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Auditor's Examination of Contract Cost and Administration for the Integrated Tax System

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EXECUTIVE SUMMARY

PURPOSE

Pursuant to a request from Councilmember Jack Evans and in accordance with Section 455 of Pub. L. No. 93-198, the District of Columbia Auditor (Auditor) conducted an audit of contract number DCFRA #99-C-004 to examine the effectiveness of contract administration and monitoring. The District of Columbia Financial Responsibility and Management Assistance Authority (the Authority) awarded this contract to Accenture (formerly Andersen Consulting) to develop and implement an Integrated Tax System (ITS).

CONCLUSION

The Auditor's examination of contract costs and administration for the Integrated Tax System revealed significant weaknesses in internal controls and numerous deficiencies in contract management. These conditions resulted in inadequate and inefficient contract monitoring and presented opportunities for abuse and improper or questionable use of contract funds.

The Auditor found that inappropriate segregation of duties resulted in an ineffective system of accountability in the administration of the contract. Specifically, the ITS Project Manager, an Office of Tax and Revenue (OTR) employee, also served as the contract's Contracting Officer's Technical Representative (COTR). In performing these conflicting duties, this one individual handled the technical aspects of the contract while managing, on a daily basis, the progress of the ITS project. Because this individual controlled many of the activities pertaining to the contract with limited, if any, supervisory review, contract funds were vulnerable to mismanagement, abuse, or improprieties.

Moreover, the Auditor found that as a consequence of inadequate ITS project planning, the scope of required work expanded and the associated costs increased significantly under the contract. The Auditor noted that the amount of the contract awarded by the Authority was significantly less than an independent pricing estimate provided by IBM. As a result, as the project progressed, contract administrators made costly adjustments and modifications to the contract. For example, Office of the Chief Financial Officer (OCFO) officials added components to the contract costing more than \$8.1 million and spent approximately \$8 million more for hardware and software than originally anticipated.

The Auditor also noted that the contract labor rates were high and increased annually at an excessive escalation rate of 7%. Furthermore, because Accenture personnel could be reimbursed for other non-labor expenses, the actual rates paid by the District for certain contractor staff exceeded the rates stipulated in the contract. The District reimbursed Accenture between \$206,013 and \$717,705 annually for labor and other costs for some of its employees.

The Auditor further found that due to vague and unclear contract language, and inadequate contract administration, the District reimbursed Accenture at least $1.8 million for questionable expenses that were billed under the contract. Specifically, the District reimbursed Accenture for: (a) temporary relocation assistance, $634,756; (b) apartment rentals, $615,395; (c) furniture rentals and other costs related to furniture rentals, $7,206; (d) car rental fees, $63,300; (e) travel, $289,130; (f) per diem payments, $113,275; and (g) supplies, $30,280. Accenture purchased supplies needed for the ITS project, on behalf of the District; however, Accenture was charged sales tax on the purchases made. Accenture subsequently billed the District for the cost of the supply items, including the sales tax incurred.

Moreover, the Auditor noted that Accenture billed the District for expenditures that were unrelated to the contract or the ITS project, and in some instances, classified in an inappropriate expense category. Specifically, the Auditor found the following unrelated or inappropriate expense items: (a) $187,171 relating to an eProcurement Pilot System for the OCFO's Mission Support Office; (b) $9,676 associated with an OTR Managers Retreat; and (c) $4,650 for a CFO Meeting Retreat. The Auditor also found $3,592.37 in furniture items, purchased for another location other than OTR, that were billed as supplies for the ITS project.

The Auditor identified several instances of noncompliance with the contract and other applicable legislation. OCFO staff did not pay Accenture in a timely manner in violation of the contract and the District's Quick Payment Act, resulting in potential interest penalty payments of $395,347.11. Furthermore, contract administrators did not adequately monitor subcontractor activities and expenses. Consequently, OTR staff were unable to substantiate that Accenture complied with the contract's subcontracting provisions and relevant Federal Acquisition Regulations incorporated by reference in the contract.

MAJOR FINDINGS

1. Improper separation of duties caused by ineffective contract administration increased the risk for wasteful use of the District's resources.

2. Deficient ITS project planning, faulty project pricing, and ineffective contract administration exposed the District to cost escalations, unrealized project goals, and questionable project expenditures.

3. The Authority awarded the ITS contract at a price significantly below the projected cost estimated by IBM.

4. The Authority and OTR personnel added $8.1 million in new components to the ITS Project.

5. Hourly contract labor rates were high, inconsistent, and inadequately negotiated by OCFO management officials.

6. Accenture applied inconsistent discounting criteria to develop hourly labor category billing rates.

7. Annual ITS contract labor rate escalation was higher than normal for the Washington Metropolitan Area.

8. Accenture billed the District for questionable and excessive reimbursements to some contract employees.

9. Approximately $1.7 million reimbursed to Accenture for expenses incurred by its staff that were not allowable, reasonable, or clearly defined in the contract.

10. Accenture purchased supplies for the District using practices that did not comply with District regulations or the contract resulting in the District paying $7,700 in sales tax.

11. Accenture charged unrelated and misclassified expenses to the contract.

12. ITS project staff did not independently track Accenture invoices received and paid.

13. OTR staff made delinquent payments to Accenture in violation of the contract and the provisions of the District's Quick Payment Act.

14. The Authority and accountable OCFO officials did not establish and implement effective subcontractor monitoring policies and procedures.

15. The Project Manager/COTR and other accountable OCFO staff did not independently monitor subcontractor costs and relied on the prime contractor to track these expenses.

MAJOR RECOMMENDATIONS

1. OCFO officials should ensure that adequate separation of duties are in place that include a Contracting Officer to negotiate the contract and manage the business relationship with the contractor; a COTR to administer the technical aspects of the contract for the Contracting Officer; and a Project Manager to manage the day-to-day progress of the project.

2. Prior to awarding a contract of this magnitude, OCFO officials should discuss the anticipated project with other District officials who have engaged in similar projects in the past.

3. OCFO officials should consult with the General Services Administration (GSA) or the Defense Contract Audit Agency (DCAA) to ensure that the proposed billing rates are reasonable and planned escalation factors are in keeping with standard practices.

4. If the District initially agrees to pay a contractor higher rates because the contractor will assume certain risks by working on a project, District officials and contractor personnel should periodically assess the risks involved and adjust the billing rates accordingly.

5. The Office of the Attorney General (OAG) and OCFO officials should immediately obtain detailed information on how Accenture's billing rates were derived and closely examine Accenture's billing rates and other charges for reimbursable expenses. To the extent that the District was overbilled or billed for expenses that were not consistent with the contract, OAG and OCFO should seek full reimbursement from the contractor.

6. Personnel in OAG, in conjunction with OCFO officials, should immediately seek full reimbursement from the contractor for all unallowable cost of living allowances or relocation assistance, apartment rental costs, furniture rental and other occupancy-related costs, per diems, and car rental costs paid through contract number DCFRA# 99-C-004.

7. If the contractor has offices throughout the United States, OCFO officials and the Contracting Officer should gain an understanding of the contractor's staffing plan before the contract is awarded. The District should require the contractor to use its locally-based personnel to the maximum extent possible. This will minimize the contractor's claims for temporary housing of staff.

8. The OCFO should immediately conduct a detailed review of all travel costs charged to the contract. Separate analyses should be completed of airfares and trips; Amtrak fares and trips; cab fares (both within the District and other cities); parking fees; and claims for mileage reimbursement.

9. Personnel in the OAG, in conjunction with OCFO officials, should immediately seek reimbursement for travel costs that were not in compliance with the contract.

10. For future contracts, OCFO officials should refrain from allowing the contractor to make purchases on the District's behalf. If necessary, the contractor may advise OCFO officials on any needed purchases after reviewing the available alternatives to ensure that supply items are obtained competitively.

11. OCFO officials should immediately review contractor invoices to determine the amount of sales taxes billed to the District. OCFO officials should seek full reimbursement from the contractor for all sales tax amounts billed to and paid by the District.

12. OCFO officials should thoroughly review all technical instructions that were issued by the COTR to: (a) identify services and items that were requested by the District but unrelated to the ITS contract, and (b) determine the costs of such unrelated services and items. District officials should consider requiring OCFO officials to reduce OTR's operating and/or capital budgets, as appropriate, by the amount of unrelated costs charged to the ITS contract.

13. OTR and OCFO should use an automated invoice tracking process to ensure timely payment of invoices received from contractors.

PURPOSE

Pursuant to a request from Councilmember Jack Evans and in accordance with Section 455 of Pub. L. No. 93-198,[1] the District of Columbia Auditor (Auditor) conducted an audit of contract number DCFRA #99-C-004 to examine the effectiveness of contract administration and monitoring.[2] The District of Columbia Financial Responsibility and Management Assistance Authority (the Authority) awarded this contract to Accenture (formerly Andersen Consulting) to develop and implement an Integrated Tax System (ITS).[3]

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of the audit were to determine whether:

1. oversight of the ITS project was adequate and effective to prevent over expenditure and misuse of contract funds; and

2. costs billed by the contractor and contract expenditures were reasonable and allowable, consistent with the terms of the contract, and other applicable laws, regulations, and guidelines.

The scope of the audit covered the period October 1, 1998, through March 31, 2004. In conducting the audit, the Auditor: (a) reviewed contract number DCFRA #99-C-004 and the corresponding solicitation and contract file; (b) interviewed staff within the Office of Tax and Revenue (OTR) and the Office of Management and Administration (OMA); (c) reviewed applicable laws, regulations, policies, procedures and guidelines;(d) examined contractor invoices and payments; and (e) reviewed relevant audit reports issued by other audit organizations.[4]

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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] Throughout this report, contract number DCFRA #99-C-004 is referred to as "the contract."

[3] Andersen Consulting changed the company's name to Accenture in January 2001. The contract was modified in December 2002 to formally name Accenture as the contractor. Throughout this audit report, the contractor is referred to as Accenture.

[4] The Auditor reviewed the following reports: (a) *Government of the District of Columbia, Office of the Chief Financial Officer, Integrated Tax System (ITS), Final Assessment Report*, dated December 13, 2000, issued by the Information Technology Resources Board; (b) *Report on Audit of Contract No. DCFRA#99-C-004*, dated May

The audit was conducted in accordance with generally accepted governmental audit standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

BACKGROUND

Pursuant to the District of Columbia Financial Responsibility and Management Assistance Act of 1995, the Authority was established to assist the District government in achieving financial stability and management efficiency.[5] The Authority was empowered to enter into contracts to carry out its legally mandated responsibilities. Public Law 104-8 exempted the Authority from District procurement laws and regulations.[6] Additionally, federal procurement law and regulations did not apply to the Authority because of its independent status.[7] As a result, the Authority possessed unlimited flexibility and discretion in procuring and contracting for goods and services.

During Fiscal Year (FY) 1997, the District's Chief Financial Officer (CFO) and the Deputy CFO for Tax and Revenue requested the Authority's assistance in procuring services to develop and implement the District's integrated tax system. At the time, it was widely reported[8] that the District's tax system was outdated and dysfunctional, had automated system deficiencies, inefficient internal processes, and was poorly managed.

On February 5, 1997, the Authority issued a Request for Proposals (RFP) for an integrated tax system. On March 4, 1997, Accenture submitted the only proposal in response to the RFP.

31, 2001, issued by the Defense Contract Audit Agency; (c) *Final Report on Review of the Integrated Tax System at the Office of Tax and Revenue*, dated January 2003, issued by the Office of the Chief Financial Officer, Internal Audit and Internal Security; and (d) *Report on the Procurement Review on the Integrated Tax System Contract at the Office of Tax and Revenue*, dated July 2003, issued by the Office of the Chief Financial Officer, Office of Integrity and Oversight.

[5] *See* the District of Columbia Financial Responsibility and Management Assistance Act of 1995, approved April 17, 1995 (109 Stat.192; Pub. L. No. 104-8), §2 (b)(1) - §2(b) (8).

[6] *See* the District of Columbia Financial Responsibility and Management Assistance Act of 1995, approved April 17, 1995 (109 Stat.192; Pub. L. 104-8), §102(c)(2): "...The provisions of the District of Columbia Code governing procurement shall not apply to the Authority."

[7] *See* District of Columbia Financial Responsibility and Management Assistance Authority Procurement Regulations, Chapter 1, Section A, Paragraph 3.

[8] *See* e.g., Brian Blomquist, "City Misses 6-Week Goal for Paying Tax Refunds," *The Washington Times*, June 9, 1995.

In November 1998, the Authority awarded a $63,274,158 contract to Accenture to redesign and modernize OTR's computer based tax-processing systems, which included the Individual Income Tax, Business Tax, and Real Property Tax Systems. The contract covered the period November 17, 1998 to September 30, 1999, with four option years. At the time of the contract award, the Authority had provided only $6,850,906 in contract funding.

The services to be provided under the contract were grouped in separate contract line item numbers (CLINs). Each CLIN had an established ceiling amount and was designated as either fixed price or cost-reimbursable. Accenture was required to provide services consistent with each CLIN's specific technical instructions (TIs). The TIs, which were developed by the Contracting Officer's Technical Representative (COTR), detailed the specific services to be performed by Accenture, and the corresponding schedule, staffing, deliverables, and acceptance criteria.

Between FY 1999 and FY 2003, the Authority and the OCFO approved several contract modifications to increase contract funding. The initial contract price of $63,274,158 was subsequently increased by $41,800,296 to $105,074,454. The $41,800,296 increase resulted from OCFO officials expanding the contract's scope of work. Table I presents the contract modifications including the $41,800,296 that increased the contract price to $105,074,454.

The additional $41,800,296 was to fund the following:

- $500,000 - to develop and host an internet tax filing capability available to taxpayers seven days per week, 24-hours per day;

- $750,000 - to provide technical support services during the planning and assessment phase of integrating the Real Property Tax system into ITS;

- $39,675,296 - to develop the ITS Real Property Tax System; and

- $875,000 - to provide oversight and management of tasks performed under the contract.

Table I presents the contract modifications that increased the price of the ITS contract.

Table I
Contract Modifications That Increased the Contract Price

Action Number	Effective Date	Date Approved by Council	Amount	Description
Base Amount (Start-Up)[9]		Not Required	**$6,850,906**	
1	02/26/99	Processed by the Authority	$34,591,809	To exercise option year 1, provide funding, and restate Section B-Supplies or Services and Prices/Cost
2	09/30/00	08/01/00	$21,831,443	To exercise option years 2 and 3, and provide additional funding
Initial Contract Price			**$63,274,158**	
3	09/18/02	09/18/02	$41,800,296	To exercise option year 4, modify the scope of services to include development of an internet tax filing capability and an ITS Real Property Tax System, and provide additional funding
Total Contract Price			**$105,074,454**	

Source: OTR's files containing the contract agreement and subsequent modifications.

Action Numbers 2 and 3, totaling $63,631,739 were approved by the Council on August 1, 2000, and September 18, 2002, respectively, through the Council's "passive [contract] approval process."[10] The passive contract approval process has often been used during Council recesses to

[9]Start-up funding for seven CLINs for the base period November 22, 1998 to September 30, 1999. Additional CLINs were added during fiscal year 1999.

[10]*See* D. C. Code Section 2-301.05a (b) (2): "A proposed contract in excess of $1,000,000 during a 12-month period shall be deemed approved by the Council if one of the following occurs: (a) during the 10-calendar-day period beginning on the first day (excluding Saturdays, Sundays, and holidays) following its receipt by the Office of the Secretary to the Council, no member of the Council introduces a resolution to approve or disapprove the proposed contract; or (b) if a resolution has been introduced in accordance with subparagraph (a) of this paragraph, the Council does not disapprove the contract during the 45-calendar-day period beginning on the first day (excluding Saturdays, Sundays, and holidays) following its receipt by the Office of the Secretary to the Council."

circumvent or avoid detailed Council scrutiny of a contract, contract modification, pricing basis, method of award, and scope of work.

District Staffing for Contract Administration and Monitoring

The Authority's Executive Director was the initial Contracting Officer. As Contracting Officer, the Executive Director was responsible for negotiating and executing the contract, and managing the relationship with Accenture. In June 1998, the OCFO hired an ITS Project Manager to manage the project's progress. In November 1998, the Authority's Contracting Officer appointed the ITS Project Manager as the Contracting Officer's Technical Representative (COTR) to administer the technical aspects of the contract. Additionally, the Project Manager/COTR administered all provisions of the contract including initiating the procurement of goods by Accenture, interpreting provisions of the contract, certifying the receipt and acceptance of goods and services delivered by Accenture, and reviewing and approving Accenture invoices for payment during most of the contract period. Accounts payable staff in the OCFO's OMA processed the invoices for payments made to Accenture.

The following District employees had contract administration responsibilities under the contract:

- Deputy CFO for Tax and Revenue was principally responsible for ensuring effective management, administration, and successful completion of the ITS project. However, during the seven-year period between February 1997 and February 2004, four different individuals served in the position of Deputy CFO for Tax and Revenue. Thus, significant turnover undermined continuity of leadership and executive supervision of this important project.

- in July 2003, OTR's Director of Information Systems Administration was appointed as the contract's COTR and the former Project Manager/COTR was reassigned to the position of Director of OTR's Returns Processing Administration.

- in August 2003, OTR officials designated a Senior Program Analyst as the Contract Liaison Officer (CLO) for the contract. The CLO was to work with OTR's newly appointed COTR to review Accenture's invoices for reasonableness and compliance with contract terms. The CLO also was to analyze the contract's costs and monitor the rate of spending because, during the former Project Manager/COTR's tenure, these functions had not been adequately performed.

- in December 2003, the OCFO's Director of Contracts and Procurement designated the Special Assistant to the Director as the Contract Administrator for the contract. The

Contract Administrator: (a) monitored the contractor's activities; (b) monitored Accenture's compliance with the contract; and (c) prepared contract modifications, when needed, to reflect changes in scope, funding, or the relationship with Accenture.

Accenture Staffing for Contract Performance

To provide the services required under the contract, Accenture developed a staffing plan that included a Project Director, Program Manager, Benefits Specialist, Functional Architect, Technical Architect, Team Leader, Process Consultant/Software Engineer, Senior Analyst, and Analysts/Programmers.

