

REPORT OF INVESTIGATION

Submitted By

The Council of the District of Columbia
Office of Tax and Revenue Investigation Special Committee

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I. INTRODUCTION AND EXECUTIVE SUMMARY

On September 15, 2008, Harriette Walters pleaded guilty to federal charges related to the theft of over \$48 million of District of Columbia funds. Walters is a former long-time employee and low-level manager in the Real Property Tax Administration (“RPTA”) of the Office of Tax and Revenue (“OTR”), a division of the Office of the Chief Financial Officer (“OCFO”). Walters masterminded a nearly two-decade-long scheme in which she processed fraudulent real property tax refunds and arranged for the proceeds of those refunds to be deposited into bank accounts controlled by her or her friends and family. (For the purposes of this Report, we will refer to the set of activities by which Walters processed fraudulent real property tax refunds as “Walters’ scheme.”) To date, an additional 10 individuals have pleaded guilty in connection with the scheme. Other than Walters, none of the individuals who pleaded guilty were District employees. Shortly after Walters was arrested in November 2007, however, Dr. Natwar Gandhi, Chief Financial Officer (“CFO”) for the District of Columbia, asked several high-ranking OTR managers to resign for their failure to prevent or detect Walters’ scheme. In total, more than 30 OCFO employees, including Walters, lost their jobs as a result of this scandal.

In December 2007, the Council of the District of Columbia established the Office of Tax and Revenue Investigation Special Committee (the “Special Committee”) to examine the facts and circumstances surrounding Walters’ scheme and to make recommendations to help prevent a recurrence of any similar scheme. Shortly thereafter, the Special Committee retained Wilmer Cutler Pickering Hale and Dorr LLP (“WilmerHale”) to help conduct this review. WilmerHale, in turn, retained PricewaterhouseCoopers LLP (“PwC”) to assist by providing forensic accounting and information technology services in connection with the investigation. Both WilmerHale and PwC accepted the representation on a pro bono basis, and neither has billed the Special Committee for any fees or expenses in connection with this investigation. (References to “we,” “us,” or “our” in this Report refer collectively to the Special Committee, WilmerHale, and PwC.)

This investigation focused on three fundamental questions. *First*, how did the fraud occur? *Second*, why did the scheme go undetected for so long? *Third*, what changes can be made within the OCFO and the District more generally to reduce the risk of any recurrence of similar fraudulent activity?

A. Summary of Walters’ Scheme

Harriette Walters was a long-time employee and, starting in 2001, a low-level manager in RPTA. As Walters explained to us, she first became involved in a fraudulent tax refund scheme in the mid-1980s when she learned from a co-worker how to process fake refunds, how to waive penalty and interest charges in exchange for gifts and cash, and how to cash refund checks that were returned to RPTA when the taxpayer recipient had died. According to Walters, she eventually concluded that her co-worker, whom she described as a substance abuser, was unreliable as a partner in these activities. Walters then embarked on her own embezzlement scheme in the late 1980s, which focused on the issuance of fraudulent real property tax refund checks. From the late 1980s through late 2007, Walters stole more than \$48 million from the District, which, according to the *Washington Post*, is the largest known government-related

embezzlement scandal in the District's history. Despite the long duration and scope of Walters' scheme, it was accomplished in a relatively simple and mundane fashion.

Walters started small. Her first two fraudulent refunds in the late 1980s were for less than \$5,000 each and were issued payable to a friend who agreed to participate in the scheme. Soon, however, Walters discovered she could issue significantly larger refunds without incurring any additional risk of detection. In the early 1990s, Walters began processing fraudulent refunds to her friends and to her friends' companies for more than \$10,000 per transaction. By the late 1990s, Walters was issuing fraudulent refunds in excess of \$100,000 each. After becoming a manager of her unit, she increased the amount of the fraudulent refunds further still. By 2004, she was processing fake refunds for \$350,000 or more. During the course of her scheme, Walters processed two fraudulent refunds in excess of \$500,000—one for \$543,423.50 in July 1997 and another for \$541,000.74 in May 2007. The fraudulent refunds that we identified are listed in Appendix A to this Report.

These fraudulent refund requests appeared on the surface to be legitimate. The requisite vouchers attached what seemed, at first glance, to be valid supporting documentation containing property descriptions and proof of tax payments. But the documentation often did not relate to the properties or property owners identified for the refund. Instead, the supporting materials were frequently copied from legitimate tax refunds for unrelated properties or were simply fabricated. Many of the refunds were issued directly to entities that did not own property in the District. The names of these entities were sometimes slight variations on legitimate businesses operating in the District. On at least one occasion, it appears that Walters simply strung together letters to create a nonsensical payee name. In still other instances, Walters processed fraudulent refunds in the names of legitimate property owners, but directed that payments be made "care of" companies that did not own or bear any relationship to the referenced property. Walters also processed refunds in care of, or to the attention of, prominent real estate attorneys. (We saw no indication whatsoever that these attorneys were involved in, or aware of, the scheme.) In all of these cases, Walters arranged for the refund checks to be delivered to her rather than mailed to the recipients. She then passed the checks to other participants in the scheme for deposit into bank accounts that they controlled, in later years with the help of a corrupt bank employee.

To put the scale of Walters' scheme in perspective, the average value of legitimate real property tax refunds in the District from October 1998 through January 2008 was about \$7,300. By contrast, the average fraudulent refund processed by Walters during that time frame was over \$275,000. Between October 1998 and January 2008, 21% of real property tax refunds between \$100,001 and \$200,000 were fraudulent, 45% of real property tax refunds between \$200,001 and \$300,000 were fraudulent, and 68% of real property tax refunds between \$300,001 and \$400,000 were fraudulent. Most significantly, 81% of real property tax refunds between \$400,001 and \$500,000 were fraudulent. Between 2005 and 2007, Walters' fraudulent refunds accounted for nearly 35% of all real property tax refund dollars.

Although some of Walters' subordinates helped prepare vouchers for the fraudulent refund requests and received gifts and/or substantial payments from her, we could not establish that any of them actually knew the refunds were in fact fraudulent. The subordinates we interviewed denied knowing about Walters' scheme, although one key witness who initially faced criminal charges that were later dropped refused through her attorney to talk to us. We

also could not establish that more senior managers or other employees of the District were aware of Walters' scheme.

B. Failure to Prevent and Detect Walters' Scheme

Walters' scheme was not highly sophisticated; to the contrary, it was rudimentary. When we interviewed her, Walters mused repeatedly that she had been "hiding in plain sight." What follows is a brief summary of the main failures that allowed her scheme to succeed for nearly 20 years and to drain more than \$48 million from District coffers. It is our conclusion that Walters was able to perpetrate this long-standing fraud because of a failure of controls, a dysfunctional work environment, and a lack of oversight.

Failure of Controls. OTR essentially had no formal policies and procedures in place to ensure the integrity of real property tax refunds. To the extent that informal practices existed, many managers and employees did not know about them, and those who knew about them did not consistently follow them. Indeed, managers in OTR did not take even the most basic steps to scrutinize real property tax refunds or test the refund process. In the early years of the scheme, when Walters' managers within RPTA signed off on the refund vouchers, they apparently did not review them or their supporting documentation carefully for legitimacy. Worse, Walters' direct supervisor in 2003 evidently made clear in words or deeds that she no longer wished to sign off on real property tax refund vouchers at all. This apparent abdication of managerial responsibility allowed Walters to process all real property tax refunds, regardless of amount, without any need to obtain the review and approval of a higher-level authority.

Walters also benefited from the lack of effective automated controls. All real property tax refunds were processed manually until 2005. Even after an automated system was implemented in 2005, Walters was able to continue to process her fraudulent refunds manually. Manual processes are more susceptible to fraud because they lack the protection of computerized controls, and manual control systems are easier to circumvent. In addition, the information technology systems OTR put in place failed to include adequate controls in the area of real property tax refunds.

Despite these failures within RPTA, Walters' scheme still could and should have been caught if the Revenue Accounting Administration ("RAA")—a division of OTR that enters and releases refunds in the District's accounting system and thereby triggers the check-writing process—had conducted its own meaningful review of the refund vouchers provided to it by Walters' unit. Dr. Gandhi and other senior managers we interviewed agreed that RAA should have played an important gate-keeping role and should have served as a key control in the refund process, whether by ensuring that each voucher had the requisite approval signatures, by checking to see whether the attached documentation in fact supported the refund requested in the voucher, or both. In his interview, Dr. Gandhi insisted that common sense alone should have led RAA employees to recognize that their job responsibilities encompassed this type of review. Nonetheless, Dr. Gandhi and other senior managers do not appear to have implemented policies and procedures that would have formalized this understanding or confirmed that RAA was taking such steps. Most of the RAA personnel we interviewed claimed that their role, as they understood it, was strictly ministerial. They believed their job was to enter the voucher information into the accounting system, not to review the underlying details or to enforce higher-

level approval requirements. As a result, RAA did not conduct the basic substantive voucher review that could have uncovered Walters' scheme many years ago.

Ultimately, senior OCFO management, including Dr. Gandhi, who became Deputy CFO of OTR in early 1997 and was appointed CFO in June 2000, paid little attention to the real property tax refund operation because the dollar amounts involved, while substantial in everyday terms, were likely not large enough to be material to the District's overall financial condition. In addition, the real property tax refund process appeared to be working well during the relevant period. Dr. Gandhi has long made it clear throughout the OCFO that his overriding concerns have been maintenance of the District's favorable bond rating, receipt of clean independent audit opinions, and improved customer service (e.g., faster processing of income tax refunds). The unremitting focus on these concerns, however, caused managers within the OCFO to place a much lower priority on imposing controls or meaningful oversight that could have identified and stopped Walters' scheme.

Dysfunctional Work Environment. The work environment within OTR also made District finances vulnerable to fraud. A culture of apathy and silence pervaded the relevant offices. In many cases, employees did the bare minimum needed to discharge their daily responsibilities. Otherwise, they kept their heads down, unwilling to raise the types of questions that could have exposed this fraud years earlier. For example, many OTR employees knew that Walters lavished gifts and extraordinary sums of money on friends and co-workers; indeed, District employees sometimes gathered outside Walters' office to receive the fruits of her largesse. But no one appears to have raised meaningful questions about the basis or propriety of Walters' generosity. It is stunning that Walters' scheme came to light not because of anything any District employee said or did, but only because a bank employee asked the right questions and contacted the authorities.

The OCFO bureaucracy was dysfunctional in structural respects as well. The various sub-agencies within the OCFO were (and remain) too compartmentalized; one unit often did not know what the others were doing, and no one encouraged the type of information-sharing that could have led to the detection of Walters' scheme. In addition, District personnel practices effectively kept managers from removing problematic employees; instead, those employees were merely shifted from office to office. As a result, managers devoted far too much time and energy to employee conflicts and other personnel problems, rather than implementing the systematic controls needed to ensure the integrity of the District's finances. Due to this dysfunctional work environment, managers seldom stayed in a single position long enough to impose meaningful reforms. Nonetheless, a number of managers could and should have taken basic steps—and asked basic questions—that might have brought this fraud to light years ago.

Lack of Oversight. Although much of this Report focuses on failures within the two OTR divisions most involved in preparing and processing real property tax refund requests, others in the District government—both inside and outside of OTR—either missed potential warning signs or noticed them but did not follow up. For example, financial tracking reports showed a spike in total real property tax refund levels around 2004, when Walters increased the scale of her fraud, but apparently no one who read these reports investigated or discovered the cause of that spike. The fraudulent refunds accounted for almost one third of the spike in refund activity that year.

An examination into the reasons for the increase or a review of the underlying refund documentation might have uncovered Walters' scheme.

The three main audit agencies within the District government—the Office of Integrity and Oversight (“OIO,” located within the OCFO), the Office of the Inspector General (“OIG”), and the Office of the District of Columbia Auditor (“ODCA”)—likewise did not uncover Walters' scheme. These audit agencies did not conduct any audits of real property tax refunds during the relevant period, in part because they were overwhelmed with competing audit priorities. There were, however, a number of audits, investigations, and reviews that were not focused on real property tax refunds but that nonetheless identified weaknesses that could have affected OTR's real property tax processes. None of these findings led to a more in-depth analysis of the real property tax refund process, and there was little follow-up to implement meaningful reforms that could have detected or stopped Walters' scheme.

None of the audit agencies did enough to coordinate with the others about audit priorities, necessary follow-up, and who should be responsible for those actions. This underscores a broader systemic problem: these agencies have unclear and overlapping spheres of responsibility, and the District has no higher-level authority that can make any one audit agency accountable for identifying and following up on problems within defined areas of the District government.

The District also retains independent auditors to perform the annual audit of its financial statements. These audits involve examining the financial statements to form an opinion on whether the information presented in the financial statements, taken as a whole, is free of material misstatement and fairly presented. An audit typically includes, among other procedures, examining, on a test basis, evidence supporting the account balances in the financial statements. Auditors may also perform selected testing of an organization's internal controls, identify deficiencies, and make recommendations for improvement. The Special Committee investigation did not evaluate the adequacy of the work performed by the District's independent auditors. We did, however, seek information from two of the independent audit firms the District used during the relevant period to see what light, if any, they could shed on the process controls surrounding real property tax refunds.

Neither of these two firms detected Walters' scheme. In fiscal years 2000 and 2001, the auditors did not sample any real property tax refunds as part of their audits, given this area's comparatively small impact on the District's overall financial statements. Indeed, despite its size in everyday terms, Walters' scheme was not large enough to cause a material misstatement of the District's financial statements. Between 2002 and 2006, the auditors selected a total of 190 real property tax refunds for testing with specific, limited procedures, which did not include reviewing the underlying documentation supporting the refunds. The samples included seven of Walters' fraudulent refunds and one credit associated with a fraudulent refund. We found no evidence that the auditors identified these refunds as improper.

C. Recommendations

During the course of the investigation, WilmerHale and PwC identified significant weaknesses in controls, systems, and work environment. To address these weaknesses, we recommend that the OCFO undertake a full-scale risk assessment and integrate the findings into

a fraud-and-misconduct risk-management process. In addition, we recommend that the OCFO, and the District government, implement the following additional improvements:

Control Improvements

- Assess existing policies, procedures, and controls, paying particular attention to areas in which cash or other financial instruments are controlled, disbursed, or received.
- Adopt formal, detailed policies and procedures for all OCFO divisions.
- More clearly delineate the responsibilities of the various internal audit functions of the District government and consider the structure and staffing of the audit agencies.
- Empower an Independent Oversight Committee to oversee the District's fraud prevention programs and the various audit functions and to track audit recommendations.
- Create the position of Chief Risk Officer within the OCFO to oversee the OCFO's fraud prevention program, to conduct risk assessments, and to track and enforce audit recommendations.
- Determine how to make the District's various ethics hotlines more effective.
- Develop a plan for investigating and remediating potential fraud and misconduct.

Systems Improvements

- Reduce the number of manually processed transactions.
- Conduct a review of the capabilities and weaknesses of all information technology systems utilized by the OCFO.
- Create a reporting system for reviewing and tracking transactions processed by the various divisions within the OCFO.

Work Environment Improvements

- Create a culture of compliance within the organization and enhance management oversight.
- Revise the Code of Conduct to emphasize zero tolerance of fraud and misconduct and expand the ban on gifts and loans to include gifts and loans (over a nominal amount) between District employees.
- Improve communications and coordination among the various divisions of the OCFO.
- Determine the skills that are necessary for various positions and recruit and hire managers with more experience in their specific areas of responsibility.

- Ensure that employee evaluations are honest and constructive, and empower managers to discipline and, if necessary, terminate under-performing or disruptive employees.
- Provide effective training regarding employees' job responsibilities, the importance of systems and management controls, and the role each District employee must play to ensure the integrity of District finances.

These changes cannot be implemented overnight, and they will require both commitment and significant coordination among the various branches of District government. Unless and until these changes are made, however, we believe that the District's vulnerability to fraudulent schemes will remain at an unacceptably high level.

We understand that the OCFO has taken steps following the discovery of Walters' scheme to address certain weaknesses that it exposed in OCFO's controls and systems. For example, the OCFO replaced many employees and managers in RPTA and established new requirements for the preparation and processing of real property tax refunds. The OCFO also formed an audit committee to enhance oversight of the OCFO and retained outside consultants to help assess control weaknesses and risks. As part of this investigation, however, WilmerHale and PwC did not analyze the actions taken by the OCFO after the discovery of Walters' scheme.

II. SCOPE OF INVESTIGATION

The Special Committee was charged with determining how Walters was able to embezzle more than \$48 million of District funds over nearly 20 years and with recommending changes in controls, work environment, and oversight structures that could help prevent future fraudulent schemes. This investigation did not attempt to trace the stolen money or to determine how the money was distributed or spent. Nor did the Special Committee seek to determine the guilt or innocence of any participant in Walters' scheme. Those issues have been addressed by the federal authorities.

The investigation involved three phases: (i) document and data collection; (ii) document and data review and analysis; and (iii) witness interviews. At the outset of the investigation, WilmerHale requested that the OCFO preserve relevant data and documents—both in hard copy and electronic form—in the possession of the relevant offices and agencies. Using keyword searches, WilmerHale and PwC reviewed or analyzed more than 680,000 electronic and hard copy documents representing millions of pages produced by the OCFO and other government agencies and third parties. Specifically, WilmerHale and PwC reviewed e-mails and other electronic documents associated with 87 current and former employees of the OCFO, the computer hard drives of a select group of former OTR employees, and electronic documents maintained on file servers for OTR. (Due to the passage of time, electronic documents associated with some former OCFO employees were no longer maintained on the District's computer systems.) In addition, WilmerHale and PwC reviewed and analyzed real property data in the District's current and former general ledger systems and OTR's various tax systems.

WilmerHale and PwC also reviewed and analyzed available vouchers and supporting documentation for real property tax refunds. Specifically, WilmerHale and PwC reviewed documentation associated with approximately 26,000 refunds—some dating back to 1998—from various sources. (Documentation was not available for refunds before 1998.) This review involved refunds associated with real property tax payments as well as refunds of fees and deposits associated with the annual tax sale process. WilmerHale and PwC also reviewed copies of selected cancelled real property tax refund checks.

In addition, WilmerHale and PwC reviewed the following categories of materials:

- Policy and/or procedure documents for several OCFO offices;
- Policy and/or procedure documents that relate to the District's general ledger system and tax system;
- Available OCFO Financial Management and Control Orders;
- Employment records and personnel files for certain former OCFO employees;
- Certain reports of audits and investigations and associated documents prepared by the Office of Integrity and Oversight;
- Certain reports of audits and investigations prepared by the Office of the Inspector General;

- Certain reports and workpapers prepared by the Office of the District of Columbia Auditor;
- Certain reports and audit workpapers prepared by the District's current and former independent auditors; and
- Documents filed with the courts in connection with the criminal investigation of Walters' scheme.

During the investigation, WilmerHale and PwC interviewed over 70 individuals, including current and former OCFO employees, as well as representatives of the Office of the District of Columbia Auditor, the Office of the Inspector General, the Office of Risk Management, the District's current and former independent auditors, and other third parties.

We conducted most of this investigation while the U.S. Attorney's Offices for the District of Columbia and the District of Maryland proceeded with their criminal investigation of Walters' scheme. The Special Committee cooperated with these investigations throughout. For example, at the request of the U.S. Attorney's Office for the District of Columbia, we delayed interviewing certain witnesses until the criminal process was substantially complete. Before certain interviews, WilmerHale informed the interviewees that they had the right to refuse to answer questions if a truthful answer would tend to incriminate them. We also arranged for independent attorneys to represent certain interviewees pro bono during the investigation. The Special Committee recognizes the efforts of the private lawyers who represented current and former OCFO employees pro bono. We invited attorneys from the U.S. Attorney's Office for the District of Columbia to attend all of our interviews, and they attended some. Likewise, we received cooperation from the U.S. Attorney's Office, particularly from Assistant U.S. Attorney Timothy Lynch. That cooperation was essential and made it possible for us to carry out this investigation.

The Special Committee's investigation was complicated by several factors. Because Walters' scheme dates back to at least the late 1980s, many of the relevant managers and employees are no longer District employees. We interviewed numerous former employees and managers from the relevant offices. Many witnesses, however, had no specific recollection of the events in question or the systems, processes, and controls in place at the time. Some witnesses refused to participate voluntarily in interviews. Although the Special Committee has subpoena authority and used it on one occasion, additional subpoenas and efforts to enforce them would have significantly delayed this investigation and ultimately the issuance of this Report. Nonetheless, even without speaking to certain witnesses, we believe we obtained the necessary information to have formulated the conclusions and recommendations contained in this Report.

The condition—and, in some cases, the absence—of real property tax records further complicated our review. The documentation that should have supported many of the suspicious refunds under review was often either absent or so disorganized that enormous effort was required to locate and make sense of the records. Again, documentation associated with real property tax refunds processed and issued prior to 1998 was not available.

This investigation was not an audit of the financial statements of the District. The District's general ledger accounting systems alone contain nearly 47 million records for the relevant time frame. The various tax systems used by OTR contain an additional 55 million records. Our investigation focused on the administration of real property tax refunds and the controls, work environment, and oversight relevant to that process. We express no conclusion as to whether transactions not identified as fraudulent in this Report were proper or properly recorded.

Similarly, this review was not an investigation or audit of all functions of OTR or the OCFO. Such a broad review was not feasible given the time constraints and certain access limitations associated with some types of tax information. In particular, this investigation did not involve a review of the administration of taxes other than real property (e.g., personal income taxes or business taxes). For example, we did not review the recently reported theft of District funds by an OTR employee who processed fake income tax refunds. WilmerHale and PwC also did not review the assessment or assessment appeal process, and we did not conduct an audit or review of the capabilities of the various electronic systems employed by the relevant divisions of the OCFO. Nevertheless, our findings highlight systemic weaknesses in the OCFO and could suggest problems in areas outside of real property tax administration.

The services of WilmerHale and PwC were performed in accordance with the Special Committee's engagement letters with WilmerHale and PwC and are subject to the terms and conditions included therein. WilmerHale and PwC's services were performed solely for the use and benefit of, and pursuant to a client relationship exclusively with, the Special Committee. WilmerHale and PwC disclaim any contractual or other responsibility to others based on the use of the information set forth in this Report, and, accordingly, this information may not be relied upon by anyone other than the Special Committee. PwC's services were performed in accordance with Standards for Consulting Services established by the American Institute of Certified Public Accountants. WilmerHale and PwC are providing no opinions, attestations, or other forms of assurance with respect to the work performed in connection with this Report, and WilmerHale and PwC did not verify or audit any information they received. WilmerHale and PwC were not engaged to perform, and did not perform, an evaluation of the OCFO's systems of internal accounting control.

Finally, our work was based only on information made available during the course of the investigation. Changes in circumstances or the discovery of additional documentation or information could affect our findings.

III. BACKGROUND

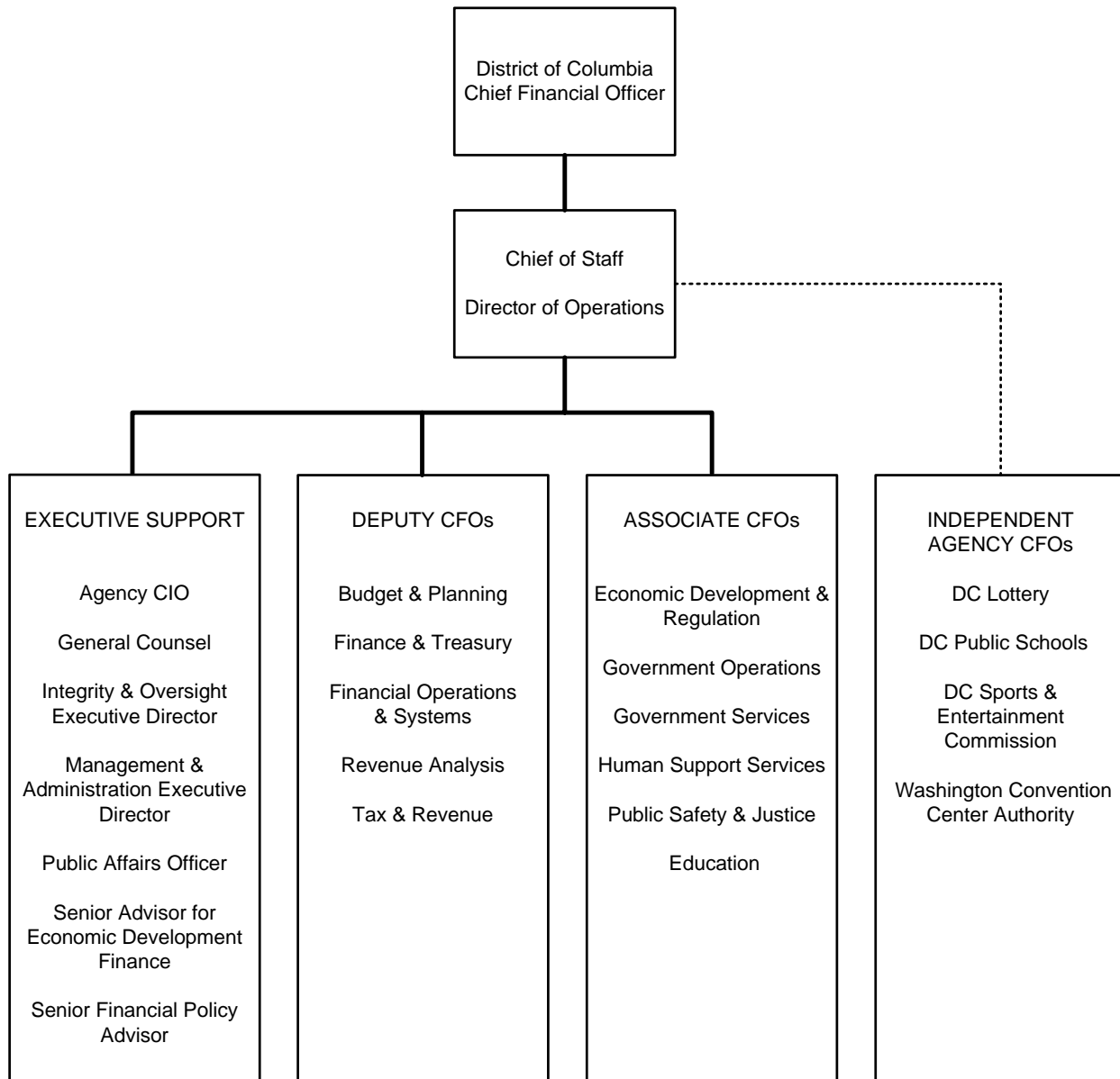
A. Structure of the Office of the Chief Financial Officer

The OCFO was created by the United States Congress with the passage of the District of Columbia Financial Responsibility and Management Assistance Act of 1995 (“the Act”), 109 Stat. 97, Pub. L. No. 104-8 § 424 (Apr. 17, 1995). The OCFO technically resides within the executive branch of the District government, but the Act details the responsibilities of the OCFO and prohibits the Mayor from delegating any of those functions elsewhere. As a result, the OCFO, including its various offices and divisions, is uniquely positioned within the District government. Although it is subject to Council oversight, the OCFO acts as a quasi-independent agency. The CFO is appointed by the Mayor with the consent of the Council but may be removed by the Mayor only “for cause” with approval of two-thirds of the Council.

Dr. Natwar Gandhi has been the CFO since 2000. From February 1997 to June 2000, Dr. Gandhi served as the Deputy CFO with responsibility for the Office of Tax and Revenue. Valerie Holt and an interim Acting CFO preceded Dr. Gandhi as CFO from 1998 to 2000. Former Mayor Anthony Williams served as CFO from October 1995 to June 1998.

According to the Act, the OCFO’s mission is “to enhance the fiscal and financial stability, accountability and integrity of the Government of the District of Columbia.” As detailed on its website, the OCFO is responsible for, among other things: (i) overseeing and directly supervising the financial and budgetary functions of the District government; (ii) developing, implementing, and monitoring the District’s accounting policies and systems and producing the Comprehensive Annual Financial Report (“CAFR”) containing audited financial statements for the District; and (iii) administering and enforcing the District’s tax laws, collecting revenue for the District, and recording deeds and other written instruments affecting a right, title, or interest in real or personal property in the District.

The core financial functions of the OCFO are divided among five key divisions: (i) OTR; (ii) the Office of Finance and Treasury; (iii) the Office of Financial Operations and Systems; (iv) the Office of Revenue Analysis; and (v) the Office of Budget and Planning. In addition, “Associate” Chief Financial Officers (“ACFOs”) for various District agencies report to the CFO rather than to the heads of the agencies. These ACFOs manage the following financial “clusters”: Economic Development and Regulation; Government Operations; Government Services; Human Support Services; Public Safety and Justice; and Education. Chief Financial Officers for the “independent” District agencies also report to the District’s CFO. These agencies include the D.C. Lottery and Charitable Games Control Board, the D.C. Public Schools, the D.C. Sports and Entertainment Commission, and the Washington Convention Center Authority. The following chart depicts the reporting lines of the OCFO’s financial operations.



A brief description of some of the OCFO divisions and how they work together is necessary to understand the controls, work environment, and oversight relevant to this Report.

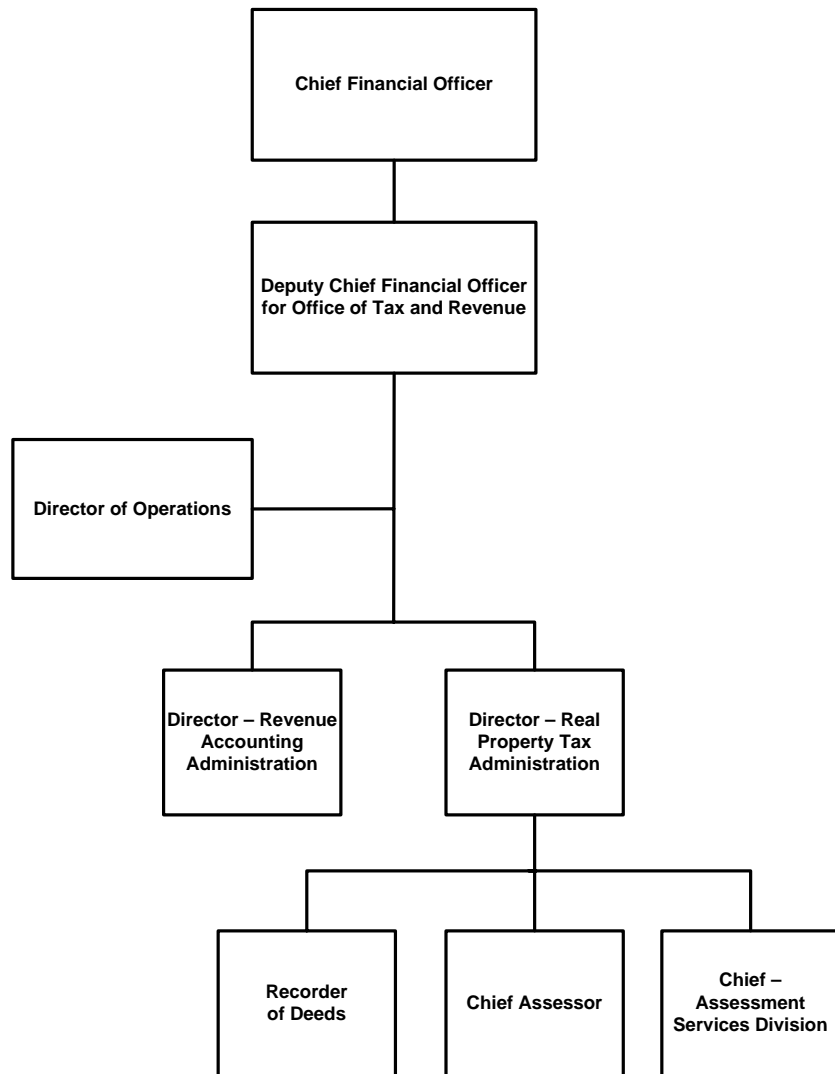
1. Office of Tax and Revenue

OTR collects taxes due to the District and is responsible for accounting for the associated revenue. In fiscal year 2007, for example, OTR collected and accounted for approximately \$5.1 billion in tax-related revenue, including approximately \$1.5 billion in real property taxes and \$1.7 billion in income and franchise taxes. OTR has approximately 600 employees and an annual budget of about \$70 million.

