05/00	17	2	6.7%	1.0%	0.80
0215350556	10/06/00	9,450.00	10/26/00	11/22/00	11/05/00	17	2	6.7%	1.0%	6.30
0215351672	02/12/01	6,250.00	03/15/01	03/29/01	03/11/01	18	3	10.0%	1.0%	6.25
0215351676	02/12/01	916.83	03/15/01	03/29/01	03/11/01	18	3	10.0%	1.0%	0.92
0215351682	02/12/01	150.00	03/15/01	03/29/01	03/11/01	18	3	10.0%	1.0%	0.15
0215351668	02/12/01	4,964.51	03/15/01	03/29/01	03/11/01	18	3	10.0%	1.0%	4.96
0215351949	02/12/01	9,154.78	03/15/01	03/29/01	03/11/01	18	3	10.0%	1.0%	9.15
0215351952	02/12/01	5,500.00	03/15/01	03/29/01	03/11/01	18	3	10.0%	1.0%	5.50
0215351956	02/12/01	718.77	03/15/01	03/29/01	03/11/01	18	3	10.0%	1.0%	0.72
0215351963	02/12/02	9,600.00	03/15/01	03/29/01	03/11/01	18	3	10.0%	1.0%	9.60
0215352539	05/04/01	28,000.00	07/03/01	07/19/01	06/03/01	46	31	103.3%	1.0%	289.33
0215352236	05/16/01	15,176.00	07/03/01	07/19/01	06/15/01	34	19	63.3%	1.0%	96.11
0215352536	05/16/01	17,814.50	07/03/01	07/19/01	06/15/01	34	19	63.3%	1.0%	112.83
0215352914	07/12/01	2,000.00	09/17/01	09/18/01	08/11/01	38	23	76.7%	1.0%	15.33
0215352897	07/12/01	13,378.71	09/17/01	09/18/01	08/11/01	38	23	76.7%	1.0%	102.57
0215352900	07/12/01	10,500.00	09/17/01	09/18/01	08/11/01	38	23	76.7%	1.0%	80.50
0215352910	07/12/01	3,590.43	09/17/01	09/18/01	08/11/01	38	23	76.7%	1.0%	27.53
0215351967	07/12/01	33,166.90	09/17/01	09/18/01	08/11/01	38	23	76.7%	1.0%	254.28
0215352919	07/12/01	21,479.65	09/17/01	09/18/01	08/11/01	38	23	76.7%	1.0%	164.68
R01101001	11/09/01	11,700.71	01/24/02	02/07/02	12/08/01	61	46	153.3%	1.0%	179.41
R02021001	11/09/01	15,474.83	01/24/02	02/07/02	12/08/01	61	46	153.3%	1.0%	237.28
R02071001	11/09/01	130.98	01/24/02	02/07/02	12/08/01	61	46	153.3%	1.0%	2.01
R01101101	12/10/01	14,617.61	01/24/02	02/07/02	01/09/02	29	14	46.7%	1.0%	68.22
R02021101	12/10/01	11,500.68	01/24/02	02/07/02	01/09/02	29	14	46.7%	1.0%	53.67
R02101101	12/10/01	2,500.00	01/24/02	02/07/02	01/09/02	29	14	46.7%	1.0%	11.67
R3081101	12/10/01	30,500.00	01/24/02	02/07/02	01/09/02	29	14	46.7%	1.0%	142.33
R2101001	11/09/01	8,750.00	01/24/02	02/07/02	12/08/01	61	46	153.3%	1.0%	134.17
R3081001	11/09/01	13,320.35	01/24/02	02/07/02	12/08/01	61	46	153.3%	1.0%	204.25
RR02020302	04/10/02	1,165.06	11/14/02	11/21/02	03/09/02	257	242	806.7%	1.0%	93.98
RR03080102	02/28/02	27,750.00	10/30/02	10/31/02	03/27/02	218	203	676.7%	1.0%	1,877.75
RR03090102	02/28/02	7,168.08	10/30/02	10/31/02	03/27/02	218	203	676.7%	1.0%	485.04
RR02100202	03/08/02	2,500.00	10/30/02	10/31/02	04/07/02	206	191	636.7%	1.0%	159.17