FINDINGS

IMPROPER SEPARATION OF DUTIES CAUSED BY INEFFECTIVE CONTRACT ADMINISTRATION INCREASED THE RISK FOR WASTEFUL USE OF DISTRICT RESOURCES

In order to establish an effective system of internal controls and accountability, the ITS project team should have included, at a minimum, the following District personnel:

- a contracting officer,
- a contracting officer's technical representative (contract administrator), and
- a project manager.

Under this system of checks and balances, no single individual could exercise authority and control over two or more functions associated with the project. However, under the weak and ineffective system of internal controls and accountability that emerged under the Authority and the CFO, the Project Manager/COTR exercised authority and control over numerous incompatible functions relative to the ITS project that could be abused. As a result, District funds were used to cover improper, unnecessary, or questionable expenditures, all of which were authorized by the Project Manager/COTR.

The Auditor found that, under this ineffective and inappropriate project management structure, the Project Manager/COTR supervised the project's progress and worked closely with Accenture project management staff on a day-to-day basis. Additionally, the Project Manager/COTR administered all provisions of the contract including initiating procurements by Accenture, certifying the receipt and acceptance of goods and services delivered by Accenture, reviewing and approving Accenture invoices for payment, and interpreting provisions of the contract.

Close day-to-day supervision of and interaction with Accenture project management staff may have compromised the Project Manager/COTR's objectivity and ability to make impartial decisions regarding the administration of the contract, interpretation of contract provisions, and whether expenditures charged to the contract were permissible and appropriate. For example, the Project Manager/COTR, who was not a lawyer, not a qualified or trained COTR, and not an experienced contract administrator, improperly interpreted the contract in a manner which would allow Accenture to bill the District for: (1) annual cost of living allowances for select Accenture personnel totaling $634,756; (2) apartment rental costs for Accenture staff totaling $615,395; (3) furniture rentals and other cost related to apartment rentals totaling $7,206; (4) car rental fees totaling

$63,300, (5) travel costs totaling $289,130; (5) per diem payments totaling $113,275; and (6) supplies totaling $30,280. As a consequence of the improper segregation of duties, the Project Manager/COTR improperly authorized $1,753,342 in reimbursements for questionable expenses and inappropriately approved for payment Accenture invoices containing these charges.

Ideally, in order to maintain a useful system of accountability, at least three positions were needed to ensure effective contract administration. These positions include a qualified Contracting Officer to negotiate the contract and manage the business relationship with the contractor; a qualified COTR to administer the technical aspects of the contract for the Contracting Officer; and a Project Manager to manage the progress of the project and work more closely with Accenture staff on a daily basis. Under this structure, no one individual could administer all aspects of the project without the scrutiny, knowledge, or approval of others. It is clear that accountable Authority and OCFO personnel failed to establish adequate management and accounting controls for the ITS project.[11]

In addition, the Authority and OCFO officials did not encourage or support the development and implementation of sound financial management and contract administration principles and practices for the ITS contract. It was also apparent that OCFO management failed to ensure that: (a) the Project Manager did not exceed the authority of that position; and (b) the contract's provisions were objectively and impartially interpreted by independent personnel, other than the project manager, such as legal counsel for the Authority, OCFO, or the District. Instead, Authority and OCFO officials permitted the Project Manager/COTR to interpret contract language. As a result of inadequate segregation of duties, the Project Manager/COTR administered the contract, reviewed and approved invoices, and interpreted and administered the contract based on her personal judgment.

RECOMMENDATION

> For future contracts of this magnitude, OCFO senior procurement officials should ensure that duties are properly segregated whereby a Contracting Officer negotiates the contract and manages the business relationship with the contractor; a qualified COTR administers the technical aspects of the contract; and a Project Manager manages the day-to-day progress of the project.

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[11]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." *See* Vincent M. O'Reilly et al., *Montgomery's Auditing, 12th Edition*, Wiley Publishers, April 1998, p.9-2.

DEFICIENT ITS PROJECT PLANNING, FAULTY PROJECT PRICING, AND INEFFECTIVE CONTRACT ADMINISTRATION EXPOSED THE DISTRICT TO COST ESCALATIONS, UNREALIZED PROJECT GOALS, AND QUESTIONABLE PROJECT EXPENDITURES

Effective project management involves, at a minimum, the competent execution of the following four phases: initiation, planning, execution, and closeout. The planning phase is critical to a project's success because it provides an opportunity to gather information necessary to make sound decisions regarding the project's goals and anticipated outcomes. Additionally, effective project planning provides the basis for thoroughly, accurately, and clearly defining the project's scope, objectives, and costs and establishing a sound approach for achieving project goals and objectives on time and within budget.[12] Sound project planning includes developing and staffing a project management team, composed of personnel who possess the requisite knowledge, skills, and expertise appropriate for the project.

The Auditor found that the Authority and OCFO officials did not adequately plan the ITS project, and thus, failed to lay the proper groundwork for effective contract administration and project management. Poor project planning and execution, and inadequate supervision and management of the project created a high risk that predicted goals and objectives of the project would not be achieved within budget and that contract funding could be exposed to waste, abuse, and misuse.

The Auditor found that accountable Authority and OCFO management officials failed to adequately, accurately, and clearly define the ITS project's scope, the objectives to be achieved by the project, and poorly estimated the costs of the project. Further, accountable management officials failed to establish and appropriately staff a project management team that was responsible for properly supervising, managing, and administering all aspects of the project in a manner designed and intended to assure the achievement of project goals and objectives in a timely manner within budget. The Auditor further found that the Authority awarded the ITS contract at an unrealistically low price at hourly billing rates that were unreasonably high and excessive in some instances.

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[12] *See* Project Management Institute, *A Guide to Project Management Body of Knowledge*, November 2004, p.38. During the planning phase of a project, the organization should: develop and clearly define the project's scope; define each required activity, determine the order in which they should be completed, and estimate the amount of time that will be needed for each activity; develop a project schedule; plan necessary resources (staffing, supplies, equipment, etc.); estimate project costs and develop a project budget; develop a project plan, organizational plan, and communications plan; identify and quantify potential risks and develop a risk response plan; and complete procurement and solicitation planning.

The Authority Awarded the ITS Contract at a Price Significantly Below the Projected Cost Estimated by IBM

Authority and OCFO management officials and staff lacked the expertise to thoroughly, accurately and clearly define the ITS project's scope of work and projected cost. It appeared there was an unreasonably high degree of uncertainty regarding the specific services required to create an ITS, the level of effort required to create an ITS for the District, and the projects potential cost. Therefore, OCFO officials awarded a contract to IBM Global Consulting (IBM), at a cost of $55,000, to develop a baseline independent pricing estimate (IPE) for the ITS project.[13]

In its October 8, 1997, IPE, IBM included the following components in its October 8, 1997 IPE: Asset Licensing; Asset Modifications; UNIX Conversion; Hardware/Software Purchases; Hardware/Software Maintenance; Asset Maintenance; Tools; Operations; Integration and Testing; Systems Engineering; Management and Support; Training; Travel/Per Diem Expense; General & Administrative, Overhead, and Profit. IBM estimated that the price for a five-year fixed price contract for the ITS project that included the above components should range between $71.5 million and $89.2 million.

The Auditor found that the $63,274,158 contract ultimately awarded to Accenture contained similar components for each of the Individual Income, Business Tax, and Real Property Tax systems. The components included: Tax Administration System (TAS) Application Software Licensing; Data Purification; Hardware/Software Acquisition; Hardware and Software Maintenance; General Design; Testing; System Development and Implementation; Engineering and Technical Support; and Training. Although the contract awarded to Accenture contained components that were similar to those in IBM's IPE, it appears that the Authority did not consider or disregarded IBM's cost estimate by executing a contract that was at least $8.2 million less than IBM's lowest estimate. There was no documentation available to the Auditor which documented the basis or justification for the Authority's decision to price the ITS contract at $63.3 million. However, this decision ultimately resulted in expansion of the ITS project's scope of work and costly contract modifications.

[13]See 27 DCMR §1625.2: "One (1) or more of the following techniques may be used to perform price analysis: (a) comparison of proposed prices received in response to the solicitation; (b) comparison of prior proposed prices and contract prices with current proposed prices for the same or similar items; (c) application of rough yardsticks (Such as dollars per pound or per horsepower, or other units) to highlight significant inconsistencies that warrant additional pricing inquiry; (d) comparison with competitive published price lists, published market prices of commodities, similar indexes, and discount or rebate arrangements; and (e) comparison of proposed prices with independent District cost estimates."

RECOMMENDATIONS

1. Independent pricing estimates prepared by experts in the subject area at the request of the District should be taken into consideration in gauging a project's cost and the reasonableness of a prospective contractor's proposed pricing.

2. If contracting and knowledgeable agency officials determine that an independent pricing estimate is unrealistic, that determination should be clearly documented and placed in the solicitation file.

The Authority and OTR Personnel Added $8.1 Million in New Components to the ITS Project

The Auditor found that OTR officials and the Authority's Contracting Officer subsequently added $8,126,711 in new components to the ITS project as follows:

- $2,152,093 for an Electronic Taxpayer Service Center (eTSC);
- $2,986,338 for an Imaging System;
- $412,280 for an Executive Dashboard; and
- $2,576,000 for a Contact Tracking System.

Table II presents the components added to the contract.

Table II
$8.1 Million New Components Added to the ITS Project

Component Name	Component Description	Cost of Component
Electronic Taxpayer Service Center (eTSC)	Allows taxpayers to file returns electronically; provides OTR staff and taxpayers the capability to review taxpayer accounts on-line	$2,152,093
Imaging System (Implementation)	Provides scanning and long-term retention of returns and other documents received from taxpayers and processed by OTR	$2,986,338
Executive Dashboard	Reporting System that produces routine productivity reports to be used by management and reports that are needed for financial reporting purposes	$412,280

Component Name	Component Description	Cost of Component
Contact Tracking System	Provides means for tracking number of inquiries made by taxpayers and how such inquiries were handled and/or resolved; used not only by OTR's Returns Processing staff but also by Customer Service Division staff to monitor the performance of that office	$2,576,000
	TOTAL COSTS	**$8,126,711**

Source: Interviews with OTR managers and information received from OTR staff.

RECOMMENDATIONS

1. For future similar projects and contracts managed by the OCFO, accountable management officials should hold regular (at least bi-weekly) project/contract status meetings. The Contracting Officer, COTR, Contract Liaison Officer, Budget Officer, a financial manager, District legal counsel, Contractor representatives, and designated appropriate qualified District information technology personnel should attend these meetings to review and discuss contractor performance, project and contract issues and problems, and necessary modifications.

2. For future information technology projects, accountable OCFO management officials should consider establishing an on-going project advisory team consisting of qualified District information technology personnel or a qualified consultant. The advisory team should advise on contract modifications necessitated by advances and changes in the information technology industry. Additionally, the advisory team should assist responsible management officials to obtain requisite services, hardware, and software at the most economical prices.

HOURLY CONTRACT LABOR RATES WERE HIGH, INCONSISTENT, AND INADEQUATELY NEGOTIATED BY OCFO MANAGEMENT OFFICIALS

The Auditor found that the contract's hourly labor rates were high and based on an inconsistent unclear rate development process. Appendix II presents Accenture's hourly labor rate development process used for pricing its ITS proposal. Moreover, the Auditor found no documented evidence that Authority or OCFO management officials adequately scrutinized or sought salient information regarding how the hourly billing rates were developed.[14] Table III presents the contract's nine labor categories and the associated hourly billing rates.

Table III
Labor Categories and Hourly Billing Rate

Labor Category	Hourly Billing Rate Base Year	Hourly Billing Rate Option Year 1	Hourly Billing Rate Option Year 2	Hourly Billing Rate Option Year 3	Hourly Billing Rate Option Year 4
Escalation Rate		**7.0%**	**14.49%**	**22.50%**	**31.08%**
Project Director	$368.00	$393.76	$421.32	$450.80	$482.37
Program Manager	$356.00	$380.92	$407.58	$435.49	$466.64
Benefits Specialist	$308.00	$329.56	$352.63	$308.00[15]	$403.73
Functional Architect	$300.00	$321.00	$343.47	$367.50	$393.24
Technical Architect	$300.00	$321.00	$343.47	$367.50	$393.24
Team Leader	$286.00	$306.02	$327.44	$350.35	$374.89
Process Consultant /Software Engineer	$216.00	$231.12	$247.30	$264.60	$283.13
Senior Analyst	$160.00	$171.20	$183.18	$196.00	$209.73
Analyst/Programmer	$107.00	$114.49	$122.50	$131.08	$140.26

Source: Contract file maintained by the Office of Tax and Revenue.

In a report dated July 2003, the OCFO's Office of Integrity and Oversight (OIO) also noted that Accenture's hourly ITS contract labor rates were high.[16] OIO auditors recommended that the Contracting Officer renegotiate labor rates when preparing any future contract modifications. The

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[14] *See* contract number DCFRA # 99-C-004, Attachment 8, "Agreed Upon Labor Rates."

[15] The tasks to be performed by the Benefits Specialist were changed significantly and there was turnover in this position. The billing rate was adjusted to the base year rate to reflect these changes.

[16] *See* Office of the Chief Financial Officer, Office of Integrity and Oversight (OIO), "Report on the Procurement Review of the Integrated Tax System Contract at the Office of Tax and Revenue, dated July 2003, p. 12. OIO officials requested that the Defense Contract Audit Agency (DCAA) review the ITS contract and verify the costs incurred under the contract. DCAA found that the labor rates were high for the labor categories which they observed. OIO discussed DCAA's findings in OIO's July 2003 audit report.

Auditor found that hourly contract labor rates were renegotiated in July 2003, approximately five years after the contract was awarded.[17]

Accenture Applied Inconsistent Discounting Criteria to Develop Hourly Labor Category Billing Rates

Accenture representatives indicated that the company's commercial billing rates were discounted by approximately 30% in developing the ITS contract's hourly labor billing rates. The Auditor found that the discounts were not the same for each labor category and ranged from a low of 3% to high of 38.7%. Table IV presents a comparison of Accenture's gross commercial billing rates and the discounted rates billed to the District.

Table IV
Accenture's Gross Commercial Billing Rates and the Calculated Discount Rates

Labor Category	Accenture's Gross Commercial Billing Rate (a)	Rate Billed to District (b)	Amount Discounted (a) - (b) = (c)	Discount Rate Percentage (c) / (a)
Project Director	$600.00	$368.00	$232.00	38.7%
Program Manager	$450.00	$356.00	$94.00	20.9%
Benefits Specialist	$425.00	$308.00	$117.00	27.5%
Functional Architect	$385.00	$300.00	$85.00	22.1%
Technical Architect	$385.00	$300.00	$85.00	22.1%
Team Leader	$345.00	$286.00	$59.00	17.1%
Process Consultant/ Software Engineer	$244.00	$216.00	$28.00	11.5%
Senior Analyst	$165.00	$160.00	$5.00	3.0%
Analyst/Programmer	$85.00	$107.00	(22.00)	(25.9%)

Source: Discussions with Accenture personnel and information compiled from Accenture's invoice files and contract number DCFRA # 99-C-004.

[17] *See* contract number DCFRA # 99-C-004, Modification #6, effective July 2003. *See also* contract number CFOPD-04-C-007, effective November 26, 2003.

Annual ITS Contract Labor Rate Escalation Was Higher than Normal for Washington Metropolitan Area

The Auditor found that the ITS contract hourly labor billing rates were allowed to automatically increase annually at a 7% escalation rate.[18] In a May 2001 report, the Defense Contract Audit Agency (DCAA) found that Accenture's 7% ITS contract escalation rate was higher than normal for the Washington Metropolitan Area.[19] According to DCAA, the customary escalation rate for the Washington Metropolitan Area ranged between 3.2% and 3.6%. Rate escalation factors are generally based on the type of labor categories or positions involved and the location where the work is performed. In certain situations, such as when a position is deemed hard to fill, the contractor could apply a higher escalation rate.

At the time the Authority evaluated Accenture's contract proposal, the Authority's Price and Compensation Panel found Accenture's hourly labor billing rates to be excessively high. Despite this significant finding, the Authority awarded the contract to Accenture anyway. It appears that the Authority disregarded the Price and Compensation Panel's finding which should have been addressed before awarding the contract. This indicates that the Authority did not acquire services, on behalf of the District, at the most economical price.

RECOMMENDATIONS

1. Prior to awarding a contract for a project as significant as the ITS project, the proposed project should be thoroughly examined and discussed by all accountable, experienced, and qualified District management personnel. Such dialogue is needed to define the purpose, scope, and objectives of the project, determine the most effective competitive contracting process to use, the agreed-upon labor categories appropriate to the project, and the billing rate structure to be applied under the contract.

2. Contracting personnel and management officials should consult with the General Services Administration (GSA) or the Defense Contract Audit Agency (DCAA) to ensure that proposed billing rates are reasonable and planned escalation rate factors comply with applicable guidelines and standards.

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[18] *See* Contract Number DCFRA #99-C-004, Attachment 8, Agreed to Direct Labor Rates, dated October 2, 1998.

[19] *See* Report on Audit of Contract No. DCFRA#99-C-004, dated May 31, 2001, issued by the Defense Contract Audit Agency.

3. When negotiating contracts, OCFO management and contracting officials must obtain and appropriately scrutinize all information that is necessary to fully understand how a offeror's proposed billing rates were derived and whether the rates offer the best value and economical use of District funds. If rates are not based on a reasonable methodology and sound assumptions, are not fully explained, or include costs which the District is unwilling to pay, OCFO officials should negotiate lower rates in a timely manner. If more favorable rates cannot be negotiated, the District should not award the contract to the offeror and seek more competitive proposals from other qualified vendors.

ACCENTURE BILLED THE DISTRICT FOR QUESTIONABLE AND EXCESSIVE REIMBURSEMENTS TO SOME CONTRACT EMPLOYEES

In accordance with Accenture's internal policies, certain Accenture personnel working on the ITS project were compensated for cost of living allowances, apartment rental expenses, travel expenses, and per diem payments. These costs were not included in Accenture's ITS contract hourly billing rates for labor but were categorized as other reimbursable expenses on invoices submitted by Accenture.