OTR is divided into seven “administrations.” The Real Property Tax Administration and the Revenue Accounting Administration (“RAA”) are directly involved in the processing of real property tax refunds. The Information Systems Administration manages and maintains systems

that are also involved in the processing of some real property tax refunds. The other four OTR administrations are responsible for administrative aspects of the other tax types (e.g., personal income tax, business tax, sales tax, and franchise tax).¹ On occasion, the Customer Service Administration and the Problem Resolution Office respond to customers regarding real property tax issues, but they generally turn these matters over to RPTA for resolution.

RPTA is divided into three operating divisions: (i) the Recorder of Deeds; (ii) the Assessment Division; and (iii) the Assessment Services Division (“ASD”), which includes Walters’ unit. The following chart identifies the most relevant reporting lines of OTR before November 2007.²

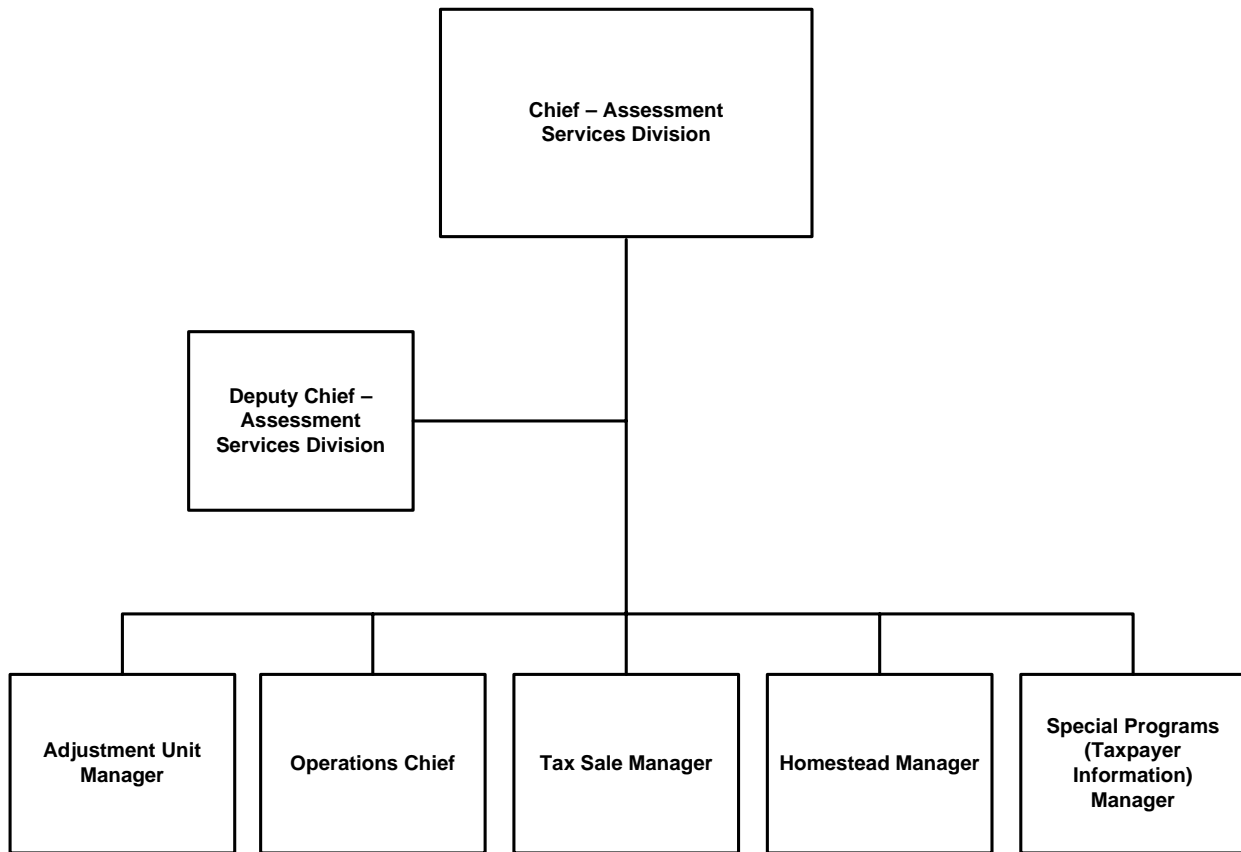


¹ The Returns Processing Administration plays a minor role in the processing of real property tax payments.

² Between 1999 and the Spring of 2002, the Assessment Services Division was part of the Customer Service Administration; the Chief of the Assessment Services Division at the time reported to the Director of Customer Service.

The Recorder of Deeds is responsible for officially recording documents related to land transfers, and is the official repository of all land records for the District. It also is responsible for the collection of all recordation and transfer tax and filing fees on instruments being recorded. The Assessment Division is responsible for assessing the value (for tax purposes) of real property; it also adjudicates first-level assessment appeals and coordinates later appeals.

ASD is responsible for the issuance of real property tax bills, the posting of real property tax payments, the administration of various tax programs (e.g., the Homestead program), coordination of the yearly tax sale process, and the preparation of real property tax refund paperwork. The Adjustment Unit of ASD is responsible for conducting research on real property tax accounts and, if necessary, adjusting the taxes owed on these accounts, as well as processing refund requests, if appropriate. During the few years before November 2007, the Adjustment Unit consisted of one manager, Walters, and four to six staff members. The other units of ASD are the Billing and Control Unit,³ the Special Programs Unit, the Homestead Unit, and the Tax Sale Unit. The following chart identifies the most relevant reporting lines in ASD.



RAA, which is a separate administration of OTR, manages OTR's accounting functions and ensures that OTR properly accounts for its revenue and related transactions. In this capacity,

³ Around September 2006, the manager of the Billing and Control Unit retired. The Unit was then merged into the Adjustment Unit under Walters' management.

RAA is responsible for entering and releasing real property tax refund payments into the District's general ledger system, which, in turn, triggers the check-writing process.

2. Other Relevant OCFO Offices

Three additional core financial divisions of the OCFO are relevant to the events at issue.

- *The Office of Finance and Treasury (“OFT”)* is responsible for the District's asset and debt management and treasury operations. As described on its web page, OFT “manages the cash and other liquid assets of the District government, coordinates payments to vendors and service providers, accepts payments for services and taxes, manages District borrowings and debt repayment, invests cash not needed for immediate disbursement, [and] maintains relationships with the [District's financial] community.” OFT's role in the real property tax process is generally limited to the issuance and delivery of real property tax refund checks. OFT's Disbursing Unit is responsible for printing and distributing all checks issued by the District government, including real property tax refund checks.
- *The Office of Financial Operations and Systems (“OFOS”)* is responsible, as detailed on the OCFO website, for “[b]ring[ing] accountability, discipline, and integrity to the District's financial processes by ensuring that standardized accounting practices, procedures, systems, and internal controls are embedded throughout the District's financial operations[,] produc[ing] the [CAFR,] and administer[ing] the District's payroll and retirement systems.” The Financial Control and Reporting Division within OFOS compiles financial data, performs analyses of the data, and produces reports based upon that information. It also helps to produce the CAFR as well as various other financial reports. Other OFOS divisions—the Accounting Systems Administration and the Accounting Systems Manager Division—are charged with overseeing and working with the System of Accounting and Reporting (“SOAR”), the District's general ledger system. The Accounting Operations Division performs bank and cash account reconciliations. This division also prepares some general ledger journal entries. Most non-payroll related journal entries, however, originate from other OCFO offices. OFOS conducts overall reasonableness testing of the financial information but does not review individual journal entries or related documentation.
- *The Office of Revenue Analysis (“ORA”)* is responsible for analyzing the District's revenue stream and researching and monitoring the District's economics. ORA prepares monthly cash reports, which include information relating to the amount of real property tax collections and refunds. These reports are publicly available on the OCFO/ORA web page. ORA also prepares fiscal impact statements, provides periodic reports on the economic and revenue outlook, and conducts special studies. In addition, ORA works with the Office of the District of Columbia Auditor on quarterly cash analyses.

Generally, the interactions among the various financial offices of the OCFO are limited and informal. Dr. Gandhi presides over a weekly meeting of his senior staff. Otherwise, senior management of the various offices communicates on an as-needed basis. Although the various

OCFO offices need to work together to some extent to function, contact among lower-level employees of those offices appears to be relatively infrequent.

B. Real Property Tax Processes

To understand how Walters perpetrated her scheme and the failure of controls, dysfunctional work environment, and lack of oversight that made OCFO susceptible to Walters' scheme, it is first necessary to understand the District's real property tax process. This section provides a general description of the administration of real property tax and related systems as they operate or operated in the normal course during the most relevant portion of the time period at issue here.

1. Real Property Tax Assessments and Billing

(a) Property Assessments

The District is divided into individual parcels referred to as "squares." A square typically represents one city block. Squares are then subdivided into sub-parcels called "lots." The Assessment Division of RPTA is responsible for assessing (for tax purposes) the properties in the District. To assess District properties, the Assessment Division uses a computer system that stores, among other things, property details, including square and lot numbers and square footage. Using this information, the system employs models to calculate and set assessed values of all District properties. Since 2005, assessment information has then been fed from the appraisal system into the District's Integrated Tax System ("ITS") (described below). The Assessment Division prepares assessment notices, which are sent to property owners a year in advance; for example, assessment notices for 2009 were sent in February 2008.⁴

For one month after receiving assessment notices, taxpayers or their authorized agents may appeal their assessments. Assessment appeals are coordinated through the Assessment Division. Starting around 2000, there were three levels of assessment appeals. The first-level appeal is made directly to the RPTA assessor responsible for the property. If the taxpayer is not satisfied with the first-level result, he or she may appeal the decision, within 45 days, to the Board of Real Property Assessments and Appeals ("BRPAA"), an agency outside the OCFO. When BRPAA decides an appeal, it sends a copy of its decision to the Assessment Division. After an adverse BRPAA decision, taxpayers may appeal the decision to the D.C. Superior Court.⁵ After the court reaches a decision, which is often a year or more after the assessment notice is sent, the clerk of the court sends an original copy of the order to RPTA to process any refunds required by the case.

A decrease in the assessed value of a particular property at the first-level or second-level appeal generally does not trigger a tax refund because the appeal process is usually completed before tax bills are sent or payable for the current tax period. In other words, assessment changes not ordered by the court are often reflected in the current tax bill, so a significant increase in first- or second-level appeals generally has no *direct* impact on the number or size of

⁴ From 1998 to 2002, properties were assessed on a triennial basis. The triennial process was phased out starting around 2002.

⁵ Prior to 2000, there were only two levels of appeals—to BRPAA and then to the D.C. Superior Court.

real property tax refunds. Conversely, given the length of time it takes for the Superior Court to rule on a third-level appeal, owners are required in the interim to pay their taxes based on the assessed value. Thus, if the court finds in favor of an owner, generally the owner is entitled to a refund.

(b) Billing and Collection of Real Property Taxes

Real property taxes are levied for a full tax year but are payable in two installments—the first bill is sent on or about March 1st and the second bill is sent on or about August 15th. Payments are due 30 days after the tax bills are sent. From about 2000 to 2005, the Assessment Division used a system (called RPT2000) to generate tax bills. Since 2005, ITS has generated real property tax bills.

Property owners or their representatives may pay their real property taxes by check, credit card, wire transfer, or in cash at certain banks. Mortgage companies often pay real property taxes on behalf of their numerous customers in one lump-sum payment. RPTA maintains a record of which mortgage companies paid in the past for particular properties. During each billing cycle, RPTA sends a CD-ROM to the various mortgage companies that pay taxes associated with District properties. The mortgage companies review the files and select those square and lot numbers and taxpayers for which they are responsible. They then return the files with payment. The Returns Processing Administration, an OTR division that deals mainly with non-real property taxes, and the Assessment Services Division reconcile the payments received from the mortgage companies to the bills sent to individual taxpayers.

2. Real Property Tax Refunds

There are three main types of real property tax refunds: (i) overpayment refunds—often referred to as adjustment or regular refunds; (ii) court-ordered assessment reduction refunds; and (iii) tax sale refunds. Although the processes for the three types of refunds were very similar, the required documentation and personnel involved in the processing were sometimes different. Walters' fraudulent tax refunds usually took the form of overpayment refunds, although she used court-ordered refunds for a smaller number of fraudulent transactions. We identified weaknesses in the documentation and controls associated with tax sale refunds, which were processed by the Tax Sale Unit, but we did not find any instances in which Walters processed fraudulent tax sale refunds.

Employees could use either of two methods to process a real property tax refund. First, real property tax refunds could be processed manually by posting entries directly into the District's general ledger system called SOAR or its predecessor, the Financial Management System ("FMS"). This is commonly referred to as the "manual" refund process. Before 2005, all real property tax refunds were processed manually. Second, starting in 2005, certain real property tax refunds also could be processed through ITS; these are often referred to as "automated" refunds. Despite the introduction of this new automated system, many real property tax refunds continued to be processed manually. Virtually all of Walters' fraudulent refunds were processed manually through FMS or SOAR. We discuss these two methods of processing real property tax refunds in greater detail below.

(a) Relevant Systems

SOAR. The District's general ledger is currently maintained in SOAR. The District replaced FMS with SOAR in October 1998. SOAR is maintained by the OCFO's Office of Financial Operations and Systems in conjunction with the OCFO's Chief Information Officer, but OTR accesses and uses SOAR to process certain types of real property tax refunds. When OCFO transitioned from FMS to SOAR, summary data contained within FMS was integrated into SOAR. FMS data currently is available in archived, read-only reports.

ITS. ITS is composed of several applications supporting the administration of the District's various tax types, including personal income tax, business tax, and real property tax. ITS is "owned" and maintained by OTR's Information Services Administration. The District purchased ITS from Accenture Ltd. ("Accenture") and implemented it in phases starting in 1999. The real property tax modules of ITS went online in 2005. At that time, ITS replaced the Real Property Tax Administration's existing system, RPT2000. RPT2000 was a billing system that recorded real property tax payments and credits. RPT2000 is no longer used but is available as an archived system for research. Unlike RPT2000, ITS is equipped to process and generate certain real property tax refunds.

ITS directly interacts with some, but not all, of the relevant District computer systems. There is no direct interface between ITS and SOAR. Entries from ITS must be manually entered into SOAR, usually in the form of a single, combined journal entry. As discussed below, there is evidence that Walters also manipulated ITS to process fraudulent refunds at least twice.

(b) Manual FMS/SOAR Refunds

Over the course of the relevant time period, and even after the implementation of ITS in 2005 for real property, ASD's Adjustment Unit manually processed many real property tax refunds, including most of Walters' fraudulent refunds. The manual process was more susceptible to fraud because it lacked the protection of computerized controls. Manual control systems are easier to circumvent, as Walters demonstrated.

(i) Preparation of Manual Refund Requests

Overpayment refunds. Generally, the processing of real property tax refunds for overpayments was triggered by a request from a taxpayer or a taxpayer's representative for a refund. Without such a request, overpayments automatically were credited to the taxpayer's account and applied to the next tax bill. Once a request was received, an employee in Walters' Adjustment Unit researched the case and compiled relevant written documentation. Of particular importance was proof that a taxpayer or taxpayer's representative had actually made a payment; this was generally required to process all overpayment refunds. The Adjustment Unit accepted the following as proof of payment: (i) a copy of the front and back of a cancelled check; (ii) a wire transfer record; (iii) a confirmation receipt for an online payment; (iv) a stamped payment receipt for in-person bank payments; or (v) a payment affidavit supplied by the taxpayer. If the refund request was not accompanied by proof of payment or the request lacked sufficient documentation, OTR sent a letter to the property owner or agent explaining what additional documentation was required.

In addition to proof of payment, the Adjustment Unit employee reviewed the tax system that was in place at the time (e.g., RPT2000 or ITS) to confirm that there was, in fact, a credit on the taxpayer's account. The researcher then completed a Refund Research form that included fields for the refund voucher number, tax year, square and lot number, tax due, amount paid, date paid, and overpayment amount. A copy of the Refund Research form is attached hereto at Appendix B. The form also contained a line for the signature of the preparer, as well as a signature line for the manager of the Adjustment Unit (who was Walters, starting in 2001).

After completing the research and accompanying form, the Adjustment Unit employee entered the information, including the name and address of the taxpayer, the amount of the refund, the reason for the refund, and the square and lot number of the property associated with the refund request, into an online SOAR voucher screen in an Access database. (When FMS was used, employees prepared a voucher by typing information onto a triplicate form.) SOAR vouchers reflected the refund payee's name and address and the method of payment delivery. The vouchers also had a description field, which generally contained the reason for the refund payment (e.g., overpayment of taxes) and the square and lot number. In addition, vouchers contained four signature lines: (i) prepared by; (ii) authorized by; (iii) entered in SOAR; and (vi) approved in SOAR. Only the first two signature lines were intended for employees and managers in RPTA. The other signature lines were intended for RAA employees. The Access database automatically assigned a voucher number. The employee then printed the SOAR voucher for delivery to RAA, which had the sole authority to enter the actual refund request into SOAR itself. A copy of the SOAR voucher is attached hereto at Appendix B. For a time, Walters had access to SOAR that would have permitted her to make journal entries. She told us, however, that she never used that access to process a fraudulent refund.

The Adjustment Unit employee attached the SOAR voucher to the supporting documentation and sent it to the manager or supervisor of the Adjustment Unit for review and signature. If the refund associated with a particular voucher was above a certain amount, the voucher and documentation were supposed to be sent to varying levels of RPTA and OTR senior management for review and approval. It is not clear who was responsible for moving the voucher through the various approval levels. Some people we interviewed indicated that it was the responsibility of the Adjustment Unit manager or employee. In other words, a supervisor would approve the voucher, give it back to the Adjustment Unit employee, and then rely on that employee to move the voucher up the chain. Others indicated that it was the responsibility of each successive supervisor to forward the documents as necessary. As discussed in more detail below, the approval levels or changes thereto were ambiguous, generally were not understood by OTR managers and employees, and were not consistently enforced. This lack of an appropriately documented or executed control was a key feature of the system breakdown that enabled Walters to process fraudulent refunds without any meaningful scrutiny.

Court-Ordered Refunds. The processing of court-ordered refunds was essentially the same as processing for overpayment refunds. Court-ordered refunds generally were initiated when ASD or the Assessment Division received the requisite original court order with a raised seal from the clerk of the D.C. Superior Court. An Adjustment Unit employee prepared a worksheet used to calculate the proper interest to be paid. ASD employees then began the real property tax refund process described above.

Tax Sale Refunds. If a property owner or the owner's representative failed to pay the real property taxes due, the delinquent balance was added to the next cycle's bill (plus interest and a penalty). All properties with an outstanding unpaid balance for over 12 months were eligible for tax sale. In or around July of each year, RPTA managed a tax sale during which participants bid for the right to pay the outstanding tax balance on participating properties. Winning bidders had to pay at least the amount of the taxes owed, plus the outstanding penalty. Anything above that amount was called a surplus payment.

Winning bidders were awarded a tax sale certificate. If the property was not redeemed by the owner within six months of the tax sale, the tax sale certificate holder could begin the foreclosure process in the local court system. Property owners had until the actual time of foreclosure to pay back taxes plus penalties and interest. If a property owner paid the back taxes owed on the property, the District refunded the tax sale certificate holder's bid and tax payments plus interest and any surplus, and certain lawyer fees.

Tax sale refunds were processed manually via a SOAR voucher. Generally, tax sale refunds were researched by the Tax Sale Unit. It appears, however, that Walters and the Adjustment Unit processed at least some tax sale refunds, including refunds of legal fees associated with the tax sale. To support tax sale refunds, employees often attached a tax sale voucher, tax sale certificate, and a computer screen printout from RPT2000 or ITS. Once researched, tax sale refunds were prepared in the same manner as regular overpayment refunds.

(ii) Processing of Manual Refund Requests

After all of the necessary authorizations had been obtained, an Adjustment Unit employee made a copy of the refund packet. The original packets, which included the SOAR voucher and supporting documentation, were then grouped or "batched" and hand-delivered to an employee in OTR's Revenue Accounting Administration. The RAA employee entered the information from the SOAR voucher form directly into SOAR. A different RAA employee then verified that the data had been entered accurately and "released" the transaction.

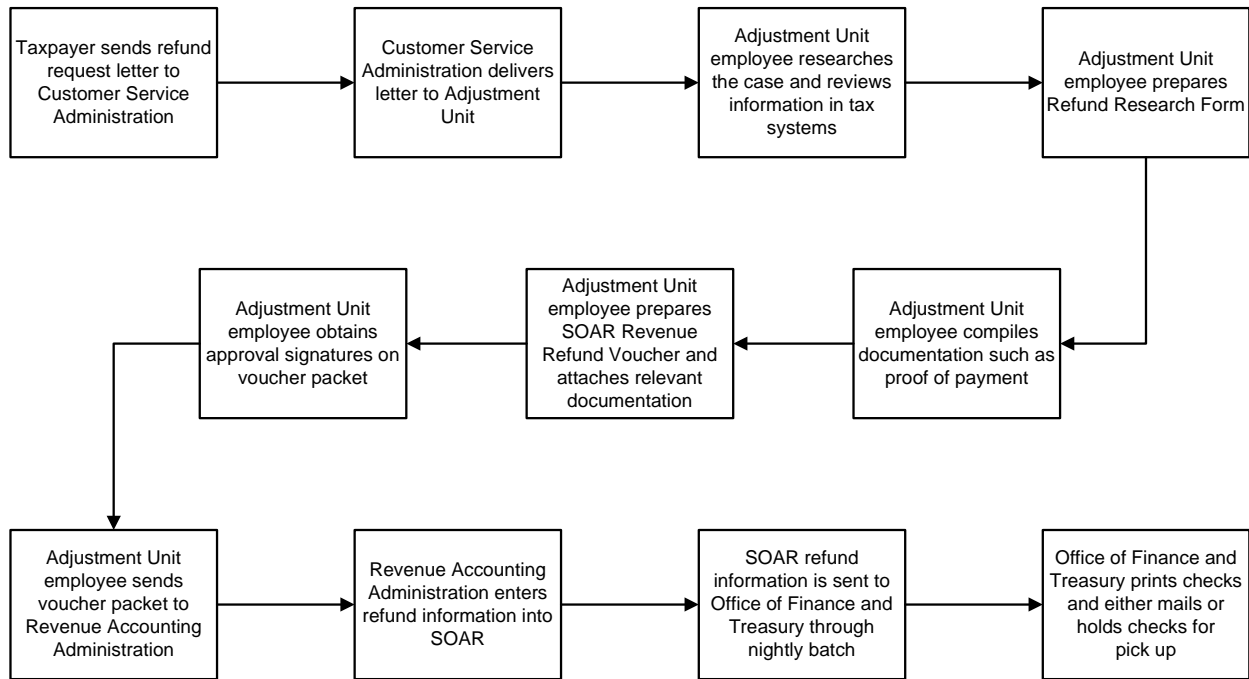
Releasing the entry in SOAR triggered an automated message to the Office of the Chief Technology Officer ("OCTO"), which assigned a check number to the request. Each day, OCTO created a check register listing the checks and the total amount that was sent to the Disbursing Unit in the Office of Finance and Treasury. OCTO also sent the information about the checks to be printed that day through the OCFO's check printing system. The Disbursing Unit caused the checks and a check register to be printed. An employee in the Disbursing Unit then compared the total run of checks against the check register to ensure the proper number of checks had printed. The Disbursing Unit conducted no substantive review of the checks.

The vast majority of checks were delivered to taxpayers or their representatives by mail. Some, however, were held for pick up by the taxpayer. OCFO policies and procedures stated that the hold for pick up approach should only be used in emergency situations. What constituted an emergency, however, was not defined in the policies and procedures, and official criteria were not otherwise provided to RPTA personnel. If checks were to be held, Adjustment Unit employees entered a particular code on the SOAR voucher; checks to be mailed had a different SOAR code. In addition, OFT policies and procedures in place at the time stated that OFT representatives had to "[p]repare a [Disbursing Unit] Acknowledgement of Check Receipt

Form for agency pick up” and “[o]btain [an] agency representative signature on an acknowledgement of check receipt at the time the checks are picked up and confirm that the representative is authorized to pick up checks for the agency.”

OFT printed hold for pick up checks and checks to be mailed in the same batch. After the batch print was complete, an employee in the Disbursing Unit sorted the checks into the two categories by hand. Hold for pick up checks were printed at the end of the print run. The Disbursing Unit also verified that the number of checks to be held for pick up matched the number indicated on the check register. After sorting, the checks were placed in “pigeon holes” by agency for pick up. Generally, an OTR courier picked up the real property tax refund checks coded as hold for pick up and then delivered them to an employee in RAA. That RAA employee contacted the requesting employee in the Adjustment Unit who then went to RAA to collect the checks. On occasion, an employee from OFT hand-delivered checks directly to employees in the Adjustment Unit. Upon receipt of the check, the Adjustment Unit then informed the taxpayer that the check was ready for pick up and had the taxpayer sign a copy of the check, which was retained in the Unit’s files.

This flow chart summarizes the manual overpayment refund process.



(c) Automated ITS Refunds

By the mid-2000s, when Walters began processing the largest amount of fraudulent refunds, the fraud might have been more difficult to perpetrate and easier to discover if OTR had followed through on initiatives to automate the real property tax refund process through ITS (the Integrated Tax System). At the time, ITS already had been deployed for several years in other divisions of OTR. However, because of general skepticism about the use of ITS for real

property, managers and employees essentially acquiesced to Walters' insistence on using the manual process for many refund transactions.

(i) Preparation of ITS Refund Requests

To trigger an ITS refund, taxpayers or their representatives had to submit a written request for a refund. Once a request was received, the Adjustment Unit went through essentially the same research process used for SOAR manual refunds. An Adjustment Unit employee reviewed the ITS file to confirm that a refund was due on the requested square and lot. The employee then prepared a Refund Research form and attached the letter requesting the refund and proof of payment.

ITS refunds should have required the same approvals as SOAR manual refunds. In practice, however, they were only signed by an Adjustment Unit employee. Even Walters, for the most part, did not review or authorize ITS refunds. Unlike for income tax refunds, ITS was not programmed to trigger higher approvals based on the dollar amount for real property tax refunds. An Adjustment Unit employee received the Refund Research form, initialed it, and then entered the refund information into ITS. The Adjustment Unit did not send the documentation associated with individual refunds to RAA. When entering the refund, the Adjustment Unit employee included an explanation of the refund in a comments field. According to Walters, one Adjustment Unit employee prepared the refund documentation and another entered the information into ITS.

(ii) Processing of ITS Refund Requests

Each day, an RAA employee accessed a batch of ITS refunds for each tax type and then "approved" each batch for payment. The batches consisted of multiple refunds and did not contain the details of individual refund transactions. Although this step in the process was called "approval," the RAA employee did not actually review the entry or any documentation associated with the refunds. Rather, RAA personnel assumed that the substantive approval was provided by RPTA employees and managers. RAA merely triggered the processing of a refund by changing an "N" (no) to a "Y" (yes) in ITS. Through this process, RAA signaled OFT to begin the check printing process. RAA also received a batch report of the refunds and prepared a journal entry to record them in the general ledger system.

Unlike SOAR, ITS does not have a function enabling refund processors to request that checks be held for pick up. Generally, real property ITS refund checks were sent, by default, to the address associated with the taxpayer in the system. Adjustment Unit employees, however, had the ability to "create relationships" in ITS between the taxpayer on file and persons or entities that were to receive the refund. As a result, employees were able to mail refunds to persons other than the taxpayer (e.g., a mortgage company or person who paid the taxes on the owner's behalf). There was also a manual workaround that permitted ITS checks to be held for pick up. On occasion, if requested by the employee who processed the refund, an employee in RAA contacted the Disbursing Unit by telephone and facsimile requesting that an ITS check be returned directly to her so it could be held for pick up.

IV. FINDINGS ON THE MECHANICS OF WALTERS' SCHEME

In this section, we discuss: (i) the methodology for determining which refunds were fraudulent; (ii) the results of that analysis; and (iii) the inception and development of Walters' scheme.

A. Refund Analysis Methodology

WilmerHale and PwC conducted a detailed analysis of real property tax refunds that included a review of hard copy and electronic documents, an analysis of the general ledger and various tax systems, witness interviews, and requests to third parties for additional information.

First, WilmerHale and PwC reviewed available voucher packets for manual real property tax refunds, regardless of amount.⁶ These records include documentation associated with refunds dating back to 1998. No documentation was found for real property tax refunds before September 1998. The OCFO reported that the pre-September 1998 refund documents had been destroyed over the years in the normal course of business.⁷ Most of the voucher packets associated with manual refunds had been seized by federal authorities, and the U.S. Attorney for the District of Columbia made these documents available to us for review.⁸ WilmerHale and PwC identified more than 1,600 refunds for additional review, usually for the following reasons:

- *Identity of the Refund Recipient.* WilmerHale and PwC compared the refund payees to a list of entities known, based on information made public at the time of Walters' arrest, to have received fraudulent refunds. They also identified voucher packets reflecting that a refund was issued to a legitimate business or entity but where the check was addressed to certain "care of" addresses.
- *Lack of Authorizing Signatures.* WilmerHale and PwC identified vouchers lacking authorizing signatures that were required by what they believed to be applicable practices.
- *Mismatched or Missing Documentation.* WilmerHale and PwC also identified vouchers where the documentation appended to the voucher did not appear to correspond to the property or taxpayer reflected as the recipient of the tax refund. For example, in some instances, the proof of payment and/or letter requesting the

⁶ The U.S. Attorney's Office for the District of Columbia collected voucher packets from both the Revenue Accounting Administration and Assessment Services Division. RAA had the "original" packets and ASD maintained the copies. The two sets of vouchers, however, were not exact duplicates—ASD did not always forward all supporting documentation to RAA. We reviewed documents from both sets.

⁷ Walters said during her interview that she believed some refund records may have been sent to off-site storage in the late 1990s. WilmerHale and PwC reviewed off-site storage indices and found no specific reference to such documents. They also asked the OCFO to review its off-site storage records and were told that no current employee was aware of any real property tax refund records being sent to off-site storage during that time period. Walters also confirmed that some refund records were destroyed in the normal course of business.

⁸ In the course of the investigation, WilmerHale and PwC located additional refund documentation. We notified the U.S. Attorney's Office, which quickly seized the materials. The prosecutors made these materials available for this investigation shortly thereafter.

refund did not appear to relate in any way to the actual recipient of the refund. In fact, certain back-up documents were used repeatedly to support refunds to several different payees. Similarly, WilmerHale and PwC identified vouchers where the square and lot numbers did not match the square and lot numbers reflected in the back-up documentation. In many such cases, the square and lot numbers on the SOAR voucher were slightly different from the square and lot numbers reflected on the Refund Research form. For example, the SOAR voucher may have indicated that the refund was for square 1234, lot 789, but the Refund Research form and other supporting documentation related to square 1243, lot 798.

WilmerHale and PwC next applied heightened scrutiny to the following types of real property transactions:

- refunds over \$10,000;
- refunds that were to be held for taxpayer pick up;
- refunds mailed to a “care of” address;
- refunds issued to taxpayers that did not appear to own property in the District; and
- court-ordered refunds for which an original court order with a raised seal did not accompany the refund documentation.

Second, WilmerHale and PwC supplemented the voucher review with analyses of data in FMS, SOAR, and ITS. The following is a table that sets out the number of transactions identified as real property tax refunds and the total amount of such refunds contained in the two general ledger systems as well as ITS.

General Ledger and Tax Systems	Date Range	Voucher Count	Total
FMS	10/1980 – 9/1998	26,955	\$ 270,072,794
SOAR	10/1998 – 1/2008	16,574	171,156,360
ITS	2/2005 - 1/2008	3,326	18,854,132
	Total	46,855	\$ 460,083,286

WilmerHale and PwC were able to review and analyze the data in these systems to identify refunds with characteristics consistent with refunds previously identified as fraudulent in court documents filed by the U.S. Attorney’s Offices. Through this process, we were able to identify suspicious refunds for which hard copy documentation was not available or was ambiguous or incomplete.