Late Payments - Accenture's Retainage Invoices

Invoice Number	Invoice Date	Invoice Amount	Date Approved for Payment	Date Paid	Payment Due Date	# of Days Late	# of days Late (For Interest Calculation)	Percentage of 30 Days	Interest Factor	Accrued Interest *(at Time of Payment)*
RR03080202	03/08/02	5,000.00	10/30/02	10/31/02	04/07/02	206	191	636.7%	1.0%	318.33
RR02100302	01/10/02	2,250.00	10/30/02	10/31/02	02/09/02	264	249	830.0%	1.0%	186.75
RR02020202	03/08/02	843.54	11/14/02	11/26/02	04/07/02	233	218	726.7%	1.0%	61.30
RR02100102	02/15/02	5,000.00	03/07/02	03/21/02	03/17/02	4	-	0.0%	1.0%	-
0215354415	01/31/02	11,487.90	03/07/02	03/21/02	03/02/02	19	4	13.3%	1.0%	15.32
0215353984	01/31/02	11,192.04	03/07/02	03/21/02	03/02/02	19	4	13.3%	1.0%	14.92
0215353859	01/31/02	4,624.39	03/07/02	03/21/02	03/02/03	19	4	13.3%	1.0%	6.17
0215355263	02/01/02	8,032.65	03/18/02	03/22/02	03/03/02	19	4	13.3%	1.0%	10.71
0215353265	02/01/02	15,000.00	03/18/02	03/22/02	03/03/02	19	4	13.3%	1.0%	20.00
0215353269	02/01/02	1,457.05	03/18/02	03/22/02	03/03/02	19	4	13.3%	1.0%	1.94
0215353272	02/01/02	11,250.00	03/18/02	03/22/02	03/03/02	19	4	13.3%	1.0%	15.00
0215353682	01/31/02	6,780.26	03/18/02	03/22/02	03/02/02	20	5	16.7%	1.0%	11.30
0215353980	01/31/02	10,085.63	03/18/02	03/22/02	03/02/02	20	5	16.7%	1.0%	16.81
0215354413	01/31/02	11,300.45	03/18/02	03/22/02	02/02/02	20	5	16.7%	1.0%	18.83
RR01101201	01/31/02	11,471.79	03/18/02	03/22/02	03/02/02	20	5	16.7%	1.0%	19.12
TOTALS		**$ 1,051,597.40**								**$ 12,550.68**

Source: Compiled from EIS and SOAR reports and worksheets provided by OCFO staff

AGENCY COMMENTS

AGENCY COMMENTS

On May 8, 2006, the Office of the District of Columbia Auditor submitted this report in draft for review and comment to the Office of the Chief Financial Officer (OCFO), and the following offices within the OCFO cluster: (a) the Office of Integrity and Oversight(OIO), (b) the Office of Tax and Revenue(OTR), and (c) the Office of Finance and Treasury(OTR).

Written comments to the draft report were received from OTR's Deputy Chief Financial Officer on May 19, 2006. Written comments were not received from the OCFO, OIO, or OFT. All written comments are appended in their entirety to this final report and no substantial changes were made to the final report as a result of the comments received.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Deputy Chief Financial Officer
Office of Tax and Revenue

Tax and Revenue

RECEIVED
MAY 19 2006
OFFICE OF THE DC AUDITOR

May 18, 2006

Deborah K. Nichols
District of Columbia Auditor
717 14th Street, NW, Suite 900
Washington, DC 20005

Dear Ms. Nichols:

The Office of the Chief Financial Officer (OCFO) is pleased to provide this response to the draft report entitled "Auditor's Examination of the Escrow Account Established by Accenture and the Office of Tax and Revenue (OTR) in Connection with Contract Number DCFRA #99-C-004."

The report finds that the escrow agreement and account were established with inadequate internal controls and oversight and that the Office of Finance and Treasury (OFT) was not properly involved in the establishment of the account. OTR concurs that appropriate processes for establishing this account were not followed, however, this was not due to negligence or malfeasance. That not withstanding, there is no evidence of impropriety or fraud in the management or release of funds from the account.

At the time the account had to be established in 1999, per the contract signed by the D.C. Financial Control and Management Assistance Authority (Authority), no clear roadmap existed for the establishment of such an account. This lack of guidance resulted in a substantial delay in opening the account, and in an accumulation of unpaid invoices from December, 1998 through April, 2000. We agree with the Auditor that the contract did not specify any guidelines for the establishment of the account. In addition, Financial Management and Control Order No. 01-001 regarding the establishment and management of stand-alone back accounts was not in force until August, 2002. Without clear guidance from the Authority or the Contracting Officer, the COTR acted in March, 2000 to establish the account without the express written approval of OFT or of the Deputy CFO of OTR.

With the guidelines set forth in Order No. 01-001, if this account were to be established today, OTR would follow appropriate guidance by obtaining the appropriate approval of the Deputy CFO for Finance and Treasury (OFT) and using approved procurement vehicles to select the escrow agent. OTR and OFT would require at least 2 District signatures on any escrow account transaction as was done in 2003, when OTR and Accenture requested the release of funds from the escrow account based on the completion of the Real Property Tax Module. At that time, OTR acted with due diligence to ensure that there was written approval from the then Deputy CFO in addition to that of the COTR, although not required by the Escrow Agreement.

Additionally, OTR would take an active role in reconciling the escrow account balances and take steps to ensure that the payments were made properly to the account on a monthly basis. To this effort, OTR and Accenture did take steps to review the account balance periodically and make necessary adjustments for errors in payment processing. After a thorough reconciliation, it appears that there were only minor discrepancies in the escrow account balance, resulting in no financial harm to the District.

Thank you for this opportunity to provide comments. If you have any additional questions regarding this response, please do not hesitate to contact me at 442-6383.

Sincerely,

Sherryl H Newman

Sherryl Hobbs Newman
Deputy CFO, Office of Tax and Revenue

cc: Dr. Natwar M. Gandhi, Chief Financial Officer
Lasana Mack, Deputy CFO, Office of Finance and Treasury
Sebastian Lorigo, Executive Director, Office of Integrity and Oversight