Although the contract failed to clearly state that these costs were reimbursable under the contract, Accenture billed the costs to the District and the District paid. Thus, as a consequence of the ITS Project Manager/COTR approving payment of invoices containing these questionable costs, certain Accenture personnel received significantly more compensation than provided by their hourly contract billing rate. Among a sample of seven Accenture employees, the Auditor's review revealed that the District may have improperly reimbursed Accenture between $206,013 to $717,705 annually in questionable labor costs, cost of living allowances, relocation expenses, apartment rental expenses, travel expenses, and per diem payments. [20]

Table V presents a detailed analysis of billable rates in excess of allowable hourly contract billing rates for seven Accenture employees in our sample that exceeded hourly billing rates in the ITS contract. The Auditor determined that the District paid an average cumulative total of $2,742,177 per year, including labor costs and other expenses, for the services of the seven employees in the sample.

[20] These total reimbursements included labor charges for the contract employees as well as expenses such as relocation assistance, apartment rentals, car rental fees, and travel expenses.

Table V
Detailed Analysis of
Billable Rates In Excess of Allowable Contract Billing Rates:

Employee (Years on Project)	Labor Charges	Relocation Assistance	Apartment Rental	Per Diems	Travel Costs[21]	Gross Total	Avg Hours Per Year	Avg Annual Payment	Avg Hourly Rate Actually Bill ed	Avg Allowable Contract Hourly Billing Rate	Per Hour Rate Variance
A (5)	$3,384,318	$198,778	$3,700	$462	$1,270	$3,588,528	1,662	**$717,705**	$431.83	$407.43	**$24.40**
B (5)	$1,358,638	$60,540	$76,140	$5,945	$54,595	$1,555,858	664	**$311,171**	$468.63	$427.45	**$41.18**
C (4)	$1,293,807	$64,781	$29,191	$5,142	$8,917	$1,401,838	1,010	**$350,459**	$346.99	$320.26	**$26.73**
D (5)	$1,253,874	$111,467	-	-	-	$1,365,341	1,000	**$273,068**	$273.07	$247.14	**$25.93**
E (4)	$992,197	$73,056	-	-	-	$1,065,253	1,163	**$266,313**	$228.99	$213.29	**$15.70**
F (1)	$513,477	-	$60,655	$10,065	$31,812	$616,009	2,072	**$616,009**	$297.30	$247.82	**$49.48**
G (1)	$183,584	-	-	$1,352	$21,077	$206,013	465	**$206,013**	$443.04	$369.76	**$46.28**
Total	**$8,979,895**	**$508,622**	**$169,686**	**$22,966**	**$117,671**	**$9,798,840**		**$2,740,738**			

[21]Travel Costs include airfare, taxicab fares, rental car fees, parking, tolls, Metro card fares, and mileage for personal vehicles.

RECOMMENDATIONS

1. When billing rates are proposed by a contractor, OCFO senior contracting officials should obtain sufficient information to fully understand the methodology used for rate development and the components of the rates. If a planned contract will contain cost reimbursement provisions, OCFO officials should fully understand the nature and total anticipated costs of the reimbursable expenses.

2. The Office of the Attorney General and OCFO senior contracting officials should immediately obtain detailed information on how Accenture's billing rates were derived. OAG and OCFO officials should closely examine and determine the legitimacy of Accenture's billing rates and reimbursable expenses under the ITS contract. To the extent that the District was over-billed or billed for expenses that were not permissible under the ITS contract, OAG and OCFO should promptly seek full reimbursement from Accenture.

APPROXIMATELY $1.7 MILLION REIMBURSED TO ACCENTURE FOR EXPENSES INCURRED BY ITS STAFF THAT WERE NOT ALLOWABLE, REASONABLE, OR CLEARLY DEFINED IN THE CONTRACT

The ITS contract stipulated that costs billed by Accenture were to be reasonable; however, the contract failed to define the word "reasonable" and did not establish the criteria for assessing reasonableness. Additionally, the contract failed to clearly state the costs that were reimbursable under the contract.

For example, the Auditor questioned the permissibility of costs billed by Accenture. Table VI presents questionable costs billed by Accenture.

Table VI
Questionable Costs Billed by Accenture
(by Cost Category)

Cost Category	Amount
Temporary Relocation Assistance (Annual Cost of Living Allowances)	$634,756
Apartment Rental Costs	$615,395
Furniture Rentals and Other Costs Related to Apartment Rentals	$7,206
Car Rental Fees	$63,300

Cost Category	Amount
Travel Expenses	$289,130
Per Diem Payments	$113,275
Supplies	$30,280
TOTAL	**$1,753,342**

Of the 296 invoices reviewed by the Auditor,[22] 134, or 45.3%, included contractor charges questioned on the basis of reasonableness[23] and their non-capital nature, as discussed in more detail below.

Temporary Relocation/Cost of Living Allowances. The Auditor found that Accenture paid certain employees cost of living allowances, which the Contractor referred to as "temporary relocation assistance." These allowances were typically paid to employees who chose to live on a temporary basis at the location of their assignment. Cost-of-living allowances required the approval of Accenture's ITS Project Manager and the appropriate Accenture Human Resources representative.[24]

The Auditor reviewed temporary relocation assistance agreements and found $634,756 in cost-of-living allowances that were billed to the ITS contract and paid by the District. In one case, $198,778 was paid to a single Accenture employee.[25] Appendix III presents a list of Accenture

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[22]The Auditor was not provided supporting documentation for five invoices: #0215351379 for $583,141.02, dated 02/06/01; #0215353687 for $447,216.62, dated 08/08/01; #0215353985 for $448,074.31, dated 09/13/01; #0215353994 for $170,000, dated 09/13/01; and #0215354420 for $211,092.72, dated 01/22/02.

[23]To assess the reasonableness of the costs billed by Accenture, the Auditor used the following criteria: (a) the nature of the goods or services acquired or applied, and the amount involved reflected the actions that a prudent person would have taken under the circumstances prevailing at the time the decision to incur the cost was made; (b) the individuals involved acted with due prudence under the circumstances, considering their responsibilities to the District government, its residents and employees, and the public at large; (c) the cost was of a type that is generally recognized as necessary to the successful performance of the contractor completing a project of this magnitude and complexity; (d) the actions taken with respect to the incurrence of the cost were consistent with established District policies and practices; and (e) to the fullest extent determinable, the cost incurred was comparable to that incurred under other similar projects.

[24]The following categories of Accenture employees were eligible for cost of living allowances: (1) managers, consultants, and analysts who were assigned to out-of-town engagements for more than one year; and (2) managers, consultants, and analysts who were on an existing engagement and were expected to remain for at least an additional year.

[25]Although all signed agreements totaled $969,323, the Auditor could only verify billing and payment of $634,756 through a review of the paid Contractor invoice files located at the Office of Tax and Revenue.

employees who temporarily relocated to the District while working on the ITS project and the annual cost of living allowances paid to these employees.

The Auditor found that the ITS contract did not explicitly address the allowability of cost of living allowances. As a result of the contract's vague language on this matter, the Project Manager/COTR determined that these costs were reasonable and allowable and approved Accenture's requests for reimbursement.

Apartment Rentals. The contract provided for Accenture to be reimbursed for reasonable subsistence costs.[26] Subsistence may include food, clothing, shelter, and other essential needs. The Auditor found that the contract did not explicitly establish criteria for determining the reasonableness of subsistence costs or the allowability of apartment rental expenses. The Auditor questions the appropriateness of including a subsistence provision in a contract with a locally-based firm.

The Auditor found that Accenture housed contract personnel in apartments located in the metropolitan Washington, D.C. area. In accordance with Accenture's internal policy, managers, analysts, and consultants assigned to an out-of-town project for one year or more were eligible for temporary housing assistance. Personnel residing in temporary housing were not eligible for cost of living allowances. Instead, they were to receive per diem payments. Appendix IV presents the apartments which Accenture used to temporarily house its personnel.

Some apartment rental agreements were between Accenture and the leasing company. Other rental agreements were signed by Accenture employees as the parties responsible for payment. None of the rental agreements reviewed by the Auditor showed the District of Columbia government as a liable party.[27] Nonetheless, Accenture paid the associated rental costs and charged approximately $615,395 in rental expenses to the ITS contract during the audit period. In most cases, Accenture paid and billed the District an average of $3,000 per month for each of these rental units.

Housing Furniture and Other Costs. The Auditor found that Accenture billed the District $7,206 in occupancy costs including $4,932 for furniture rental, $1,656 for utility bills, $486 for telephone charges, and $132 for cable television. However, the contract did not explicitly indicate that such occupancy costs were allowable expenses.

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[26]*See* Webster's New World Compact Office Dictionary, Wiley Publishing, Inc., Cleveland, Ohio, 2003, p.643, which defines subsistence as "the means of support or livelihood."

[27]According to Accenture's representatives, Accenture did not enter into the lease agreements as an agent of the District of Columbia government.

Per Diems. Accenture employees working on out-of-town assignments and temporarily living in the location of the assignment could be paid a per diem in lieu of reimbursement for any additional expenses incurred.[28] The per diem, which was paid to cover the cost of meals, was based on several factors, including: (a) the county in which the out-of-town accommodations were located; and (b) whether or not the employee had access to cooking facilities. Accenture employees were paid per diems at the following rates: (a) $42 per day, if they did not have access to a kitchen; or $29 per day, if they had access to a kitchen. The Auditor found that the contract did not explicitly indicate whether per diems were allowable charges, although the District was billed and paid at least $113,275 for such charges.

Car Rental Fees. The Auditor found $63,300 in car rental costs that were billed to the ITS contract by Accenture. The Auditor reviewed one case where the District paid rental car fees totaling $11,570 for one employee for a year.

Accenture's transportation expenses were to be supported by a detailed statement of reasonable actual costs to substantiate the amount invoiced.[29] Other than copies of paid car rental receipts, no further justification for the use of rented vehicles was available for examination. This documentation proved that vehicles were rented and used but did not fully substantiate that they were used for legitimate business purposes related to the ITS contract. Without such information, the Project Manager/COTR could not assess the need for the vehicles or verify the validity of the costs claimed.

Questionable Travel Costs. Accenture was to be reimbursed for reasonable actual travel costs as accepted by the Project Manager/COTR.[30] Reimbursable travel costs were to include expenses related to travel from Accenture's facility to the worksite, in and around the worksite, and from the worksite to Accenture's facility.[31] Moreover, Accenture could not be reimbursed for: (a) travel where District Government transportation was available; (b) travel performed for personal convenience/errands, including commuting to and from work, and (c) travel costs incurred in the replacement of personnel when such replacement was accomplished for the Contractor's or employee's convenience.[32] The Auditor found $289,130 in questionable travel expenses that did not appear to be relevant to or in compliance with the contract.

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[28] *See* Accenture Policy Document, D. C. Office of Tax and Revenue, Integrated Tax System Project.

[29] *See* Contract Number DCFRA #99-C-004, Invoices and Payments, page B-11.

[30] *See* Contract Number DCFRA #99-C-004,Travel Costs, Paragraph (a), page B-12.

[31] *See* Contract Number DCFRA #99-C-004, Travel Costs, Paragraph (b), page B-12.

[32] See Contract Number DCFRA #99-C-004, Travel Costs, Paragraph (c)(ii), page B-12.

Some of the questionable travel costs noted by the Auditor included:

- Cab fares and mileage to/from the homes of Accenture personnel, to/from airports in non-local areas such as Chicago, Indianapolis, Newark, Tampa, and New York. The Auditor found that internal controls over cab fares were inadequate to prevent misuse and abuse of contract funds.

  For example, one staff member spent $752 in one month for cab fares to and from her home in Newark, New Jersey as well as to and from the Newark airport.[33] At that pace of spending, she would have spent over $9,000 in travel expenses by the end of the year if this practice had not been halted. The Auditor determined that Accenture should not have billed the District, and the District should not have paid, for cab fares and mileage reimbursements for Accenture personnel.

- Parking fees incurred by Accenture staff when leaving personal vehicles in airport lots in other cities. The Auditor found that the Project Manager/COTR approved payment of invoices which included parking fees at airport parking lots. The Auditor determined that these parking fees were not associated with transporting staff from Accenture's facility to the worksite. The contract does not address parking fees; therefore, Accenture or its personnel should have paid these fees with no reimbursement from the District.

- Travel agency service fees. Accenture used the services of via World Network to make travel arrangements for contract staff. The travel agency charged $20 to $60 for each trip arranged. If Accenture personnel changed travel arrangements after a trip was planned, the travel agency also assessed an additional fee of $20 to $60. The Auditor found that the District reimbursed Accenture for such fees. In passing the cost on to the District government, Accenture inflated the actual travel costs incurred.

- Excessive airfare for employees. One Accenture employee traveled several times from Dulles International Airport to San Juan, Puerto Rico, the cost of which was charged to the ITS contract. The Auditor noted that the District paid for this employee's travel to Puerto Rico several times during the same month or billing cycle. Some of the trips noted by the Auditor included:

[33] *See* documents supporting Invoice # 0215348474, dated February 9, 2000, in the amount of $454,750.66.

Date	Expense Description	Expense Account
10/01/01	One Way Airfare: San Juan to Dulles	$266.59
10/05/01 - 10/07/01	Round Trip Airfare: Dulles to San Juan	$679.96
10/19/01 - 10/21/01	Round Trip Airfare: Dulles to San Juan	$833.70
10/26/01 - 10/29/01	Round Trip Airfare	$820.41
12/23/01	Airfare: Dulles to San Juan	$946.45
	TOTAL	**$3,547.11**

Source: Information extracted from invoice # 0215354808, dated 12/12/01 and #0215355381, dated 01/31/02.

RECOMMENDATIONS

1. OAG and OCFO should officials immediately seek full reimbursement from Accenture for all unallowable cost of living allowances, apartment rental costs, furniture rental, and other occupancy-related costs, per diems, and car rental costs paid through the contract.

2. OCFO senior officials should discontinue the practice of paying for cost of living allowances, apartment rentals, furniture rental and other occupancy-related costs, per diems, car rental costs, and non-project related travel for the contractor's staff.

3. If the contractor has offices throughout the United States, contracting officials should gain an understanding of the contractor's staffing plan before the contract is awarded. The District should require the contractor to use its locally-based personnel to the maximum extent possible to limit the contractor's need to temporarily house staff.

4. For future contracts, OCFO senior officials and the Contracting Officer should require contractors to use District-supplied transportation and the local transit system to the maximum extent possible to minimize costs.

5. OCFO staff should immediately review all travel costs charged to the contract. Separate analyses should be completed of airfares and trips; Amtrak fares and trips; cab fares (both within the District and other cities); parking fees; and claims for mileage reimbursement.

6. OAG and OCFO officials should immediately seek reimbursement for travel costs that were not in compliance with the contract.

7. For future similar contracts, OCFO senior officials and the Contracting Officer should ensure that the contract clearly defines allowable costs. After contract work commences, OCFO senior officials and the Contracting Officer should modify the contract in a timely manner to reflect changes regarding allowable expenses.

ACCENTURE PURCHASED SUPPLIES FOR THE DISTRICT USING PRACTICES THAT DID NOT COMPLY WITH DISTRICT REGULATIONS OR THE CONTRACT RESULTING IN THE DISTRICT INCURRING $7,700 IN AVOIDABLE SALES TAX FEES

The contract provided that Accenture was to purchase supplies needed for the ITS project. The Project Manager/COTR submitted written requests to Accenture staff to make supply purchases. Accenture staff then purchased supplies using credit cards, making telephone orders or completing on-line purchases.

The Auditor found no evidence that Accenture sought to obtain items competitively or at the most economical prices. Accenture was charged sales taxes on the purchases made and billed the District at least $7,700 in sales taxes which violated the contract.[34]

RECOMMENDATIONS

1. For future contracts, OCFO contracting officials should discontinue allowing contractors to purchase supplies for the District. The contractor should advise project staff on purchases, when needed, after reviewing the available alternatives to ensure that supply items are obtained competitively.

2. OCFO staff should immediately review Accenture's invoices to determine the total amount of sales taxes billed to the District. The OAG and OCFO should seek full reimbursement from Accenture for all sales tax paid by the District.

ACCENTURE CHARGED UNRELATED AND MISCLASSIFIED EXPENSES TO THE CONTRACT

The Auditor found that the Project Manager/COTR requested that Accenture develop an eProcurement Pilot system for Mission Support, the OCFO's procurement and human resources

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[34]*See* Contract Number DCFRA #99-C-004, Payment of Invoices, page B-14, paragraph (a): "As the Authority and the Government of the District of Columbia are not subject to Federal, State, or Local taxation, the Contractor shall not include Federal, State, or Local taxes in invoices under this contract."

office.[35] The cost ceiling for the eProcurement Pilot project was $337,097. The eProcurement Pilot project was to provide Mission Support buyers (procurement staff) with certain electronic procurement capabilities.[36] The Auditor determined that the eProcurement Pilot project was not related to the ITS project. Therefore, the cost of developing the eProcurement Pilot system should not have been underwritten with ITS capital project funds. The Auditor found $187,170.58 in costs relating to the eProcurement Pilot System that were inappropriately paid through the ITS contract.

The Auditor also found three additional charges for meetings that appeared to be unrelated to the ITS project, unallowable, and erroneously billed as "supplies."[37] The details regarding these charges follow:

- **OTR's Managers Retreat $9,676**: On October 16, 2000, a retreat was held at Gallaudet University's Kellogg Center. Documentation indicated that this retreat was held to provide OTR managers with essential information and training needed to support the on-going functions of the ITS project office. The Auditor determined that the retreat's costs were not valid capital expenditures and should not have been charged to the ITS contract.

- **CFO Meeting Retreat $4,650:** October 20, 2000, a retreat was held at Gallaudet University's Kellogg Center. Documentation indicated that this retreat was needed to conduct a senior level seminar to provide information essential to the on-going functions of the ITS Project Office. The total cost of this one-day session was $4,650. The Auditor found that this cost was unallowable because the retreat expenses were not capital expenditures.