A review and analysis of FMS identified a number of refunds to entities or individuals known to be involved in Walters’ scheme. Due to the passage of time, however, hard copy records—including vouchers, supporting documentation, and cancelled checks associated with these refunds—were not available for review.

WilmerHale and PwC conducted a similar analysis of SOAR data by isolating all real property tax refund payments reflected in the general ledger and then searching the general ledger for refunds with characteristics of fraud, including names of entities known to be involved in the fraud, refunds sent to “care of” addresses, and refunds that were coded as hold for pick up. Documentation associated with some of the refunds identified during this process was not available for review.

WilmerHale and PwC reviewed all available documentation associated with real property tax refunds processed through ITS. The paperwork for these refunds was essentially the same as for manual refunds, but the refund documentation did not contain the SOAR voucher form. WilmerHale and PwC then analyzed real property tax refund data in ITS to identify patterns of data and activity indicative of Walters’ scheme.

Third, WilmerHale and PwC requested copies of cancelled checks associated with the refunds identified during the review of the voucher packets, general ledger systems, and tax systems. They also requested copies of cancelled checks associated with all other real property tax refunds of \$100,000 or more. By reviewing cancelled checks, WilmerHale and PwC were able to obtain additional information concerning whether refunds were legitimate or illegitimate. They identified checks that had been deposited at bank branches where known fraudulent refunds had been processed. They also were able to identify fraudulent refunds based on account information on the back of checks. By comparing endorsements, they were able to confirm or identify additional fraudulent refunds. WilmerHale and PwC were not provided access to original cancelled checks, and thus the review was somewhat limited. For example, certain copies of cancelled checks did not contain any bank branch information, bank account information, or endorsements. Also, the OCFO was not able to provide all of the requested cancelled checks. Most checks issued before December 1999 were not available. OCFO employees also reported that they could not find several more recent cancelled checks.

Finally, WilmerHale and PwC compared refunds in the SOAR general ledger to various databases, including a refund database maintained by the Adjustment Unit (the “Access” database), RPT2000, ITS, and the public extract of real property information available on the OCFO’s web page. They identified refunds in SOAR that did not appear to coincide with actual properties or property owners contained in the various systems. Based on this analysis, WilmerHale and PwC were able to obtain additional information regarding the fraudulent nature of certain previously identified suspicious payments. WilmerHale and PwC also interviewed individuals or requested information from third parties about particular refunds.

B. Results of the Refund Analysis

Based on this analysis, we believe that Walters processed and issued 239 fraudulent refunds over the course of nearly two decades for a total amount of approximately \$49 million. Two of the checks associated with Walters’ fraudulent refunds totaling just under \$900,000 were stopped by banks and never cashed. Our determinations of which refunds were fraudulent were based on WilmerHale and PwC’s analysis of the refunds and confirmed by the plea documentation filed by the U.S. Attorney’s Office in *United States v. Walters* (which set out facts Walters agreed to be true). During our investigation, we identified one refund not reflected in the plea documentation that we believe to be fraudulent. The following table compares our findings to the results of the criminal investigation.

	Count	Amount
Total per Walters Statement of Offenses	236	\$ 48,115,431
Checks stopped by the bank	2	893,940
Additional fraudulent refund	1	251,270
Total Fraudulent	239	\$ 49,260,641

We also identified an additional 12 refunds that were highly suspicious, meaning that they had several indicia of fraud, but for which we lacked sufficient documentation to conclude that they were fraudulent. Information about these refunds has been provided to the OCFO and the U.S. Attorney's Office for the District of Columbia.

A listing of all fraudulent refunds that we identified is in Appendix A to this Report.⁹ The following table summarizes the results of the refund analysis.

General Ledger	Date Range	Total Number of Fraudulent Refunds	Total Amount of Fraudulent Refunds	Average Refund (including ITS)	
				Fraudulent	Other
FMS	10/1980 – 9/1998	76	\$ 3,937,428	\$ 51,808	\$ 9,901
SOAR	10/1998 – 1/2008	163	45,323,213	\$ 278,057	\$ 7,331
	Total	239	\$ 49,260,641		

⁹ We did not identify any evidence suggesting that any person or business listed in the tables contained in this Report detailing Walters' fraudulent refunds was aware of or involved in Walters' scheme, other than those people who have pleaded guilty in connection with the scheme.

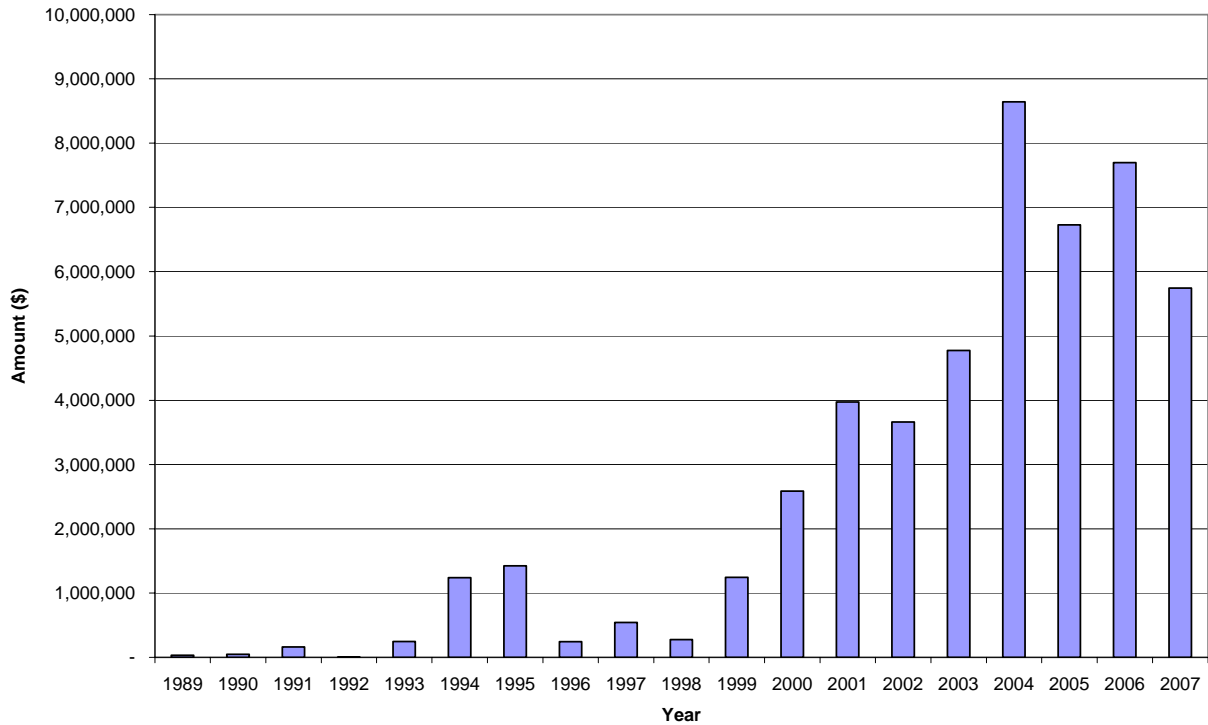
The following tables and graphs reflect the number and dollar value of Walters' fraudulent refunds.

FMS		
Year	Total Fraudulent Refund Count	Total Fraudulent Refund Amount
1989	6	\$ 31,735
1990	11	47,017
1991	10	160,153
1992	1	4,711
1993	5	246,301
1994	20	1,237,425
1995	19	1,423,238
1996	3	243,425
1997	1	543,423
Total	76	\$ 3,937,428

SOAR		
Year	Total Fraudulent Refund Count	Total Fraudulent Refund Amount
1998	2	\$ 275,894
1999	8	1,244,522
2000	14	2,587,831
2001	21	3,970,987
2002	17	3,661,748
2003	19	4,771,787
2004	26	8,641,720
2005	20	6,727,130
2006	19	7,697,097
2007	17	5,744,497
Total	163	\$ 45,323,213

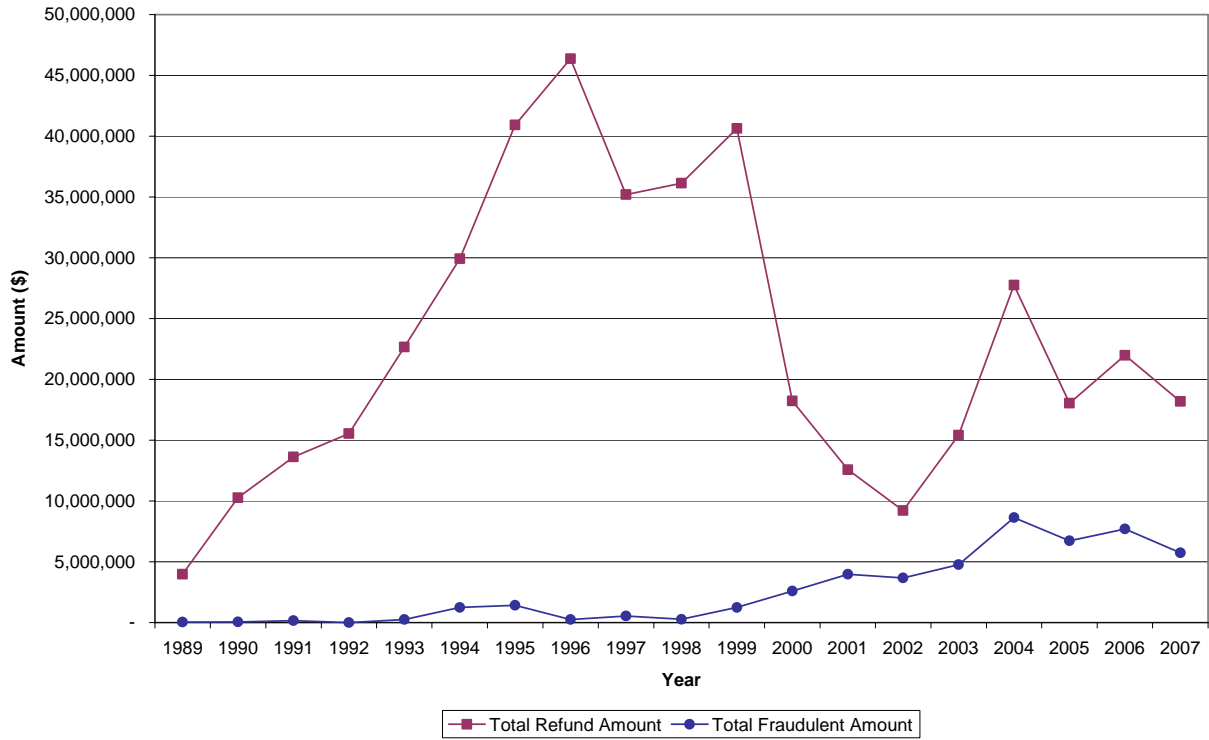
Note: There were no fraudulent refunds identified in FMS in 1998. All fraudulent refunds identified in 1998 were issued through SOAR.

Fraudulent Refunds Over Time

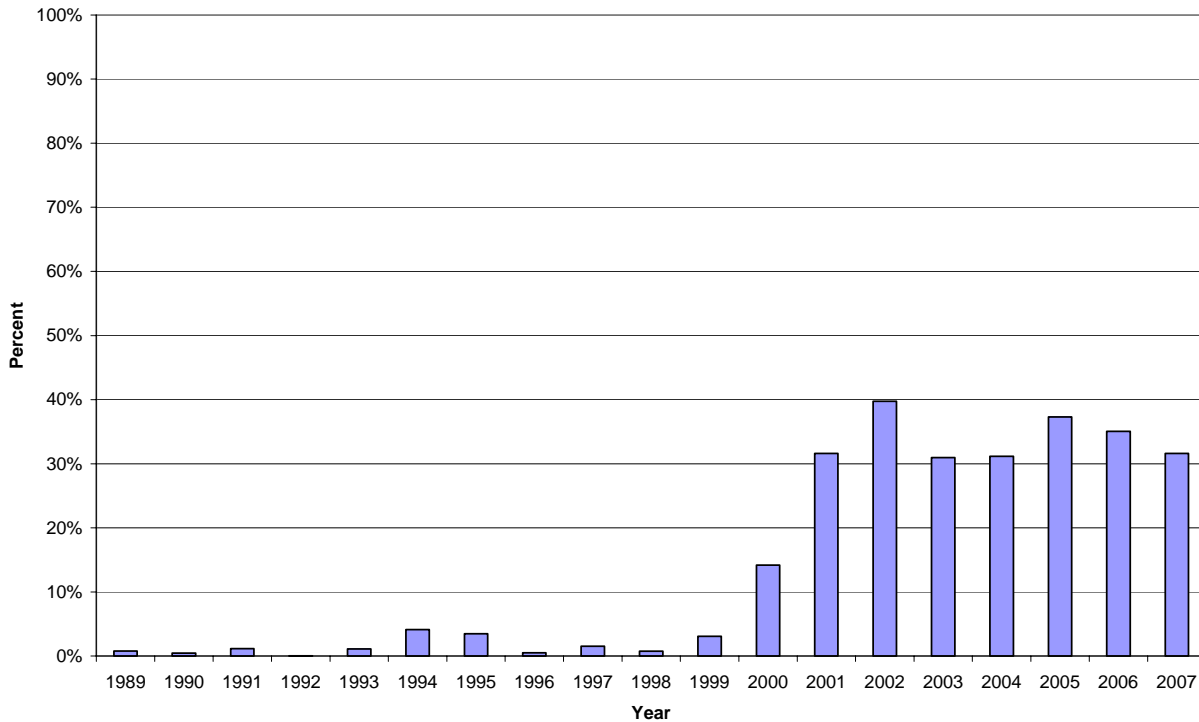


The following graphs compare Walters' fraudulent refunds to total real property tax refunds during the relevant period.

Total Refund Activity versus Fraudulent Refund Activity



Percent Fraudulent of Total Refund Dollars



As reflected in these graphs and as discussed in more detail below, Walters’ fraudulent refunds increased significantly both in amount and as a percentage of total refund dollars between 1998 and 2002. Between 1999 and 2002, total real property tax refund activity dropped significantly. According to a report issued in April 2000 by the Office of the District of Columbia Auditor (“ODCA”), RPTA officials expected such a reduction in real property tax refunds because of a change in the assessment appeals process. Before this time, first-level appeals were handled by BRPAA. Under the new process introduced around 1999, first-level appeals were handled directly by assessors in the Assessment Division of OTR; BRPAA handled second-level appeals. The ODCA report indicates that RPTA officials believed that the new process would reduce refunds because assessments would be more in line with actual market values before the actual tax bills were sent to property owners. In addition, ODCA reported in March 2001 that stronger than anticipated collections of real property taxes resulted, in part, from a reduction in the backlog of real property tax refunds. Partly as a result of this drop, fraudulent real property tax refund dollars became a much larger percentage of total refund dollars, reaching 40% in 2002.

Between 2002 and 2004, total real property tax refunds and Walters’ fraudulent refunds both increased significantly. According to an analysis prepared by Office of Revenue Analysis (“ORA”) employees after the discovery of Walters’ scheme in November 2007, the spike in total real property tax refund activity between 2002 and 2004 corresponded in time to an escalation in the market values of District properties as well as a significant increase in the number of assessments appealed to BRPAA. An ORA employee who helped prepare the analysis said during his interview that although assessment changes resulting from BRPAA appeals do not

typically result in refunds—they are generally reflected in tax bills—an increase in appeals often correlates to an increase in refunds. The ORA employee also explained that increased assessments may also correspond to an increase in refunds because there is a greater economic incentive to pursue appeals.

The large increase in Walters’ fraudulent refunds, particularly from 2003 to 2004, most likely corresponds to Walters’ ability to process refunds without additional management supervision, as discussed below. Also, even though Walters reduced the total amount of her fraudulent refunds between 2004 and 2005, and even though the amount of her fraudulent refunds remained relatively flat between 2005 and the discovery of the fraud in 2007, they continued to account for between 32% and 37% of all real property tax refund dollars in these years.

1. FMS Refund Analysis

We identified 76 fraudulent refunds in FMS, the general ledger system used before the implementation of SOAR in October 1998, which totaled approximately \$4 million. Our identification of fraudulent refunds was based on WilmerHale and PwC’s review of the data available in FMS and was confirmed by the plea documents for Walters and other participants in Walters’ scheme, to which the various participants agreed. We found an additional 11 refunds for approximately \$602,000 in FMS that were highly suspicious but that we could not conclusively deem fraudulent because documentation does not exist for refunds processed before September 1998. The following table summarizes the results of our FMS analysis.

FMS Refund Analysis

Refund Amount (\$)	Total Number of Refunds	Number of Fraudulent Refunds	Percent Fraudulent of Total	Total Refund Amount	Amount of Fraudulent Refunds	Percent Fraudulent of Total
1,000 or less	17,757	-	0.00%	\$ 6,432,786	\$ -	0.00%
1,001 to 10,000	6,395	24	0.38%	17,601,909	109,602	0.62%
10,001 to 50,000	1,451	9	0.62%	36,313,498	338,829	0.93%
50,001 to 100,000	671	42	6.26%	48,083,698	2,945,574	6.13%
100,001 to 200,000	406	-	0.00%	56,407,820	-	0.00%
200,001 to 300,000	150	-	0.00%	36,421,105	-	0.00%
300,001 to 400,000	48	-	0.00%	16,570,685	-	0.00%
400,001 to 500,000	26	-	0.00%	11,460,585	-	0.00%
500,001 or greater	51	1	1.96%	40,780,708	543,423	1.33%
Total	26,955	76	0.28%	\$ 270,072,794	\$ 3,937,428	1.46%

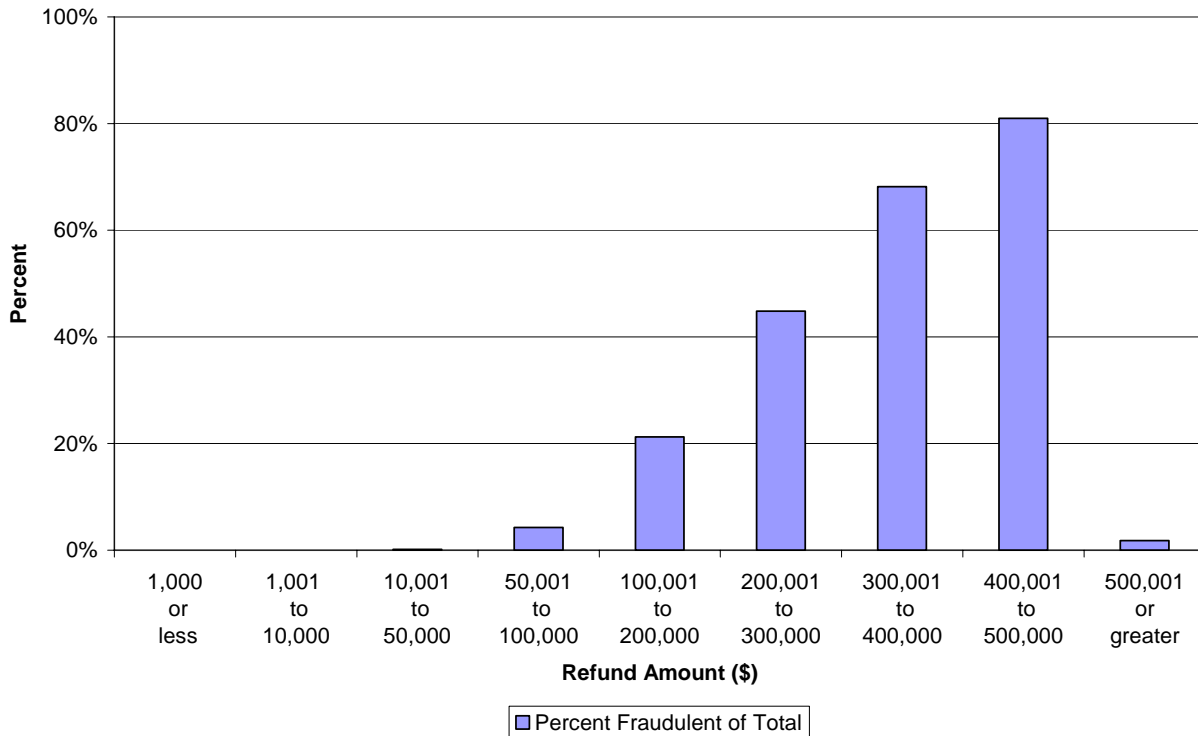
2. SOAR and ITS Refund Analysis

We identified 163 fraudulent SOAR real property tax refunds amounting to approximately \$45 million. We found an additional refund for \$188,573.57 in SOAR that was highly suspicious but, due to lack of documentation, we could not conclude was fraudulent. The following table and graph summarize the results of our SOAR and ITS analysis.

SOAR and ITS Refund Analysis

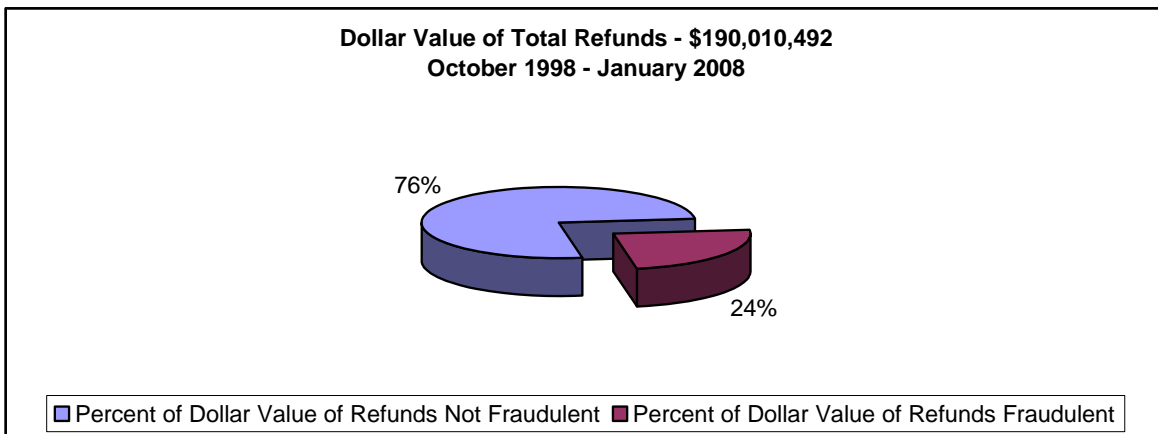
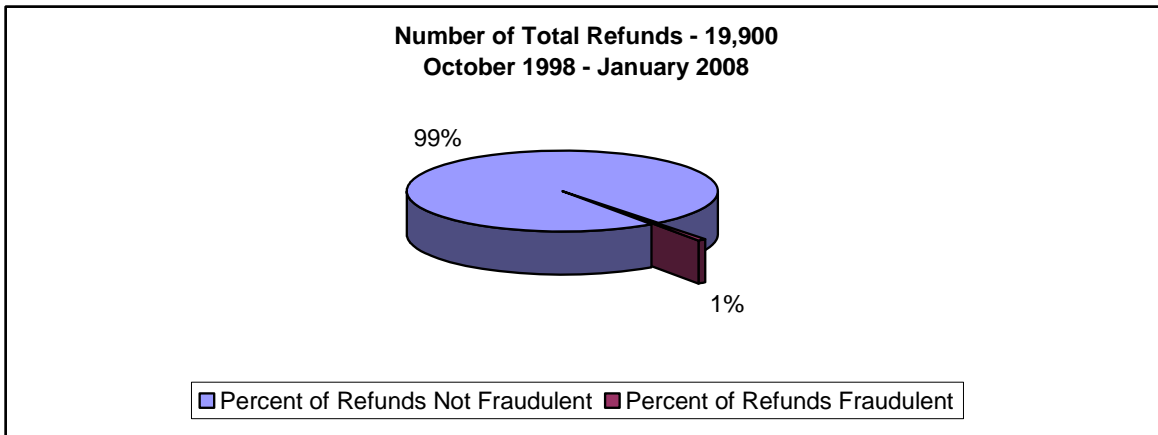
Refund Amount (\$)	Total Number of Refunds	Number of Fraudulent Refunds	Percent Fraudulent of Total	Total Refund Amount	Amount of Fraudulent Refunds	Percent Fraudulent of Total
1,000 or less	11,474	-	0.00%	\$ 4,268,623	\$ -	0.00%
1,001 to 10,000	6,508	-	0.00%	20,061,349	-	0.00%
10,001 to 50,000	1,226	1	0.08%	27,975,076	47,255	0.17%
50,001 to 100,000	278	11	3.96%	19,933,702	854,058	4.28%
100,001 to 200,000	183	36	19.67%	26,075,301	5,538,243	21.24%
200,001 to 300,000	90	40	44.44%	22,278,752	9,984,844	44.82%
300,001 to 400,000	79	53	67.09%	27,664,162	18,864,499	68.19%
400,001 to 500,000	26	21	80.77%	11,722,896	9,493,213	80.98%
500,001 or greater	36	1	2.78%	30,030,631	541,101	1.80%
Total	19,900	163	0.82%	\$ 190,010,492	\$ 45,323,213	23.85%

Percent Fraudulent of Total SOAR and ITS Refunds



As the table and graph demonstrate, starting in 1998, the *value* of Walters' fraudulent refunds accounted for a significant percentage of all real property tax refund payments. From October 1998 to January 2008, Walters' fraudulent refunds accounted for nearly 24% of *all* real property tax refund dollars, despite representing less than 1% of the number of actual refunds. During this time, 21% of real property tax refunds between \$100,001 and \$200,000 were fraudulent, 45% of real property tax refunds between \$200,001 and \$300,000 were fraudulent,

and 68% of real property tax refunds between \$300,001 and \$400,000 were fraudulent. Most significantly, 81% of real property tax refunds between \$400,001 and \$500,000 were fraudulent.



3. Tax Sale Refunds

We did not identify any apparently fraudulent refunds of fee or bid payments made in connection with the yearly tax sale. As with regular and court-ordered refunds, however, there were a vast number of tax sale refunds that did not appear to have sufficient supporting documentation. In addition, like other manual refunds, many large tax sale refunds did not contain required management approvals.

C. Walters' Scheme

1. The Scheme's Inception

Harriette Walters began working as a temporary employee for the District in 1981 as an accounting technician in the Real Property division of the Department of Finance and Revenue (which later became OTR). Walters became a permanent District employee in or around 1984.

Walters said in her interview that, in the mid-1980s, she noticed that employees in her division were waiving penalties and interest associated with late tax payments from mortgage and title companies in exchange for cash and other gifts. While no one else acknowledged in interviews being aware of employees accepting cash for waiving penalties and interest, Walters and another long-time OTR employee told us that it was fairly common in the mid- to late-1980s for mortgage and title companies to send "gift baskets" to tax office employees. Walters also said that it was fairly well-known around the office that penalty and interest waivers were granted in exchange for gifts and that this practice was not limited to the real property tax area; similar practices occurred, she said, in administrations dealing with personal income tax and business tax. Walters discussed this with another employee in her division ("Employee One").¹⁰ According to Walters, Employee One told her how to set "bait" for mortgage and title companies to see if they were willing to pay off OTR employees to waive penalty and interest charges.

Walters also explained that, early in her employment, she noticed that Employee One was taking refund payment checks that had been returned to the tax office because the taxpayer was deceased. Walters said she discussed this with Employee One, who told her that the checks could be intercepted and ultimately cashed at a check cashing store. Walters began taking checks of deceased taxpayers and splitting the proceeds with Employee One and the person cashing the checks. Walters told us that she never actually cashed the checks herself; she relied on Employee One to handle the money.

Around the same time, Walters noticed that the taxpayer/recipient designated on a pending refund request was a personal friend of Employee One. Walters believed the refund was not legitimate. Walters initially confronted Employee One about the propriety of the refund, but after additional discussions, Walters agreed to help Employee One process more fake refunds. After Walters and Employee One processed the fake refunds, Employee One took the checks to the check cashing store to be cashed. Walters said that she, Employee One, a friend of Employee One, and the check cashing store employee split the proceeds. According to Walters, she and Employee One processed a number of fake refunds between the mid-1980s and 1989, generally ranging from about \$800 to \$2,000 or \$3,000. We were unable to find electronic or paper records associated with these refunds and do not know the total amount embezzled in this time period.

Walters explained that, when she processed fake refund requests during this period, she took steps to ensure that they looked as "normal" as possible. She did not want her fake refunds to stand out when they were reviewed by managers or employees entering the requests into the District's general ledger. When Walters or one of the other participants in the scheme needed

¹⁰ Employee One was previously identified as Participant Five in the Statement of Offenses filed by the U.S. Attorney's Office for the District of Columbia in connection with Walters' plea agreement. We understand that Employee One is not and has not been a District employee for a number of years.

money, she would prepare a fake refund case and fill out a voucher. To make the fake refund requests look like normal, valid refund paperwork, she took letterhead from law firms or mortgage companies that were frequently in contact with the tax office and pasted them onto letters that she wrote requesting a tax refund. She then cut and pasted signatures from the original, legitimate letters onto the fake letter. She next photocopied the falsified letter a number of times to make it look genuine. Walters appended to the letter either fake checks or cancelled checks that she copied from other refund requests.

Walters then prepared the refund voucher form which, at the time, was in triplicate. On the first page of the triplicate form, she typed the name and address of a legitimate mortgage company or law firm, but she left the same lines on the second and third pages blank. She then physically took or routed the incomplete form to her supervisors for approval. Walters believed that all refunds had to be approved by a manager at the time but could not specifically recall what level of requests required approval from more senior management. Walters also could not recall a manager or supervisor ever confronting or questioning her about a fraudulent refund request; it appeared to her that no one noticed that the second and third pages of the voucher forms were incomplete.

After the signed voucher form was returned to her, Walters erased the mortgage company or law firm name and address on the top page of the triplicate form and typed the name and address of one of the participants in the scheme on the form. She then sent the altered vouchers to a separate department (which became RAA) to be entered into the accounting system so the checks could be prepared. The requests were marked “hold for pick up.” Walters either picked up the checks herself or had another employee pick them up and give them to her. She then delivered checks to scheme participants, who took them to be cashed.

Walters told us that, over time, Employee One became less reliable as a “partner”—according to Walters, Employee One was using drugs, was in and out of rehabilitation, and had, for a time, ceased being a District employee. Walters informed us that she used her position as a Union steward to help Employee One remain a District employee. She also told us that Employee One started asking her for payments before fake refunds were actually processed. Around 1989, Walters decided to find new partners for her refund scheme and identified several friends outside of the District government willing to participate and share in the proceeds of her fraudulent activity.

The first fraudulent refund payment that we were able to identify definitively was processed through FMS in June 1989. The refund for \$4,060 was made payable to Alethia Grooms, as reflected in the Statement of Offenses in *United States v. Grooms*, to which Grooms agreed. Grooms was a friend of Walters who decided to participate in the scheme. Although we were unable to find a copy of the check or the voucher and paperwork, we understand that the first Grooms refund was marked “hold for pick up.” Walters received the check and provided it to Grooms, who then cashed the check. During the next three years, Walters caused another seven fraudulent refund checks to be made payable to Grooms, her aliases, or other names associated with Grooms. Walters and Grooms shared the proceeds of the following fraudulent refunds.

Refunds to Grooms and Her Family Through FMS

Date	Voucher	Payee	Description	Amount
06/20/1989	VRRECARE9579	ALETHIA GROOMS		\$ 4,060.00
07/20/1989	VRRECARE9670	ALETHIA GROOMS		4,848.66
01/10/1990	VRRECARE1119	ALETHIA O GROOMS	S2900L0004	4,628.40
06/13/1990	VRRECARE1653	A.O. GROMES	1990 BASIC TAX	4,236.44
12/11/1990	VRRECARE2232	[RELATIVE OF GROOMS]	1986 BASIC TAX	4,785.75
02/04/1991	VRRECARE2784	OLIVIA GROOMS	1990 BASIC TAX	4,932.30
12/17/1991	VRRECARE4050	ALETHIA MACK	1992 BASIC TAX	3,514.51
12/17/1991	VRRECARE4051	A OILIVIA GROOMES	1991 BASIC TAX	4,602.75
			Total	\$ 35,608.81

During the same period, Walters and Grooms found additional individuals willing to participate in the fraudulent refund scheme. From 1989 to 1991, Walters processed and issued six checks for fraudulent refunds, ranging from about \$2,000 to nearly \$10,000, to two of Grooms' friends. These payments totaled \$29,918.58.