- **Furniture Items (Delivered to Location Other Than OTR) $3,592.37:** On October 10, 2000, the Project Manager/COTR requested that Accenture staff purchase office supplies needed for the ITS Project Office. The memorandum of request indicated that these supplies were to support the administrative functions of the ITS Project Office. Accenture staff purchased ten tables from a Staples Office Superstore. The Project Manager/COTR,

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[35] *See* letter from the Office of Tax and Revenue to Accenture, dated August 15, 2000. *See also* ITS Technical Instruction, HR Program Development (eProcurement "Quick Start Pilot), Office of Tax Revenue, Contract # DCFRA #99-C-004, TI # ITS 2000-0207. *See also* letter from the Office of Tax and Revenue to Accenture, dated April 16, 2001. *See also* ITS Technical Instruction, HR Program Development (eProcurement "Quick Start" Pilot), as modified on 04/16/01, Modification 2, Office of Tax and Revenue, Contract # DCFRA #99-C-004, TI # ITS 2000-0207.

[36] The eProcurement Pilot Project was to provide Mission Support staff with the following capabilities: electronic quote, electronic shopping, electronic requisitions, and purchase orders, order status tracking, and complete order auditing.

[37] *See* Accenture invoice number 0215350755, dated November 13, 2000, in the amount of $200,509.55.

in an e-mail, indicated that these tables were to be delivered to the Office of Financial Operations and Systems (OFOS), 810 First Street, 2nd Floor. The Auditor questioned whether these furniture items were actually used for the ITS Project because they were delivered to an office separate from OTR. There was no indication in the supporting documentation that OFOS performed any functions related to the ITS Project requiring furniture purchases.

RECOMMENDATIONS

1. OCFO senior contracting officials should thoroughly review all technical instructions that were issued by the COTR to: (a) identify services and items that were requested by the District but were unrelated to the ITS contract, and (b) determine the costs of such unrelated services and items. District officials should consider requiring OCFO officials to reduce OTR's operating and/or capital budgets, as appropriate, by the amount of unrelated costs charged to the ITS contract.

2. For future contracts, the COTR should thoroughly review the contractor's invoices to ensure that costs are allowable and charged to the appropriate line items. Unallowable costs should not be reimbursed by the District. Costs billed in the wrong line item should not be paid by the District until billed appropriately.

ITS PROJECT STAFF DID NOT INDEPENDENTLY TRACK ACCENTURE INVOICES RECEIVED AND PAID

OTR staff provided the Auditor with a Price and Schedule Performance Report (PSPR) showing Accenture invoices billed and paid. The Auditor found that Accenture prepared the PSPR's, at least quarterly. However, OTR staff did not independently prepare a report on the status of invoices received from Accenture. As such, the District relied heavily on Accenture to maintain and routinely provide invoice information. If the District's relationship with Accenture had discontinued, the District would not have been able to easily access information for auditing or verification purposes.

Moreover, OTR staff also did not adequately track actual contract expenditures against the budget. As previously stated, the contract had multiple CLINs designed to provide for efficient contract management. A ceiling amount was established for each CLIN to enhance budgetary control for the contract. The Auditor found that OCFO staff did not establish a separate budget for each CLIN in the System of Accounting and Reporting (SOAR) but recorded the total contract amount. Without the ability to monitor the budget at the detailed CLIN level, it was possible for OTR staff to overspend one CLIN and subsequently reduce spending under another CLIN to compensate for shortages. This budget monitoring process did not provide the necessary means for holding OTR staff accountable for expenditures for specific CLINs.

RECOMMENDATIONS

1. For future contracts, OCFO staff should establish an automated invoice tracking system that captures: the Invoice Number, Invoice Date, Invoice Amount, CLIN, Date Invoice Was Received From Contractor, Date Approved/Rejected by COTR, Reasons for Rejection, Date Forwarded to Accounts Payable for Payment, Purchase Order Number, Date Paid, Amount Paid, and Amount Outstanding. OCFO officials should use this tracking system to monitor the timeliness of invoice processing.

2. Using the automated tracking system, OCFO staff should generate monthly contract-to-date reports that show the payment status of all contractor invoices received. The COTR, Contract Liaison Officer, and the Contract Administrator should review, reconcile, and certify the monthly report.

3. For contracts of this size and complexity, OCFO staff should enter all budget information into SOAR by CLIN to more effectively track CLIN budgets and actual CLIN expenditures.

4. OCFO managers should designate Budget Staff to closely monitor spending at the CLIN level to allow timely identification of potential areas of overspending.

OTR STAFF MADE DELINQUENT PAYMENTS TO ACCENTURE IN VIOLATION OF THE CONTRACT AND THE PROVISIONS OF THE DISTRICT'S QUICK PAYMENT ACT

The contract stipulated that the District was to pay Accenture no later than 30 calendar days after the submission of a certified and approved invoice.[38] Of the 296 invoices examined by the Auditor, 107, or 36.1% were paid late in violation of the District's Quick Payment Act.[39] The Auditor determined that $593,021 in interest penalties were due to Accenture for the 107 late payments. Appendix V presents the invoices that were paid late and the associated interest penalty calculations.

In April 2003, Accenture requested that the District pay $448,832 for interest penalties relating to late payments and $2,985,867 for invoices that were outstanding as of March 31, 2003. These invoices were outstanding an average of 197 days. In July 2003, Accenture, agreed to waive the

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[38] *See* contract number DCFRA #99-C-004, Submission of Invoices, page B-13.

[39] *See* D. C. Code Section 2-221.02(a)(2)(A)(ii).

requested interest penalties and provide, at no additional costs to the District, $120,000 worth of Taxpayer Service Center support services if the outstanding invoices totaling $2,985,867 were paid.

If the contractor, in fact, waived interest for specific outstanding invoices, the waiver would only apply to those invoices. If Accenture agreed to waive interest on all delinquent invoices, the Contracting Officer should have formally modified the contract to reflect this change. OTR officials did not provide the Auditor with a contract modification that reflected a waiver of interest penalties.

RECOMMENDATIONS

1. OTR and OCFO personnel should use an automated invoice tracking process to ensure timely payment of invoices received from contractors.

2. If, under any future contract, an agreement is reached between the contractor and the District regarding a waiver of interest penalties, the Contracting Officer should modify the contract in a timely manner.

3. OCFO staff should record a liability to the contractor for interest accrued on delinquently paid invoices, that also excludes interest for which the contractor has agreed to waive payment.

THE AUTHORITY AND ACCOUNTABLE OCFO OFFICIALS DID NOT ESTABLISH AND IMPLEMENT EFFECTIVE SUBCONTRACTOR MONITORING POLICIES AND PROCEDURES

The Auditor found that the Authority and accountable OCFO staff failed to establish and adhere to internal control policies and procedures governing the monitoring of subcontractor activities and expenses. As a consequence, there was a high degree of risk as to whether: contract funds were being expended for valid and allowable subcontractor costs; Accenture was adequately monitoring subcontractors and timely reporting potential problems to the District; Accenture and subcontractors acted in good faith under the contract; and senior management adequately supervised the Project Manager/COTR on matters relating to subcontractors. As a result of OTR's poor internal control environment, Accenture was able to award subcontracts, monitor subcontracts, and approve subcontractor expenses with little, if any, oversight or monitoring by accountable OCFO management officials. Thus, OCFO officials failed to ensure the appropriate use of contract funds and District resources.

The Project Manager/COTR and Other Accountable OCFO Staff Did Not Independently Monitor Subcontractor Costs and Relied on the Prime Contractor to Track These Expenses

Accenture was to manage subcontractor relationships[40] and certify subcontractor expenses before presenting them to the District for payment.[41] The project team, consisting of both OTR staff and Accenture personnel, was to monitor the activities and performance of subcontractors to ensure conformance with the project's requirements.

Based upon the information made available for review,[42] the Auditor found that the OCFO relied solely on Accenture to manage subcontractor relationships and review subcontractor expenses. Although invoices containing subcontractor expenses included Accenture's certification, and in most instances, the subcontractor's timesheets supporting labor charges, OTR staff did not perform periodic, independent reviews, analyses, or verifications of the subcontractors' expenses.

RECOMMENDATIONS

1. The COTR should request the same level of detail to support subcontractor expenses as is expected of the prime contractor.

2. The COTR should discontinue the practice of relying solely on a contractor to review and monitor subcontractor expenses. Project Office staff should review subcontractor expenses for reasonableness, proper supporting documentation and compliance with the contract. Questionable expenses should be discussed with the COTR, who in turn should inform the Contracting Officer and the prime contractor of the issue.

3. Project Office staff should develop a series of worksheets to track the costs incurred by each subcontractor. The COTR or designated staff should periodically compare and reconcile these worksheets to the information maintained by the prime contractor.

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[40]Accenture was to: (a) negotiate and monitor subcontracts in accordance with the approved Subcontracting Plan and corresponding contract provisions; and (b) provide a semi-annual Subcontractor Small Business and Minority Business Report that defined the total contract obligation that was to be disbursed in each category and a comparison of the disbursement to the Subcontractor Plan requirements identified in the contract.

[41]*See* contract number DCFRA #99-C-004, Submission of Invoices, page B-13.

[42]OTR did not provide the Auditor with (a) copies of subcontractor agreements; and (b)information on the process used to compile, review, and monitor subcontractor costs.

OTR Officials Could Not Provide Evidence That Accenture Complied With Federal Acquisition Regulations (FAR) on Subcontracting

The contract allowed Accenture to subcontract with other firms as needed to fulfill the contract's requirements.[43] Consistent with Accenture's Subcontractor Designation Report, dated July 3, 2002, Accenture was to subcontract $11,451,970 of the work under the contract as follows:

(1) $5,464,941 was to be awarded to small business enterprises;

(2) $1,161,992 was to be awarded to local, small, disadvantaged business enterprises; and

(3) $4,825,037 was to be awarded to large business concerns.

By the end of November 2003, the District had paid approximately $11.3 million to Accenture's subcontractors.

The contract's requirements included several important Federal Acquisition Regulation provisions pertaining to subcontracting that were incorporated by reference.[44] The Auditor requested documentation to determine whether the Authority, OCFO, or Accenture personnel, as appropriate, complied with FAR 52.219-14, Limitations on Subcontracting; FAR 52.222-28, Equal Opportunity Pre-Award Clearance of Subcontracts; and FAR 52.244-5, Competition in Subcontracting. The Auditor noted that accountable OTR staff could not provide the Auditor with evidence that the Authority, OCFO, or Accenture personnel had complied with the FAR cited above.

RECOMMENDATIONS

1. For future contracts that contain subcontracting provisions, OCFO contracting officials should require the prime contractor to submit all necessary documentation of compliance with the provisions of FAR pertaining to Subcontracting.

2. OCFO contracting officials, also by specific contract provisions, should ensure that documentation relating to subcontractors is retained for at least three years after final payment is made under the contract or consistent with the specific records retention provisions of the contract.

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[43] *See* District of Columbia Financial Responsibility and Management Assistance Authority Request for Proposals for the Integrated Tax System, dated February 5, 1997. *See also* contract number DCFRA #99-C-004, Submission of Invoices, paragraph (a), page B-13. *See also* contract number DCFRA #99-C-004, Section I-1, Clauses Incorporated by Reference, page I-1.

[44] *See* contract number DCFRA #99-C-004, Section I-1, Clauses Incorporated by Reference, page I-1.

CONCLUSION

The Auditor's examination of contract costs and administration for the Integrated Tax System revealed significant weaknesses in internal controls and numerous deficiencies in contract management. These conditions resulted in inadequate and inefficient contract monitoring and presented opportunities for abuse and improper or questionable use of contract funds.

The Auditor found that inappropriate segregation of duties resulted in an ineffective system of accountability in the administration of the contract. Specifically, the ITS Project Manager, an Office of Tax and Revenue (OTR) employee, also served as the contract's Contracting Officer's Technical Representative (COTR). In performing these conflicting duties, this one individual handled the technical aspects of the contract while managing, on a daily basis, the progress of the ITS project. Because this individual controlled many of the activities pertaining to the contract with limited, if any, supervisory review, contract funds were vulnerable to mismanagement, abuse, or improprieties.

Moreover, the Auditor found that as a consequence of inadequate ITS project planning, the scope of required work expanded and the associated costs increased significantly under the contract. The Auditor noted that the amount of the contract awarded by the Authority was significantly less than an independent pricing estimate provided by IBM. As a result, as the project progressed, contract administrators made costly adjustments and modifications to the contract. For example, Office of the Chief Financial Officer (OCFO) officials added components to the contract costing more than $8.1 million and spent approximately $8 million more for hardware and software than originally anticipated.

The Auditor also noted that the contract labor rates were high and increased annually at an excessive escalation rate of 7%. Furthermore, because Accenture personnel could be reimbursed for other non-labor expenses, the actual rates paid by the District for certain contractor staff exceeded the rates stipulated in the contract. The District reimbursed Accenture between $206,013 and $717,705 annually for labor and other costs for some of its employees.

The Auditor further found that due to vague and unclear contract language, and inadequate contract administration, the District reimbursed Accenture at least $1.8 million for questionable expenses that were billed under the contract. Specifically, the District reimbursed Accenture for: (a) temporary relocation assistance, $634,756; (b) apartment rentals, $615,395; (c) furniture rentals and other costs related to furniture rentals, $7,206; (d) car rental fees, $63,300; (e) travel, $289,130; (f) per diem payments, $113,275; and (g) supplies, $30,280. Accenture purchased supplies needed for the ITS project, on behalf of the District; however, Accenture was charged sales tax on the purchases made. Accenture subsequently billed the District for the cost of the supply items, including the sales tax incurred.

Moreover, the Auditor noted that Accenture billed the District for expenditures that were unrelated to the contract or the ITS project, and in some instances, classified in an inappropriate expense category. Specifically, the Auditor found the following unrelated or inappropriate expense items: (a) $187,171 relating to an eProcurement Pilot System for the OCFO's Mission Support Office; (b) $9,676 associated with an OTR Managers Retreat; and (c) $4,650 for a CFO Meeting Retreat. The Auditor also found $3,592.37 in furniture items, purchased for another location other than OTR, that were billed as supplies for the ITS project.

The Auditor identified several instances of noncompliance with the contract and other applicable legislation. OCFO staff did not pay Accenture in a timely manner in violation of the contract and the District's Quick Payment Act, resulting in potential interest penalty payments of $395,347.11. Furthermore, contract administrators did not adequately monitor subcontractor activities and expenses. Consequently, OTR staff were unable to substantiate that Accenture complied with the contract's subcontracting provisions and relevant Federal Acquisition Regulations incorporated by reference in the contract.

Respectfully submitted,

Deborah K. Nichols

Deborah K. Nichols
District of Columbia Auditor

APPENDICES

APPENDIX I

ITS Contract DCFRA # 99-C-004
Accenture U. S. Temporary Relocation Agreements

Contractor Staff	Title/Classification	Effective Date of Relocation	Maximum Annual Payment *(Per Relocation Agreement)*
John C. Stauffer	Program Manager	01/01/99	$47,000
John C. Stauffer	Program Manager	01/15/01	$47,000
John C. Stauffer	Program Manager	01/15/02	$47,000
John C. Stauffer	Program Manager	01/15/03	$47,000
Total John C. Stauffer			**$188,000**
Jeffrey Sherow	Technical Architect	06/16/99	$41,000 Increased to $47,000 (effective 09/01/99)
Total Jeffrey Sherow			**$45,750[1]**
Tara L. Kline	Process Consultant/ Software Engineer	04/30/00	$23,000
Tara L. Kline	Process Consultant/Software Engineer	04/30/01	$23,000
Tara L. Kline	Process Consultant/Software Engineer	03/15/02	$27,000
Total Tara Kline			**$73,000**
Justin R. Whitehead	Process Consultant/Software Engineer	07/16/00	$23,000
Total Justin Whitehead			**$23,000**

[1]Calculated on a pro rata basis.

APPENDIX I

Contractor Staff	Title/Classification	Effective Date of Relocation	Maximum Annual Payment *(Per Relocation Agreement)*
George A. Love, III	Team Leader	11/15/00	$37,000
George A. Love, III	Team Leader	11/15/01	$37,000
Total George Love, III			**$74,000**
Guy Kirtley	Team Leader	11/15/00	$41,000
Guy Kirtley	Team Leader	11/15/01	$41,000
Total Guy Kirtley			**$82,000**
Richard E. Finley	Team Leader	01/15/00	$41,000
Richard E. Finley	Team Leader	02/15/01	$41,000
Richard E. Finley	Team Leader	02/15/02	$41,000
Richard E. Finley	Team Leader	01/15/03	$41,000
Total Richard Finley			**$164,000**
Jose L. Mercado	Process Consultant/ Software Engineer	11/30/00	$33,000
Jose L. Mercado	Process Consultant/Software Engineer	01/15/02	$33,000
Jose L. Mercado	Process Consultant/Software Engineer	01/15/03	$34,573
Total Jose Mercado			**$100,573**
Loc X. Nguyen	Technical Architect	12/15/00	$37,000
Loc X. Nguyen	Technical Architect	09/15/01	$43,000
Loc X. Nguyen	Technical Architect	02/15/02	$47,000
Total Loc Nguyen			**$127,000**

APPENDIX I

Contractor Staff	Title/Classification	Effective Date of Relocation	Maximum Annual Payment *(Per Relocation Agreement)*
Hilary Nguyen	Senior Analyst	10/15/01	$23,000
Total Hilary Nguyen			**$23,000**
Shannon N. Johnson	Analyst/Programmer	07/15/01	$23,000
Shannon N. Johnson	Analyst/Programmer	01/15/02	$23,000
Shannon N. Johnson	Analyst/Programmer	01/15/03	$23,000
Total Shannon Johnson			**$69,000**
		TOTAL	**$969,323**

Source: Information compiled from the paid Contractor invoice files at the Office of Tax and Revenue. Amount for J. Sherow's 6/16/99 agreement of $45,750 was calculated on a pro rata basis based on effective date of the increase.

APPENDIX II

ITS Contract DCFRA # 99-C-004
Apartments/Temporary Residential Facilities

Property	Property Address	Daily Rate	Average Monthly Rate	Potential Average Annual Rental Amount
The Lexington at Market Square	400 8th Street, NW Washington, D. C. 20004	$105.87	$3,282	$39,384
Parc Vista	Arlington, Virginia	$106.65	$3,306	$39,672
Village at Potomac Falls	2507 Farmcrest Drive Herndon, Virginia 20171	$92.00	$2,760	$33,120
Village at McNair Farms	2511 Farmcrest Drive Herndon, Virginia 20171	$97.00	$3,000	$36,000
The Landsburgh	420 7th Street, NW Washington, D. C. 20004	$108.45	$3,362	$40,344
Summit Reston	11709 Olde English Drive Reston, Virginia 20190	$90.00	$2,790	$33,480
Wynne Residential Suites	1794 Jonathan's Way Reston, Virginia	approx. $94.00	$2,915	$34,980
Westbrooke Place Apartments	2201 N Street, NW Washington, D. C. 20037	approx. $78.00	$2,428	$29,136

Source: Lease agreements provided by the Contractor and leasing companies and compiled data using apartment rental receipts found in OTR's Contractor invoice files.

APPENDIX III

DELINQUENT PAYMENTS AND INTEREST PENALTY CALCULATION

Item #	Year	Invoice #	Invoice Date	Invoice Amount	Voucher #	Date Processed	Amount Processed	Date Payment Due	# of Days Delinquent		Percentage of 30 Days	Interest Factor	Interest Due
1	1999	0215345400	01/14/99	$ 124,973.70	V9001530	03/02/99	$ 124,973.70	02/14/99	16	30	53.3%	1.0%	666.53
2		0215346864	07/20/99	571,109.60	V9005119	08/24/99	571,109.60	08/20/99	4	30	13.3%	1.0%	761.48
3		0215346783	07/14/99	379,633.67	V9005121	08/24/99	379,633.67	08/14/99	10	30	33.3%	1.0%	1,265.45
4		0215346866	07/20/99	185,392.31	V9005120	08/24/99	185,392.31	08/20/99	4	30	13.3%	1.0%	247.19
5		0215346863	07/20/99	1,750,000.00	V9005123	08/24/99	1,750,000.00	08/20/99	4	30	13.3%	1.0%	2,333.33
6		0215346864	07/20/99	384,889.84	V9005118	08/24/99	384,889.84	08/20/99	4	30	13.3%	1.0%	513.19
7		0215346864	07/20/99	154,000.00	V9005117	08/24/99	154,000.00	08/20/99	4	30	13.3%	1.0%	205.33
8		0215346975	08/11/99	264,063.90	V9005750	09/23/99	264,063.90	09/11/99	12	30	40.0%	1.0%	1,056.26
9		0215346977	08/18/99	227,525.24	V9005752	09/23/99	227,525.24	09/18/99	5	30	16.7%	1.0%	379.21
10		0215346981	08/11/99	612,607.11	V9005749	09/23/99	612,607.11	09/11/99	12	30	40.0%	1.0%	2,450.43
			Subtotal	**4,654,195.37**			**4,654,195.37**						**9,878.39**
11	2000	0215347895	12/08/99	517,153.40	V0002476	01/18/00	517,153.40	01/08/00	10	30	33.3%	1.0%	1,723.84
12		0215347897	12/08/99	159,600.00	V0002477	01/18/00	159,600.00	01/08/00	10	30	33.3%	1.0%	532.00
13		0215348144	01/12/00	230,811.84	V0003189	02/15/00	230,811.84	02/12/00	3	30	10.0%	1.0%	230.81
14		0215348149	01/12/00	247,000.00	V0003182	02/15/00	247,000.00	02/12/00	3	30	10.0%	1.0%	247.00
15		0215348151	01/12/00	190,000.00	V0003187	02/15/00	190,000.00	02/12/00	3	30	10.0%	1.0%	190.00
16		0215348153	01/12/00	334,000.00	V0003181	02/15/00	334,000.00	02/12/00	3	30	10.0%	1.0%	334.00
17		0215348147	01/12/00	215,453.42	V0003192	02/15/00	215,453.42	02/12/00	3	30	10.0%	1.0%	215.45
18		0215348469	02/09/00	243,052.64	V0003746	03/13/00	243,052.64	03/09/00	4	30	13.3%	1.0%	324.07
19		0215348470	02/09/00	150,988.57	V0003743	03/13/00	150,988.57	03/09/00	4	30	13.3%	1.0%	201.32
20		0215348474	02/09/00	454,750.66	V0003740	03/13/00	454,750.66	03/09/00	4	30	13.3%	1.0%	606.33
21		0215348478	02/09/00	224,696.39	V0003741	03/13/00	224,696.39	03/09/00	4	30	13.3%	1.0%	299.60
22		0215348725	03/08/00	774,250.00	V0004283	04/11/00	774,250.00	04/08/00	3	30	10.0%	1.0%	774.25
23		0215349026	04/07/00	366,256.72	V0005119	05/17/00	366,256.72	05/07/00	10	30	33.3%	1.0%	1,220.86
24		0215349029	04/04/00	722,000.00	V0005117	05/15/00	722,000.00	05/04/00	11	30	36.7%	1.0%	2,647.33
25		0215349031	04/07/00	491,355.20	V0005116	05/18/00	491,355.20	05/07/00	11	30	36.7%	1.0%	1,801.64
26		0215349028	04/07/00	251,828.73	V0005118	05/15/00	251,828.73	05/07/00	8	30	26.7%	1.0%	671.54
27		0215349032	04/11/00	542,335.88		05/15/00	542,335.88	05/11/00	4	30	13.3%	1.0%	723.11
28		0215349270	05/05/00	281,384.32	V0005679	06/06/00	281,384.32	06/05/00	1	30	3.3%	1.0%	93.79
29		0215349279	05/05/00	819,238.08	V0005678	06/06/00	819,238.08	06/05/00	1	30	3.3%	1.0%	273.08
30		0215349272	05/05/00	603,250.00	V0005675	06/06/00	603,250.00	06/05/00	1	30	3.3%	1.0%	201.08
31		0215349278	05/05/00	180,853.19	V0005676	06/06/00	180,853.19	06/05/00	1	30	3.3%	1.0%	60.28
32		0215349036	04/07/00	185,814.13	V0005114	05/19/00	185,814.13	05/07/00	12	30	40.0%	1.0%	743.26
			Subtotal	**8,186,073.17**			**8,186,073.17**						**14,114.66**
49													-
	2001	0215351066	12/08/00	237,500.00	V1002627	01/24/01	237,500.00	01/08/01	16	30	53.3%	1.0%	1,266.67
34		0215351071	12/08/00	1,414,504.40	V1002630	01/24/01	1,414,504.40	01/08/01	16	30	53.3%	1.0%	7,544.02
35		0215351073	12/08/00	176,053.28	V1002631	01/24/01	176,053.28	01/08/01	16	30	53.3%	1.0%	938.95
36		0215351077	12/08/00	298,300.00	V1002635	01/24/01	298,300.00	01/08/01	16	30	53.3%	1.0%	1,590.93
37		0215351666	02/12/01	1,186,330.49	V1003603	03/15/01	1,186,330.49	03/12/01	3	30	10.0%	1.0%	1,186.33
38		0215351670	02/12/01	181,167.60	V1003605	03/15/01	181,167.60	03/12/01	3	30	10.0%	1.0%	181.17

DELINQUENT PAYMENTS AND INTEREST PENALTY CALCULATION

Item #	Year	Invoice #	Invoice Date	Invoice Amount	Voucher #	Date Processed	Amount Processed	Date Payment Due	# of Days Delinquent		Percentage of 30 Days	Interest Factor	Interest Due
39		0215351673	02/12/01	845,173.55	V1003607	03/15/01	845,173.55	03/12/01	3	30	10.0%	1.0%	845.17
40		0215351677	02/12/01	187,806.75	V1003610	03/15/01	187,806.75	03/12/01	3	30	10.0%	1.0%	187.81
41		0215351953	03/07/01	581,102.12	V1005423	07/03/01	581,102.12	04/07/01	87	30	290.0%	1.0%	16,851.96
42		0215352751	06/05/01	642,832.49	V1006808	09/19/01	642,832.49	07/05/01	76	30	253.3%	1.0%	16,285.09
43		0215352237	04/12/01	177,375.72	V1004739	05/22/01	177,375.72	05/12/01	10	30	33.3%	1.0%	591.25
44		0215352750	05/16/01	288,346.96	V1005429	07/03/01	288,343.96	06/16/01	17	30	56.7%	1.0%	1,633.97
45		0215352538	05/04/01	532,000.00	V1005424	07/03/01	532,000.00	06/04/01	29	30	96.7%	1.0%	5,142.67
46		0215352535	05/16/01	338,475.37	V1005427	07/03/01	338,475.37	06/16/01	17	30	56.7%	1.0%	1,918.03
47		0215352540	06/05/01	546,050.45	V1006809	09/19/01	546,050.45	07/05/01	76	30	253.3%	1.0%	13,833.28
48		0215352895	06/08/01	979,139.24	V1005825	07/20/01	979,139.24	07/08/01	12	30	40.0%	1.0%	3,916.56
49		0215352896	06/08/01	254,195.51	V1005823	07/20/01	254,195.51	07/08/01	12	30	40.0%	1.0%	1,016.78
50		0215352899	06/08/01	199,500.00	V1005822	07/20/01	199,500.00	07/08/01	12	30	40.0%	1.0%	798.00
51		0215352907	06/08/01	552,852.91	V1006532	09/04/01	552,852.91	07/08/01	58	30	193.3%	1.0%	10,688.49
52		0215352911	06/08/01	189,683.72	V1005833	07/20/01	189,683.72	07/08/01	12	30	40.0%	1.0%	758.73
53		0215351966	06/08/01	630,171.10	V1005826	07/20/01	630,171.10	07/08/01	12	30	40.0%	1.0%	2,520.68
54		0215352915	06/08/01	201,577.02	V1005830	07/20/01	201,577.02	07/08/01	12	30	40.0%	1.0%	806.31
55		0215352918	06/08/01	408,113.35	V1005827	07/20/01	408,113.35	07/08/01	12	30	40.0%	1.0%	1,632.45
56		0215353264	07/13/01	285,000.00	V2000026	10/01/01	285,000.00	08/13/01	49	30	163.3%	1.0%	4,655.00
57		0215353262	07/13/01	152,620.41	V2000025	10/01/01	152,620.41	08/13/01	49	30	163.3%	1.0%	2,492.80
58		0215353261	07/13/01	297,123.86	V2240531	11/30/01	297,123.86	08/13/01	109	30	363.3%	1.0%	10,795.50
59		0215353278	07/13/01	150,000.00	V2000031	10/01/01	150,000.00	08/13/01	49	30	163.3%	1.0%	2,450.00
60		0215353277	07/13/01	439,000.00	V2240528	11/30/01	439,000.00	08/13/01	109	30	363.3%	1.0%	15,950.33
61		0215353276	07/13/01	236,993.62	V2000030	10/01/01	236,993.62	08/13/01	49	30	163.3%	1.0%	3,870.90
62		0215353270	07/13/01	174,393.56	V2000028	10/01/01	174,393.56	08/13/01	49	30	163.3%	1.0%	2,848.43
63		0215353266	07/13/01	506,164.00	V2240530	11/30/01	506,164.00	08/13/01	109	30	363.3%	1.0%	18,390.63
64		0215353691	08/08/01	167,294.53	V2240540	12/03/01	167,294.53	09/08/01	86	30	286.7%	1.0%	4,795.78
65		0215353698	08/08/01	587,000.00	V2240545	12/03/01	587,000.00	09/08/01	86	30	286.7%	1.0%	16,827.33
66		0215353697	08/08/01	304,832.52	V2246544	12/03/01	304,832.52	09/08/01	86	30	286.7%	1.0%	8,738.53
67		0215353989	09/13/01	195,997.68		12/03/01	195,997.68	10/13/01	51	30	170.0%	1.0%	3,331.96
			Subtotal	**14,544,672.21**			**14,544,669.21**						**187,282.49**
68	**2002**	0215354797	11/20/01	573,340.55	V2241400	02/11/02	573,340.55	12/20/01	53	30	176.7%	1.0%	10,129.02
69		0215354793	03/13/02	222,313.39	V2241702	03/13/02	222,313.39	04/13/01	334	30	1113.3%	1.0%	24,750.89
70		0215354792	11/09/01	214,263.40	V2241397	02/11/02	214,263.40	12/09/01	64	30	213.3%	1.0%	4,570.95
71		0215354811	11/09/01	253,086.65	V2241370	02/07/02	253,086.65	12/09/01	60	30	200.0%	1.0%	5,061.73
72		0215357227	06/11/02	540,000.00	V2243738	08/29/02	540,000.00	07/11/02	49	30	163.3%	1.0%	8,820.00
73		0215354412	01/31/02	214,708.59	V2241701	03/13/02	214,708.59	03/02/02	11	30	36.7%	1.0%	787.26
74		0215354809	11/09/01	410,000.00	V2241367	02/07/02	410,000.00	12/09/01	60	30	200.0%	1.0%	8,200.00
75		0215354808	12/12/01	382,469.62	V2241401	02/11/02	382,469.62	01/12/02	30	30	100.0%	1.0%	3,824.70
76		0215359391	12/05/01	498,487.92	V3241215	02/07/03	463,098.46	01/05/02	33	30	110.0%	1.0%	5,483.37
77		0215354807	12/10/01	278,716.62	V2241387	02/11/02	278,716.62	01/10/02	32	30	106.7%	1.0%	2,972.98
78		0215355087	12/10/01	241,402.75	V2241360	02/07/02	241,402.75	01/10/02	28	30	93.3%	1.0%	2,253.09

DELINQUENT PAYMENTS AND INTEREST PENALTY CALCULATION

Item #	Year	Invoice #	Invoice Date	Invoice Amount	Voucher #	Date Processed	Amount Processed	Date Payment Due	# of Days Delinquent		Percentage of 30 Days	Interest Factor	Interest Due
79		0215355088	12/10/01	327,766.81	V2241161	01/25/02	327,766.81	01/10/02	15	30	50.0%	1.0%	1,638.83
80		0215355091	12/10/01	579,500.00	V2241164	01/25/02	579,500.00	01/10/02	15	30	50.0%	1.0%	2,897.50
81		0215355381	01/31/02	217,963.92	V2241703	03/13/02	217,963.32	03/02/02	11	30	36.7%	1.0%	799.20
82		0215355393	01/10/02	204,250.00	V2241682	03/11/02	204,250.00	02/10/02	29	30	96.7%	1.0%	1,974.42
83		0215355389	01/30/02	676,302.02	V2241629	03/07/02	676,302.02	03/02/02	5	30	16.7%	1.0%	1,127.17
84		0215355697	02/08/02	527,250.00	V3240462	10/30/02	527,250.00	03/08/02	236	30	786.7%	1.0%	41,477.00
85		0215355693	02/08/02	894,065.64	V3240518	11/04/02	537,989.26	03/08/02	210	30	700.0%	1.0%	62,584.59
86		0215355977	03/08/02	649,915.86	V2242674	12/12/02	649,915.86	04/08/02	248	30	826.7%	1.0%	53,726.38
87		0215356385	04/10/02	215,000.00	V2243736	08/29/02	215,000.00	05/10/02	111	30	370.0%	1.0%	7,955.00
88		0215356383	04/10/02	802,628.61	V3240514	11/14/02	444,352.18	05/10/02	188	30	626.7%	1.0%	50,298.06
89		0215356377	04/10/02	378,976.88	V3241609	03/19/03	171,497.60	05/10/02	313	30	1043.3%	1.0%	39,539.92
90		0215356842	05/10/02	811,500.00	V3240469	11/01/02	811,500.00	06/10/02	144	30	480.0%	1.0%	38,952.00
91		0215356837	05/10/02	909,333.93	V3240503	11/14/02	450,841.48	06/10/02	157	30	523.3%	1.0%	47,588.48
92		0215356832	05/10/02	286,269.48	V3241717	04/01/03	114,164.09	06/10/02	295	30	983.3%	1.0%	28,149.83
93		0215357730	09/05/02	350,000.00	V3240473	11/01/02	350,000.00	10/05/02	27	30	90.0%	1.0%	3,150.00
94		0215357229	06/11/02	201,500.00	V3240510	11/14/02	201,500.00	07/11/02	126	30	420.0%	1.0%	8,463.00
95		0215357228	06/11/02	474,000.00	V3240470	11/01/02	474,000.00	07/11/02	113	30	376.7%	1.0%	17,854.00
96		0215357225	06/11/02	615,697.34	V3240511	11/14/02	321,635.26	07/11/02	126	30	420.0%	1.0%	25,859.29
97		0215357497	07/03/02	477,492.67	V3240509	11/14/02	477,492.67	08/03/02	103	30	343.3%	1.0%	16,393.92
98		0215358630	10/07/02	425,840.97	V3240506	11/14/02	183,131.42	11/07/02	7	30	23.3%	1.0%	993.63
99		0215355380	01/10/02	209,799.00	V2241673	03/11/02	209,799.00	02/10/02	29	30	96.7%	1.0%	2,028.06
100		0215353271	02/01/02	213,750.00	V2241672	03/11/02	213,750.00	03/01/02	10	30	33.3%	1.0%	712.50
101		0215354416	12/12/01	403,559.30	V2241363	02/07/02	403,559.30	01/12/02	26	30	86.7%	1.0%	3,497.51
			Subtotal	**14,681,151.92**			**12,556,560.30**						**534,514.28**
102	**2003**	0215370892	05/05/03	384,973.00	V3242638	06/18/03	384,973.00	06/05/03	13	30	43.3%	1.0%	1,668.22
			Subtotal	**384,973.00**			**384,973.00**						**1,668.22**
										30	0.0%		
103	**2004**	0215376305	05/10/04	59,388.85	V0035165	06/29/04	59,388.85	06/10/04	19	30	63.3%	1.0%	376.13
104		0215376311	05/10/04	70,230.07	V0035167	06/29/04	70,230.07	06/10/04	19	30	63.3%	1.0%	444.79
105		0215376312	05/10/04	41,667.00	V0035170	06/29/04	41,667.00	06/10/04	19	30	63.3%	1.0%	263.89
106		0215374739	02/02/04	220,383.46	V4241352	03/09/04	220,383.46	03/02/04	7	30	23.3%	1.0%	514.23
107		0215375865	04/09/04	221,749.64	V4241831	05/18/04	221,749.64	05/09/04	9	30	30.0%	1.0%	665.25
			Subtotal	**613,419.02**			**613,419.02**						**2,264.29**
			TOTAL	$ 43,064,484.69			$ 40,939,890.07						$749,722.32

AGENCY COMMENTS

AGENCY COMMENTS

On May 17, 2006, the District of Columbia Auditor (Auditor) submitted this report in draft for review and comment to the Office of the Chief Financial Officer and the Office of Tax and Revenue. On June 2, 2006 a written response was received from the Deputy Chief Financial Officer and the Office of Tax and Revenue that included an attached response from Accenture. The written response, however, did not appropriately address the recommendations set forth in the report.