Around May 1991, Walters discussed her refund scheme with her friend Samuel Earl Pope. Walters informed Pope, who had become a mentor to Walters' nephew, that she was able to process fraudulent refunds. According to the Statement of Offenses in *United States v. Pope*, to which Pope agreed, he decided to participate in the scheme. Unlike the checks to Grooms, which actually were processed in the name of Grooms or a family member, Walters processed refunds to companies associated with Pope. Walters explained that, around this time, she realized that by processing refunds to businesses rather than individual taxpayers, she could increase the amount of the refund without increasing the amount of scrutiny the refund request received. Typically, according to Walters, businesses received larger refunds than individual taxpayers. In May 1991, Walters caused a refund payment of \$37,639 to be issued to Earl Pope and Associates, Inc. From September 1991 to early 1996, Walters caused an additional 17 fraudulent refunds to be issued to entities connected to Pope totaling \$885,343.86. Walters and Pope shared the proceeds of these fraudulent refunds.

The following is a summary of refunds issued through FMS to companies associated with Pope.

Pope Refunds Issued Through FMS

Date	Voucher	Payee	Description	Amount
05/03/1991	VRRECARE3281	EARL POPE & ASSOCIATES INC	1990 BASIC TAX	\$ 37,639.00
09/16/1991	VRRECARE3561	EARL POPE AND ASSOCIATES	1991 BASIC TAX	23,333.52
07/20/1993	VRRECARE8010	WALKER-POPE & ASSOCS	1990 BASIC TAX	28,656.01
10/01/1993	VRRECARE7699	POPE AND ASSOCIATES	1989 BASIC TAX	43,432.63
01/31/1994	VRRECARE7821	WALKER-POPE INC	1993 BASIC TAX	52,963.00
03/02/1994	VRRECARE8905	POPE AND ASSOCS INC	9-15-93 BASE TAX	46,880.00
05/03/1994	VRRECARE0721	WALKER-POPE ASSOCIATES	9-15-93 BASE TAX	48,900.00
04/28/1994	VRRECARE0015	POPE AND ASSOCIATES, INC	1993 BASE TAX	58,020.90
07/08/1994	VRRECARE0022	POPE-WALKER AND ASSOCS	1992 BASE TAX	48,321.79
09/01/1994	VRRECARE0011	WALKER-POPE & ASSCOS INC	1994 BASE TAX	55,820.69
11/02/1994	VRRECARE0019	WALKER-POPE & ASSOCS	1994 BASE TAX	58,670.98
11/29/1994	VRRECARE0023	POPE AND ASSOCIATES, INC	1993 BASE TAX	52,642.33
01/24/1995	VRRECARE2028	WALKER-POPE & ASSOC INC	9-15-93 BASE TAX	46,874.98
03/31/1995	VRRECARE2030	POPE AND ASSOCIATES, INC	1994 BASE TAX	63,729.89
05/15/1995	VRRECARE3811	POPE AND ASSOCIATES	1994 BASE TAX	57,929.09
06/15/1995	VRRECARE3003	WALKER-POPE & ASSOCIATES INC	1994 BASE TAX	63,375.67
08/28/1995	VRRECARE3011	POPE MANAGEMENT INC	1993 BASE TAX	74,293.02
02/02/1996	VRRECARE1125	POPE-WALKER INC	1994 BASE TAX	61,499.36
			Total	\$ 922,982.86

Walters also invited her friend Patricia Steven to participate in her refund scheme. According to Walters, in the 1980s, Steven was her mentor and taught her about fashion. Walters first issued a fraudulent refund to Steven in 1990. From 1990 through 1997, Walters caused to be processed and issued a total of 21 refunds to Patricia Steven or to entities Steven controlled. Included in these refunds was a check for \$543,423.50, which was the largest fraudulent refund Walters processed. Walters told us that Steven used the proceeds of that check to purchase and renovate a home. According to the Statement of Facts in *U.S. v. Steven* to which Patricia Steven agreed, Walters and Patricia Steven shared the proceeds of these fraudulent refunds.

The following is a summary of refunds issued through FMS to people or entities associated with Steven.

Steven Refunds Issued Through FMS

Date	Voucher	Payee	Description	Amount
05/14/1990	VRRECARE1575	PATRICIA FLOOD	1990 BASIC TAX	\$ 4,359.79
06/18/1990	VRRECARE1648	S.M. STEVEN	1990 BASE TAX	4,739.26
07/23/1990	VRRECARE1735	PAT A FLOOD	1990 BASIC TAX	4,719.70
07/23/1990	VRRECARE1743	MRS ROBERT R. STEVENS	1990 BASIC TAX	4,844.94
09/11/1990	VRRECARE1805	P A STEVENS	1989 BASIC TAX	4,219.30
11/19/1990	VRRECARE1928	S. MARIE STEPHENS	1991 BASIC TAX	4,056.00
12/14/1990	VRRECARE2241	P. ANN FLOOD	1991 BASIC TAX	4,129.34
02/23/1991	VRRECARE862	R.O. & P.A. STEPHENS	1991BASIC TAX 1991 BASIC TAX	4,735.50
07/09/1991	VRRECARE3449	FLOOD AND ASSOCIATES	1991 BASIC TAX	14,791.01
12/04/1991	VRRECARE4022	PAT STEPHENS	1992 BASIC TAX	3,559.28
02/27/1992	VRRECARE4864	PATRICIA FLOOD	1990 BASIC TAX	4,711.29
02/23/1995	VRRECARE2031	STEVENS MANAGEMENT INC	1990 BASE TAX	66,509.18
05/11/1995	VRRECARE2038	STEVENS-OCHS AND ASSOCS	1993 BASE TAX	74,002.50
05/15/1995	VRRECARE3800	STEVEN & ASSOCS. INC	9/15/1993	78,941.01
06/15/1995	VRRECARE3001	STEVENS AND ASSOCIATES INC	1990 BASE TAX	76,900.90
07/24/1995	VRRECARE3015	FLOOD-STEVEN & ASSOCS INC	1995 BASE TAX	84,977.09
08/28/1995	VRRECARE3012	STEVEN WALKER JONES ASSOCS	1993-94 BASE TAX	63,090.23
12/01/1995	VRRECARE3028	STEVEN & ASSOC INC	1990-94 BASE TAX	86,423.86
12/07/1995	VRRECARE1101	STEVEN-FLOOD ASSOCS INC	PENALTY & INTEREST 1993 BASE TAX	92,586.45
02/22/1996	VRRECARE1124	FLOOD-STEVEN INC ASSOC	INTEREST 9-15-93 1995 BASE	92,864.83
07/10/1997	VRRECARE6049	STEVEN ASSOCS INC	1996 BASE TAX	543,423.50
			Total	\$ 1,318,584.96

Around 1990, according to Walters, Patricia Steven formed a company called Bellarmine. Walters and Steven intended Bellarmine to design and sell clothing. Bellarmine, however, did not own property in the District of Columbia. From October 1991 to February 1996, Walters caused 23 fraudulent refunds to be issued to Bellarmine or similarly named companies (e.g., Riverside/Bellarime and Bellarmine and Associates) for approximately \$1.6 million.

The following is a summary of refunds issued to Bellarmine and its derivatives through FMS.

Bellarmine Refunds Issued Through FMS

Date	Voucher	Payee	Description	Amount
10/22/1991	VRRECARE3672	RIVERSIDE/BELLARIME	1991 BASIC TAX	\$ 58,250.41
06/08/1993	VRRECARE6913	BELLARMINE DESIGNS	1993 BASE TAX	62,478.20
07/20/1993	VRRECARE8016	BELLAMINE ASSOCIATES	1991 BASIC TAX	58,250.41
10/01/1993	VRRECARE7417	RIVERSIDE-BELLARMINE & ASSOCS	1989 BASE TAX	53,483.90
01/11/1994	VRRECARE8410	BELLAMARMINE INC	1993 BASE TAX	53,784.02
01/31/1994	VRRECARE7820	RIVERSIDE-BELLARMINE & ASSOC	1989 BASIC TAX	84,959.80
03/21/1994	VRRECARE9411	RIVERSIDE-BELLARMINE & ASSOC	9-15-93 PYMT.	72,990.00
04/08/1994	VRRECARE9417	BELLARMINE & ASSOCIATES INC.	9-15-93 PAYMENT	52,784.66
05/03/1994	VRRECARE0722	RIVERSIDE-BELLARMINE & ASSOCS	1990 BASE TAX	69,843.94
05/20/1994	VRRECARE0010	BELLARMINE AND ASSOCS, INC.	1989-90 BASE TAX	68,495.84
04/28/1994	VRRECARE0014	RIVERSIDE-BELLARMINE INC	1992 BASE TAX	66,560.00
07/08/1994	VRRECARE0017	RIVERSIDE-BELLARMINE & ASSOCS	1993 BASE TAX	77,990.43
07/08/1994	VRRECARE0021	BELLARMINE, INC AND ASSOCS	1991 BASE TAX	64,782.09
09/01/1994	VRRECARE0012	RIVERSIDE-BELLARMINE & ASSOCS	1994 BASE TAX	72,548.54
11/02/1994	VRRECARE0018	BELLARMINE & ASSOCS INC	1993-94 BASE TAX	72,340.12
11/29/1994	VRRECARE0024	BELLARMINE-RIVERSIDE & ASSOC	1994 BASE TAX	58,125.99
01/24/1995	VRRECARE2029	RIVERSIDE-BELLARMINE INC	1992 BASE TAX	68,320.23
03/31/1995	VRRECARE2034	BELLARMINE & ASSOCIATES, INC	9-15-93 BASE TAX	76,045.90
05/15/1995	VRRECARE3803	BELLARMINE & ASSOCS INC	1995 BASE TAX	82,674.89
06/15/1995	VRRECARE3004	BELLARMINE & ASSOCIATES INC	1989 BASE TAX	89,673.24
08/24/1995	VRRECARE3018	RIVERSIDE-BELLARMINE & ASSOC I	1995 BASE TAX	87,983.23
11/17/1995	VRRECARE3024	RIVERSIDE-BELLARMINE & ASSOC'	9-15-93 BASE TAX	88,906.23
02/22/1996	VRRECARE1126	BELLARMINE & ASSOCIATES INC	1994 BASE TAX	89,060.42
			Total	\$ 1,630,332.49

2. Walters Adapts the Scheme to the SOAR System

During fiscal year 1998, the OCFO converted its general ledger from FMS to SOAR. Walters adapted her scheme in response to this conversion. When SOAR was implemented, a new voucher form was created for the processing of real property tax refunds. A copy of the SOAR form is reproduced in Appendix B of this Report. Employees generated the SOAR voucher form by entering data into an Access database. Unlike the old forms, the SOAR vouchers were not prepared in triplicate.

As she had done for refunds processed through FMS, Walters created fake documentation, including fake or recycled checks as proof of payment, to support her refund requests processed through SOAR. Walters filled out a Refund Research form using a real square and lot number and often attached documentation that corresponded, or appeared to correspond, to the referenced property. A copy of the Refund Research form is reproduced in Appendix B of this Report. Walters then entered a fake credit for the square and lot referenced on the Refund Research form into what she called the Legacy system (or, starting in 2000, into RPT2000, which replaced the Legacy system and tracked tax credits). Walters explained that she created the fake credit in case any managers or employees researched whether a refund was actually due. In other instances, she used legitimate credits on properties to support her illegitimate refunds. To do this, she entered the square and lot for the property with the legitimate credit on the Refund Research form.

Walters then entered the data into the Access database to create the SOAR voucher form. Instead of entering the legitimate square and lot number, Walters made slight changes to the number when creating the SOAR refund voucher. According to Walters, she did this so that more than one refund to the same square and lot would not appear on a reconciliation report she believed was prepared and reviewed by others in her unit and possibly by a manager or the independent auditors. She printed the SOAR voucher form and sent it to managers and supervisors for approval. To the extent she was asked about discrepancies, Walters explained that they were merely typographical errors. When she received the approved refund package, she forwarded it to RAA for entry into the general ledger. Walters then accessed SOAR to determine whether the check request had been entered. Once it was, Walters went back into the Legacy system or RPT2000 and deleted the fake credit.

The first fraudulent SOAR refund we identified was issued to Bellarmine and Associates, care of a real estate attorney, on December 4, 1998. The refund payment to Bellarmine was for \$221,901.76 and was held for pick up rather than mailed. We found no evidence to suggest that the attorney referenced in the refund request was involved in or knew about Walters' scheme. That same day, Walters issued a \$53,992.14 refund to C.L. Alexander, Inc., care of a real estate attorney at the law firm Wilkes, Artis, Hedrick & Lane ("Wilkes Artis"). Again, the check was held for pick up. We found no evidence that any lawyer at Wilkes Artis was involved in or knew about the scheme. Walters explained that she processed real property tax refunds that referenced prominent real estate attorneys because she believed that they would be processed more quickly; employees and managers were accustomed to processing requests for clients of Wilkes Artis.

During this time, Walters continued to process refunds to Bellarmine and Steven. The following is a summary of refunds issued to Steven or people or entities associated with her and Bellarmine and its derivatives through SOAR.

Steven Refunds Issued Through SOAR

Date	Voucher	Payee	Address	Address	Amount
06/30/1999	VRRE1846	TALIAFARO, INC	R.O. STEPHEN	ONE ADVANTAGE WAY	\$ 122,413.73
08/19/1999	VRRE1924	THE WINKLER COMPANY	STEVEN CAMPBELL	4900 SEMINARY ROAD #900	187,167.50
10/20/1999	VRRE2090	254 LIMITED PARTNERSHIP	STEVEN CAMPBELL	1001 G STREET N.W. #700W	229,721.32
06/08/2000	VRRE2682	NINJA JO ASSOCIATES	CAMPBELL-STEVEN, INC	11501 HUFF COURT	223,001.38
08/03/2000	VRRE2814	PRIVATE PROPERTIES MGT	C/O P A STEVEN & ASSOCIATES	1818 18TH STREET N.W.	176,784.40
11/06/2000	VRRE2973	STEVENS PROPERTY MANAGEMENT	C/O P.A. STEVEN, ESQ	465 MAPLE AVENUE	290,646.95
01/29/2001	VRRE3241	NORWEST CORPORATION	C/O P.A. STEVEN, ESQ	HOLD FOR PICK UP	222,640.01
03/28/2001	VRRE3388	CARR REAL ESTATE SERVICES	ATTN: P.A STEVEN, ESQ	1850 STREET, N.W.	347,068.49
				Total	\$ 1,799,443.78

Bellarmine Refunds Issued Through SOAR

Date	Voucher	Payee	Address	Address	Amount
12/04/1998	VRRE7419	BELLARMINE AND ASSOCIATES, INC	C/O JEFF NADEL, ESQ	HOLD FOR PICK-UP	\$ 221,901.76
03/26/1999	VRRE7750	BELLARMINE & ASSOC.	C/O AMERICAN REALTY GROUP	4400 MASS AVE, N.W.	190,230.00
06/30/1999	VRRE1834	BELLARMINE CORPORATION	PREM MALKANI ESQ,	1625 I MASS AVE SUITE #11042	113,412.56
06/08/2000	VRRE2681	BELLARMINE & ASSOCIATES	ATTN: JEFF NADEL, ESQ	8707 GEORGIA AVE #807	181,054.08
02/13/2003	VRRE8693	THE WASHINGTON DEVELOPMENT	C/O BELLARMINE GROUP	HOLD FOR PICK-UP	289,018.08
07/03/2003	VRRE9279	BELLARMINE DESIGN GROUP	C/O SHRODER R.E	ATTN: DAVID FUSS, ESQ	284,165.00
03/09/2004	VRRE0776	BELLARMINE ASSOCIATES, INC	KAEMPFER MGMT SVC	HOLD FOR PICK-UP	335,000.00
05/15/2006	VRRE3117	POTOMANC ASSOCIATES, LLP	C/O BELLARMINE DESIGN	HOLD FOR PICK-UP	352,000.00
06/15/2006	VRRE3143	12TH STREET PROPERTIES	C/O BELLARMINE DESIGN GROUP	HOLD FOR PICK-UP	456,990.00
07/06/2006	VRRE3194	BELLARMINE HOME, LLC	C/O WILKES, ARTIS ESQ	HOLD FOR PICK-UP	490,000.00
10/18/2006	VRRE3395	COMMERCE BUILDING ASSOC	C/O BELLARMINE CORPORATION	HOLD FOR PICK-UP	375,800.00
				Total	\$ 3,289,571.48

Walters also involved three family members in the scheme. All three—her brother, nephew, and niece—eventually pleaded guilty to charges associated with the scheme. These individuals used additional companies that did not own property in the District (named Chappa, Helmet, Legna, and Provident) to facilitate the fraudulent refund payments. Walters told us that these companies were not “fake,” but were actually cleaning or other home services operations. Nevertheless, the companies had no legitimate claim to the refund of any real property taxes in the District.

To help cash the fraudulent refund checks, Walters relied on a long-time relationship with a local bank teller named Walter Jones, as detailed in the Walters and Jones plea documents. Jones deposited the fraudulent payments into accounts controlled by Walters, her family, or her friends. Jones’ involvement permitted participants in the scheme to deposit checks into their accounts regardless of the names of the payees on the check.

3. Walters Adapts Her Scheme to Her New Role as Manager

In or around 2001, Walters was promoted to manager of the Adjustment Unit. In her interview, Walters characterized herself as having two personas—the exemplary employee and the person who stole. She explained that behaving as a model employee allowed her to escape detection. She kept the fraudulent refunds separate from her everyday work, so as not to draw attention to the scheme.

For the next six or seven years, Walters continued to generate fraudulent refunds that often individually exceeded \$100,000. According to Walters, she prepared the documentation for all of her fraudulent refunds herself. She listed legitimate square and lot numbers on the Refund Research forms and attached phony documentation that appeared to relate to the referenced property. As discussed above, Walters also created false credits or re-used legitimate credits in RPT2000 that related to the legitimate square and lot referenced in the Refund Research form. Even after becoming a manager, she prepared some of the actual refund vouchers for her fraudulent refunds herself. Walters also asked her employees to prepare some of the vouchers because she thought she might attract unwanted attention if she prepared all of the vouchers herself; this also allowed her to blame any discrepancies other employees might notice on her subordinates. Walters either asked Adjustment Unit employees to enter the data and return the materials to her or stood over them impatiently while they input the data. Upon receiving the completed SOAR voucher form, Walters went back into the Access database and changed the SOAR voucher form to reflect an illegitimate square and lot. She was concerned that multiple refunds to a single square and lot might generate additional scrutiny from RAA or might show up on a tracking report. Walters then reprinted the SOAR form and destroyed the original version.

Before 2003, Walters sent a majority of her fake refunds to the Chief or Deputy Chief of the Assessment Services Division (her direct supervisors) for review and approval. For very large refunds, she sent the vouchers to more senior OTR managers for review and approval. On other occasions, Walters forged the signatures of her supervisors. Walters believed that she at least had to contend with the formalities of providing those signatures one way or the other.

Around 2003, however, even that formal obstacle to Walters’ scheme fell by the wayside. In or around that year, the then-Chief of the Assessment Services Division evidently made clear

to Walters and the then-Manager of the Tax Sale Unit in words or deeds that they did not need to bring her any more refund packets for approval. In their interviews, Walters and the then-Tax Sale Unit Manager both confirmed that the former Chief had made this clear to them; the former Chief did not specifically recall conveying this message but did not deny that she might have done so. Walters told us that shortly thereafter she processed, approved, and sent to the Revenue Accounting Administration a packet for a legitimate refund for more than \$250,000 without any authorizing signature from a manager above her. RAA processed the refund without question and the check was issued. From September 2003 on, Walters processed 81 fraudulent refunds for approximately \$27 million with only her approving signature. Without the need for necessary approval signatures, Walters became less cautious in her approach. She no longer faked taxpayer request letters, and the back-up documents she appended to voucher requests became less likely even to appear relevant or related to the referenced taxpayer.

4. Walters' Techniques for Processing Fraudulent Vouchers

Although the systems changed during the course of Walters' scheme, her methods for processing fake real property tax refunds remained fairly consistent. She used several techniques to make her refund request packages appear legitimate. Regardless of technique, all of these checks were held for pick up.

- *Fraudulent Refunds Made in the Name of Legitimate Businesses.* On occasion, Walters processed fraudulent refunds using checks made payable to legitimate companies, which apparently had no knowledge of or role in her scheme. She appropriated the refund checks by marking them hold for pick up. The scheme participants then deposited the checks into accounts they controlled, typically with the cooperation of a person working at the bank. For example, in July 2002, Walters caused a \$393,852.06 refund to be issued in the name of a prominent District law firm. Although the refund was coded hold for pick up, the request contained the law firm's address. The square and lot referenced on the SOAR form (0465-0879) did not match the square and lot on the attached Refund Research form (0466-0879). To support the refund, Walters appended two supposed proofs of payment. The first was a receipt from First Union National Bank for "payment for utility" in the amount of \$1,393,652.03. The second was a cancelled check from the American Association of Retired Persons for over \$1 million. Neither the receipt nor the check related in any way to the refund payee.
- *Fraudulent Refunds to Fake Entities "Care of" Legitimate Businesses.* Walters processed refunds to fake entities (i.e., companies that did not have any real business function other than to act as recipients of fraudulent refunds) to the "care of" legitimate businesses or law firms. For example, in April 2004, Walters processed a \$346,700 refund to a company called "BTODKELFD INC. LTD." Despite the fact that it appears she simply strung letters together to form the name, Walters told us that BTODKELFD was a real company. We have found no evidence to support this claim. The refund was issued care of Wilkes Artis Esq. and was marked hold for pick up. The square and lot referenced on the SOAR voucher (0158-0828) did not match

the square and lot listed on the Refund Research form (0185-0828). The only support Walters included in the refund packet consisted of copies of the fronts and backs of two cancelled checks: one March 2000 check for over \$930,000 from Transamerica Real Estate Tax Service and an August 2003 check for approximately \$680,000 from Wells Fargo Home Mortgage. Neither check related in any way to BTODKELFD. Just a few months later, in November 2004, Walters processed another \$346,700 refund to a company called “Bilkemor LLC Real Estate Inc.” care of a prominent real estate attorney. Walters used the exact same checks as support and the same Refund Research form (changing only the date of her signature).

- *Refunds to Legitimate Businesses in the “Care of” Walters’ Scheme Participants or Businesses Controlled by Scheme Participants.* Walters processed refunds in the name of legitimate businesses but in care of her scheme participants. For example, in August 2002, Walters caused a \$214,452 refund to be issued to a real estate company care of C.L. Alexander, Esq. Connie Alexander, who according to the Statement of Facts in *U.S. v. Alexander* to which Alexander agreed, was a participant in the scheme (and was not an attorney) and had no apparent connection to the real estate company. The square and lot referenced in the SOAR voucher (0468-0040) did not match the square and lot referenced on the Refund Research form (0486-0040). To support the refund, Walters attached copies of the front and backs of two illegible cancelled checks.
- *Refunds Issued to Entities Controlled by Scheme Participants or in the “Care of” the Scheme Participants or Legitimate Businesses.* Many fraudulent refunds were issued to several entities controlled by scheme participants that did not own real property in the District. About half of all of Walters’ fraudulent refunds (approximately \$24 million) were issued in the name of or in care of five such entities: Bellarmine, Chappa, Helmet, Legna, and Provident. Information about the refunds issued to these entities is listed in the tables below.

Bellarmine Refunds

Date	Voucher	Payee	Description/Address	Address	Amount
10/22/1991	VRRECARE3672	RIVERSIDE/BELLARIME	1991 BASIC TAX		\$ 58,250.41
06/08/1993	VRRECARE6913	BELLARMINE DESIGNS	1993 BASE TAX		62,478.20
07/20/1993	VRRECARE8016	BELLAMINE ASSOCIATES	1991 BASIC TAX		58,250.41
10/01/1993	VRRECARE7417	RIVERSIDE-BELLARMINE & ASSOCS	1989 BASE TAX		53,483.90
01/11/1994	VRRECARE8410	BELLAMARMINE INC	1993 BASE TAX		53,784.02
01/31/1994	VRRECARE7820	RIVERSIDE-BELLARMINE & ASSOC	1989 BASIC TAX		84,959.80
03/21/1994	VRRECARE9411	RIVERSIDE-BELLARMINE & ASSOC	9-15-93 PYMT		72,990.00
04/08/1994	VRRECARE9417	BELLARMINE & ASSOCIATES INC.	9-15-93 PAYMENT		52,784.66
05/03/1994	VRRECARE0722	RIVERSIDE-BELLARMINE & ASSOCS	1990 BASE TAX		69,843.94
05/20/1994	VRRECARE0010	BELLARMINE AND ASSOCS, INC.	1989-90 BASE TAX		68,495.84
04/28/1994	VRRECARE0014	RIVERSIDE-BELLARMINE INC	1992 BASE TAX		66,560.00
07/08/1994	VRRECARE0017	RIVERSIDE-BELLARMINE & ASSOCS	1993 BASE TAX		77,990.43
07/08/1994	VRRECARE0021	BELLARMINE, INC AND ASSOCS	1991 BASE TAX		64,782.09
09/01/1994	VRRECARE0012	RIVERSIDE-BELLARMINE & ASSOCS	1994 BASE TAX		72,548.54
11/02/1994	VRRECARE0018	BELLARMINE & ASSOCS INC	1993-94 BASE TAX		72,340.12
11/29/1994	VRRECARE0024	BELLARMINE-RIVERSIDE & ASSOC	1994 BASE TAX		58,125.99
01/24/1995	VRRECARE2029	RIVERSIDE-BELLARMINE INC	1992 BASE TAX		68,320.23
03/31/1995	VRRECARE2034	BELLARMINE & ASSOCIATES, INC	9-15-93 BASE TAX		76,045.90
05/15/1995	VRRECARE3803	BELLARMINE & ASSOCS INC	1995 BASE TAX		82,674.89
06/15/1995	VRRECARE3004	BELLARMINE & ASSOCIATES INC	1989 BASE TAX		89,673.24
08/24/1995	VRRECARE3018	RIVERSIDE-BELLARMINE & ASSOC I	1995 BASE TAX		87,983.23
11/17/1995	VRRECARE3024	RIVERSIDE-BELLARMINE & ASSOC'	9-15-93 BASE TAX		88,906.23
02/22/1996	VRRECARE1126	BELLARMINE & ASSOCIATES INC	1994 BASE TAX		89,060.42
12/04/1998	VRRE7419	BELLARMINE AND ASSOCIATES, INC	C/O JEFF NADEL, ESQ	HOLD FOR PICK-UP	221,901.76
03/26/1999	VRRE7750	BELLARMINE & ASSOC.	C/O AMERICAN REALTY GROUP	4400 MASS AVE, N.W.	190,230.00
06/30/1999	VRRE1834	BELLARMINE CORPORATION	PREM MALKANI ESQ.	1625 1 MASS AVE SUITE #11042	113,412.56
06/08/2000	VRRE2681	BELLARMINE & ASSOCIATES	ATTN: JEFF NADEL, ESQ	8707 GEORGIA AVE #807	181,054.08
02/13/2003	VRRE8693	THE WASHINGTON DEVELOPMENT	C/O BELLARMINE GROUP		289,018.08
07/03/2003	VRRE9279	BELLARMINE DESIGN GROUP	C/O SHRODER R.E	ATTN: DAVID FUSS, ESQ	284,165.00
03/09/2004	VRRE0776	BELLARMINE ASSOCIATES, INC	KAEMPFER MGMT SVC		335,000.00
05/15/2006	VRRE3117	POTOMANC ASSOCIATES, LLP	C/O BELLARMINE DESIGN		352,000.00
06/15/2006	VRRE3143	12TH STREET PROPERTIES	C/O BELLARMIN DESIGN GROUP		456,990.00
07/06/2006	VRRE3194	BELLARMINE HOME, LLC	C/O WILKES, ARTIS ESQ		490,000.00
10/18/2006	VRRE3395	COMMERCE BULIDING ASSOC	C/O BELLARMINE CORPORATION		375,800.00
			Total		\$ 4,919,903.97

Chappa Refunds

Date	Voucher	Payee	Address	Address	Amount
01/18/2005	VRRE2157	SUMMITT PROPERTIES	C/O CHAPAHOME LLC	HOLD FOR PICK-UP	\$ 338,772.62
02/02/2005	VRRE2233	111 13TH STREET LLC	C/O CHAPPAHOME SERVICES INC.	HOLD FOR PICK-UP	397,007.00
03/10/2005	VRRE2337	1301 LIMITED PARTNERSHIP	C/O CHAPPAHOME SERVICES INC.	HOLD FOR PICK-UP	350,000.00
03/29/2005	VRRE2358	JAD ASSOCIATES, INC.	C/O CHAPPAHOME SERVICING	HOLD FOR PICK-UP	379,000.00
10/18/2005	VRRE2822	BGEE LLP/CHAPPA HOME	C/O WILKES ARTIS	HOLD FOR PICK-UP	329,913.31
11/14/2005	VRRE2871	JACKSON-CAMPBELL	CHAPPAHOME DESIGN, INC.	HOLD FOR PICK-UP	234,227.20
12/19/2005	VRRE2909	FIFTEEN STREET LTD PARTNERSHIP	C/O CHAPPAHOME CORPORATION	HOLD FOR PICK-UP	309,900.08
01/12/2006	VRRE2936	THIRTEENTH STREET ASSOCIATES	C/O CHAPPAHOME, INC	HOLD FOR PICK-UP	380,000.00
02/09/2006	VRRE2971	BBLAKE COMPANY LLC	CHAPPAHOME INC	HOLD FOR PICK-UP	346,800.00
03/09/2006	VRRE3025	1425 F STREET, LLC CHAPPAHOME	C/O DAVID FUSS, ESQ	HOLD FOR PICK-UP	356,900.00
04/12/2006	VRRE3071	STOLADI PROPERTY GROUP	C/O CHAPPA HOME INC.		385,700.00
05/15/2006	VRRE3118	MRL POST, LLC	C/O CHAPPAHOME LIMITED	HOLD FOR PICK-UP	387,900.00
08/25/2006	VRRE3296	1120 VERMONT STREET ASSOC, LLC	C/O CHAPPAHOME LLC	HOLD FOR PICK-UP	410,000.00
09/26/2006	VRRE3363	LINCON SQUARE, LLC	CHAPPAHOME DESIGN LTD	HOLD FOR PICK-UP	458,670.00
04/04/2007	VRRE3538	CHAPPAHOME INC, LLC	C/O JEFF NADEL ESQ	HOLD FOR PICK-UP	465,000.00
04/25/2007	VRRE3715	CHAPPAHOME INC.	C/O WILKES ARTIS, LLC	HOLD FOR PICK-UP	398,680.00
			Total		\$ 5,928,470.21

Helmet Refunds

Date	Voucher	Payee	Address	Address	Amount
11/01/2000	VRRE3024	HELMET-CROW COMPANY	ATTN: JEFF NADEL, ESQ	HOLD FOR PICK-UP	\$ 124,829.01
02/28/2001	VRRE3387	LASOLANA DC, INC	ATTN: HELMET-CROW, AGENT	HOLD FOR PICK-UP	168,163.08
10/18/2006	VRRE3396	1118 LO ASSOC	C/O HELMET CORPORATION	HOLD FOR PICK-UP	460,000.00
02/12/2007	VRRE3515	HHEMLET COMPANY., INC	C/O DAVID A FUSS, ESQ	HOLD FOR PICK-UP	490,560.54
05/22/2007	VRRE3755	HELMET INC, COP	C/O DAVID FUSS ESQ	HOLD FOR PICK-UP	541,100.74
			Total		\$ 1,784,653.37