On November 9, 2007, the Auditor submitted the report again in draft for further review and comment to the Chief Financial Officer. The Auditor specifically requested the submission of comments addressing the recommendations contained in the report. On November 23, 2007 a written response was received from the Chief Financial Officer supplementing the June 2, 2006 response received from the Deputy Chief Financial Officer, Office of Tax and Revenue.

As appropriate, the Auditor made revisions to the final report based on all comments. Both the June 2, 2006 and November 23, 2007 written comments received by the Auditor are attached in their entirety.

Government of the District of Columbia
Office of the Chief Financial Officer

Natwar M. Gandhi
Chief Financial Officer

Delivered by: E-mail

November 23, 2007

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

Dear Ms. Nichols:

I am pleased to respond to the recommendations in the DC Auditor's draft report entitled "Auditor's Examination of Contract Cost and Administration for the Integrated Tax System." This supplements our June 2, 2006 response to the findings in the draft audit.

Recommendation: (pg 10)

For future contracts of this magnitude, OCFO officials ensure that adequate separation of duties is in place that includes a Contracting Officer to negotiate the contract and manage the business relationship with the contractor; a COTR to administer the technical aspects of the contract for the Contracting Officer; and a Project Manager to manager the day-to-day progress of the project.

Response:

The OCFO concurs with this recommendation. As it relates to future large scale procurements, the OCFO Office of Contracts is currently working with the Office of Tax and Revenue (OTR) and the Chief Information Officer (CIO) to develop a statement of work for the engagement of an outside firm to serve as the Contracting Officer's Technical Representative (COTR). Initially, this firm would work with OTR to develop the requirements for the replacement Integrated Tax System (ITS) maintenance and support services contract. Secondly, this firm would serve as the COTR and manage all deliverables, invoices and payments for the replacement contract. Lastly, the outside COTR would ensure that the vendor's performance is consistent with the expectations and requirements delineated in the contract.

Recommendation: (pg 11)

1. OCFO personnel use as a guide the consultant's recommendations to gauge the reasonableness of prices proposed by offering firms.

2. If OCFO officials determine that an independent pricing estimate is unrealistic, OCFO personnel clearly document in the solicitation file the reasons for making that determination.

Response:

The OCFO concurs with recommendations 1 and 2. We believe that these recommendations are consistent with best practices in public procurement. For future large-scale procurements, the OCFO Office of Contracts will continue to utilize the subject matter expertise, knowledge and experience of any consultants engaged for the development of independent price estimates. Moreover, these consultants will be utilized to determine the adequacy and reasonableness of all submitted price proposals. Lastly, it is our goal to expand the number of offerors to large scale procurements as well. One of the principal issues in this previous procurement was the dearth of offerors, which greatly compromised the negotiating position of the District of Columbia.

Recommendation: (pg 15)

1. OTR officials hold routine (at least bi-weekly) contract review meetings. The Contracting Officer, COTR, Contract Liaison Officer, Budget Officer an Accountant, Contractor representatives, and designated OTR Information Systems Administration staff should attend these meetings. Contractor performance and necessary contract revisions should be reviewed, identified, and made during these routine contract meetings in a timely manner, as needed.

2. OTR officials consider establishing an on-going advisory team consisting of consultants who are leaders in the field of Information Technology and District employees (e.g. the District's Chief Technology Officer, the OCFO's Chief Information Officer, and the District's Chief Procurement Officer) to advise OTR officials on possible contract changes needed to keep the project in pace with current technology. In addition, the advisory team could assist OTR officials in obtaining services at the most economical price.

Response:

1. The OCFO concurs with the notion that periodic review meetings should be held to review critical, large scale procurements. The frequency of these meetings, attendees, and participants will be determined by the evolving nature and needs of each particular project. Currently, the ISA Director convenes bi-weekly meetings with management stakeholders to assess the state of the project to meet their needs and to prioritize future work. In addition, the current COTR, the Director of Information Systems Administration (ISA) meets with the Office of Contracts at least once a week to discuss the current ITS Maintenance contract and any needed contract modifications, challenges, contract expenditures and any other contract administration related items.

2. This recommendation will be taken under advisement and given strong consideration. While a formal advisory team is not currently in place, the current COTR (ISA Director) works with the OCFO CIO, who, in turn works closely with the CTO on all technology issues. In addition, the COTR meets regularly with all staff within the OCFO Office of Contracts to address technological, price and contract administration related items.

Recommendation: (pg 20)

1. Prior to awarding a contract of this magnitude, OCFO officials discuss the anticipated project with other District Officials who have engaged in similar projects in the past. Such dialogue is needed to determine the type of contracting methods used, the agreed-upon labor categories used, and the billing rate structure applied under similar contracts and projects.

2. As needed, OCFO officials consult with the General Services Administration (GSA) or the Defense Contract Audit Agency (DCAA) to ensure that the proposed billing rates are reasonable and planned escalation factors are in keeping with standard practices.

3. When negotiating contracts, OCFO officials obtain all information that is necessary to fully understand how the offeror's proposed billing rates were derived. If rates are not based on reasonable methodology and assumptions, are not fully explained, or include costs which the District is not willing to pay, OCFO officials should timely negotiate lower rates. If more favorable rates cannot be negotiated, the District should not award the contract to the offering firm.

4. If the District agrees to initially pay a contractor higher rates because the contractor will assume certain risks by working on a project, District officials and contractor personnel should periodically assess the risks involved and adjust the billing rates accordingly.

Response:

1. Currently, the OCFO's Office of Contracts Director participates in monthly meetings with all District of Columbia Chief Procurement Officers (CPOs). The purpose of this meeting is to discuss shared procurement problems, challenges and solutions. One immediate task currently underway is the development of a shared past performance database, by which all procurement offices within the District can ascertain the successes and/or failures of a particular vendor before deciding to award a contract to said offeror.

2. The OCFO concurs. The OCFO will endeavor to obtain any and all information available to governmental agencies and/or other governmental parties to ascertain billing rates, industry practices, and assignment/allocation of risks, and price negotiations. **(Same for items 3. and 4.)**

3. **See Response to #2 above.**

4. **See Response to #2 above.**

Recommendation: (pg 23)

1. When billing rates are proposed by a contractor, OCFO officials obtain information necessary to fully understand the costs built into the rates and the methodology used to develop the proposed rates. If a planned contract will contain provisions for other types of contractor reimbursements, OCFO officials should fully understand the nature and potential costs of such reimbursement.

2. The Office of Attorney General (OAG) and OCFO officials immediately obtain detailed information on how Accenture's billing rates were derived. OAG and OCFO officials should closely examine Accenture's billing rates and other charges for reimbursable expenses. To the extent that the District was over billed or billed for expenses that were not consistent with the contract, OAG and OCFO should seek full reimbursement from the contractor.

Response:

1. The OCFO concurs. We believe that this recommendation is consistent with sound public procurement practices as it relates to cost and pricing data, which should be disclosed and reviewed prior to awarding any large scale contract. While the federal government has established mandatory disclosure requirements, based on dollar value, the OCFO Office of Contracts has requested this information whenever it has been deemed imperative in determining price reasonableness for a contract, regardless of value.

2. Concur, in part. The OCFO has engaged an outside firm to conduct an Independent Verification and Validation (IV&V) of the ITS Maintenance contract. Once this evaluation and report are finalized, the OCFO will review the findings internally and determine the necessary next steps. While OAG may be involved in subsequent discussions with Accenture, the OCFO reserves the right to utilize in-house counsel, outside counsel and any necessary resource required to seek recompense, where necessary, from Accenture.

Recommendation: (pg 31)

1. Personnel in OAG, in conjunction with OCFO officials, immediately seek full reimbursement from the contractor for all unallowable costs of living allowances or relocation assistance, apartment rental costs, furniture rental and other occupancy-related costs, per diems, and car rental costs paid through contract numbers DCFRA#99-C-004.

2. OCFO officials discontinue the practice of paying for cost of living allowances or relocation assistance, apartment rentals, furniture rental and other occupancy-related costs, per diems, car rental costs, and non-project related travel for the contractor's staff.

3. If the contractor has offices throughout the United States, OCFO officials and the Contracting Officer gain an understanding of the contractor's staffing plan before the contract is awarded. The District should require the contractor to use its locally-based personnel to the maximum extent possible. This will minimize the contractor's claims that temporary housing for staff will be needed.

4. For future contracts, OCFO officials and the Contracting Officer enforce the policy requiring contractor to use District supplied transportation and the local transit system (Metrobus and Metrorail) to the maximum extent possible to minimize costs.

5. In the future, OCFO officials and the Contracting Officer investigate the feasibility of issuing Smart Trip passes to contractor personnel to facilitate use of the public transit system.

6. The OCFO immediately conduct a detailed review of all travel costs charged to the contract. Separate analyses should be completed of airlines and trips; Amtrak fares and trips; cab fares (both within the District and other cities); parking fees; and claims for mileage reimbursement.

7. Personnel in the OA in conjunction with OCFO officials, immediately seek reimbursement for travel costs that were not in compliance with the contract.

8. For future contracts, OCFO staff closely review invoices to ensure that claimed travel expenses are in compliance with the contract.

9. For the future contracts of this magnitude, OCFO officials and the Contracting Officer ensure that the contract clearly defines allowable costs. After the contractor starts performing under the contract, OCFO officials and the Contracting Officer should timely modify the contract to reflect significant changes regarding allowable expenses.

Response:

2, 3, 4, 5, 8, & 9 –The OCFO concurs and has mandated that all travel and/or reimbursement costs are fully disclosed, reasonably incurred and clearly delineated in the contract. It is our belief that these cost items should be rare and infrequent and that the price offered by an offeror should be a fully loaded rate, inclusive of travel and/or other costs for which they might seek reimbursement.

1, 6, & 7 – The OCFO concurs, in part. While the OCFO agrees that some of these incurred expenses may have been denied or deemed unreasonable in hindsight, in order to fully respond to this recommendation, an exhaustive review of all financial records (including invoices, travel receipts, per diem relocation costs, etc) would have to be completed for the 1998 – 2004 timeframe. While such a review may result in the repayment of funds to the District, it is our belief that the benefit to be derived is likely to be outweighed by the level of effort associated with this endeavor. Moreover, we can reasonably anticipate a protracted dispute process with Accenture in order to recoup these funds, particularly in light of the vague contract language and the flexibility afforded the contractor. Lastly, it is important to note that the former COTR denied a number of requests for reimbursement that were deemed unallowable. Further detailed information on these matters is included in the ***OCFO's Letter of Response*** issued in ***June 2006***.

Recommendation: (pg 32)

1. For future contracts, OCFO officials refrain from allowing the contractor to make purchases on the District's behalf. If necessary, the contractor may advise OCFO officials on any needed purchases after reviewing the available alternatives to ensure that supply items are obtained competitively.

2. OCFO officials immediately review contractor invoices to determine the amount of sales taxes billed to the District, OCFO officials should seek full reimbursement from the contractor for all sales tax amounts billed to and paid by the District.

Response:

1. The OCFO concurs. This practice has ended.

2. The OCFO concurs, in part. As stated previously, while we agree that sales taxes should not have been assessed for these purchases, this practice has now been stopped. We will further explore the extent of taxes paid and the feasibility of recovery with Accenture.

Recommendation: (pg 34)

1. OCFO officials thoroughly review all technical instructions that were issued by the COTR to: (a) identify services and items that were requested by the District but unrelated to the ITS contract, and (b) determine the costs of such unrelated services and items, District officials should consider requiring OCFO officials to reduce OTR's operating and/or capital budgets, as appropriate, by the amount of unrelated costs charged to the ITS contract.

2. For future contracts, the COTR thoroughly review the contractor's invoices to ensure that costs are allowable and costs are charged to the appropriate line items under the contract. Unallowable costs should not be reimbursed by the District. Costs billed in the wrong line should not be paid by the District until billed appropriately. If there is a more appropriate line item through which an allowable charge may be billed, OCFO officials should the contractor of such.

Response:

1. The OCFO concurs. This recommendation serves as the principal assignment given to the aforementioned IV&V firm, as it relates to assessing the delineated contract deliverables against the items actually received by the OCFO. Once the IV&V report is finalized, we will then review the costs associated with these items in subsequent negotiations with Accenture. Thereafter, we fully expect to vet and review the additional scope items that Accenture can be expected to counter any requests for offset with.

2. The OCFO concurs. In fact, as stated previously, in future contracts we will seek to engage an outside COTR to conduct an even more detailed review of all submitted invoices. In addition to determining their allowability, the COTR will monitor the vendor's performance.

Recommendation: (pg 36)

1. For future contracts, OCFO staff establish a separate automated invoice tracking system detailing: the Invoice Number, Invoice Date, Invoice Amount, CLIN, Date Invoice Was Received from Contractor, Date Approved/Rejected by COTR, Reasons for Rejection, Data Forwarded to Accounts Payable for Payment, Purchase Order Number, Date Paid, Amount Paid, and Amount Outstanding. OCFO officials should use this tracking system to monitor the timeliness of invoice processing.

2. Suing the automated tracking system, OCFO staff generate monthly contract-to-date reports that show the payment status of all contractor invoices received. The COTR, Contract Liaison Officer, and the Contract Administration should review, reconcile, and certify the monthly report.

3. For contracts of this size and complexity, OCFO staff should enter all budget information into SOAR by each CLIN to more effectively track SLIN budgets with actual expenditures.

4. OCFO managers designate Budget staff to closely monitor spending at the CLIN level to allow timely identification of potential areas of overspending.

5. OTR officials designate one staff member to ensure that files are complete and are maintained in a logically organized manner that includes: (1) separate binder files for approved and rejected invoices that are maintained in date order and sequentially by invoice number; and (2) the practice whereby Accounts Payable staff write or stamp the word "PAID" on the front of processed invoices; the voucher number, and the date the voucher was processed.

Response:

1. The OCFO concurs. These items will be required of the outside COTR engaged by the OCFO to monitor future, large scale procurements, similar to this one. Currently, the internal COTR requires the vendor to develop a detailed monthly analysis of all submitted invoices and their payment status. The COTR tracks all disapproved invoice items and notes the basis for disapproval.

2. The OCFO concurs. For large scale contracts, such as this, detailed inventory tracking is accomplished through the use of spreadsheets created and maintained by program staff.

3. The OCFO concurs with the spirit of this recommendation. Currently, the OCFO has a line item in the capital budget for the mid-life upgrade of the SOAR system. We will use this opportunity to determine the feasibility and practicality of recommendation. Lastly, there are two pending upgrades to the PASS system. We will explore the use of the contract administration module for this purpose.

4. The OCFO concurs with the spirit of this recommendation to closely monitor contract spending. Responsibility for contract management remains with the COTR. Budget staff will work with the COTRs to continue to manage contract expenditures and timely identify potential overages.

5. The OCFO concurs with the recommendations. The COTR manages the invoice files in a manner consistent with this recommendation and the OCFO Accounts Payable staff currently marks invoices as "posted" after they are processed for payment.

Recommendation: (pg 37)

1. OTR and OCFO use an automated invoice tracking process to ensure timely payment of invoices received from contractors.

2. If, under any future contracts, an agreement is reached between the contractor and the District regarding the waiver of interest penalties, the Contracting Officer timely modify the contract to reflect the change in contract terms.

3. OCFO staff record a liability to the contractor for interest accrued on delinquently paid invoices, that also excludes interest for which the contractor has agreed to waive payment.

Response:

1. The OCFO concurs with the need to promptly pay approved invoices. The COTR and the Accounts Payable staff work to review and process approved invoices for payment, consistent with the requirements of the Quick Payment Act.

2. The OCFO concurs.

3. The OCFO concurs. There are currently no known interest amounts/payments due to Accenture.

Recommendation: (pg 39)

1. The COTR and other accountable OCFO officials request the same level of detail to support subcontractor expenses as is expected of the prime contractor.

2. The COTR and other accountable OCFO officials discontinue the practice of relying solely on the contractor to review and monitor subcontractor expenses. Project Office staff should review subcontractor expenses for reasonableness, proper supporting documentation and compliance with the contract. Questionable expenses should be discussed with the COTR, who in turn should inform the Contracting Officer and the prime contractor of the issue.

3. Project Office staff develop a series of worksheets to track the costs incurred by each subcontractor. The COTR or designated staff should periodically compare and reconcile these worksheets to the information maintained by the prime contractor.

Response:

1. The OCFO concurs. This is a current practice. Either the prime contractor is expected to include a "flow down" provision in their agreement with the sub-contractor and/or the OCFO is expected to review and approve the subcontractor agreement.

2. The OCFO concurs with the recommendation to review and monitor sub-contractor costs, in accordance with best practices in public procurement. It is the delegated responsibility of the prime contractor to manage and monitor the sub-contractors performance, invoices and expenditures. Given the privity of the contract between the District and the prime, we will, in turn, monitor their performance, invoices and expenditures and ensure that they are consistent with the underlying agreement. Issues or concerns regarding sub-contractor performance will be discussed with the prime contractor.

3. See Response to #2 above.

Recommendation: (pg 41)

1. For future contracts that contain subcontracting provisions the OCFO officials require the prime contractor to submit all necessary documentation of compliance with those provisions. Moreover, OCFO officials should include penalties in the contract for failure to comply with subcontracting provisions <u>including</u> the failure to submit required documentation.

2. OCFO officials, also by specific contract provisions, ensure that documentation relating to subcontractors is retained for at least three years after final payment is made under the contract consistent with the specific records retention provisions of the contract.

3. Accountable OCFO staff and contract administrators develop monthly time reports that clearly document the hours worked by prime contractor and subcontractor personnel. Project Office staff should prepare the report and distribute to the Contracting Officer, COTR, appropriate OCFO staff, and contracting personnel for review and verification.

Response:

1. The OCFO concurs.

2. The OCFO concurs.

3. The OCFO concurs. We will work with the outside COTR to ensure that proper reporting, consistent with this recommendation, is completed and disseminated to the appropriate parties.

Please contact me at (202) 727-2476 if you have questions or require additional information.

Respectfully,

Natwar M. Gandhi

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

Sherryl Hobbs Newman
Deputy Chief Financial Officer

Tax and Revenue

RECEIVED
JUN - 2 2006
OFFICE OF THE DC AUDITOR

June 2, 2006

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

Dear Ms. Nichols:

I am pleased to respond on behalf of the Office of the Chief Financial Officer (OCFO) to the DC Auditor's draft report entitled "Auditor's Examination of Contract Cost and Administration for the Integrated Tax System."

GENERAL COMMENTS:

In 1996, the District of Columbia Government was unable to obtain an unqualified opinion on its annual financial statements (commonly known now as the Comprehensive Annual Financial Report - CAFR), in large part because of the inability of the District's independent CPAs to certify tax revenues and receivables. Prior to the implementation of the Integrated Tax System (ITS), the computer infrastructure at the Office of Tax and Revenue (OTR), then the Department of Finance and Revenue, consisted of four separate legacy systems built in the 1960s and 1980s. These antiquated systems were not compatible, contained inaccurate account data, and had critical limitations in identifying taxpayers that either owed taxes and/or were due a refund. Consequently, these stove-piped systems were woefully ineffective in providing OTR with the requisite information required for efficient tax administration and other relevant operations, such as OTR's ability to administer the District's "Clean Hands" law, which requires payment of liabilities owed to the District before a professional or other license can be issued. The District at that time was under the authority of the Federal "Control Board."

The District of Columbia Financial Responsibility and Management Assistance Authority (DCFRMAA or Authority), recognizing this antiquated computer infrastructure problem as critical to restoring fiscal solvency to the District, undertook efforts to procure a new integrated tax system. One bid was received in response to a RFP. The result was contract #99-C-004 with Accenture (then Andersen Consulting).

At the outset, it must be emphasized that in ITS the District has procured a world class, integrated tax system. For instance, it should be noted that in the December 13, 2000 independent audit of Contract #99-C-004, by the Federal Information Technology Resources Board (ITRB), ITRB stated about the

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first of its kind Integrated Tax System, "the initial Business Tax Implementation was one of the best examples of system implementation that the Board has observed." The federal senior manager multi-agency board found that "the project provides lessons that the District and particularly the OCFO can benefit [from] when going further with ITS development."

During the Federation of Tax Administrators (FTA) 2002 Annual Meeting, OTR's commitment to enhanced customer service was recognized as the national technology leader among all state and city tax authorities. The Integrated Tax System was awarded the FTA "2002 Technology Project of the Year." Again in March 2004, the National Federal Office Systems Exposition (FOSE), awarded the Integrated Tax System and, in particular, the Electronic Taxpayer Service Center (eTSC), the title of "2004 Best in E-technology by a City, County or Local government."

Currently, OTR and the city of Seoul, South Korea are participating in a Syracuse University study to identify the transformation characteristics that enabled OTR to change from a mistake-prone, stove-pipe legacy tax system into a high performing revenue administration. The Syracuse University objective is to provide a case study for other localities around the world to use as a business model. Many states and foreign governments have actually visited OTR to learn more about ITS and its component features. After those visits, at least six states and as many foreign countries have taken steps to develop new tax systems, based on the District's tax administration model. It has been acknowledged that the Integrated Tax System, which evolved from design to implementation, serves as a "World Class Tax Administration System" to be emulated by U.S. and foreign taxing authorities.

To date, this remarkable tax system has revolutionized the tax administration of the District of Columbia. The following are some examples:

- During the same general time period, neighboring jurisdictions (Maryland and Virginia) and Massachusetts had similar technology replacement upgrades underway. These efforts were well publicized as failures by the media. The District's implementation, by comparison a more complex system, proceeded successfully, almost unobserved by District taxpayers except for the marked improvement in service.

- Previously, it took 45 to 90 days to process a tax return and many returns remained unopened far beyond their due dates, and tax payments were not processed in a timely manner. It now takes 11-14 days to process a paper tax return and electronic returns are processed in less than 7 days. Moreover, electronic tax filers can check the status of their refunds online.

- To date the ITS system investment of $105,074,454 has resulted in cumulative benefits of more than $163 million through 2005. In fact, it is important to note that in 1998, OTR marked a successful year by making $100 million in prompt or same day deposits. By comparison, in 2005, prompt deposits totaled over $1.5 billion. These prompt deposits provide additional indirect benefits to the District by reducing the need for cash flow borrowings.

- ITS supports E-commerce for businesses and individuals within the District by providing taxpayers the capability to privately research their tax payments, refunds and other account information via the Internet. Vastly improved service is now available to real property taxpayers, who access the Real Property E-commerce sales, assessment and payment database more than a million times annually.

- ITS provides a significant array of payment opportunities for taxpayers. New features provided through ITS include the ability to pay by credit card, wire transfer, ACH Debit or ACH Credit, and now by E-check.
- Prior to ITS going into production (FY 2000), OTR had 613 Full Time Equivalents (FTEs). In FY 2005, the authorized FTE level was 535, resulting in substantial savings to the OCFO and the District.

II. SPECIFIC FINDINGS OF THE DRAFT REPORT

While the OCFO concurs with several findings that support stronger internal control structures and contract oversight, findings of lack of adequate planning, excessive and improper billings, and improper use of capital dollars are not supported.

Improper Separation of Duties Contributed To Inefficiencies in Contract Administration Increasing the Risk for Wasteful Use or District Resources

Response: Concur.

The OCFO agrees that for a project of this magnitude there was insufficient support for the COTR, which led to inadequate oversight. The OCFO acknowledges that internal controls and contract administration should have been stronger from the contract's inception, but there is no evidence of malfeasance on the part of the former COTR or of any other District employee associated with the management of contract. Nor is it appropriate to bring into question the training or experience of the Project Manager, who is no longer employed by the District or available to respond to questions, regarding her abilities to interpret the contract document. The issue of whether payments were properly made for "reasonable" expenses will be addressed in the responses to the Auditor's specific findings regarding reimbursable expenses.

Over the course of a 5-year contract, changes in key personnel are to be expected. As the Auditor has documented, this contract went through an unusual amount of turnover in the role of Contracting Officer. The Authority transferred contract administration to the Office of Contracting and Procurement. During several changes in leadership of that agency, the staff designated to handle the ITS contract also turned over, leading to regrettable lapses in oversight. OCFO contracting officials made good faith attempts to rectify this issue and support the COTR in handling necessary administrative modifications. For the majority of the contract, however, there was no single office or individual designated to monitor contract administration, other than the COTR. When the contract was finally assigned to the OCFO in August, 2002, action was taken by the DCFO for OTR to enhance oversight and monitoring, including monthly spending and performance reviews.

The OCFO agrees that for future contracts, sufficient resources should be assigned to provide close contract oversight, review of deliverables and invoices, and to provide day-to-day management of the project.

Authority and OCFO Officials Failed To Adequately Plan the Integrated Tax System (ITS) Project

Response: Disagree.

At the time the need for a new tax system was identified, the District was in the middle of a financial crisis. External auditors could not certify tax revenues and receivables because of the condition of the legacy systems. IBM was retained to assist OTR in defining its business and technical requirements, and several site visits were done to other jurisdictions that had implemented new tax systems. One bid was received in response to the RFP issued. The result was contract #99-C-004 between Accenture (then Andersen Consulting) and the Authority.

The ITS project planning phase was conducted prior to contract signing, from June 1997 through October 1998. During this time, the OCFO hired staff who were dedicated to working on the project. This planning also included detailed planning of project scope and associated activities. In addition, a project plan was developed which detailed the order in which the activities were to be performed, along with the associated level of effort and staffing.

While the Auditor's report points to poor planning and an "artificially low" contract award, there were some elements of scope and costs that simply could not have been fully anticipated at the time of the award because of the advances in technology ongoing during this period, and because the plan for upgrades to the data center technology was undeveloped. Best and final negotiations on contract price placed several such contract line items in reserve, until the requirements could be more completely defined. While contract modifications were not carried out timely in many cases, because of the management deficiencies already discussed, the deliverables received by the District were essential to the success of the ITS implementation.

It should be noted that OTR was a Beta (or test) site for Accenture in an implementation that was the first of its kind, particularly the imaging system and eTSC functionality. As the Beta site technology matured, OCFO management wished to take advantage of state-of-the-art technology to significantly improve customer service to the District taxpayers, while simultaneously increasing District revenue. Rather than reflecting a lack of adequate project planning, these changes in scope were made as a series of deliberately planned management actions to provide system upgrades that ultimately delivered a much improved and award-winning version of the Integrated Tax System. In FY 2000, OTR delivered the first U.S. city or county tax administration system for Internet filing of business tax returns and payments. It should be noted that a majority of cities and several states still do not support Internet filing. National and international recognition for OTR tax technology is the foundation for the well-deserved awards and government imitators who have procured similar systems.

The Authority And The OCFO Awarded The Contract At A Price That Was Significantly Less Than IBM's Suggested Independent Pricing Estimate

Response: Disagree

First, the Authority was solely responsible for awarding this contract, and therefore the processes that would be undertaken by the OCFO if the contract were to be awarded today should not be called into question.

The report notes that IBM's Independent Pricing Estimate (IPE) was higher than the contract award amount, and concludes that the award was therefore unrealistically low and that the IBM recommendations were not used to "gauge the reasonableness" of the proposal. In fact, in its final negotiations with the contractor the award panel made a conscious decision to leave reserved, for contingencies, several contract line items in the option periods of the contract. These reserves were made: 1) with the expectation that OTR staff would be able to provide day-to-day support of the system based on a comprehensive training program; and 2) that some contract line items could not be fully defined at the time of the award and/or that technological changes might make some elements of the fixed price award in the out years obsolete.

It should be noted that IBM also provided more than just evaluation support to the Authority and OTR. In a September 16, 1997 deliverable entitled "ITS Alternatives Analysis: Pre-negotiation Phase," IBM identified several scenarios addressing the "high" risk nature of this proposed scope of work on the part of any likely vendor, and that the "risk Premium should be discussed to determine a collegial solution." This recommendation guided negotiations and likely resulted in significant savings to the District over other proposed options, including revenue sharing or higher cost reimbursable structures.

The recommendation that future contract awards use independent pricing estimates to gauge the reasonableness of proposals ignores the critical role that the IPE played in determining the outcome of this award, as well as the limited negotiation posture of the District given that only one bid was received.

OTR Personnel Exceeded the Initial Contract Ceiling by Adding Components Costing Approximately $8.1 Million to the Contract and Exceeded Budgeted Hardware and Software Costs by Approximately $21.2 Million

Response: Concur.

The draft report cites changes in contract scope that led to additional costs. A few of these investment decisions are:

- Increases associated with technological improvements, such eTSC, the imaging system, the executive reporting system and the Contact Tracking System (CTS), that have had significant customer service benefits to District taxpayers. At the time of the award, IT project management was in its infancy. Had OTR failed to take advantage of the quantum leaps in technology that were evolving during the dot.com revolution, the OCFO would now find itself, again, behind the times in servicing taxpayers, notwithstanding a multi-million dollar investment.

- Additional cost increases that were the result of Year 2000 compliance and mainframe requirements at the data center where the tax applications were housed. At the time of the contract award, the plan for the data center upgrade was not complete and no funding decisions had been made regarding the Y2K effort. As OTR was not the primary customer of the data center, it was not deemed appropriate for OTR and the ITS contract to fully shoulder these costs. As time went on, and the ITS implementation was jeopardized by the Y2K and capacity issues of the data center, this scope had to be factored back into the contract to ensure schedule and operability requirements were met. It is important to note that these additional costs were for the procurement of additional hardware and software, rather than increased costs for the products contained in the original scope.

The OCFO concurs that the former COTR and contract administration staff did not ensure timely approval of the modifications to the contract, although a request was made to the Office of Contracts and Procurement on June 29, 2001 that was never acted upon. The lack of continuity in contract administration staff, as noted in the report, resulted in inadequate support in management of the contract.

The Auditor's recommendations regarding improved contract oversight and creation of an advisory committee, while no longer relevant to the completed ITS contract, will be considered for future major technology contracts.

Contractor Labor Rates, Including Annual Escalation Factors, Were High, Inconsistent, and Not Adequately Reviewed or Approved By the Authority or District Officials

Response: Disagree.

Table VI incorrectly represents the escalation rate, which is 7% annually.

The original labor escalation rates of 7% were negotiated and agreed to by the Authority in the original contract award. While these rates were high for the market, the District was in need of very specialized skills for the development phase of this project that were in high demand during those years. Furthermore, the negotiations that led to adoption of these rates in the contract were a change from the contractor's proposal, which would have paid them based on a percentage of tax collections, similar to tax system implementation contracts the vendor now has in place in other jurisdictions. This would have resulted in even higher payments to the contractor, who would continue to draw payments long after the implementation was complete. At the time, a funding approach based on a percentage of tax collections was not considered to be prudent for the District.

A previous review by DCAA found the labor rates to be higher than normal for contracts of this nature, and the OCFO concurs. The District's solution was non-existent elsewhere, either within the United States or abroad. Many components of sub-contractor software in this complex integration solution needed custom modification to work robustly and seamlessly to provide solid tax administration for the District. While there were fixed price components, even they had to be designed and implemented from the ground up. Skilled architects and very senior, multi-disciplined software programmers were required during the capital development, pilot and roll-out stages. The actual contract labor rates reflect the negotiations between Accenture and the Authority to bring in the needed staff to support on schedule project delivery.

Changes in the IT market and in the functional labor rate categories makes one-to-one comparison of the ITS and ASMP contracts impossible. This is further complicated by the differences in the implementation types. The ASMP components are "commercial off-the-shelf" (COTS) software packages that do not require major programming changes. The Integrated Tax System, on the other hand, was certainly not COTS. Only the Tax Administration System (TAS or case processing) portion was used in other locales. The complete integration of unique front-end imaging, electronic filing and lock box interfaces with a new master file and with TAS was new in concept and design.

Effective January 7, 2004, new labor rates were negotiated to reflect the transition of the ITS project from the development phase to the operational phase. Many of the higher rate Accenture programmers were reassigned to other projects. OTR management is working with newer programmers with less complex skill sets and duties. The current maintenance agreement is also based on GSA schedule rates. DCAA acknowledged that the January 7, 2004, Modification #6 of the contract closed this issue.

It is not clear what the Auditor means by "an inconsistent and unclear rate development process". This issue is addressed in further detail in the attached document from Accenture.

The Auditor's recommendations regarding calling upon the expertise of District and external experts in reviewing proposed contract awards ignore the steps taken during and after the solicitation and award process to seek independent advice from IBM, ITRB and DCAA on both contract and implementation issues. At the time, there was no District model for such a complex and unique systems implementation project.

Accenture's Process for Developing ITS Contract Labor Rates

Response: The OCFO cannot specifically address Accenture's process for developing its contract labor rates. See attached response from Accenture.

The District Government Paid Accenture Excessive Labor Billing Rates Which Allowed Accenture To Pay Annual Reimbursements Totaling More Than $700,000 To Some Contract Employees

Response: Disagree.

In contract negotiations, travel and other reimbursables were purposely excluded from the labor rate, so that these expenses could be monitored and controlled. It is misleading to compare the hourly labor only rates in the contract to actual hourly rates plus expenses and conclude that the contractor charged "excessive" rates or billed for costs not allowable under the contract. All such expenses were billed appropriately and were supported by detailed statements and receipts.

The Auditor uses the calculations in Table X to conclude that some contractors were reimbursed more than $700,000 annually. Only one contractor in the Auditor's table, the Project Manager, meets this description. The table is misleading. Using that case as an example, if the Gross Total Payment of $3,588,528 results in an Average Total Payment per Year of $717,705 (over a 5 year contract), then $676,864 of that amount is direct labor cost, which was paid to Accenture per the contracted billing rate. The average reimbursable payment per year would therefore be $40,841, to include travel and lodging costs.

The District Unquestioningly Reimbursed Accenture Approximately $1.7 Million for Expenses Incurred By Contractor Staff That Were Often Not Allowable, Reasonable, or Clearly Defined In Contract Number DCFRA #99-C-004

Response: Disagree.

The COTR carefully reviewed invoices for reimbursable costs and regularly questioned costs that she found to be questionable. While the Authority is responsible for what might be considered vague contract language, OTR does not believe that the reimbursable expenses were unreasonable. In fact, by the Auditor's definition, these expenses were "of a type that is generally recognized as necessary to the successful performance of the contract completing a project of this magnitude and complexity" and "the nature of the goods or services acquired …reflected the actions that a prudent person would have taken under the circumstances prevailing at the time."

Contract Section B-11 under Technical Services and Support (c) specifically references invoices for subsistence and transportation and other authorized expenses. "The costs for transportation and for lodging shall be supported by legible copies of receipts. The government shall make payment after submission of each invoice and statement of costs." Section C page C-3 stipulates that "The contractor shall be reimbursed only for travel costs and hours incurred directly and specifically in performance of the contract." The contract clearly allows normal temporary travel expenses for employees brought in from other locations based on their special skills.

The employees noted in the Auditor's review of temporary relocation, subsistence and transportation expenses were specialists and/or senior management critical to the project's success. As discussed before, this was a project of extraordinary complexity, requiring highly skilled employees not located in the immediate metropolitan area, in spite of Accenture's "large locally-based" presence.

OTR disagrees that the vagueness of the contract language allowed for temporary relocation agreements to be "widely abused or misused." Expenses were closely scrutinized by COTR, who frequently discussed and disallowed certain expenses with the Accenture Program Manager. The COTR also worked diligently to change the mix of Accenture personnel to reduce the need for out of town staff, thus eliminating such costs altogether. In 2003, as the more highly skilled resources rolled off the project, the COTR secured an agreement with Accenture and immediately ceased payment of temporary subsistence and travel expense reimbursement. All subsistence expenses were also eliminated in the ITS Application and Development maintenance Contract entered into with Accenture in November, 2003.

While the Auditor questions the reasonableness of apartment rental costs of approximately $3,000 per month, the table in Appendix II shows average daily rates that are very reasonable when compared to hotel rates. The GSA approved lodging rate for the Washington, DC metro area was $118/night in FY 2000. The highest daily rate in Appendix II is $108. The per diem rates charged are also lower than the GSA approved rate for meals and incidentals for FY 2000, which was $46. It is not the practice of the OCFO, because of the relative cost-effectiveness of the effort, to require receipts documenting the actual expenses paid under per diem allowances, and would not have been the practice in reviewing contractor expenses. This practice regarding per diem mirrors the federal practice as well. As such, OTR believes these expenses were also reasonable.