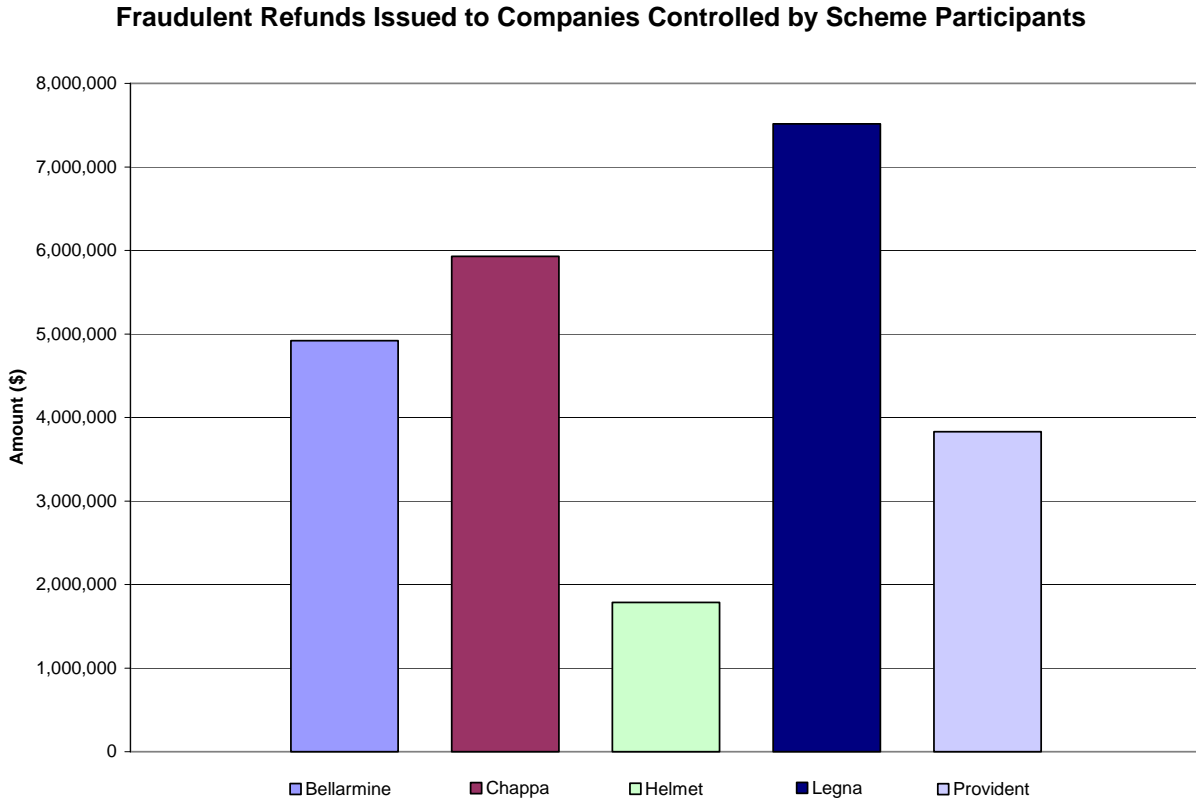
Legna Refunds

Date	Voucher	Payee	Address	Address	Amount
10/22/2002	VRRE8082	PIPER RUDRICK PARTNERSHIP	C/O LENA HOME SERVICES	HOLD FOR PICK UP	\$ 225,835.05
11/25/2002	VRRE8212	CAPMARK SERVICES, INC	LENAHOME TAX SERVICE CORP	1717 H ST. NW	271,045.02
02/03/2003	VRRE8593	LEGNAHOME SERVICES, INC	ATTN: C.L. ALEXANDER, ESQ	HOLD FOR PICK-UP	179,184.72
04/02/2003	VRRE8799	BOSTON PROPERTIES, INC	LEGNAHOME SERVICES	HOLD FOR PICK-UP	290,646.95
04/11/2003	VRRE8814	CHARLES E. SMITH REALTY GROUP	LEGNAHOME SERVICES, INC	HOLD FOR PICK-UP	242,609.00
05/02/2003	VRRE8885	TRAMMELL CROW COMPANY	C/O LEHOME SERVICES, LLC	HOLD FOR PICK-UP	258,990.35
05/23/2003	VRRE9042	BERNARD S. GEWIRZ, CO	LEGNAHOME SERVICES, INC	HOLD FOR PICK UP	248,801.08
06/23/2003	VRRE9213	LEGNAHOME SERVICE, INC	1666 K STREET, NW		339,088.00
09/03/2003	VRRE9609	1500 K STREET, LLC	C/O LEGNA HOMESERVICES, INC	WILKES AND ARTIS/DAVID FUSS	176,400.00
10/15/2003	VRRE9736	CAPMARK SERVICE, LP	C/O LEGNAHOME SVS	245 PEACH TREET CTR	180,663.60
01/09/2004	VRRE0491	KAEMPFER MANAGEMENT, LLC	C/O LEGNAHOMES SERVICES	1501 K STREET NW #300	295,359.80
02/04/2004	VRRE0678	LEGNAHOME SVC, LLC	C/O DAVID FUSS, ESQ	HOLD FOR PICK-UP	357,800.00
05/28/2004	VRRE1161	EQUITY PROPERTY GROUP, LLC	C/O LEGNAHOMW SERVICES	HOLD FOR PICK-UP	297,615.00
06/10/2004	VRRE1260	GRUBB AND ELLIS	C/O LEGNAHOME SERVICES	HOLD FOR PICK-UP	202,263.76
07/02/2004	VRRE1415	CARRREALTY GROUP INC,	C/O LEGNAHAOME SERVICES	HOLD FOR PICK-UP	368,000.00
07/02/2004	VRRE1416	CAPTAINCO AMERICA LLC	C/O LEGNAHAME SERVICES INC.	HOLD FOR PICK-UP	324,416.91
07/14/2004	VRRE1491	PRINCIPAL FINANCIAL PARTNERS	C/O LEGNAHOME SERVICES INC	HOLD FOR PICK-UP	264,429.22
08/04/2004	VRRE1537	TOWER CONSTRUCTION CO.	C/O LEGNAHOME SERVICES	HOLD FOR PICK-UP	452,620.99
08/24/2004	VRRE1597	2001 ASSOCIATED CROW LLX	C/O LEGNAHOME SERVICE, INC.	HOLD FOR PICK-UP	360,870.00
09/09/2004	VRRE1647	225 VIRGINA/TREMONT LLC	C/O LEGNAHOME SERVICE INC	HOLD FOR PICK-UP	425,660.00
11/03/2004	VRRE1889	TRAMMEL CROW CORP	C/O LEGNAHOMW WERVICES	HOLD FOR PICK-UP	333,981.65
12/02/2004	VRRE2045	MONUMENT REALTY GROUP LLC	C/O LENAHOME SERVICES	HOLD FOR PICK-UP	465,509.49
12/28/2004	VRRE2125	PENN AVE PROPERTIES GROUP	C/O LEGNAHOME SERVICES INC.	HOLD FOR PICK-UP	369,580.16
01/13/2005	VRRE2156	MASS AVE LLC,	LEGNAHOME SERVICES INC	HOLD FOR PICK-UP	223,593.11
02/02/2005	VRRE2234	TISHMANSPEYER PROPERTIES	C/O LEGNAHOMES SERVICES	HOLD FOR PICK-UP	362,000.00
				Total	\$ 7,516,963.86

Provident Refunds

Date	Voucher	Payee	Address	Address	Amount
03/10/2006	VRRE3024	111 13TH STREET, LLC	C/O PROVIDENT HOME INC	HOLD FOR PICK-UP	\$ 385,500.36
04/12/2006	VRRE3069	BPCRF AVE, LLC	C/O PROVIDENT HOME INC	901 NEW YORK AVE UNIT #400	420,540.90
06/15/2006	VRRE3134	1401 H STREET LLC	C/O PROVIDENTHOME, INC	HOLD FOR PICK-UP	468,000.00
07/06/2006	VRRE3142	BOWEN BUILDING, LLC	PROVIDENT HOME, INC	HOLD FOR PICK-UP	485,680.91
08/25/2006	VRRE3297	1919 M STREET ASSOC, LLC	C/O PROVIDENT HOME	HOLD FOR PICK-UP	375,815.00
09/26/2006	VRRE3362	LINCON SQUARE, LLC	C/O PROVIDENT HOME LTD	HOLD FOR PICK-UP	375,800.00
01/25/2007	VRRE3514	SECOND STREET FUNDING	C/O PROVIDENTHOME, INC	HOLD FOR PICK-UP	450,683.90
04/25/2007	VRRE3700	PROVIDENT HOME INC	C/O 1440 K STREET LLC	HOLD FOR PICK-UP	468,000.00
06/14/2007	VRRE3788	PROVIDENT HOME, LLC	C/O JEFF NADEL, ESQ	HOLD FOR PICK-UP	399,498.00
				Total	\$ 3,829,519.07

The following graph shows the total dollar amount of refunds to those five entities.



Over time, the size of the fraudulent refunds and the frequency with which Walters processed them increased. In 1998, Walters and her scheme participants processed, issued, and cashed approximately \$275,000 worth of fraudulent refunds. In 2000, Walters processed over \$2.5 million in fake refunds. The yearly dollar amount of Walters' fraudulent refunds reached nearly \$4 million in 2001. There was a slight dip in 2002. But, in 2003, Walters processed an additional \$4.8 million in fraudulent refunds. That number increased to over \$8.6 million in 2004. The total dollar amount of Walters' fraudulent refunds fluctuated slightly over the next three years between approximately \$5.7 million and approximately \$7.7 million per year.

Below is a table reflecting the 10 largest fraudulent refunds processed by Walters.

Ten Largest Fraudulent Refunds

Date	Voucher	Payee	Address	Address	Amount
07/10/1997	VRRE3755	STEVEN ASSOCS INC	1996 BASE TAX		\$ 543,423.50
05/22/2007	VRRE3755	HELMET INC, COP	C/O DAVID FUSS ESQ	HOLD FOR PICK-UP	541,100.74
02/12/2007	VRRE3515	HHEMLET COMPANY, INC	C/O DAVID A FUSS, ESQ	HOLD FOR PICK-UP	490,560.54
07/06/2006	VRRE3194	BELLARMINE HOME, LLC	C/O WILKES, ARTIS ESQ	HOLD FOR PICK-UP	490,000.00
07/06/2006	VRRE3142	BOWEN BUILDING, LLC	PROVIDENT HOME, INC	HOLD FOR PICK-UP	485,680.91
01/26/2007	VRRE3513	R L REAL ESTATE CORP	[C/O S. C.]	HOLD FOR PICK-UP	483,940.00
06/15/2006	VRRE3134	1401 H STREET LLC	C/O PROVIDENTHOME, INC	HOLD FOR PICK-UP	468,000.00
04/25/2007	VRRE3700	PROVIDENT HOME INC	C/O 1440 K STREET LLC	HOLD FOR PICK-UP	468,000.00
12/02/2004	VRRE2045	MONUMENT REALTY GROUP LLC	C/O LENAHOME SERVICES	HOLD FOR PICK-UP	465,509.49
04/04/2007	VRRE3538	CHAPPAHOME INC, LLC	C/O JEFF NADEL ESQ	HOLD FOR PICK-UP	465,000.00
				Total	\$ 4,901,215.18

5. Walters Uses ITS to Process Fraudulent Refunds

The Adjustment Unit was involved in the discussions about the implementation of ITS. We heard reports that, despite being invited, Walters did not attend some meetings to discuss the implementation of ITS for real property tax. In 2005, after much delay, OTR activated the real property tax module of ITS. A former Director of Operations told us that Walters had indicated that she had no intention of using ITS to process real property tax refunds. Eventually, the Director told Walters that she did not have a choice.

At the time of implementation, ITS was equipped to handle essentially all non-tax-sale real property tax refunds. However, current and former RPTA employees told us that they believed ITS was unable to handle certain types of real property tax refunds (which, according to Accenture, was not correct), including court-ordered refunds. Others believed that ITS was not suitable for real property at all. Although ITS was in place, ASD continued to process many real property tax refunds through SOAR. Walters confirmed to us that the types of refunds she used in her scheme could have been processed, if legitimate, in ITS. However, because RPTA personnel believed ITS could not handle all types of refunds, Walters was able to continue using the SOAR manual process for her fraudulent refunds. Walters also admitted that when people in her office asked her why she continued to process refunds manually, she told them that ITS could not handle all types of real property tax refunds. According to Walters, the inquiring parties were satisfied with that response. As long as ITS was not used to process all refunds, Walters was able to continue to process any refund manually.

Had the use of ITS been mandated for all real property tax refunds, it would have been somewhat more challenging for Walters to perpetrate her scheme and more likely that the fraud would have been detected. ITS required that requests be associated with legitimate square and lots, and Walters believed that ITS checks could not be held for pick up. She also had concerns that, despite its many faults, ITS had some type of audit trail. For example, to send a check to a person other than the property owner, Walters would have had to create “relationships” in the system that would have allowed her to mail checks to co-conspirators. Walters believed that these kinds of system entries could have been traced to her. On the other hand, even if OTR had been more forceful in imposing the new automated system on Walters, ITS itself, as deployed, contained inadequate controls against fraud. Walters said in her interview that she tried to exploit those weaknesses in ITS on the few occasions in which she actually tested the system by attempting to process fraudulent refunds. Walters was able to create false credits using ITS.

However, she was not able to generate the actual fraudulent refunds in ITS. She then used the false ITS credits as support for processing the fraudulent refunds using SOAR.

In early March 2007, Walters created an \$85,000 credit on a property associated with Samuel Earl Pope, Walters' friend. The credit was made to appear as if it had been on the property's account since October 2003, about two years before the implementation of ITS for the administration of real property tax. At the time Walters created the credit, there was an existing tax owed of \$1,800.38 on the property. Because credits in ITS are automatically carried forward and applied to future taxes due, the \$85,000 credit covered the \$1,800.38 tax due, leaving a credit balance of \$83,199.62 on the account. After Walters created the credit, Pope sent a letter requesting that he be issued a refund. Around March 14, 2007, Walters authorized a manual SOAR refund voucher for \$83,199.62 that identified Samuel Earl Pope as payee. It also appears, based on a review of ITS data, that another check for \$83,199.62 payable to the previous owner of the property may have been issued through ITS a few days before Walters processed the SOAR manual refund. The check was never cashed by the previous owner and ultimately was cancelled by the OCFO.

A few days later, Walters created a second fake tax credit in ITS for the property associated with Pope. This time, the credit was for \$75,000 and was made to appear to have been on the account since October 2002. Walters never drew upon this credit. Available ITS data indicates that the \$75,000 credit remains on Pope's property and has been automatically applied to taxes owed.

Approximately two weeks later, Walters created a third fake tax credit in ITS for \$75,950. Walters posted the credit to the account of a property near the Pope property, but one that was in no way associated with Pope. At the time the credit was created, there was an existing tax owed of \$707.69 on the property. ITS applied a portion of the credit to cover that balance, leaving a credit of \$75,242.31 on the account. According to the Walters Statement of Offenses, Walters created an ITS refund voucher request in the amount of \$75,242.31 for this non-Pope property. Per the voucher, the credit was turned into a refund, and a check in the amount of \$75,242.31 was issued. According to Walters, she created a "relationship" in ITS that should have caused the check to be mailed to Pope. Despite Walters' efforts, the system sent the check to the actual owner of the property. The recipient of the check returned it to OTR, and an employee in the Adjustment Unit (Walters' division) caused the check to be cancelled. After the check was cancelled, Walters, now somewhat wary of using ITS, prepared and approved a manual SOAR refund voucher for \$75,242.31 to Samuel Pope that was marked hold for pick up. The check was issued and Walters delivered it to Pope. Available ITS data indicates that a \$75,242.31 credit remains on the account in ITS and has been automatically applied to taxes owed.

V. FINDINGS CONCERNING THE FAILURE TO DETECT WALTERS' SCHEME

Our investigation focused on identifying the flaws in the organization that allowed Walters to make so many fraudulent refunds in such large amounts over the course of about 20 years without detection. Ultimately, those flaws fall into three general categories. *First*, the Office of Tax and Revenue had essentially no formal policies and procedures related to the processing of real property tax refunds. To the extent that there were informal practices, they were poorly communicated, not widely understood, and often ignored. In addition, OTR information technology systems were inadequate to handle the administration of real property tax refunds. *Second*, employees at all levels of seniority contributed to a work environment that was vulnerable to Walters' misconduct. *Third*, neither the District's multiple audit agencies nor anyone else—either inside or outside OTR—conducted any critical review or analysis of the real property tax refund process.

A. Failure of Controls

Neither OTR management nor any of the other OCFO offices with responsibility to ensure that meaningful policies and procedures were in place (including the Office of Integrity and Oversight and the Office of Financial Operations and Systems) met their responsibility. As discussed in detail below, this lack of formality left the District vulnerable to Walters' scheme. Efforts to create relevant policies and procedures were stymied by both inertia and focus on other pressing issues. Because of this lack of formal policies, Walters essentially was able to set refund requirements and decide when they were to be followed, ignored, or changed to suit her needs.

1. Failed Efforts to Formalize Policies and Procedures

At some point before 1998, the Deputy CFO and Controller for OFOS began a policies and procedures initiative—which we understand was the first formal effort to document the work of the various OCFO offices. Ultimately, OFOS approved a format and structure for the policies and procedures, but it was the responsibility of each office to prepare the documents.

It was well known among senior OTR managers that there were no formal policies and procedures for some of OTR's functions. Throughout the relevant time frame, various managers in OTR attempted to institute formal policies and procedures. For example, OTR hired an outside consultant in 1997 or 1998 to assess and document OTR's policies and procedures. According to the then-Director of RPTA, no formal, written policies or procedures were created for real property tax refunds. Six or seven years later, another outside consulting firm was hired to draft policies and procedures, but that effort failed because the work product was considered unacceptable. As recently as May 2006, efforts were still being made by OTR management to create meaningful, formal policies. At that time, the then-Deputy CFO of OTR created a strategic plan. One of the weaknesses identified in the plan document was a “[l]ack of documentation of operational procedures in most areas.” In response to this, an “action item” was the “[s]ubmission of policies and procedures updates for all administrations” by June 1, 2006. Nonetheless, updated policies and procedures did not gain much traction at OTR, and as of November 2007, there were still no formal policies and procedures for real property tax refunds. Walters told us that before her arrest she was working on creating ITS policies and procedures.

2. Lack of Formal Documentation Requirements for Real Property Tax Refunds

We did not identify any formal policies or procedures describing the documents required to process a refund. Rather, Walters informally documented what type of paperwork was necessary. In March 2000, she circulated an e-mail setting out what she decided were some of the requirements for issuing real property tax refunds. Under her procedures, real property tax refunds required a letter from the taxpayer or the taxpayer's mortgage company requesting the refund and copies of the cancelled checks or payment receipts.

Because Walters determined these requirements on her own, she apparently also was able to decide when these types of documents were not necessary. For example, at some point, she stopped sending taxpayer refund requests to RAA as support for real property tax refunds. We did not find any indication that anyone in RPTA or RAA noticed the change in documentation. In addition, in October 2002, Walters sent an e-mail to ASD employees and managers indicating that refunds could be processed without proof of payment so long as the requests contained a memorandum from the Chief of ASD to Walters directing her to process the refund without proof of payment. Because Walters had nearly unfettered control of the process, she was able to issue refunds without proof of payment and without a memorandum from the Chief. Although she very rarely processed fraudulent refunds without proof of payment documentation—she was worried it would attract too much attention—in March 2007 Walters caused a fraudulent refund to be issued without proof of payment. The voucher packet contained a memorandum from Walters to one of her Adjustment Unit employees that states: “Payment was made on this property (Square 2830 Lot 0091). A refund has [sic] authorized by me without a copy of the cancelled check.” We found no evidence that anyone noticed that the memorandum was not from the Chief of ASD, as prescribed in Walters' October 2002 e-mail.

3. Ambiguous Approval Requirements

During the relevant period, documents reflected varying practices or informal policies relating to the approvals required for the processing of real property tax refunds. Yet these practices and informal policies do not appear to have been widely known, understood, or followed. In addition, the approval practices appear to have changed significantly over time without drawing the attention of OTR management. Eventually, Walters was able to process real property tax refunds, for any amount, with essentially no oversight by more senior managers in the Real Property Tax Administration. We attempted to sort through the varying information about approval requirements during the course of the investigation, but there was no consensus among the interviewees regarding the nature of those requirements. We therefore could not definitively determine what approval levels were in place at particular times during the relevant period.

The earliest document containing information about approval levels that we found was a memorandum dated July 21, 1997 from Dr. Gandhi, then-Deputy CFO of OTR, to the then-Director of RPTA. The memorandum states, in part: “I hereby delegate to [the then-Director of RPTA] . . . my authority to act on behalf of the Office of Tax and Revenue in matters relating to the administration of the Real Property Tax program. I further authorize [the then-Director of RPTA] to delegate this authority to subordinates, as is necessary to properly administer the ongoing real property tax programs.” The memorandum attaches a chart setting out certain

actions and their necessary approvals, including approval levels for real property tax refunds. According to the chart, all refunds had to be approved by a “clerk/journal voucher supervisor/Chief, ASD.” All refunds over \$150,000 had to be approved by the Chief of ASD and the Director of RPTA. All refunds over \$250,000 had to be approved by the Chief of ASD, the Director of RPTA, and the Deputy CFO of OTR. According to Dr. Gandhi, prior to the issuance of his July 1997 memorandum, as Deputy CFO, his signature was only required for court-ordered refunds over a certain amount, which he could not specifically recall. The July 1997 memorandum made no distinction between court-ordered and other types of refunds.

We asked a number of current and former OTR employees if they were familiar with this memorandum. Although almost none said that they were, some employees were generally aware that there had been levels of required approvals. Walters said in her interview that she did not believe the approval levels detailed in Dr. Gandhi’s memorandum reflected the actual practice. Walters believed the following approvals were required for various refund levels at that time: the Chief of ASD had to approve all refunds up to \$250,000, the Director of RPTA had to approve all refunds over \$250,000, and the Deputy CFO had to approve all refunds over \$500,000.

Between July 1997 and October 2000, the approval levels for refunds may have become more lenient than those set out in Dr. Gandhi’s memorandum (that is, the dollar levels triggering particular signature requirements may have increased across the board). The Deputy CFO, Director of RPTA, and Chief of ASD in place at the time said that they were unaware of any such change. The then-Deputy CFO indicated that only he or Dr. Gandhi had authority to change the approval levels. Around October 2000, however, a subcontractor to the District’s independent auditor at the time, KPMG, prepared a summary of the policies and procedures associated with certain activities of the Assessment Division and ASD. The document indicates that the subcontractor met with Walters to discuss the process for issuing real property tax refunds. This process memorandum appears to set forth what the auditors understood to be the processes and necessary approvals for both regular and court-ordered real property tax refunds in effect at the time. In the introductory section, after a general description of what regular and court-ordered refunds are, the memorandum states:

The Manager of [sic] the Chief of Assessment Services Division must approve refunds. The Chief [sic] Assessment Services Division approves refunds below \$250,000. The Director of RPTA must approve refunds between \$250,000 and \$499,000. Refunds greater than \$500,000 gets [sic] a final approval by the Deputy CFO.

The process memorandum then continues with two sections describing procedures for regular and court-ordered refunds in detail. The section for court-ordered refunds (but not the discussion of regular refunds) includes the following: “The tier of approvals for large refund and manager of the RPT Adjustment Unit supervise the processing of refunds is additional internal controls in place [sic].”

Given the placement of the approval level paragraph in the introductory section that discusses both regular and court-ordered refunds, the process memorandum could be read to describe a policy under which the Chief of ASD had to approve all refunds up to \$250,000, the

Director of RPTA had to approve all refunds over \$250,000, and the Deputy CFO had to approve all refunds over \$500,000. Although he did not review the process memorandum at the time of the audit, KPMG's then-Senior Manager on the District audit said during our interview that he believes that these approval levels applied only to court-ordered refunds. By way of explanation, he pointed to the fact that only one of the two detailed sections—the one about court-ordered refunds—included a reference to the approval levels; the section on regular refunds did not. The then-Senior Manager also speculated during his interview that the use of tiered approvals for court-ordered refunds but not regular refunds may have resulted from the political sensitivity involved with ensuring the District's compliance with court mandates.

KPMG audit team members drafted similar process memoranda in 2001 and 2002, which were reviewed in the course of those audits by the then-Senior Manager and circulated to managers and employees of OTR for review and comment. The only significant difference between the 2000 memorandum and those from the 2001 and 2002 audits was the deletion of the reference to approval levels in the detailed discussion of court-ordered refunds. Despite this change, KPMG's then-Senior Manager said that he believed the approval levels continued to apply only to court-ordered refunds and that there was no functional difference between the 2001 and 2002 memoranda and the 2000 memorandum. In contrast, Walters told us, after reviewing the 2001 process memorandum, that she had provided the information reflected in it to KPMG auditors during the course of the annual audit and that it was her understanding that approval levels applied to all refunds, not just court-ordered refunds.

Additional documents suggest that, over the course of the next several years, the approval levels for real property tax refunds changed from time to time. But there is no evidence of any accompanying formal pronouncements disseminated to the relevant personnel. In fact, many OTR employees were unaware of the approval-level policy reflected in these documents.

For example, on May 9, 2001, Walters sent an e-mail to RAA stating that the Adjustment Unit was preparing a \$1.4 million refund. In that e-mail, Walters states:

We will be processing several large amount vouchers as the assessment changes on commercial properties evolve in the future also. As the courts have changed their requirements for the commercial property tax owners to settle their differences in their assessment with the Assessment Division or on the second level appeal process we are now getting a lot of request[s] from the mortgage companies or law firms directly. We have seen a dramatic decrease in the number of refunds coming from the Tax Division of Superior Court [sic] are now seeing the increase in the regular refund process.

The then-Director of RAA responded: "With the apparent rising volume, are there any ways the refund process can be streamlined or changed to minimize the processing burden on all parties involved?" We spoke with both Walters and the then-Director of RAA about this exchange. Neither could remember the details or what, if anything, was done to "streamline" the refund process.

Shortly thereafter, on or about May 23, 2001, the then-Chief of ASD delegated a portion of her authority to sign real property tax refunds to Walters and the then-Manager of the Tax Sale Unit, which was memorialized in an e-mail stating: “Effective June 1, 2001, RAA will accept refund requests with their authorizing signatures for amounts not to exceed \$50,000.” This was a change from the processes reflected in Dr. Gandhi’s July 1997 memorandum under which the Chief of ASD had been required to sign all refund requests. The Chief told us that she conferred this new autonomy on Walters to help clear the backlog of work in ASD. Thus, the change may have been in response to Walters’ statement that regular refunds were increasing and also in response to RAA’s desire to “streamline” the process. Notably, however, the Chief also told us that there was no “bottleneck” because she did not review refund requests, but merely signed them. When asked in her interview, initially Walters could not recall the circumstances that led to her increased authority. Walters later said, however, that income tax managers had the authority to approve refunds up to \$50,000 without a Chief’s signature and she wanted similar authority. Two other former ASD managers confirmed that Walters was seeking the same powers as managers in other administrations.

In November 2003, KPMG’s audit team revised and updated the RPTA process memorandum. Like the prior KPMG process memoranda, the 2003 memorandum contained a high-level discussion of the processes for real property tax refunds, including both regular and court-ordered refunds, but—unlike the corresponding section in the prior memoranda—this section did not contain a discussion of approval levels. The 2003 process memorandum described specific approval processes for each of the two types of refunds. For regular refunds, the memorandum states:

The refund form is placed in batches by the RPT Adjustment Unit and is sent to the RPT Adjustment Unit manager for approval. The manager recalculates the refund amount, reviews the request, checks information on the system and the taxpayer’s file, and examines all correspondence including the research form and disbursement voucher. The RPT Adjustment Unit manager then approves the voucher for payment.

(Emphasis removed from original.)

For court-ordered refunds, the memorandum states:

The accounting technician uses the database to compute the interest (6% per year) based on the date of the decision and the amounts that already may have been paid. Then approval is obtained from the manager of the accounting unit. The RPT Adjustment manager reviews and approves the voucher for payment. Additionally, the Manager of the Chief of Assessment Services Division must approve all court case refunds. The Chief Assessment Services Division approves refunds below \$250,000. The Director of RPTA must approve refunds between \$250,000 and \$499,000. Refunds greater than \$500,000 receive a final approval by the Deputy CFO.

The then-Senior Manager from KPMG told us that he did not view the change in the structure of the memorandum—in particular, the fact that approval levels were discussed only in the court-

ordered refund section—as reflecting a change of policy; in his view, the approval requirements detailed in earlier process summaries also applied only to court-ordered refunds.

In 2004, there may have been an additional change to the approval level requirements. According to the KPMG audit team’s 2004 process memorandum, the approval levels for court-ordered refunds were revised to reflect the following:

The RPT Adjustment manager reviews and approves the voucher for payments up to \$100,000. The Chief [sic] Assessment Services Division approves refunds from \$101,000 to \$499,000. The Director of RPTA must approve refunds between \$500,000 to \$1,000,000. Refunds greater than \$1,000,000 receive a final approval by the Deputy CFO.

We did not speak with anyone from KPMG’s 2004 OTR audit team about the change, but the then-Senior Manager involved with the 2000 to 2003 audits explained that OTR representatives were responsible for providing the information about the real property tax refund approval levels. We asked a number of former OTR managers and employees about the then-apparent change in approval levels reflected in this document, including RPTA managers and employees in place at the time, and none could explain the change. Even Walters claimed to be unaware of any changes to the approval matrix. She stated that she believed the pre-2003 approval levels, reflected in the 2000, 2001, and 2002 KPMG process memoranda, were still in place at the time she was arrested and that the requirements applied to both regular and court-ordered refunds. The 2005 process memorandum prepared by BDO Seidman’s audit team, which succeeded KPMG as the District’s independent auditor and has served in that capacity since 2005, contains the same approval levels as the 2004 KPMG process memorandum. This memorandum was also circulated to certain managers and employees of OTR for review and comment.

As discussed above, during most of the relevant time period, Walters either sought the approval of, or forged the signature of, the relevant managers. During Walters’ interview, she acknowledged that she had forged the signatures of at least three Chiefs of the Assessment Services Division. Two of those Chiefs confirmed that some of the refund vouchers shown to them during their interviews contained forged signatures. It is important to note, however, that these same Chiefs actually signed off on other refunds that were fraudulent (although we found no evidence that any of the Chiefs were aware of or involved in the fraud). Walters could not explain why she felt it was necessary to forge signatures, given that the ASD Chiefs were willing to authorize other similar refunds.

Walters told us that the then-Chief of ASD conveyed in or around 2003, in words or deeds, that Walters should stop forwarding refund vouchers for her to sign.¹¹ Consequently, by 2004, it appeared to Walters that she could dispense with approval levels and process any refund

¹¹ At some point, it appears that even Walters did not need to sign refunds. We were told by an Adjustment Unit employee who worked for Walters that she felt that she could authorize any refund if Walters did not act on it in a timely manner.

for any amount on her own authority.¹² Nonetheless, she told us that she generally avoided processing fraudulent refunds over \$500,000, which she believed could attract unwanted scrutiny because, in her view, they required the signature of the Deputy CFO. In fact, during the two decades of the fraud, Walters issued only two fraudulent refunds over \$500,000. The first was processed in 1997 and the other in May 2007. Walters, however, appears to have been perfectly comfortable processing refunds just under \$500,000; we identified 21 fraudulent refunds between \$400,001 and \$500,000. In addition, Walters occasionally processed legitimate refunds over \$500,000 without any additional approvals. For example, in April and June 2004, Walters, without additional approvals, authorized the issuance of two legitimate refunds to the same entity. One refund was for \$704,234.90; the second refund, nearly two months later, was for \$1,738,189.15. Neither refund contains the signature of any OTR manager other than Walters.

Many current and former OTR employees and managers to whom we spoke were unaware of or could not recall the actual approval requirements or the role they were supposed to play in the approval process. For example, one Chief of ASD believed that she could approve refunds only up to \$10,000. According to that Chief's understanding, the Chief had to see and sign the vouchers for amounts over \$10,000, even if others above her needed to sign as well. Regardless, that Chief recalled reviewing and signing off on only one or two refunds during her two years in the position. When asked whether she found it surprising that she was so rarely asked for her approval, she claimed that her deputy, who she believed had the same authority to sign refunds, was authorizing the requests as necessary. Her deputy, however, did not sign any refunds during that time and could not recall ever discussing refunds with that Chief. Other Chiefs of ASD and more senior managers, including the then-Directors of RPTA and then-Deputy CFOs for OTR, told us that they never (or very rarely) reviewed or approved refunds during their tenure, a fact that appears to be confirmed by the documents. Several former managers indicated during their interviews that they were not concerned that they did not regularly receive refunds to approve because they believed that large real property tax refunds should have been infrequent.

4. Lack of Internal Controls in OTR Systems

OTR lacked adequate internal systems controls over the processing of real property tax refunds, and OTR management and employees paid little attention to such details. This was perhaps most acute in the design of systems like RPT2000 and ITS, for which the original system development budgets and subsequent modifications did not prioritize controls.

RPT2000 did not have a mechanism to prevent the creation of false tax credits. We also did not find any evidence that anyone produced, or that any managers reviewed, any exception reports tracking the creation, deletion, or modification of credits. This allowed Walters to create or manipulate credits as needed to support her fraudulent refunds. Because there was no audit trail in RPT2000, Walters' activities could not be monitored.

¹² During our review, we found a small number of large legitimate refunds issued in 2003 or later that contained the authorizing signatures of various managers and senior managers of RPTA and OTR. Walters told us that she forwarded these refund requests to her supervisors because they had been contacted directly by taxpayers requesting that refunds be issued.

ITS suffered from similar deficiencies. There were insufficient controls surrounding the creation, modification, or deletion of credits on accounts in ITS. ITS did not have a control to require that certain credits be compared to an actual payment, nor was there a comprehensive audit trail built into the system to provide evidence of who initiated, modified, and approved transactions. As with RPT2000, we also did not find any evidence of reports tracking credits that would have alerted managers to problems.

ITS, unlike RPT2000, was capable of processing tax refunds. By the time ITS was implemented for RPTA, the system had been used to issue income tax refunds for several years. One of the controls built into ITS on the income tax side was that large refunds systemically triggered the need for higher-level approvals (i.e., manager review queues). Although one manager from RAA asked that this functionality be built into the real property tax refund process, she did not follow up to ensure that it was included. As a consequence, ITS real property tax refunds in practice did not require any approvals before being issued—not even approval by Walters. For example, in 2007, an Adjustment Unit employee processed an ITS refund for \$320,044.62 solely on her own authority.

There was also a flaw in the Access database that generated the SOAR vouchers. The Access database automatically assigned a voucher number. Although the voucher numbers were supposed to be unique, it was possible to change the voucher number manually and re-issue a different voucher with the same voucher number. Walters exploited this flaw. After a SOAR voucher had been completed and printed by one of her employees, Walters could go back into the Access database, deselect the print box on the program, change the square and lot number on the voucher, and reprint a fraudulent voucher with the original voucher number.

An additional weakness with the Access database was that SOAR voucher numbers were limited to four digits. Thus, the voucher numbers reset to 0001 once all available numbers had been used. This resulted in the same voucher numbers being used again over the course of several years.

5. The Disputed Role of the Revenue Accounting Administration

There was no apparent consensus during the period in question about who bore ultimate responsibility to impose and enforce the controls needed to ensure the integrity of real property tax refunds. Some indicated that the Director of RPTA was responsible for ensuring proper sign-off on refunds. Others believed it was the responsibility of the Chief or Deputy Chief of ASD or of the Adjustment Unit to monitor compliance.

One particularly consequential dispute concerns the role RAA should have played in reviewing refund requests. Senior management—Dr. Gandhi, two former Deputy CFOs of OTR, and a former Director of Operations of OTR—told us that they believed RAA was vetting real property tax refund requests to ensure that they contained all necessary signatures and were supported by appropriate documentation. Moreover, the KPMG process memoranda specifically states that one of the controls embedded in the real property tax refund process was that requests for refund payments were “approved” and “issued” by “separate administrations.” In addition, RAA senior management knew that approval levels were in place for refunds over certain dollar amounts and that the Chief of ASD had delegated some authority to Harriette Walters. Reflecting that delegation, one e-mail from the then-RAA Director states: “Effective June 1,

2001, RAA will accept refund requests with their [i.e., Walters' and the then-Tax Sale Manager's] authorizing signatures for amounts not to exceed \$50,000.” That same Director stated in his interview that he relied on his managers to ensure that RAA employees were fulfilling their responsibilities, presumably by ensuring, for example, that refund requests for higher amounts came with the necessary additional signatures.

Walters told us in her interview that she also believed RAA, and in particular one senior systems accountant, was the only real control that might have detected her fraud. She believed that this employee was reviewing closely the information that Walters submitted. She also believed this employee was checking RPT2000 to ensure that there was a credit to support each refund. That senior systems accountant stated in her interview, however, that she did not use RPT2000 and never reviewed the supporting documentation. According to this employee, her job was initially to enter the voucher information into SOAR and, later in her tenure, to ensure the data entry was accurate—and nothing more.

Other employees and lower-level managers within RAA agreed, stating that they thought their role in the process was ministerial and nonsubstantive—that they were merely “processors” and “data enterers.” RAA employees simply entered the information contained on the SOAR voucher and checked that there was an authorizing signature from a manager (such as Walters herself) without conducting any independent review of the substance of the voucher or the contents of the supporting documentation and without checking RPT2000 for a credit.¹³ In particular, a junior accounting technician would uncritically enter data from the voucher into SOAR and then would hand the voucher over to a more senior systems accountant for “approval.” But neither of them compared the information in the SOAR voucher to the supporting documentation or checked whether the required documentation was present. Rather, the reviewer merely ensured that the junior accounting technician had not made a keystroke error that caused any discrepancies between the information keyed into SOAR and the information that appeared on the face of the voucher prepared by ASD. If there were no such discrepancies, the approving accountant would “release” the journal entry into SOAR, which directed OFT to process the actual payment.

RAA employees and managers insisted that no one ever informed them of any expectation that they also vet the substantive validity of the refund requests themselves by, for example, checking for signatures from anyone senior to Walters or by reviewing the vouchers for proper supporting documentation. Instead, most believed that if refunds were sent to RAA and contained the signature of a manager (in this case Harriette Walters), then it was appropriate to enter and release them. In fact, most of the employees and managers in RAA whom we interviewed said they were unaware of the approval requirements and documentation requirements to process real property tax refunds. This includes the RAA manager who was responsible during much of this period for overseeing the processing of refunds, and who

¹³ RAA's procedure for processing real property tax refunds remained basically the same throughout the relevant time period, with minor adjustments. For example, in earlier years managers approved refunds and in later years senior systems accountants approved refunds, but the level of the review at the approval stage basically remained the same. In more recent years, employees in the Adjustment Unit delivered batches of SOAR manual refund vouchers and supporting documentation directly to junior accounting technicians in RAA responsible for entering the information into the general ledger system. In earlier years, a senior financial accountant received the SOAR vouchers before handing them to the junior accounting technicians for data entry.

received copies of the independent auditors' process memoranda that described the approval matrices. He indicated that he received these process memoranda merely because he acted as a conduit of information between OTR management and the independent auditors. He also told us that he never read the sections of the process memoranda discussing real property tax refunds.

6. Competing Managerial Priorities

The lack of controls we have described, and the disagreements about who was ultimately responsible for adopting and enforcing controls, were possible only because senior OCFO management apparently never focused on the need for controls related to real property tax refunds. Instead, management was preoccupied during most of this period with other District government priorities, including an understandable focus on preserving the District's favorable financial rating and on issuing refunds to taxpayers quickly. Before Walters' scheme was discovered, senior managers evidently did not appreciate the risk related to real property tax refunds and, as a result, apparently did not focus on the controls that were obviously needed.

We heard consistently throughout the investigation that the OCFO's highest priority was obtaining an unqualified (clean) CAFR audit opinion from the District's independent audit firm. Unqualified CAFR audit opinions were the highest priority because of concerns about the possibility of a return to Control Board oversight.¹⁴ As a result, the OCFO and its subsidiary offices primarily focused on those issues that could affect the District's financial statements and, therefore, adversely affect its audit opinion. Real property tax refunds, which from a financial statement perspective were relatively small, understandably received less emphasis.

The effects of the emphasis on a clean CAFR audit manifested themselves as early as 1997. When Dr. Gandhi became Deputy CFO for OTR, the District had just received a qualified audit opinion for the prior fiscal year. According to Dr. Gandhi, the qualification related to the business tax area of OTR. Dr. Gandhi and his OTR staff thus focused a great deal of attention on correcting the problems identified in that area and implementing needed systems. He left other areas, like RPTA, to the respective administrations' managers. Because no issues were identified regarding refunds by the real property experts in charge of the area or OTR's internal audit function, Dr. Gandhi assumed that the real property tax refund area was functioning well and was adhering to the controls and systems in place at the time.

The OCFO also dictated other competing priorities for OTR that likewise tended to distract attention from the need for effective controls in the area of real property tax refunds. We were told during interviews of current and former OCFO employees that the speedy processing

¹⁴ As part of the District of Columbia Financial Responsibility and Management Assistance Act discussed in Section III.A, Congress established a five member Control Board in 1995 to oversee the District's finances because the "combination of accumulated operating deficits, cash shortages, management inefficiencies, and deficit spending...[had] created a fiscal emergency in the District of Columbia." 109 Stat. 97, Pub. L. No. 104-8 § 2(a)(1). The Control Board had the power to override budget decisions by the Mayor and City Council. The Control Board also had direct authority over all of the District's borrowing activities. The Control Board was dissolved on September 30, 2001 after the District achieved its fourth consecutive balanced budget. The District is subject to another control board period if any of the following occurs: (i) requisitioning advances from the U.S. Treasury; (ii) failure to provide sufficient revenue to a debt service reserve fund; (iii) defaulting on any loans or bonds; (iv) failure to meet payroll; (v) a large cash deficit at the end of any fiscal quarter; (vi) failure to make pension and benefit payments to current or former District employees; or (vii) failure to make other payments specified by the Act.

of personal income tax refunds was paramount—the goals were to eliminate problems that had plagued this process and be faster than the IRS and neighboring states. Maximizing tax collections and pursuing criminal prosecutions of delinquent taxpayers also were high priorities for the OCFO. Some employees in the Adjustment Unit and accounting technicians in RAA were evaluated based on the speed of processing real property tax refunds. By contrast, the evaluation parameters did not explicitly include compliance with policies and procedures or attention to the need for effective controls against fraud. It is thus hardly surprising that employees focused on speed to the detriment of fraud prevention or detection.

B. Failures Within the Office of the Chief Financial Officer

It is difficult to comprehend how a fraud of such magnitude but such simple means escaped the view of so many employees and managers for such a long time. Why did no one raise a question or lodge some complaint that could have or would have led to the discovery of the fraud? The answer lies partly in the working environment of OTR.

1. Dysfunctional Work Environment

Many offices within the OCFO are beset by what might be described as a “culture of silence.” In a nutshell, employees seem to have entered into an implicit compact not to question others’ work, lest their own work be scrutinized. This culture of silence created an environment in which Walters could process real property tax refunds with little interference from her co-workers and managers. There were a number of indications suggesting that something was amiss in the Adjustment Unit, not the least of which was Walters’ extravagant generosity toward co-workers. But no one spoke up, raised a question, or considered whether such generosity was appropriate. An anecdote perhaps explains the silence: when one senior OCFO manager asked his assistant, after the discovery of the fraud, why no one reported the misconduct of members of the Adjustment Unit, she responded: “snitches get stitches.” When asked, during her interview, what she would have done if she had discovered a scheme similar to hers, Walters said she would not report misconduct of another Union employee.

There was apparently at least one rumor about Walters and her activities. During her interview, Walters reported that an administrative assistant in ASD, who, according to Walters, received approximately \$100 to \$200 in cash from Walters every week as well as numerous other payments, speculated to some RPTA employees that Walters was doing something inappropriate and that it may have involved real estate lawyers. Walters learned that the administrative assistant was talking to others about her. After being directly confronted by Walters, the administrative assistant agreed to stop spreading the rumors.

Another RPTA employee who overheard such speculation confronted Walters about the rumor. Walters apparently denied any wrongdoing. The employee said that she did not report the allegation to OIO or more senior management because, after she confronted Walters, she believed her denials. This employee received several gifts and checks totaling \$1,000 from Walters.

While few may have suspected that Walters was engaging in a fraudulent refund scheme, she was well known to be very generous with OTR employees, both generally and inside RPTA. She purchased lunches for the employees and gave OTR employees and some of her supervisors

candy, clothing, and other gifts. Walters gave some OTR employees lavish gifts. Walters took at least two of her co-workers on trips to Atlantic City and paid for all expenses. A former Deputy Chief of ASD not only knew that Walters gave gifts to co-workers, but herself received clothing and sports tickets from Walters.

Employees and managers also were aware that Harriette Walters loaned and gave money to some OTR employees. Walters told us, for example, that she made mortgage payments for others to prevent their homes from going into foreclosure, and that she paid rent, tuition, and taxes for employees as well. During just a fraction of the relevant time period, Walters wrote checks to co-workers worth about \$1.2 million. Some employees received payments well in excess of \$100,000. According to information provided to us by the OCFO, Walters wrote large checks to three Adjustment Unit employees. One received 72 checks from Walters totaling \$97,000. Another received 119 checks from Walters totaling \$275,000. On some occasions, Walters wrote this employee checks to cash for Walters. A third employee received 26 checks from Walters totaling almost \$28,000. When we interviewed this employee, she recalled receiving two loans from Walters amounting to approximately \$6,000. We understand that the OCFO conducted or is conducting a review of individuals who received gifts from Walters. In connection with that review, a number of employees were asked to resign in lieu of being terminated.

Former employees who were interviewed reported that Walters regularly handed out cash to ASD employees in her office. According to some interviewees, Walters kept a bowl or jar of money on her desk for employees' use. Some told us that it contained only small amounts; at least one former employee recalled seeing \$20 bills. Walters denied that she had a jar of money in her office for employees to use. A former Deputy Chief of ASD also knew that Walters loaned money to other employees. Shortly before the discovery of Walters' scheme, an employee in the Adjustment Unit complained to the Deputy Chief and Chief of ASD about people gathering outside Walters' office, asking for money. The Chief and Deputy Chief asked Walters to be careful about, or to stop, giving out money to co-workers and told her that she should cut down on the level of socializing going on in the office. But they apparently did not conduct any serious inquiry into the source of all this freely disseminated money.

Another former Chief of ASD heard reports shortly after she left ASD in 2006 that ASD employees participated in something called "the chicken game," during which Walters had employees scramble to grab as much money as they could—an allegation that Walters denied in her interview. The former supervisor said she reacted with disgust, but decided against forwarding the information to anyone else because ASD was no longer her responsibility. Instead, she suggested that the employee who gave her this report bring the matter to the Office of the Inspector General—which that employee apparently never did. Another former Adjustment Unit employee, after initially agreeing that Walters threw money out for others to grab, told us that Walters may have just handed out the money. Whether it was causing people to scramble for money or handing it out, several OTR employees, including Walters' former supervisor, were aware of Walters' practice of giving out money. We found no indication that any of them chose to raise a concern either within OTR or with OIO or the Office of the Inspector General.

The employees that we spoke to who received gifts or money from Walters told us they were completely unaware of Walters' scheme. Walters apparently provided cover stories to explain her generosity. According to one rumor, she was from a wealthy family and had inherited large sums of money. According to another rumor, she had a wealthy boyfriend or a second job and was good at "budgeting" her money. One person said in her interview with OIO that at some point she suspected Walters was a drug dealer. No matter what the prevailing rumor, however, Walters' evident wealth became well-known. One former Chief of ASD told us that his supervisors informed him about Walters' apparent wealth during his job interview or shortly thereafter.

Of course, there may have been more at work here. Recipients of Walters' largesse had little incentive to ask questions about where she was getting the money. Employees in the Adjustment Unit told us they just came in, did their work, and minded their own business. Walters exploited this type of employee to help her process her fraudulent refunds. She told us she only wanted people in her unit who would do the work competently, with few questions and no complaining. One former Adjustment Unit employee, who played a role in processing some of Walters' fraudulent refunds, may have fit that description. One manager we interviewed stated that this employee would essentially do anything her bosses asked of her.

Finally, we also found disconcerting evidence of cynicism or apathy among some OTR employees about the prospects for improving the District government bureaucracy. For example, in 2001, an employee in OTR's Customer Service Administration prepared a memorandum in which the employee asserted that it would be better not to correct systematic errors in the mailing addresses for property owners who are owed refunds. The employee's "best available rationales" for doing nothing included: (i) "No one expects the District to be accurate yet; there's time to do it later;" (ii) "If we standardize, it will be too easy to set performance standards and to determine the extent of potential fraud. We are not ready for that yet. We might need to come up with an income burp later on. Keeping things the way they are now will obscure a potentially needed rescue;" (iii) "There will always be manual correction work available;" and (iv) "Most of the errors are in areas of the District [that] traditionally are the poorest and worst served Many of these citizens are already accustomed to coming to us for a duplicate bill; they can continue to do so." One former Chief of ASD told us that this mindset was common among employees of OTR and the District more generally.

2. Silo Effect

As discussed previously, the structure and organization of the OCFO is complicated. It is made up of a number of separate divisions, all with different responsibilities for the finances of the District. And even though regularly scheduled meetings were held among the Deputy CFOs of the different OCFO divisions, it appears that the various offices were separate or compartmentalized silos. Each silo operated without much interaction or oversight from the other divisions. We found very little evidence that middle management or lower-level employees from various divisions worked together. Senior and middle managers had a very limited understanding of what the other divisions were doing. We also heard that employees and managers in one division of the OCFO did not question the work and actions of other divisions. For example, one senior manager from the Office of Financial Operations and Systems, the OCFO division responsible for the overall control function, stated that he did not look over

people's shoulders in other divisions because he did not want them looking over his. The impact of the silo effect was that information about relevant policies, as well as real property tax refund tracking information, was not shared between OCFO divisions. This failure to share information likely made it more difficult to detect or prevent Walters' scheme.

First, the compartmentalization is evidenced by the failure of the relevant OCFO offices to follow, or even know about, other offices' policies and procedures. For example, the OCFO and OFT had formalized policies regarding the hold for pick up check process, which Walters used to process her fraudulent refunds. Employees and managers from OTR appear, however, to have been unaware of these policies. OCFO and OFT policies and procedures stated that the hold for pick up process should be used only for emergencies. Most OTR employees to whom we spoke were unaware of this rule. According to one OIO report, from fiscal year 2000 through 2007, an average of about 130,000 hold for pick up checks were issued per year for a yearly average of just under \$1.4 billion. And we found no evidence that OFT personnel sought to make OTR aware of the restrictions on this practice, much less enforce them.

Second, during at least part of the relevant period, two divisions of the OCFO—the Office of Finance and Treasury and the Office of Revenue Analysis—monitored both the number and the aggregate dollar value of real property tax refunds. Some of these OFT and ORA reports and summaries reflected increases in real property tax refund levels around 2004, a time during which Walters ratcheted up the scale of her scheme (and shortly after Walters received the go-ahead from her supervisor to stop forwarding any refund vouchers, for any amount, for signatures other than Walters'). We are not able definitively to tie the timing of Walters' fraudulent refunds to the timing of particular real property tax refund tracking reports. Regardless, it appears that no one looked behind the numbers reflected in the reports to examine the process more closely or to understand why real property tax refunds were increasing.

OFT Weekly Cash Reports. Starting around 2001, an employee in the Office of Finance and Treasury prepared weekly "cash reports" to summarize the District's cash position. These reports included a line item for real property tax receipts, and often included a narrative describing variances from estimates and sometimes the amount of real property tax refunds. The following are excerpts from some of the reports that identified large amounts of real property tax refunds.

Date	Narrative
Week of 12/8/2003	<p>“For the second week in a row, real property tax refunds have exceeded collections, further increasing our YTD variance for this line item.”</p> <p>“Important Cash Events to note: Real property refunds exceeded receipts for the week of 12/8/03.”</p>
Week of 2/2/2004	“Real Property Tax refunds significantly exceeded revenues for the week of 2/2/04; receipts of \$.598m vs. refunds of \$1.63m.”
Week of 2/9/2004	“Real Property Tax receipts were lower than projected due to a high volume of refunds. YTD, we are \$16.1m below our estimates for this line item, largely due to high refunds.”
Week of 2/23/2004	“Real Property Tax receipts were once again negative for the week, due to refunds exceeding revenues. YTD, we are now (\$17.3m) behind our projections for this line item.”
Week of 6/14/2004	“Real Property Tax receipts of (\$1.1m) were \$4.7m below our forecast. The \$2.5m in refunds disbursed more than offset the week’s revenue. YTD, real property tax revenues are \$33.6m above our projections.”
Week of 6/21/2004	“Real Property Tax receipts were (\$.1m). There was over \$2m in refunds disbursed during the week, which offset all of the revenue collected. YTD, real property tax revenues are \$30m above our forecasts.”

These reports, which were used to monitor cash flow, were circulated throughout OFT. We did not find evidence that the reports or narratives reflected in the table above were sent to Dr. Gandhi, although he received versions of the documents starting around 2005 that contained less detail about real property tax revenue. At least once, Dr. Gandhi’s staff requested that changes be made to the format of the spreadsheet and that some comments always be included under the heading “Important Cash Events to Note.”¹⁵ It appears that Dr. Gandhi at one point recognized the importance of these cash reports, directing (in reference to the cash reports): “This must be a regular reporting event.” OFT, however, appears to have stopped circulating these reports in early 2006. The D.C. Treasurer told us that OFT stopped preparing the reports because of a lack of resources.

We have found no evidence to suggest that OFT employees or managers discussed these weekly cash reports with anyone at OTR. The person who prepared the reports during much of the relevant period told us that he never discussed the reports with anyone outside of OFT.

ORA Monthly Cash Reports. ORA monitored and reported on real property tax refunds through its monthly cash reports. These reports compared monthly tax refunds to the same month during the prior year and listed yearly cumulative variances, and we understand that ORA’s Revenue Estimation Unit was the primary user of these reports. Below is a table reflecting monthly reports that identified the most significant variances in real property tax refunds.

¹⁵ Within months of this request, the reports no longer included the Important Cash Events field, which was replaced by a graph showing a three-year “Ending Balance Comparison.”

Date	Monthly Refund Variance	Cumulative Yearly Refund Variance
April 2002	254%	17%
November 2003	234%	138%
March 2004	495%	116%
June 2004	498%	150%
June 2006	326%	15%
September 2006	508%	43%

Although monthly variances were common, from October 2000 through February 2008, there were only 17 monthly variances over 100%. That makes the six monthly variances referenced in the table above all the more remarkable.

In an interview, an ORA manager indicated that he would not have been concerned by the large monthly and/or yearly variances in the real property tax refunds. He pointed out that refunds constitute a relatively minor component of the District’s overall budget. He further explained that a large monthly variance in real property tax refunds could result from one large commercial taxpayer receiving a significant refund. Real property tax refunds, unlike real property tax payments, are not scheduled. Therefore, he would not have been surprised by or concerned about even significant variances from month to month or year to year. Indeed, the same ORA manager told us that *no* variance, no matter how large, of monthly real property tax refund payments would concern him. According to this individual, rather than focusing on variances, ORA concentrates on actual performance against projections or budget. When the actual amounts depart radically from the estimates or prior years, ORA will further analyze the data. The real property refund estimate, however, is merely a “plug”—or a guess—not a “true economic forecast.” Fluctuations in actual real property tax refunds, therefore, apparently did not cause concern or catch anyone’s attention at ORA.

We have found no evidence that anyone from ORA distributed the monthly reports to anyone outside of ORA. They are available, however, on the OCFO’s public web page. Most members of OTR’s senior or middle management were not aware that ORA was producing monthly cash reports that tracked real property tax refunds and identified variances from prior periods.

Although we are not able to tie either the weekly or monthly cash reports to specific fraudulent refunds, had OTR managers been aware of either of these reports, it is possible that large variances could have triggered questions about particular refunds or the refund process more generally. At least one former Deputy CFO of OTR suggested that had she been aware of these types of variances, she would have reviewed real property tax refunds and the process to obtain a better understanding of significant changes in refund amounts.

3. Management Failures

(a) Overview

A number of managers within OTR bear varying degrees of responsibility for the fact that Walters’ scheme proceeded undetected. Before we address their specific management failures, it is important to focus on the unique challenges facing any manager in this dysfunctional work environment. Dr. Gandhi, for example, told us during his interview that it was “not easy” to

manage some long-time employees in RPTA, some of whom presented “huge management challenges.”

First, managers in OTR and RPTA were forced to spend an inordinate amount of time dealing with interpersonal conflicts among employees instead of managing processes and pushing through improvement initiatives. The conflicts ranged from very minor to serious. For example, we learned that an employee wanted the then-Director of RPTA to address the theft of a free ice cream coupon from the employee’s desk. We also learned of an instance in which RPTA employees threatened bodily harm to another employee. Several managers in key real property positions said in interviews that they spent the majority of their time addressing these types of employee issues.

Second, according to some managers, it was difficult to discipline or fire problematic or underperforming employees and managers. One former Deputy CFO of OTR told us that the office had only a “thin layer” of competency among its employees. We heard consistently that underperforming or problematic employees were shuffled from job to job instead of being terminated. This inability to terminate employees was attributed in part to a flawed evaluation process, which tended to inflate performance evaluations for even the worst employees and managers, and in part to management’s wish to avoid confrontations with the employees’ Union. Reassigning or merely tolerating problematic employees was apparently viewed as easier than going through the necessary steps to terminate the employees. In some cases, underperforming employees were able to outlast managers because managers were not in their positions long enough to compile the documentation needed to terminate them. Managers were also disinclined to discipline problematic employees because doing so required them to devote considerable time to documenting the employees’ infractions or deficiencies, developing “improvement plans,” meeting with human-resources personnel, and confronting Union representatives.

We also heard the sentiment that everyone “deserves a job” in the District government, if nowhere else. Many times, therefore, managers simply worked around problematic employees, including low-level managers, thereby increasing their own workload and the workload of quality employees. For example, several former managers stated during interviews that the Homestead Unit in ASD was ineffective and poorly managed and that its employees did not have the requisite skills needed to meet their responsibilities. As a result, the District granted homestead status by default to many unqualified homeowners, thereby losing millions of dollars in revenue. Eventually, rather than replacing the manager and employees, the then-Director of RPTA created what was essentially a second, parallel operation with four additional employees to complete the work that the Homestead Unit itself had failed to do.

Third, the employees’ perception of the role of the employees’ Union also made the work environment more challenging for the managers. Some managers were reluctant to implement changes because employees often threatened to file a lawsuit or to involve a Union representative every time a change was proposed, even for relatively minor changes. For example, one former ASD Chief faced employee resistance when he implemented a new weekly reporting function. The staff challenged the weekly reports, bringing the issue to the Union and taking the position that the Chief had inappropriately inserted a new condition of employment that had not been bargained for with the Union.

Fourth, OTR generally, and RPTA in particular, had significant problems recruiting and retaining quality managers. From 1997 through November 2007, five different Deputy CFOs led OTR. This high turnover rate caused serious discontinuity in OTR and likely aggravated the weaknesses inherent in the processes, policies, and procedures. RPTA also had a high turnover rate in the Director position. From September 1996 to 2007, there were three different Directors or Acting Directors. One of the three was “promoted” against his wishes to the Acting Director position. To make the management situation even more precarious, the position of Deputy Director of RPTA has remained vacant since approximately 2004.

Turnover and inexperience in the Chief position in ASD further exacerbated the management problems in OTR and RPTA. From approximately 1995 to November 2007, seven different people served in the Chief position, some in an acting or interim capacity. None of the former Chiefs of ASD with whom we spoke had prior experience with the work of the Division; some lacked any real property experience. Another had no tax experience at all. Also, three individuals promoted to Chief of ASD told us that they had no prior interest in the job.

The management challenges in OTR impaired the ability of the OCFO to prevent or detect Harriette Walters’ actions because these challenges often took the managers’ focus away from the substance of the OCFO’s work. Moreover, because of the lack of continuity, the inexperience, or the lack of interest of those holding management positions, Walters was able to co-opt essentially all necessary authority to process larger and larger refunds.

In contrast to all of the challenges faced by management, the real property tax refund process superficially appeared to be working well throughout this period—particularly as compared to other units and processes. Walters responded promptly to the requests of her supervisors and was viewed as a “go-to” person on certain issues. As one former Director of RPTA explained, he was too busy putting out fires in areas that were not working to focus on areas that seemed to be operating effectively. Given Walters’ long tenure in the Adjustment Unit, her superiors came to rely on her because they lacked the experience or understanding of the subject area and its associated processes. This reliance contributed to what Walters described as her ability to “hide in plain sight.”

(b) Dr. Gandhi

Dr. Gandhi was Deputy CFO of OTR from early 1997 to June 2000. During that time, Walters processed nearly \$2.5 million in fraudulent refunds. During Dr. Gandhi’s subsequent tenure as CFO for the District, Walters processed approximately \$43 million in fraudulent refunds. Dr. Gandhi has stated publicly several times (and repeated during his interview) that he takes responsibility as CFO for the failure to detect or prevent the fraudulent scheme and has indicated that he is committed to making the changes necessary to help reduce the likelihood that these types of frauds could occur in the future. During his tenure as both Deputy CFO and CFO, the OCFO failed to ensure that adequate controls were in place, including controls related to the real property tax refund process, and did not address or correct weaknesses in systems and in the overall work environment that made the OCFO vulnerable to fraudulent schemes.

The OCFO is a large and complex organization. As the leader of the organization, Dr. Gandhi was not involved in the specific details and functions of each subsidiary agency. Rather, he focused, understandably, on strategic issues. Real property tax refunds did not fall into that

category because, although large in everyday terms, they represented only a small fraction of the overall finances of the District. Accordingly, Dr. Gandhi paid little attention to real property tax refund operations as CFO, and focused instead on significant problems that were brought to his attention. Many interviewees (including Dr. Gandhi himself) said that Dr. Gandhi made it his overriding concern to achieve clean audit opinions and maintain and improve the District's favorable bond rating, and in that he has succeeded year after year.

Like most senior executives of large organizations, Dr. Gandhi relied heavily on his managers and on an internal audit function to be the first line of defense against fraud. Those managers and the internal audit function did not, however, ensure that policies, procedures, and controls were in place in OTR with regard to real property tax refunds. A primary example of this is the implementation of ITS. It is to Dr. Gandhi's credit that he understood the importance of automated systems. Despite its flaws, ITS was a measurable improvement over the existing manual real property tax refund process. As discussed previously, however, the delayed implementation of ITS—and, once it was implemented, the lack of controls in the system—allowed Walters to continue processing fraudulent real property tax refunds. Dr. Gandhi believed that the independent auditors verified the validity of internal controls, and, because the District continued to receive clean audit opinions, he assumed that internal controls were “fine.”

Based on our review, the chief criticism that can be made against Dr. Gandhi concerning Walters' scheme during his tenure as CFO is that he was the senior leader of the organization during a key period of that scheme and, under the pressure of competing demands, appears to have placed unverified and unwarranted reliance on the ability of his managers to protect District funds in the real property tax area.

His tenure as Deputy CFO of OTR from early 1997 to June 2000 presents different issues. As Deputy CFO of OTR, Dr. Gandhi's responsibility for the real property tax refund processes and controls was more direct. When considering Dr. Gandhi's tenure as head of OTR during the relevant time, however, it is important to consider the state of the office he found when he became Deputy CFO.