OTR believes that the majority of expenses noted by the Auditor as questionable were allowable under the contract, and that when certain expenses not covered by the contract were identified, were subsequently disallowed by the COTR. Travel expenses were incurred and service hours were charged only for those actions directly and specifically incurred specifically in the performance of this contract. OTR states that no expenses were charged by the contractor nor were any paid by the OTR Project Office for daily local travel between temporary domiciles and the government site. All service hours were documented biweekly in the PSS Report, monthly in the PSPR report, and in the monthly invoices. All travel expenses were documented in the monthly PSPR and monthly invoices. Authorized travel expenses were those authorized within Sections B and C of the contract.

In the specific case of travel to and from Puerto Rico, OTR finds that that travel is no different than any of the other travel by contract employees from the District to their home offices and back. San Juan was that employee's home office location, and he provided a unique skill set critical to the success of the project. The frequency of the travel, while high in the month of October, was not excessive over the period of his assignment to the project.

All of these charges are allowable within a capital project as ancillary administrative costs.

Accenture Purchased Supplies On Behalf Of the District Government Using Procurement Practices That Were Not In Compliance With District Regulations and Erroneously Charged the District for Sales Tax for These Supplies

Response: Concur.

Such items were purchased only in cases of operational emergency, not as a matter of course. Clearly, poor judgment was exercised in using the ITS contract vehicle for such purposes. When these issues came to the attention of the then DCFO Phil Brand and the then Director of Operations Daniel Black, an administrative modification was made to the contract (signed January 2004) to specifically prohibit this practice.

Accenture Billed the District for Expenditures That Were Unrelated To the Contract and In Some Instances Classified In an Inappropriate Category

Response: Concur.

In the case of other questionable items, not appropriately charged to ITS contract, OTR concurs that prior contract management practices were problematic. The eProcurement Pilot, while not specifically associated with the ITS implementation, was a valuable investment and an allowable capital expenditure. The pilot greatly assisted workflow within OTR and provided the District's Office of Contracts and Procurement with a model for consideration in the selection and implementation of the PASS system, which uses the same software engine.

Other operating-type expenses, while allowed within the administrative costs of a capital project, should nonetheless have been procured through separate agreements.

OCFO Staff Failed To Properly Track and Record Financial Activities under the Contract and Used Inadequate Record keeping Practices

Response: Disagree.

The Auditor finds that the "OCFO Accounts Payables staff did not consistently stamp "PAID" on invoices, after a voucher was processed, to prevent duplicate payment of invoices.

Invoices processed by Accounts Payables are never stamped "Paid", but are consistently marked "posted". This indicates that the invoice has been processed for payment. Marking an invoice "paid" does not guarantee the prevention of duplicate payments. This guarantee is only ensured if the Accounting Technician keying the invoice makes no keying errors. The financial system has built-in edits to flag duplicate invoices that are keyed with the same invoice number. However, if a digit in the invoice number is transposed, the system will read it as a unique invoice and will accept it. A duplicate payment is also possible if the same invoice number is keyed, but with a different invoice date.

The turnover of staff in the ITS Project Office that were involved in tracking receipt and payment of invoices makes it difficult to assess what tools were used by the responsible individuals to monitor expenses by CLIN. Using SOAR to track these expenses would have been impossible, if not impractical, because of the sheer number of CLIN lines and the demands on the Accounts Payable staff to distinguish between lines in posting payment vouchers.

OTR is working diligently with regard to major contracts to improve oversight and review of payments. An automated invoice tracking system, however, would be a major expense. PASS has some invoice tracking capacity, which could not be used for this contract since it was implemented well before the PASS system.

OTR Staff Made Delinquent Payments to Accenture in Violation of the Contract and the Provisions of the District's Quick Payment Act

Response: Disagree.

The Quick Payment Act ((D.C. Law 5-164, D.C. Code 1-1172(b)(1)) states that the required payment date shall be made within:

- 30 calendar days, excluding legal holidays, after a receipt of a proper invoice for the amount of the payment due, if a specific date on which payment is due is not established by the contract;

- Interest penalties on amounts due to a business concern under this subchapter shall be due and payable to the concern for the period beginning on the day after the required payment date and ending on the date on which payment of the amount is made,

> except that no interest penalty shall be paid if payment for complete delivered item of property or service concerned is made on or before the 15th day after the required payment date...

Based on the Quick Payment Act, we have 45 days to make payment in full before interest starts accruing. This fact will reduce the list by half since many items show payment within 45 days.

The list would be further reduced if the invoices were aged correctly. The calculation uses the invoice date to the payment date as the period between which the payment would be considered on time. This calculation does not consider the date on which the invoices were approved as being satisfactorily received. Based on the Quick Payment Act, the invoice is considered a proper invoice only if the product or service has been satisfactorily received. In many instances, the COTR did not submit invoices for payment until disputes over deliverables were resolved. For payables, the clock starts when the invoices are certified by the program area. The certification acknowledges that goods and/or services have been satisfactorily received.

Accenture waived its claim to interest as a result of negotiations on outstanding bills and disputes over billings for re-work to resolve programming errors. This waiver was considered by the Contract Administrator to be a fair and reasonable resolution to this dispute, and so was not a universal waiver of Accenture's right to charge interest on delinquent receivables.

The Authority and Accountable OCFO Officials Did Not Establish and Implement Effective Subcontractor Monitoring Policies and Procedures

Response: Disagree.

The District established and implemented effective subcontractor monitoring policies and procedures. Every six months for the life of the contract, OCFO representatives conducted a formal review of the subcontractor utilization on the project and conducted a formal signoff to confirm the review was conducted and acceptable. In addition all subcontractors were pre-approved by the government prior to working on the contract. For all subcontractor work performed, detailed time cards were provided for each subcontractor team member. The government performed a detailed review of this activity on a monthly basis.

The COTR and Other Accountable OCFO Staff Did Not Independently Monitor Subcontractor Costs and Relied On the Prime Contractor to Track These Expenses

Response: Disagree.

The COTR and other OCFO staff did independently monitor subcontractor costs. Much of the subcontractor work was fixed price, with payments made upon completion of approved deliverables. For time and materials work, all subcontractor involvement was performed at the government site and was closely monitored by the District. The COTR established independent time tracking procedures for selected subcontractor staff to verify costs reported by the prime contractor were accurate.

Documentation to Substantiate Compliance with Key Contract Terms and Other Applicable Subcontracting Regulations and Guidelines Was Unavailable

Response: Concur, in part.

It is OTR's understanding that Accenture has provided the Auditor with a significant amount of information regarding subcontracting agreements. Turnover in key staff and management positions over the course of the ITS contract has resulted in some lack of continuity and organization of files. As has already been discussed, there was no stable Contracting Officer or Administrator for the majority of the life of this contract. The vast majority of documentation requested by the Auditor was available for review.

OTR Officials Could Not Provide Evidence That Accenture Complied With Applicable Federal Acquisition Regulations (FAR)

Response: Disagree.

Regarding Limitations on Subcontracting, the invoices provided to the Auditor, along with the subcontractor utilization plans provided by Accenture, show at least 50% of the cost of the contract was expended for contractor employees. In fact, the draft audit report shows the total amount of subcontractor involvement on page 8, which is clearly less than 50% of the contract value.

Regarding Equal Opportunity Pre-award Clearance of Subcontracts, all subcontractor involvement of $1 million or more was pre-approved in writing by the District. Specifically, a number of the subcontractors are referenced in the contract and were formally approved by the District as part of the contract negotiation. For those subcontractors selected after award, all were formally approved in writing by the District in advance of the subcontractor working under the contract.

Regarding Competition in Subcontracting, there is evidence that all subcontractors were selected on a competitive basis to the maximum practical extent. Samples of this evidence were previously shared with the Auditor by Accenture.

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 Chief Financial Officer, Office of Tax and Revenue

Attachment

accenture

Memorandum

May 31, 2006

Ms. Sherryl Hobbs Newman
Deputy Chief Financial Officer
Office of Tax and Revenue
941 North Capitol St NE
Washington DC 20002

RE: Draft Audit Report Regarding Integrated Tax System (ITS), Dated May 17, 2006

Dear Ms. Newman:

As requested, attached are Accenture's comments on the DC Auditor's May 17, 2006 draft report entitled, "Auditor's Examination of Contract Cost and Administration for the Integrated Tax System." As you know, our time for responding to the draft report was limited; therefore, we have briefly addressed some, but not all, of the issues raised in the draft report. If more time were made available, we would be pleased to provide a more comprehensive response.

We note that, in a January 7, 2005 memorandum, your Office previously addressed some of the misconceptions and unsupported findings reached by the Auditor in an earlier draft of the report. For example, you provided important context for the ITS implementation, emphasizing that the project had provided the District with a "world class" system that had "revolutionized the tax administration of the District," as well as provided a $58-million return on the District's investment in the contract through January 2005. You also noted that, in light of the cutting-edge scope and complexity of the project, the system has been hailed as a "model" for U.S. and foreign taxing authorities and has received awards from a number of experts in the field:

- Federal Information Technology Resources Board -- *"one of the best examples of system implementation that the Board has observed"*;
- Federation of Tax Administrators – *2002 Technology Project of the Year*; and
- Federal Office Systems Exposition – *2004 Best in E-Technology by a City, County or Local Government.*

We believe this context is essential to a fair assessment of the ITS Project, and we support your balanced view of "good government." Finally, from various communications Accenture has had with the Auditor during the past year, we understand much effort has gone into reviewing the ITS project. As the Auditor works to finalize its report, we look forward to seeing the necessary corrections and clarifications incorporated to accurately reflect the facts, and we stand ready to assist your Office and the Auditor in that effort. We believe the attached information will assist in this process.

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If you have any questions or concerns, please feel free to contact me at 703-947-3694 or Chris Stauffer at j.christian.stauffer@accenture.com.

Sincerely,

Jorman D. Granger
Accenture LLP

Attachment
Copies: Beth Spooner, Office of Tax and Revenue
Chris Stauffer, Accenture

ITS Project
Draft Auditor Findings
Responses to Findings

Draft Report Page reference	Draft Finding / Response
Page 8	"Based on the information made available for review, no additional subcontractor costs were incurred during the period between December 1, 2003 and March 31, 2004"
	Response: Invoices and supporting information have been provided which show there were subcontractor costs beyond December 1, 2003.
Page 8 (note 15)	OTR did not provide the Auditor with "copies of subcontractor agreements executed by the contractor" or a "detailed listing of all subcontractors paid" under the contract.
	Response: Accenture provided the Auditor with access to all information in its possession regarding both subcontractor agreements and payments to subcontractors. Accenture is not aware of any missing information that materially affected the audit. If the Auditor believes additional information is required regarding subcontractors, Accenture would be glad to address such requests.
Page 15	"Contract labor rates . . . were high, inconsistent, and not adequately reviewed or approved by the Authority or District Officials."
	Response: Accenture disagrees with the characterization of contract labor rates as "high" and "inconsistent." The rates were reasonable and consistent with the complexity and scope of work undertaken. In addition, price and labor rate negotiations occurred over a three-month time period, with input from an Independent Validation and Verification (IV&V) contractor that was separately hired by the District. The Authority and District Officials, with support from the IV&V contractor, conducted pricing comparisons to other integrated tax system projects around the country. Per this review, the pricing of Accenture's services was determined to be favorable to the District as compared to pricing for other similar tax modernization programs.
Page 16	"The Auditor found no documented evidence that the Authority or District officials reviewed or requested information regarding how Accenture's billing rates were derived and the bases upon which they were developed."
	Response: The contract labor rates were based on "commercial" pricing, consistent with both Federal contracting practice and industry practice for services of this type. Under a commercial pricing approach, price reasonableness may be determined by, among other things, (i) comparison to an independent government cost estimate, and (ii) comparison to market prices for similar services. See, for example, Federal Acquisition Regulation (FAR) 15.404-1(b). As noted above, the District appears to have used both of these approaches in reviewing Accenture's proposed prices. In addition, under a commercial pricing approach, a contractor is not required to identify or explain the cost-based derivation of its rates or the bases on which they were developed. See, for example, FAR 15.404-1(b) ("Price analysis is the process of examining and evaluating a proposed price without evaluating its separate cost elements and proposed profit."). Thus, it is not surprising that such information was not located in the contract files. Nonetheless, as reflected in the report, Accenture has voluntarily explained and provided substantial information to the Auditor concerning the basis for its rates.
Page 17	"Accenture would not provide the Auditor with the methodology or assumptions used to 'blend' the commercial rates."
	Response: Accenture was not required by the contract to provide the District with pricing methodologies and assumptions. Nonetheless, as reflected in the report, Accenture has voluntarily explained and provided substantial information to the Auditor concerning the basis for its rates. Accenture does not have documents that reflect the "specific methodology or assumptions used to 'blend' the commercial rates." Rather, as explained to the Auditor, the rates were calculated based on a series of commercial factors and business judgments.
Page 18	Table VII – "Average Gross Billing Rates and Accenture's Blended Gross Billing Rates"

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	Response: This Table does not accurately show Accenture's billing rate data, nor does it support the suggestion that Accenture's contract rates were "significantly higher" than its commercial rates (page 17). Taking averages of various billing rates is not relevant to how contract rates were established for the ITS contract. Rather, as the Auditor acknowledges (page 17), the contract rates are driven by the actual mix of personnel assigned to the contract and their respective labor rates. For each labor category, Accenture would consider which categories associated with commercial rates would be required to perform the work. For example, there could be five commercial rate categories from which Accenture would draw resources for a single contract labor category; therefore, those five rates would be blended, based on the expected level of involvement for personnel at each labor category, to determine the billing rate for the labor category in the contract. Thus, simply averaging labor rates as depicted in Table VII – without accounting for skill mix and number of personnel – is not meaningful.
Page 18	"However, the Auditor was unable to verify the amount of the discount because Accenture refused to provide necessary information or their methodology documenting how the blended gross billing rates were derived."
	Response: Accenture was not required by the contract to provide the District with information documenting the methodology by which it calculated its proposed discount. Regardless, Accenture provided all internal commercial billing rates to the client and walked the client through the discounting methodology. Accenture does not have any other detailed documentation that show how the discount was calculated.
Page 19	The contract allowed labor rates to increase annually using "an excessive escalation rate of 7%."
	Response: The parties negotiated and agreed to the labor escalation rates of 7% as part of the original contract award. These rates were reasonable and appropriate at the time, as Accenture was committing to provide a specialized set of skilled resources to the District at a time when these resources were in very high demand and the market for these resources was extremely dynamic. In addition, the escalation rates were just one piece of a complex negotiation in which the parties balanced numerous financial, schedule, and technological risks and objectives. It is inappropriate to single out one aspect of the parties' agreement as "excessive" without acknowledging the give-and-take made by the parties on other issues.
Page 20	"The Auditor further found significant differences when comparing the billing and escalation rates under this contract to those charged by Accenture under another major District information technology contract, indicating that the rates applied under the ITS contract were excessive."
	Response: Accenture disagrees with both the premise and conclusion of this statement, as it is based on an "apples and oranges" comparison. Different types of work are expected to have different pricing structures, which is the case in the two referenced Accenture contracts. The ASMP contract was for the configuration of a Commercial Off-the-Shelf (COTS) software product. The ITS contract was for the design, programming, testing, and implementation of a customized set of software applications, which is significantly more complex than configuring COTS software. COTS software configuration is typically priced lower than complex customized software development,

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	which is the case in comparing these two contracts.
Page 24	Table XI - "Questionable Costs Billed by Andersen Consulting by Cost Category"
	Response: All costs referenced in the table are allowable per section B-12 of the Contract. Receipts and expense policies are provided for each specific expense. All of this documentation has been provided to the Auditor, as well as explained to the Auditor in prior communications from both the OCFO and Accenture.
Page 25	"Costs incurred to assist Accenture employees in permanently changing their assignment work location were not allowable charges under the contract."
	Response: No costs were charged to the District for employees permanently changing their assignment work location. Temporary relocation costs are a lower-cost alternative for out-of-town contractor support. Specifically, the District determined that temporary relocation costs are less than contractor personnel expenses for apartment, travel, and per diem expenses.
Page 25	Footnote 32: "The Auditor was not provided supporting documentation for five invoices."
	Response: Over 10 boxes of invoices and supporting documentation were provided to the Auditor. On several occasions, Accenture provided additional copies for any supporting invoice documentation that could not be found. Accenture has no record that a specific request was ever made for the supporting documentation for these referenced invoices. Regardless, Accenture will gladly provide this documentation to the Auditor if desired.
Page 29	The Auditor found that Accenture paid staff travel expenses that did not comply with the contract or were otherwise imprudent.
	Response: All travel expenses complied with the contract. The specific examples referenced on page 29 were each supported by detailed receipts and represented a cost-effective means for the employee to travel back to their home location, consistent with policy.
Page 30	The Auditor found that Accenture was reimbursed by the District for all of these (travel agency) service fees. In passing the cost on to the District, Accenture inflated the actual travel costs incurred under the contract
	Response: The actual travel costs were not inflated. The service fees are an actual part of the travel costs incurred by Accenture, not an inflation of the costs. By using an independent travel agency, Accenture is able to get airfare discounts that more than offset the travel agency service fee. Utilizing the travel agency for the ITS project resulted in savings passed on to the District. All of these travel agency fees were documented along with the airfare receipts.
Page 30	"Excessive airfare for employees. The Auditor noted that one member of the contractor's staff made several trips to San Juan Puerto Rico."
	Response: All airfare, including the Puerto Rico trips for one employee, were allowable under the contract. Per the contract, travel expenses for out-of-town contractor personnel are allowable. To allow for the success of the ITS project, contractor personnel from out-of-town locations were brought in to perform specific, complex activities. For the one referenced example, a consultant with deep integrated tax data conversion experience was brought in from Puerto Rico (his home location at the time). Bringing in this expertise allowed for a successful personal income tax data conversion

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	from the legacy system. The District authorized the staffing of this consultant in advance and approved his travel expenses to his home location. The result of this employee's contribution to the ITS project was the successful conversion of all personal income tax data onto the ITS system.