According to several interviewees, including Dr. Gandhi, OTR's office was in “utter disarray” and the environment was “chaotic” when he took over as Deputy CFO. Tax returns of all types, numbering in the millions of pages, were piled from floor to ceiling with no semblance of organization. In fact, in fiscal year 1996, the District received a “qualified opinion” from its independent auditors due to shortcomings in OTR's business tax accounting process. Dr. Gandhi's first task, as dictated by the then-CFO, Anthony Williams,¹⁶ was to restore order to

¹⁶ Former Mayor and former CFO Anthony Williams also told us aspects of the District's finances were a “mess” when he became CFO in 1995. Early in his tenure as CFO, Williams adopted a “two-track” strategy to address the many identified issues at the OCFO: short-term crisis management and a long-term strategic rebuilding plan. Like Dr. Gandhi after him, Williams believed that improving the District's bond rating and improving the efficiency of the tax refund process were critical short-term goals. Williams also identified OTR's systems, controls, and personnel as particularly weak. In connection with this assessment, he fired hundreds of OTR employees and sought to improve systems and controls throughout the organization. Williams' top priority as CFO was to obtain clean audit opinions. He organized the OCFO's operations around achieving this goal. After receiving a qualified opinion in 1996, Williams pledged to resign if the 1997 audit opinion was qualified. The following year, the District did receive an unqualified audit opinion.

OTR and terminate almost all OTR managers hired before his arrival. Given the state of the office and the previous year's qualified opinion, Dr. Gandhi focused a great deal of his attention on addressing those areas of weakness that resulted in the qualified audit opinion. In fact, Dr. Gandhi told us that he was "obsessed" with getting an unqualified (clean) opinion. In 1997, the District did, in fact, receive an unqualified audit opinion.

Because he was focused on cleaning up the office and on business tax processing, and because real property tax refunds had not been identified as a problem area, Dr. Gandhi relied heavily on his Director of RPTA for issues associated with real property tax, including internal controls. According to Dr. Gandhi, then-CFO Williams advised him that the Director of RPTA (who had been hired before Dr. Gandhi) was a national expert on real property and therefore, Dr. Gandhi should focus on other areas of the office. Despite this reliance, Dr. Gandhi did have some involvement in the real property tax refund process as Deputy CFO. Before July 1997, Dr. Gandhi recalls reviewing and approving some court-ordered real property tax refunds. Some of those refunds were large and related to commercial real estate. He does not recall reviewing or approving overpayment or tax sale refunds. Dr. Gandhi estimated that, at that time, he spent half a day each week reviewing real property tax refunds. In July 1997, Dr. Gandhi formally delegated much of his authority for real property tax administration to the Director of RPTA and set new approval levels for the processing of real property tax refunds.¹⁷

Dr. Gandhi does not recall reviewing or authorizing any real property tax refunds after the implementation of the new approval levels. Dr. Gandhi did not track the number of refunds being processed or the dollar amounts involved. He did not implement any formal controls to ensure that the approval policy he set was followed, nor did he ensure that the policy was effectively communicated to all employees involved in the process. Dr. Gandhi relied on his managers to ensure that refunds were properly approved and that refunds requiring his approval were brought to his attention. This reliance was misplaced—Walters processed 12 fraudulent refunds while Dr. Gandhi was Deputy CFO, including the largest fraudulent refund that Walters processed, which was for \$543,423.50.¹⁸ In the course of reviewing available refund documentation, WilmerHale and PwC did not identify any fraudulent refund vouchers that contained Dr. Gandhi's signature.

Other than his July 1997 memorandum discussed in Section V.A.3, Dr. Gandhi was not aware of specific policies or procedures related to the preparation or processing of real property tax refunds. Dr. Gandhi assumed ASD had policies and procedures and did not believe that it was necessary to issue new refund-specific policies for RAA. In particular, he indicated that employees and managers in RAA should have known—based on "common sense"—that they should have been reviewing the substance of the documentation associated with real property tax refunds. Obviously, this reliance on common sense or general knowledge, while in some respects logical, was misplaced. As discussed previously, managers and line employees alike in

¹⁷ According to Dr. Gandhi, his statement during the question and answer portion of his November 2007 Council testimony—that he approved all refunds over \$10,000—was not accurate. Dr. Gandhi said during his interview that, prior to the issuance of his July 1997 memorandum, he reviewed and approved only court-ordered refunds over a certain dollar amount. He could not specifically recall what the dollar threshold was for his signature.

¹⁸ Because refund documentation from this time frame was not available, we do not know if Dr. Gandhi reviewed and/or approved the voucher associated with this refund.

RAA claimed to be totally unaware of any substantive responsibility in the refund process. It does not appear that Dr. Gandhi ensured that those individuals at RAA had the skill, knowledge, and experience necessary to act as a check on the refund process.

Of course, these criticisms of Dr. Gandhi must be viewed in the context of his overall tenure. During his time at OTR and as CFO, Dr. Gandhi has contributed to the District's improved financial standing and enhanced the functions and systems of the organization. For example, during Dr. Gandhi's tenure as Deputy CFO and CFO, the District was able to turn a large deficit into a \$1.5 billion surplus. The District, under Dr. Gandhi's leadership, has received clean audit opinions and has had balanced budgets. These are very significant accomplishments. Dr. Gandhi should be credited for his diligent work and commitment to the District and its citizens.

(c) The Role of the Deputy CFOs and Directors of Operations of the Office of Tax and Revenue

During his tenure as Chief Financial Officer, Dr. Gandhi named four Deputy Chief Financial Officers for OTR: Herbert Huff (June 2000-December 2002); Daniel Black (December 2002-March 2003 and February 2004-September 2005); Philip Brand (March 2003-February 2004); and Sherryl Hobbs Newman (October 2005-November 2007). Huff and Black also served during different periods as Director of Operations; Huff from 1998 to June 2000, and Black from 2002 to 2004. Another senior manager, Matthew Braman, also served as Director of Operations from July 2004 until his resignation in November 2007, following the discovery of Walters' scheme. Each Deputy CFO was the head of OTR and, as such, had direct authority over the Real Property Tax Administration. The Director of Operations was second-in-command, charged with overseeing the entire operation and acting for the Deputy CFO if he or she was out of the office.

Although the Deputy CFOs and Directors of Operations were fairly far removed from the fraud, they bear some responsibility for failing to take steps that might have prevented or detected it. As discussed below, each of them relied on his or her subordinates, in particular the Directors of RPTA and RAA, to ensure proper controls were in place. But none of them appeared to have investigated what those controls were and whether they were effective. Again, part of the reason for this inattention appears to be that their priorities lay elsewhere: They were far less concerned about the money going *out of* OTR than about the money *coming in*, and they focused on higher-profile problems and paid less attention to areas, like real property tax refunds, that seemed to be functioning well enough.

During our interviews with the former Deputy CFOs and Director of Operations, they appeared to have a limited understanding of the operations within the Real Property Tax Administration, and none of them appeared to have focused on those operations consistently during their respective tenures. While all of the Deputy CFOs and Directors of Operations had experience with tax issues or tax administration before joining OTR, only one of them had specific experience with real property taxes. As discussed in Section V.A.3, OTR did not have formal policies and procedures relating to real property tax refunds, and the informal policies were not widely known, understood, or followed. Each of these senior managers failed to ensure that formal policies related to real property tax refunds were in place and widely disseminated.

Given the lack of clear, formal policies and procedures for real property tax refunds, it is understandable that during our interviews all, except Hobbs Newman, had a limited recollection of how real property tax refunds were processed. Most could not describe the specific types of documentation needed to support a refund. None (other than Dr. Gandhi) could explain the hold for pick up policy of the OCFO. For those who held the position some time ago, it was unclear whether they never had a full understanding of the process for real property tax refunds or simply could not recall it when they were interviewed.

Most of the Deputy CFOs had a general understanding that they had responsibility for approving certain high-dollar real property tax refunds. Huff was aware of Dr. Gandhi's memorandum concerning approval requirements and believed those requirements remained in place throughout his tenure. According to Huff, he and Dr. Gandhi (as CFO and Deputy CFO of OTR) were the only people who had the authority to change the approval levels, and neither he nor Dr. Gandhi changed the requirements during his tenure. According to the memorandum, Huff, or the Director of Operations in his absence, should have been approving any real property tax refund in excess of \$250,000. Brand recalled there were approval levels for real property tax refunds, but did not recall the various dollar amounts. Black did not recall whether he had to approve real property tax refunds. In the course of attempting to formalize OTR's policies and procedures, Hobbs Newman became familiar with the approval levels for tax refunds, and she believed that she was required to sign off on refunds over \$500,000. Hobbs Newman did not authorize and was not familiar with any changes to approval level requirements during her tenure as Deputy CFO. Braman was not familiar with the approval requirements for real property tax refunds.

Huff and Black both signed some real property tax refund vouchers during their tenures. Neither could recall their review process for those vouchers; both relied heavily on their staffs to ensure that refunds were being processed correctly. If a voucher was signed by all of the people in the approval chain below them, both Huff and Black assumed that the voucher was accurate and approved it. Black believed the Director of RPTA would not have signed anything that was not proper, as the Director was the subject matter expert. Neither Brand nor Braman recalled approving refund vouchers during their tenures, and we did not locate any vouchers, during the course of our review, that either signed. Despite the fact that refunds over \$500,000 were issued during her time as Deputy CFO, Hobbs Newman did not sign any of the real property tax refunds over \$500,000 that we reviewed during the investigation.

Each of the Deputy CFOs had fraudulent refunds processed during his or her tenure. The number and amount of fraudulent vouchers processed during each Deputy CFO's tenure are contained in the table below.

Deputy CFO	Tenure		Fraudulent Refunds	
	Start Date	End Date	Count	Amount
Natwar Gandhi	February 1997	June 2000	12	\$ 2,427,222
Herbert Huff	June 2000	December 2002	49	9,241,210
Daniel Black	December 2002	March 2003	4	1,084,178
Philip Brand	March 2003	February 2004	20	5,152,399
Daniel Black	February 2004	September 2005	37	12,502,099
Sherryl Hobbs Newman	October 2005	November 2007	42	15,459,530
		Total	164	\$ 45,866,638

Huff's signature appears on three fraudulent vouchers that WilmerHale and PwC reviewed. There were eleven additional fraudulent vouchers of \$250,000 or more processed during his tenure that he did not sign. All fraudulent refunds processed during Brand and Black's tenures were for less than \$500,000, placing them under the threshold for Deputy CFO review detailed in the KPMG process memorandum. One fraudulent refund over \$500,000 was processed under Hobbs Newman's tenure, but she apparently was not given that refund to review and approve.

Even though these senior managers were responsible for the controls in the organization, none of them displayed, during our interviews with them, a good understanding or recollection of the controls in place, if any, around real property tax refunds during their tenure. Although they often pointed to people who should have been responsible for controls, several did not identify any actual control other than the hypothetical role that RAA played in checking the documents and signatures, if that. Huff and Hobbs Newman believed RAA was verifying that documents were properly supported and authorized, which, as discussed above, was not the case. Brand and Black either did not know or could not recall what role RAA played in the refund process. In addition, none of the Deputy CFOs put procedures in place to ensure they received the documentation that required their signatures.

These senior managers also did not analyze or perform a meaningful review of the number of refunds or the dollar amount of refunds processed by Walters' unit. In January 2006, Hobbs Newman requested that the various directors within OTR provide tracking documents reflecting their performance and activities. In response, the Director of RAA provided a summary to Hobbs Newman setting out the number of SOAR and non-SOAR refunds processed by year from fiscal year 2003 to 2006. From 2003 to 2004, the dollar amount of SOAR refunds processed by RAA nearly doubled from approximately \$32.5 million to over \$60 million. The number of SOAR refunds, however, stayed relatively flat. During our interview, Hobbs Newman stated that she did not recall noticing that the magnitude of the SOAR refunds had nearly doubled from 2003 to 2004. She focused on the number of refunds, rather than the dollar value. In addition, other senior managers of OTR who received documents containing the number of refunds and the dollar value of refunds for particular periods said that they were not focused on the issue or that the fluctuation in the cash reports discussed in Section V.B.2 would not have raised a red flag for them.

(d) The Role of the Real Property Tax Administration Directors

Between September 1996 and November 2007, there were three Directors of RPTA. These directors reported directly to the Deputy CFO of OTR. With a brief interruption from 1999 through the spring of 2002,¹⁹ ASD and its Chief (i.e., Walters' supervisor) reported to the Director of RPTA. The Directors were not diligent in exercising management oversight over the refund process. In particular, they failed to: (i) implement controls to ensure that refunds received appropriate review; (ii) ensure that there were formal written policies and procedures for the refund process; (iii) communicate the refund policies and procedures to ASD Chiefs and Adjustment Unit employees; and/or (iv) create or review reports tracking refunds by amounts.

¹⁹ During that period, the Assessment Services Division was part of the Customer Service Administration. The Chief of the Assessment Services Division at the time reported to the Director of Customer Service.

Henry Riley, the Director of RPTA from September 1996 to December 1999 and from March 2002 to June 2004, automated many manual processes within RPTA by implementing the RPT2000 system. Unfortunately, as he told us, when commissioning the design of RPT2000, he did not consider internal controls. He believed that RAA would provide input on the controls, but RAA was not involved in the system's design. As discussed in Section V.A.4, the system did not have a meaningful audit trail, nor did it track the creation of credits on accounts. These shortcomings allowed Walters both to add and later to erase false credits to accounts without any oversight.

Riley believed that certain refunds required his review and that most, if not all, refunds required review by the Chief of ASD. In fact, Riley told us that he suggested the approval levels set forth in Dr. Gandhi's July 1997 memorandum. Riley also believed that the manual review by those approving the vouchers constituted the only internal control in place to ensure that refunds included the requisite documentation. Despite this belief, he did not ensure that he received all refunds requiring his approval, nor does it appear that he carefully reviewed the refunds that actually came to his attention. WilmerHale and PwC identified one fraudulent refund voucher that contained Riley's signature. The refund was for \$221,901.76. The paperwork associated with this refund contained obvious problems, such as proof of payment supporting the refund was for a different company and the square and lot on the supporting documentation did not match the voucher or the Refund Research form. Riley's signature also appears on a number of legitimate refunds that contained obvious documentation deficiencies.

Martin Skolnik, the Director of RPTA from June 2005 to July 2007, had no prior experience dealing with the activities of ASD. Unlike Riley, Skolnik did not have a Deputy to compensate for his limited experience with assessment services. Already disadvantaged by his lack of a Deputy, Skolnik became completely overwhelmed when the Chief of ASD was transferred to another administration in the spring of 2006 and Skolnik was forced, under protest, to assume the position of Acting Chief of ASD in addition to his duties as Director.

On taking over as Acting Chief of ASD, Skolnik was told by the Deputy CFO of OTR to concentrate on two things: (i) sending out accurate tax bills on time using the new ITS system, which was then plagued by errors; and (ii) conducting the tax sale accurately. According to Skolnik, he was told that, if something went wrong in either area, his job would be in jeopardy. Consequently, Skolnik focused most of his energies in those areas and did not closely supervise the Adjustment Unit or even understand its processes. Within four months, Skolnik informed his superiors that he could not handle the dual role, and he was removed from the Acting Chief position.

During his interview, Skolnik recalled reviewing one real property tax refund, which the Assessment Division, not Walters' unit, brought to him. He was not aware at the time of his interview whether he was required to review and approve refunds, and, despite getting summaries of the number of refunds being processed, he did not inquire into whether he needed to review any of them. In this respect, Skolnik was not proactive. Instead, he believed that if a document needed his attention, someone would have brought it to him.

Thomas Branham, the Chief Assessor, served as Acting Director of RPTA from July 2004 to June 2005 and from July to November 2007. Branham happened to be the Acting

Director when Walters' scheme was discovered and was asked to resign on November 7, 2007. Branham did not want the position and felt he was not qualified to be Director. As Acting Director, Branham considered himself to be a "caretaker" and did not undertake an active supervisory role. According to Branham, upon taking the position, he was told to keep the major operations functioning smoothly and to handle any management issues that arose.

We did not identify any fraudulent refunds that Branham signed as Acting Director. Although Branham told us he was not aware of the review and approval levels for refunds and was unfamiliar with the refund process, he did sign at least two legitimate refunds during his tenure. Branham relied on the Chiefs of ASD to alert him if his signature was required.

(e) The Role of the Chiefs of the Assessment Services Division

Between 1995 and November 2007, there were seven different Chiefs or Acting Chiefs of ASD and one Deputy Chief. The high turnover at the Chief position certainly contributed to Walters' ability to manipulate the refund process for her own ends. The Chiefs' tenures ranged from four months to over four years, with an average tenure of 22 months. Also, three of the individuals who became Chief of ASD told us that they had not been interested in the job. One former Chief believed that she was assigned to the position of Chief from another OTR administration as retribution for lodging an employment-related complaint against OTR. Another former Chief had applied for a different position when she was summarily notified of her appointment as Chief of ASD. Yet another former Chief found herself, in effect, told by the Director of Operations to fill the position. That Chief made it clear to the employees of ASD that she did not want to be there, which could only have exacerbated an already dysfunctional work environment.

At least one Deputy CFO thought that the workload for the Chief of ASD was overwhelming. Both the Director of RPTA and the Chief of ASD regularly addressed urgent issues directly affecting taxpayers—in particular the issuance of real property tax bills, the homestead tax exemption, and the annual tax sale, all of which could publicly embarrass the OCFO if they were mishandled. One Director of RPTA, who also served as Chief, told us that he focused almost exclusively on those three areas and left Harriette Walters essentially unsupervised.

Real property tax bills, which were sent out twice a year, constituted a large undertaking for ASD; it required both attention and additional staffing. In addition, there were occasional problems with the billing. As discussed above, the Homestead Unit was reportedly understaffed and poorly managed. The District also held a tax sale each July, which required attention from both the Director and the Chief to ensure that it ran smoothly. During the latter years of Walters' scheme, the real property area of OTR was focused on the rollout of ITS. The initial implementation of ITS caused significant problems in the first billing cycle. Managers and employees were, therefore, focused on those customer service issues.

The role of the Chief is a challenging one, but that does not excuse the consistent failure of the Chiefs to fulfill their supervisory responsibilities. The Chief of ASD directly supervised Walters or her unit during the relevant period. The Chiefs were thus the first line of defense against Walters' scheme and perhaps the most at fault for failing to detect the scheme.

(i) Collective Failures

Most Chiefs of ASD we interviewed were generally unfamiliar with or could not specifically recall the real property tax refund review and approval requirements that were in place during their respective tenures. Not a single former Chief we interviewed had more than a vague recollection of his or her own review of such refunds or the signature approval requirements for refunds of particular amounts. Indeed, two former Chiefs did not know whether they needed to review any refunds. For those who held the position some time ago, it was unclear if they never understood the policy or could not recall it when they were interviewed.

The Chiefs all told us that there were no formal written policies and procedures for refunds and that they knew this was a weakness. Indeed, an attempt to formalize all policies and procedures within ASD was made by almost every Chief we interviewed. Ultimately, none were successful in those efforts, in part because of high turnover at the Chief position.

All of the Chiefs agreed that there was essentially no meaningful tracking of real property tax refunds in RPTA and no mechanism to ensure that refunds received the proper approvals. Some of the Chiefs requested and received inventory reports of the number of refunds being processed by the Adjustment Unit, but none of the requested reports included a tracking of the dollar amount of refunds or a year-over-year comparison of refund amounts.²⁰ Because they never reviewed this type of reporting, the Chiefs did not observe any trends or recognize how many refunds were processed without their approval. Ironically, one of the Adjustment Unit employees created monthly refund reports, which she initially provided to an RAA employee, that included a listing of all refund vouchers, the corresponding square and lot number, the refund amount per voucher, and the monthly and year-to-date totals. When the RAA employee later moved to another division in the early 2000s, the creator of the report simply filed it in a drawer every month. According to the preparer of the report, on one occasion, the independent auditors requested the report and the employee provided the report to her supervisors and the independent auditors. Because the Chiefs of ASD never again requested such a report, the employee never sent it to them even though (she told us) at one point she remarked aloud, but to no one in particular, that the total refund amounts in 2004 or 2005 seemed high.

In interviews, the Chiefs of ASD generally recounted that they spent an inordinate amount of time mediating employee disputes and otherwise managing personnel issues. Indeed, one Chief told us that he spent 75% of his time dealing with personnel issues. Because of the need to constantly manage these issues, none of the Chiefs were able to push through initiatives such as transferring managers to other units, cross-training employees, or drafting policies and procedures.

(ii) Early Assessment Services Division Chiefs

Between 1995 and early 2004, there were three Chiefs of ASD. (We did not speak to anyone who was in the position of Chief of ASD prior to 1995.) The Chiefs whom we interviewed generally understood that they had some responsibility to review and approve

²⁰ One former Adjustment Unit employee recalled providing a former Chief of ASD with a report showing how many refunds the employee received and processed during the week, the balance of refunds remaining to be processed, and how the refunds affected ASD's real property tax revenue. The former Chief did not recall receiving such a report.

refunds. WilmerHale and PwC identified a number of refunds, both legitimate and illegitimate, for which the documentation contained the signatures of these Chiefs.

The Chief of ASD from 1995 to 1999 was aware of his responsibility for signing and approving real property tax refunds and knew there were different levels of authority required based on the dollar amount of the refund. He assumed, however, that if the dollar amount was small, he was not required to sign the refund voucher—even though, pursuant to the 1997 Gandhi memorandum, the Chief of ASD was required at the time to sign and approve all refunds. This Chief's signature appears on seven fraudulent tax refunds for a total amount of approximately \$1.3 million. Although the documentation associated with these refunds contained square and lot discrepancies and unrelated or insufficient proof of payment, among other errors, this former Chief said during an interview that he carefully reviewed all the documentation associated with each refund. According to Walters, she forged his signature on some, but not all, of her fraudulent refund vouchers.

The Chief of ASD from October 1999 to December 2002 understood that there were approval levels but did not recall which dollar amounts required additional approvals. She told us that when she reviewed a refund voucher, she did not always check the attached documentation for proof of payment or for the taxpayer's written refund request. This former Chief told us that she signed refunds because she was required to do so, but did not believe that her role required a substantive review of the documentation. She previously had worked in the Assessment Division where she understood her job functions, but on moving to ASD she felt that she did not know what she was supposed to be looking for when reviewing documents. She never wanted to take the job of Chief in the first place and made this clear to her subordinates in ASD. After three years, she requested and was granted a transfer back to the Assessment Division.

In May 2001, this former Chief of ASD sent a memorandum to RAA authorizing Harriette Walters to approve all real property tax refunds up to \$50,000. When interviewed about why she had delegated the authority, she told us that it was part of an effort to clear the backlog of work, although she subsequently admitted that she never had a backlog of refunds requiring her signature and that Walters' increased authority did not, in fact, help reduce the backlog. Her signature (sometimes real, sometimes forged) appears on the paperwork of 17 fraudulent tax refunds, for a total amount of approximately \$3.6 million, despite clear errors in the supporting documentation. Walters began processing large fraudulent tax refunds without other signatures during this Chief's tenure despite Walters' purported authority limit of \$50,000. During this Chief's tenure, Walters was able to process 15 fraudulent refunds, one as large as \$375,466.75, with no signature approval other than her own. These refunds totaled approximately \$2.7 million.

The Chief of ASD from January 2003 to January 2004 told us that she did not understand the real property tax refund process completely. Like her predecessor, she did not want the position and had applied for a different job at OTR when she was told of her assignment as Chief of ASD. She had clashes with more senior managers in RPTA, as well as with her subordinates, and her employment was ultimately terminated. Both Walters and the Tax Sale Unit Manager told us that this Chief indicated to them, in words or deeds, that they should stop bringing refunds to her for approval. This Chief has no specific recollection of any such conversation, but

acknowledges that she may have given Walters and the Manager this directive, as discussed in Section IV.C.3.

During this Chief's tenure, signatures in her name appear on the paperwork for six fraudulent refunds that total approximately \$2 million, despite noticeable errors in the supporting documentation. Walters may have forged this Chief's signature on some of these refunds. Not surprisingly, given this Chief's apparent request to stop receiving refund vouchers for her signature, Walters was able to continue signing large refunds on her own authority. During this Chief's tenure, Walters processed another 14 fraudulent refunds for a total of \$3 million with no signature approval other than her own.

(iii) Later Assessment Services Division Chiefs

By the time the next Chief of ASD arrived in April 2004, Walters no longer sought or obtained approval signatures from the Chief or more senior management for her fraudulent refunds because she had completely circumvented the approval process. The Chief of ASD from April 2004 to April 2006 recalled that she had approved only one or two refunds. We asked her about her approval authority and responsibilities. Her explanations, however, were not clear. At one point, she stated that her understanding was that she had to review and approve all refunds over \$10,000, but later in the same interview she said that she had to approve all refunds regardless of amount and that refunds over \$10,000 required additional approvals. Regardless of her understanding, she could not explain why she recalled approving only one or two refunds during her entire tenure despite receiving reports showing that the Adjustment Unit processed hundreds of refunds per year. While this Chief's signature does not appear on any fraudulent refunds, Walters was able to process 40 fraudulent refunds for a total of \$13.6 million without higher review during this Chief's tenure.

During this Chief's tenure, ITS was rolled out to RPTA and the Adjustment Unit began to process some refunds using ITS. Once ITS was implemented, this Chief believed that all refunds, other than court-ordered refunds and tax sale refunds, were processed using ITS. She was not aware that Walters continued to process overpayment refunds using the manual SOAR vouchers. She was aware that ITS lacked electronic review queues for higher-level approvals, similar to those used in the Compliance Administration, where she had worked prior to her tenure as Chief of ASD. She thought, however, that the then-Deputy Chief was reviewing all of the refund paperwork supporting all of the ITS refunds. She made no effort to have review queues added to ITS. She believed it was RAA's responsibility to request additional paperwork if additional approvals were required. The lack of review queues made it possible for all ITS real property tax refunds to be processed without oversight by a manager.

In April 2006, this Chief of ASD was transferred back to the Compliance Administration. While there, she said an ASD employee told her that employees were engaged in what she referred to as the "chicken game," discussed in greater detail in Section V.B.1, but she failed to report her concern about what she had been told to anyone because she no longer thought it was her responsibility.

Upon her departure, the Deputy CFO of OTR instructed the Director of RPTA to add the role of Acting Chief of ASD to his managerial responsibilities. As discussed in Section V.B.3(d), this individual served as Acting Chief for four months. Although he did not personally

authorize any Adjustment Unit refunds, Walters was able to process, on her own authority, seven fraudulent refunds totaling almost \$3 million during his time as Acting Chief.

Between July and December 2006, a Compliance Administration manager was detailed to serve as Acting Chief of ASD. Although she was known for asking more questions of ASD employees than any other Chief, she did not have any apparent impact on Walters' scheme. This Acting Chief did not authorize any fraudulent vouchers. Walters, however, processed six fraudulent refunds totaling \$2.5 million on her own authority during this Acting Chief's tenure.

A permanent Chief of ASD was finally hired in November 2006. He served until November 2007, when he was asked to resign as a result of the scandal caused by Walters' scheme. This Chief was a former military officer with no prior experience in tax administration. On being hired, he was primarily tasked by the then-Deputy CFO and then-Director of RPTA to manage personnel issues in the Division, and that is where he focused most of his energies. As Chief of ASD, he was almost entirely unaware of the real property tax refund process. He did not know the circumstances under which a refund could be issued, what backup documentation was required for a refund, or if there were any approval requirements. Nor was he aware of the different types of refunds. He did not approve any refund vouchers during his tenure. Walters processed 17 fraudulent refunds totaling \$5.7 million on her own authority during his tenure.

(iv) Deputy Chief of the Assessment Services Division

While there were seven Chiefs or Acting Chiefs of ASD between 1995 and 2007, there was only one Deputy Chief from 1998 until November 2007, when she was asked to resign as a result of Walters' scheme. She also served as Acting Chief during several Chief vacancies. Because of her long tenure in the office, the Deputy Chief, more than any other manager at OTR, was best situated to help implement meaningful checks and controls on the refund process.

The Deputy Chief of ASD believed that Walters and the Chief had to approve all refunds. As Deputy Chief, she authorized refunds only when the Chief was unavailable. In those instances, Walters or someone else from the Adjustment Unit brought the Deputy Chief a stack of vouchers to review, and the Deputy Chief told us she confirmed that the amounts on the vouchers were properly calculated and that the reason for the refund was properly documented. The Deputy Chief did not review square and lot numbers or taxpayer names, and did not recall whether or not she reviewed the proof of payment before authorizing refunds. In an interview, the Deputy Chief explained her failure to review all the supporting documentation by responding that the first Chief she served under did not provide her with detailed instructions about the review process, nor did he instruct her to review the entire file. The Deputy Chief's signature appears on the paperwork of 15 fraudulent refunds totaling \$2.3 million. In addition, Walters was able to process three additional fraudulent refunds totaling nearly \$1 million on her own authority during periods when the Deputy Chief was the Acting Chief of ASD.

Some of the Chiefs of ASD whom we interviewed told us that they relied on the Deputy Chief for training and guidance as to the refund process. The Deputy Chief disputed that contention. She told us that she did not discuss with any of the Chiefs their responsibilities for real property refunds, and that none of the Chiefs asked her what documents he or she should review in the refund packages. Because of the high turnover at the Chief and RPTA Director positions, the Deputy Chief was the only ASD manager, other than Walters herself, in a position

to provide continuity in ASD and to provide later Chiefs with an understanding of their refund approval responsibilities. Instead, the Deputy Chief assumed that the Chiefs were approving refund vouchers as necessary. At one Chief's direction, the Deputy Chief wrote policies and procedures for the Tax Sale Unit and the Homestead Unit. Despite identifying a need for written policies and procedures in the Adjustment Unit, the Deputy Chief never worked on policies and procedures for the unit because, according to her, she was never asked to do so.

The Deputy Chief of ASD was aware that Walters gave gifts to employees. She herself received clothing and accessories from Walters, although she described her receipt of these items as part of a clothing exchange among employees. The Deputy Chief also received some sports tickets from Walters. The Deputy Chief observed that Walters provided lunch to staff, noting that some other managers did this as well, particularly around billing time. The Deputy Chief was also aware that Walters went on many trips, including trips to Las Vegas, St. Thomas, and Europe, but did not believe there was anything extravagant about Walters' lifestyle.

The Deputy Chief also heard that Walters loaned money to employees. According to the Deputy Chief, at one point, an Adjustment Unit employee complained to her and the then-Chief of ASD about people lining up outside Walters' office asking for money. The Deputy Chief told us that she and the Chief instructed Walters to stop making loans to other employees. The Chief had a slightly different recollection of the meeting. He recalled the meeting with Walters and telling her to stop socializing in her office, but was not aware of Walters making loans. Walters meanwhile told us that the Chief and Deputy Chief told her to be more careful in making loans or to stop because not everyone appreciated what she was doing. On other occasions, the Deputy Chief observed non-ASD employees—including Walters' family, some security guards, other OTR employees, and others—outside Walters' office on perhaps a weekly basis. But she believed it was normal for ASD employees to have visitors from outside of the division.

(f) The Role of Managers and Employees of the Revenue Accounting Administration

In many respects, failures of RAA employees also contributed to Walters' ability to perpetrate the fraud. The Directors of RAA with whom we spoke understood that there were approval levels in place for real property tax refunds and said that they expected the accountants who processed refunds to check SOAR vouchers for the proper approving signatures. They assumed this review occurred, relying on their managers and the employees' existing knowledge of the procedures, and did not take a more active role. The Director of RAA from 2003 through 2007 acknowledged that if the employees were not checking for these signatures, then it would be an internal control failure. Yet the Directors of RAA did not communicate effectively their expectation to RAA employees who processed refunds, as evidenced by the accountants' lack of knowledge about any approval levels.

In addition, the Directors (and Managers) of RAA failed to train the accounting technicians and senior systems accountants who processed refunds on how to review them effectively. Several people we interviewed, including Dr. Gandhi, opined that the employees should have used their common sense or otherwise known to check for proper signatures and adequate documentation. But the accounting technicians to whom we spoke did not share that view. Moreover, even if the accounting technicians had known that they were expected to perform some basic review of real property tax refund vouchers, they did not necessarily have

the required experience or training to catch the discrepancies that may have alerted them to fraud. For example, one of the accounting technicians who entered refunds had no experience other than data entry.

Particularly in the absence of formalized policies and procedures, it was the responsibility of the Directors and Managers of RAA to provide more active guidance about exactly what was expected of their employees. In fact, the line managers most involved in refund processing provided no such guidance. One former RAA manager who supervised the refund process around 1999 understood that RAA was responsible for checking for proper authorizing signatures and documentation, but acknowledged that the accounting technicians may not have understood the approval levels that were in place. Another former manager of RAA who supervised the refund process from 2004 through 2007 told us that he thought that RAA's only responsibility in the refund process was to enter the data accurately and promptly. That view, however, was not shared by more senior managers in RAA. This manager received BDO Seidman's process memoranda that set out its understanding of the real property tax refund approval levels. The manager informed us that he just acted as a liaison for OTR and the independent auditors, and did not review the process memoranda thoroughly.

The Directors and Managers of RAA also had to contend with staffing shortages at the managerial level. After managerial attrition and promotion, RAA either was unable to obtain the budget to fund, or unable to find qualified people to fill, the existing manager-level positions. Therefore, the sole manager who remained received additional responsibilities that significantly increased his workload. Although this lack of resources posed challenges, RAA management failed to adjust to the situation. RAA management monitored how quickly RAA processed refunds, a metric that mattered to Dr. Gandhi and OTR senior management, but did not suitably supervise their employees or monitor the reports they received with the level of scrutiny that could have alerted them to the fraud.

RAA's junior accounting technicians and senior systems accountants were not aware or did not understand that they should review refund requests for proper authorization and supporting documentation. At most, they checked for mathematical errors on SOAR vouchers, checked whether the batch cover sheets matched the contents, and, in some instances, checked for a manager's signature. To illustrate how narrow RAA's review was, for example, RAA processed a refund, and a check was issued for \$636,999.00, when the refund should have been only \$6,369.99. The SOAR voucher indicated the correct components of the refund, but then listed the incorrect number as the total refund amount, which we believe was the result of a keying error in RPTA. The accompanying documentation also supports the significantly lower refund amount. Moreover, the SOAR voucher was signed only by an accounting technician in RPTA, even though the senior systems accountant who approved the voucher told us that she would have approached her manager if a voucher did not contain a manager's signature. OTR did not discover the error. Instead, the attorney for the refund recipient notified the Adjustment Unit. OTR voided the original check and issued a new one for the correct amount. This incident demonstrates that the accountants processing refunds did not consistently examine SOAR vouchers with the degree of care necessary to catch even obvious processing errors.

During a portion of the relevant period, RAA prepared "Weekly Transaction Analysis Reports," which included the number and dollar value of SOAR manual and automated ITS real

property tax refunds. For example, for the week ending April 27, 2007, RAA processed three SOAR manual real property tax refunds totaling over \$1.1 million. The manager in RAA responsible for overseeing the refund process forwarded these reports to the Director of RAA weekly. The report was intended to provide an accounting of RAA's activity and to provide details to the Director in case she had any questions. The manager explained to us during his interview that he would not have considered the three refunds for \$1.1 million to be unusual and would not have highlighted it to his supervisor. The Director who received this report also told us that she was not concerned about the numbers. These two RAA managers to whom we spoke failed to notice the increasing amounts of real property tax refunds, and we found no evidence that anyone raised these trends as an issue.

C. Failures of Outside Oversight

So far, we have focused principally on control failures within two divisions of OTR: RPTA and RAA. But others within the District government—both inside and outside of OTR—either missed warning signs that could have alerted them to the fraud or noted those warning signs and then failed to follow up. In Subsection 1 below, we focus more specifically on the District's multiple internal audit organizations. In Subsection 2, we briefly address some aspects of the work of the District's independent auditors.

1. The Role of the Various District Audit Functions

The District's internal audit functions failed to detect Walters' activities. One of the big questions we considered during our investigation is *why*. The simple answer, we believe, is that no one ever really looked.

The District government has several different audit entities, all with different priorities and with different, sometimes overlapping, jurisdictions. Despite the number of audit entities, total audit capacity is limited. The District government's auditors cannot cover all the entities and financial processes within the District and must, therefore, choose where to devote their resources. We found little cooperation or coordination among the auditors in deploying those resources or in selecting agencies or areas to audit.

Some District auditors did identify internal control weaknesses and large revenue variances relevant to real property tax refunds. Had there been follow-up on the identified control weaknesses or deeper investigation into the revenue variances, Walters' scheme might have been discovered earlier. Unfortunately, neither management at the OCFO or OTR nor the audit entities identifying the issues conducted more thorough reviews or followed up to ensure audit recommendations were in fact implemented. This undermined much of the value of conducting the audits or reviews in the first place. It is important to note, however, that none of the District audit functions had the authority to enforce the recommendations they made.

(a) Relevant District Audit Entities

There are three audit entities within the District government relevant to the OCFO: (i) the Office of Integrity and Oversight ("OIO"); (ii) the Office of the Inspector General ("OIG"); and (iii) the Office of the District of Columbia Auditor ("ODCA").

(i) Office of Integrity and Oversight

In or around 1998, the OCFO began crafting an integrity program. Around that same time, OTR established an Internal Audit and Internal Security Administration (“IAISA”). From 1998 to 2000, IAISA’s responsibilities related only to the functioning of OTR. At that time, the Office of Financial Operations and Systems also had a separate internal audit function, the Internal Control Unit. When Dr. Gandhi became CFO in 2000, he removed IAISA from OTR and merged it with OFOS’s Internal Control Unit to create the OCFO Office of Internal Audit and Internal Security (“IAIS”). The Office was later reorganized into OIO, which has jurisdiction over all OCFO functions.

OIO is composed of two divisions (based on the IRS model): the Internal Security Division and the Internal Audit Division. The Internal Security Division is responsible for detecting and preventing fraud and other misconduct by OCFO employees. It conducts background checks of new OCFO employees and holds integrity training programs regularly. The Internal Audit Division has audit responsibilities for all core agencies within the OCFO. It also has audit responsibility for the OCFO “cluster” agencies, such as Human Support Services, D.C. Public Schools, and the D.C. Lottery Board. The Internal Audit Division currently has 11 auditors but until recently had only eight auditors to cover the OCFO’s wide-ranging operations.

(ii) Office of the District of Columbia Auditor

ODCA is the D.C. Council’s audit agency. According to its official web page, ODCA

exists to support the Council in meeting its legislative oversight responsibilities and to help improve the performance and accountability of the District Government. ODCA examines the use of public funds, evaluates District government programs and activities, and provides analyses, recommendations, and other assistance to assist the Council in making effective oversight, programmatic, and budgetary decisions. ODCA works to improve the economy, efficiency, and effectiveness of the District government through financial audits, program reviews and evaluations, special inquiries, and other services. ODCA’s activities are designed to ensure the District government’s accountability to the Council and the taxpayers of the District of Columbia.

The D.C. Auditor is appointed for a six-year term by the Chairman of the D.C. Council, subject to the approval of a majority of the Council. ODCA audits must be conducted in accordance with generally accepted principles of auditing, including the effectiveness of accounting organization and systems, internal audit and control, and related administrative practices. Around the time Walters’ scheme was discovered, ODCA had a staff of eight auditors.

(iii) Office of the Inspector General

OIG, which resides within the executive branch of the District, is responsible, by statute, for: (i) conducting and supervising audits, inspections, and investigations relating to the programs and operations of District government departments and agencies, including independent agencies; (ii) providing leadership and coordinating and recommending policies for activities designed to promote economy, efficiency, and effectiveness and to prevent and detect corruption, mismanagement, waste, fraud, and abuse in District government programs and

operations; and (iii) providing a means for keeping the Mayor, Council, and District government department and agency heads fully and currently informed about problems and deficiencies relating to the administration of District programs and operations and the necessity for and progress of corrective actions. OIG has approximately 35 auditors in its audit division.

To ensure OIG's independence, statutory requirements stipulate that the Inspector General be appointed for a six-year term, without regard to party affiliation, on the basis of integrity and demonstrated ability in accounting, auditing, financial management analysis, public administration, or investigations. District law provides that the Inspector General can be removed from the position only for cause.

OIG receives notification in advance of all audits conducted by any District government entity, with the exception of ODCA, and a copy of any final report issued. OIG is responsible for entering into the contract with an independent audit firm to audit the financial statements included in the CAFR of the District government each fiscal year.

(b) Auditor Work Relevant to OTR

None of the three internal audit agencies, OIO, OIG, and ODCA, have the financial or staffing resources necessary to audit the entire District government. Each of these three audit organizations has to choose what aspects of the District's government it will audit during each fiscal year. Both OIO and OIG publish widely disseminated annual audit plans that are apparently based on risk assessments. ODCA does not publish an annual audit plan and does not discuss its audit plans with OIG or OIO, but the D.C. Auditor told us that she chooses to focus on the areas that present the greatest risk. The D.C. Auditor told us that serving in her position is like "shooting fish in a barrel"—no matter where ODCA looks, "something significant is not being handled properly."

Audits of OTR were always contemplated in OIO's annual plan due to the perceived risk. OIG likewise considered OTR to be a problem, albeit a self-contained one. None of the audit plans that we reviewed contemplated a review of real property tax refunds, however. Audit planners at OIG and OIO never identified real property tax refunds or the refund process as a risk. Even though ODCA did not have an audit plan, it had a particular focus on the revenue-collecting agencies. As discussed below, ODCA highlighted real property tax collections as an area that the OCFO should monitor closely. We found no evidence, however, that ODCA ever conducted an audit of the real property tax refund process.

Notwithstanding the recognition that OTR generally, if not real property tax refunds specifically, required audit attention, very few audits were ever directed at OTR by District audit agencies.²¹ The few OTR audits that were performed primarily focused either on systems like SOAR or ITS or on income tax issues. We found no evidence that real property tax refunds were

²¹ For many years, OIO planned to conduct risk assessments of OTR. A risk assessment identifies areas of relative risk to determine what warrants further investigation. Had OIO performed its planned risk assessment of OTR, it may have identified the manual real property tax refund process as an area warranting further investigation. The former director of OIO told WilmerHale and PwC that any time a manual process—such as the process for real property tax refunds—is employed, there must be extra controls placed around the process. The identification of the risk could then have led to a further investigation of the process, the possible discovery of the fraud, or at least the imposition of minimal controls that would have constrained the scope of the fraud.

ever audited by ODCA, OIG, or OIO. There were a number of audits, investigations, and reviews, however, that identified weaknesses that could impact OTR's real property tax processes. Unfortunately, none of these findings led to a more in-depth analysis of OTR or the real property tax refund process.

(i) SOAR Audit

In 1999, the Internal Control Unit of OFOS (as noted above, a precursor to OIO) conducted a review of Office of Finance and Treasury and SOAR—the review did not cover OTR. Based on its findings, the Internal Control Unit recommended to senior management of the OCFO that “[t]o the extent possible, the agency review process when releasing payments should be standardized throughout the District.” The audit report also contained the following recommendation:

Prior to processing the transaction, agency Accounts Payable staff should ensure that the necessary supporting documents have been received and properly ‘matched.’ . . . After all documents have been reviewed and signed, Accounting personnel should enter the transaction into the automated system[, and w]hen the payment is received in the CFO’s or Accounting Supervisor’s on-line inbox for approval, the authorizing official should review the supporting documentation before releasing the transaction for payment.

It does not appear that the OCFO applied this recommendation throughout the organization. As discussed, RAA personnel whom we interviewed failed to “ensure that the necessary supporting documents have been received and properly ‘matched,’” when handling real property tax refund vouchers as suggested by the 1999 recommendation. Had this review been conducted, it would have been plain on the face of the documents that some of the fraudulent refunds lacked adequate or appropriate support. The head of OIO’s Internal Audit Division was not aware of any follow-up on this audit to ensure that the recommendations were implemented throughout the OCFO.

(ii) Internal Audit and Internal Security’s Investigations of Other Refund Schemes

During the late 1990s and the early 2000s, at least two fraudulent refund schemes were discovered involving personal income tax returns. In August 1998, IAIS initiated an investigation based on a tip from an employee in OTR. Another employee had devised a scheme by which that employee and four others were “willingly made payees of fraudulently issued refund checks.” According to a Complaint appended to the OIO investigative file:

Commencing in or about April of 1998, the defendant . . . made and prepared for filing approximately 15 false and fraudulent District of Columbia individual income tax returns, Form D-40. These returns contained some or all of the following features: they were prepared for fictitious individuals; they involved the use of a false social security number; each return requested a refund to which the purported taxpayer was not entitled.

The returns were rejected as “out of balance” when processed, and the employee involved prepared false “error correction” documents, stating that the estimated tax payments had been made. The false returns were then resubmitted and accepted, causing a refund check to be issued.

In 2002, IAIS investigated a second refund scheme. According to IAIS’s Fiscal Year 2002 Annual Report:

From March through October 2001, two employees of [OTR] jointly conducted a scheme to defraud OTR. They used their positions with OTR, and access to the computer system at OTR, to create and insert into the D.C. tax return processing system forty-four fraudulent tax returns seeking refunds totaling \$85,355. Before the scheme was uncovered, these employees received through the U.S. mail thirty-six checks totaling \$66,583.77.

Despite identifying problems with income tax refunds, IAIS apparently never investigated whether a similar scheme might be perpetrated with respect to real property tax refunds.

(iii) Office of the District of Columbia Auditor’s Quarterly Cash Reports

When it has available resources, the ODCA issues a report entitled: “Comparative Analysis of Actual Cash Collections to Revised Revenue Estimates” for particular quarters (“Quarterly Cash Reports”). This report, which is not an audit and is based on information provided by the Office of Revenue Analysis, contains information regarding actual cash collections from tax, non-tax, and other financing sources as compared to estimates during a particular quarter of a fiscal year. Three of the Quarterly Cash Reports from 2004 highlight increases in real property tax refunds.

On July 16, 2004, ODCA issued a Quarterly Cash Report for the first quarter of 2004. It states:

Auditor notes that real property tax refunds through the 1st quarter totaled \$5.7 million and were \$1.1 million, or 25.2% higher than CFO’s \$4.5 million estimate. By comparison, refunds through the 1st quarter of FY 2004 were \$2.54 million, or 81.2% higher than refunds through the 1st quarter of FY 2003. ORA representatives could not explain why collections were so low in the 1st quarter of FY 2004. They did indicate that collections of real property tax in the 1st quarter historically represent late payments of the previous year’s real property tax and are not a true indicator of collections for the current fiscal year. Real property tax is due on March 31st and September 15th of each year. Therefore, collections of real property tax should increase in the third and fourth quarters of the fiscal year.

On July 30, 2004, ODCA issued another Quarterly Cash Report that states:

Collections of real property tax were lower than the estimate, in part, because of:
(1) an increase in real property tax refunds Refunds exceeded the estimate

by \$4.7 million, or 63%. When compared with the same period in fiscal year 2003, refunds through the 2nd quarter were up by 116%. . . . According to BRPAA and ORA representatives, BRPAA's Board, until several months ago, was not fully staffed. Approximately 1,600 appeals were submitted in FY 2003 and through February and March 2003 the Board has heard approximately 80% of those cases. In FY 2004, the number of appeals through February and March totaled approximately 2,500. This represented an increase of 900, or 56%, in the number of appeals. Through February and March 2004, the Board has only heard approximately 15% to 20% of the appeals because of Board turnover. Because the Board was unable to rule on these appeals, some real property tax bill mailings were delayed. These delayed mailings extended the due date for real property tax collections beyond March 31st. This, in turn, may have affected real property tax collections through the 2nd quarter.

In the July 30th Report, ODCA also recommended that "District officials should closely monitor this revenue source in the 3rd and 4th quarter of the fiscal year." The D.C. Auditor explained during her interview that by "District officials," ODCA was referring to ORA.

Less than two months later, on September 7, 2004, ODCA issued its next Quarterly Cash Report. It states:

The Auditor notes that real property tax refunds through the 3rd quarter totaled \$21.3 million. These refunds were \$10.9 million, or 105.7% higher than the \$10.3 million estimate. By comparison, refunds through the 3rd quarter of fiscal year 2004 were \$12.8 million, or 149% higher than refunds through the 3rd quarter of fiscal year 2003. Despite the fact that real property tax collections were above the estimate through the 3rd quarter, ORA officials should monitor this revenue source closely. The Auditor notes that decisions in approximately 80% of the appeals heard by [BRPAA] in FY 2004 were not included in property tax bills sent out in March 2004. As a result, any adjustments to assessed values related to successful appeals were not reflected in the March bills but will be reflected in payments due in September. If a substantial number of appeals resulted in a reduction in assessed values, collections of real property taxes due in September 2004 may be reduced.

In the September 2004 Quarterly Cash Report, ODCA again specifically directed that ORA closely monitor real property tax collections. ORA was already aware of the numbers because it provided the relevant data to ODCA and was monitoring real property tax refunds on a monthly basis. The Director of Revenue Estimation for ORA did not believe at the time that the July and September 2004 Quarterly Cash Reports identified any issues of particular concern; instead, his primary concern was with whether overall real property tax collections would meet the revenue estimates. The Director of Revenue Estimation was not concerned at the time by the three 2004 ODCA reports because, by the time they were issued, it was clear that the District had not missed its overall real property tax collection estimates. Therefore, no additional follow-up to these reports was necessary.

ORA had difficulty modeling the numbers used to estimate real property tax refunds and essentially made a very rough estimate. Differences from the rough estimate were not viewed as cause for alarm. Although acknowledging that increased payouts in the form of refunds could be a cause of concern, the Director of Revenue Estimation did not believe ORA was tasked with managing or following up on this type of issue. In addition, the Director of Revenue Estimation explained during his interview that the directive for ORA to monitor real property tax collections was not specific to refunds and was standard language relating to ORA's responsibility to monitor cash collections.

ODCA's Quarterly Cash Reports were publicly available on the ODCA web page. The D.C. Auditor explained during her interview that the Quarterly Cash Reports were also provided to OTR. However, employees and managers in OTR and other relevant OCFO divisions, including OFT and OIO, said they were unaware of their existence.²² The Deputy CFO of OTR who started shortly after the three 2004 Quarterly Cash Reports were issued explained that she would have investigated the variances had she been aware of the Quarterly Cash Reports. The Director of Internal Audit for OIO similarly stated he would have personally examined the real property tax refund variances had he been aware of the reports.

Given the fluctuations in overall refund activity around 2004, which could have been the result of a variety of factors, it would have been difficult for anyone, particularly at ODCA or ORA, to detect the fraud based solely on these Quarterly Cash Reports. While the timing of these reports coincides with the time during which Walters increased the amount of fraudulent refunds, they also coincide with a period during which even legitimate real property tax refunds increased. The July 30th Quarterly Cash Report mentions the increase in BRPAA appeals. As discussed in Section IV.B, it is possible such an increase in appeals could have corresponded with an increase in total refunds.

Ultimately, ODCA identified the variances and discussed them with ORA officials but did not follow up with an audit or additional inquiry despite the significant variances in real property tax refunds for three straight quarters. In addition, neither ORA, nor any other OCFO office, conducted an investigation or review based on the variances identified in the three 2004 Quarterly Cash Reports. The Director of Revenue Estimation did not believe the numbers were problematic and in any case did not believe ORA should have been on the lookout for any fraud risk. If the reports had prompted an investigation of real property tax refunds, Walters' scheme might have been discovered.

Dr. Gandhi received the Quarterly Cash Reports, but he did not specifically direct ORA or others to investigate the increase in refunds. Dr. Gandhi told us, however, that he directed his staff that they should examine auditing entities' reports generally and should address issues raised therein. Regardless, Dr. Gandhi stated that he would have been more focused on analyzing trends and patterns over a number of years, not month-by-month. According to Dr. Gandhi, during 2004, real property tax refunds doubled but revenue collected increased even more. Refunds as a percentage of revenue collected also decreased during the period.

²² In her interview, Deborah Nichols, the D.C. Auditor, stated that the Quarterly Cash Reports were widely circulated within the District government. Specifically, she stated that they were sent to the Council, the Mayor's Office, OTR, and the OCFO. We, however, were unable to locate actual distribution lists for these materials.

Ultimately, Dr. Gandhi agreed that, in hindsight, the OCFO should have “dug deeper” into the details of the increase in real property tax refunds identified in the Quarterly Cash Reports. The D.C. Council also received these reports and does not appear to have followed up or asked additional questions about the variances.

(iv) **Integrated Tax System Review and Audit**

During some of the relevant time period, IAIS conducted a review and ODCA conducted an audit of the Integrated Tax System. The review and the audit suggested that ITS had major weaknesses that made it susceptible to schemes similar to the one perpetrated by Harriette Walters.

Internal Audit and Internal Security’s Review of the Integrated Tax System. In January 2003, IAIS issued its Final Report of Review of the Integrated Tax System at the Office of Tax and Revenue. In the course of its review, IAIS noted that ITS

permits amounts posted to a taxpayer’s account to be greater than the deposit information recorded for the batch, resulting in potential overstatement to taxpayer accounts of over \$10 million. . . . As a result of the noted errors, false credits have been generated on taxpayer’s accounts. Since there is no reconciliation between the amounts keyed and calculated these errors were not detected in a timely manner, and refunds and offsets have occurred.

Although the IAIS review focused on income tax refunds because ITS was not used to process real property tax refunds until two years after this review, the finding would eventually have equal applicability to all refund types. It does not appear that controls were added to ITS, at least when eventually implemented for real property, to prevent a user from generating a false credit, nor was any reconciliation performed on a periodic basis to validate credits.

Based on these findings, IAIS recommended that “OTR first correct all material data entry errors identified to ensure that accounts are properly stated for the upcoming financial statement audit” and “develop and provide functional areas detailed desk procedures for the successful reversal of fraudulent offsets and payments until a system correction is in place.” OTR agreed with, and was responsible for, implementing IAIS’s recommendations. When the Real Property Tax Administration adopted ITS, none of IAIS’s recommendations were implemented—there were no corrections of data entry errors and no written procedures to reverse fraudulent offsets. Moreover, we found no evidence that IAIS ever followed up, even though its report stated it would conduct a follow-up review in six months. As discussed in Section IV.C.5, in 2007, Walters generated false credits in ITS where no payment had been made and subsequently issued fraudulent refund checks based on those false credits. While the vast majority of the funds stolen were not processed through ITS, additional controls to avoid and detect the creation of false credits could have prevented this part of Walters’ scheme and might have led to its detection sooner.

Office of the District of Columbia Auditor’s Audit of the Integrated Tax System. Around the same time that IAIS completed its ITS review in 2003, the ODCA also was auditing ITS. Although ODCA’s audit report was not issued until 2006, the audit work was substantially complete before ITS was implemented for real property tax. The audit findings suggested that

there were significant weaknesses in the controls around the processing of refunds generally. Specifically, ODCA found:

Manual input of tax refund vouchers into the District's [SOAR] system is required because there is no electronic interface between the ITS and SOAR. An Accounting Technician in OTR's Revenue Accounting Administration performs this function by manually preparing and entering tax refund vouchers into SOAR. The Auditor noted that the same Accounting Technician reviews and authorizes refund vouchers for processing. . . . Allowing one individual to perform incompatible or conflicting functions such as these violates the basic principle of segregation of duties, and is contrary to an effective system of internal controls. There should be effective checks and balances in place to timely detect errors and irregularities.

Although the Auditor did not note any improprieties, this lack of proper segregation of duties could result in error or improprieties occurring and not being timely detected. Without a separation of duties, the system is vulnerable to fraudulent schemes to misdirect funds to unauthorized payees or to the creation of dummy taxpayer accounts. OTR officials should immediately take the necessary steps to ensure that adequate internal controls are in place to prevent theft or misuse of government funds.

As a general matter, ODCA was correct in identifying a lack of segregation of duties and susceptibility to fraud in the refund process. ODCA's description of how the refund process actually worked and where the control weaknesses existed, however, was inaccurate. For ITS refunds, an RAA employee received batches of refunds by tax type that the employee then "authorized" in ITS. This "authorization" triggered the check-printing process. RAA had no ability to change or review any of the specific attributes associated with the individual refunds contained in the batch. After the checks were printed, generally on a weekly basis, one RAA employee entered the total amount of the refunds, by tax type, into SOAR and another RAA employee verified the information and released the entry.

For SOAR refunds, RAA received completed vouchers, which they assumed had been properly authorized. An RAA employee entered each individual voucher into SOAR and a different RAA employee released the transaction. The SOAR system allowed an RAA employee with releasing rights to enter a transaction as well, but the practice in RAA was to have two separate employees involved in the process to ensure a segregation of duties.

In light of ODCA's inaccurate description of the refund process, OTR essentially dismissed ODCA's findings. OTR responded to ODCA's findings by noting:

The Accounting Technician releases refund vouchers in the ITS system. This action begins the final stage of refund processing, the actual production of a refund (check or ACH). The individual refund requests have already been approved prior to voucher assignment. There is no manipulation of the number or amount of the refunds. The Accounting Technician journalizes the refund amount by tax type directly from a summary report created by ITS and inputs them into

SOAR. The Financial Reporting Manager approves the journal entries, which are then released in SOAR by a Systems Accountant.

In other words, with respect to ITS refunds, OTR pointed out that segregation of duties actually existed within RAA, at least as a formal matter. The problem, which ODCA apparently overlooked, was not that there was no segregation of duties, but rather that RAA's function in the process did not provide a meaningful review of the supporting documentation and authorization of the refund.

In addition, OTR believed that ODCA was confused about RAA's processes and that it had conflated the processes for manual SOAR refunds and for ITS refunds. To help clarify, an RAA manager drafted the response and included a description of the manual SOAR process in addition to the ITS process:

RAA handles two distinct refund functions. The first relates to ITS refunds. . . The second refund function relates to SOAR refunds. [SOAR] refunds are approved by authorized personnel in the administration requesting the refund. They are then delivered to the Accounting Technician in the RAA for data entry into SOAR, and then given to a Systems Accountant for release in SOAR. This process is reserved for refunds that can not be processed in ITS.

While OTR's response was technically correct, it missed an opportunity to analyze the refund process (both for ITS and manual SOAR refunds) more broadly. OTR could have used ODCA's findings to consider the design and effectiveness of their internal controls over the refund process. We found no evidence to suggest that any review was undertaken either by OTR management or by OIO regarding the refund process discussed in the audit. Instead, OTR responded that it disagreed with ODCA's findings, and neither ODCA nor OIO, which was aware of the disagreement and sided with ODCA, pursued the issue further.

(c) Prioritization of Audit Work

We have described the relatively short list of all relevant audits performed by District audit agencies. So little audit attention was focused on OTR because other priorities took precedence. The audit entities were continuously asked—by the OCFO, the Council, the Mayor's office, and by District agencies—to undertake special audits based on pressing needs within the District. OIG's top priorities included the public school system, Medicaid, and procurement. The D.C. Auditor described the top priority for ODCA as the revenue-collecting agencies in the District.

OIO, the auditor specifically dedicated to the OCFO, considered OFT, OTR, and the D.C. Lottery Board as the highest risk areas (based on input from Dr. Gandhi). OIO, however, could not complete its audit plans because of attention paid to non-core financial functions of the OCFO, including the public school system, the lottery, and the grant process. For example, OIO recently performed audits of the Metro Police Department's overtime payroll and the public school system's special education fund, both of which required significant resources.

OIO reviewed some parts of OTR. For example, in May 2001, IAIS issued a "Filing Season Review" report as part of IAIS's annual report. The review focused exclusively on

income tax returns; OIO never reviewed real property tax refunds as part of the Filing Season Review. The objectives of the review were to “assess internal controls over the issuance of refund checks, quality controls over operations . . . and the impact of implementation of [ITS] on return processing.” The review likely focused on income tax refunds because they were the OIO Executive Director’s area of expertise and he was not aware of the similar vulnerabilities related to real property tax refunds.

As described above, at one time, there was a group of auditors specifically dedicated to OTR: IAISA. In 2000, however, IAISA was merged into another group that ultimately formed OIO. Unlike IAISA, whose sole purpose was to audit OTR, OIO has an expanded mandate beyond OTR, and competing priorities kept it from focusing on OTR. It is unclear whether an internal audit group at OTR would have discovered Walters’ scheme. But the full-time presence of auditors can have a chilling effect on questionable practices. As the former Executive Director of OIO stated, “[i]f employees know that controls are constantly evaluated, the evaluation process itself deters fraud.”

OIO also made two faulty assumptions about real property tax refunds that made the area a lower priority for audit attention. The first assumption was that real property tax refunds, just like income tax refunds, were processed through ITS, which was believed to be a world-class system. In reality, no real property tax refunds were processed through ITS until 2005, and even then, many refunds, and most of Walters’ refunds, continued to be processed manually. Second, OIO’s head of audit assumed that OTR’s Compliance Administration—which focuses on enforcing taxpayer compliance with the District’s income tax laws—was reviewing and auditing all tax refunds, including real property. In reality, the Compliance Administration audited all tax types *except* real property and, in any event, focused on the obligations of taxpayers to the District government, not the obligations of District employees to do their jobs honestly.

(d) Lack of Coordination Among District Audit Functions

The lack of coordination and cooperation among the various District audit functions was problematic. By statute, OIG is required to give due regard to the activities of ODCA with a view toward avoiding duplication and ensuring effective coordination and cooperation. There is no similar requirement, however, for ODCA to cooperate with OIG. Both OIG and OIO reported that communication with ODCA was mostly “one-way,” with ODCA providing little information about its plans and priorities. ODCA, OIG, and OIO rarely (if ever) met to discuss audit efforts or audit plans.

This failure to coordinate led to gaps in coverage—most notably a gap in coverage at OTR—and even strained relations at times among the three groups. Indeed, OIG did not prioritize OTR, in part, because it believed it was the “fifth line of defense” against fraud at OTR. In its view, the first four lines of defense were OTR management, OIO, the independent auditors, and ODCA. Meanwhile in her interview, the D.C. Auditor questioned why OIG and OIO did not catch the fraud. ODCA certainly did not consider itself to be the first line of defense. While OIO knew it needed to cover OTR, it often got called away to undertake assignments outside the core OCFO agencies, including some assignments that more logically could have been taken by the other auditors.

(e) Lack of Audit Accountability and Follow-Up

Various reviews, investigations, and audits by District audit agencies conducted over the years pointed to serious internal control deficiencies, some of which contributed to an environment that made Walters' scheme possible in the first place or to the failure to detect it. These audit findings and recommendations were of limited utility, however, because of (i) the lack of follow-through on the part of OCFO management to investigate problems identified during audits and implement the necessary changes, and (ii) the lack of follow-up on the part of auditors to determine whether the audit recommendations were in fact implemented.

According to an ODCA auditor, ODCA lacks the resources to follow up on whether the subject of an audit has implemented changes recommended in the audit report. Even where a subject disagrees with a report's conclusions or recommendations, there is no formal process to resolve the dispute and evaluate whether the suggested changes should be implemented. ODCA relies on agency management to implement recommendations. As discussed, ODCA identified control weaknesses in the refund process relevant to Walters' scheme in a 2006 performance review of ITS, but there was no follow-up by either ODCA or OTR management to implement the recommended changes.

OIO has similar problems with audit follow-up. While OIO has focused on the implementation of recommendations on many of its larger audits, OIO does not always complete its intended follow-up. OIO relies on agency management to take responsibility for implementing audit recommendations. As discussed in more detail above, the precursor to OIO identified control weaknesses in the way accounts payable staff across the OCFO processed refunds generally. If the recommended fixes had been implemented in RAA—one recommendation being that accounts payable staff and supervisors review the supporting documentation for refunds—it is likely that Walters' scheme could not have continued, at least in the same way. Since the discovery of the fraud, OIO, according to its Director of Internal Audit, assigned one of its auditors to track audit recommendations.

OIG was aware that audit follow-up was a problem within the District. In 2002, OIG began a triennial review of audit follow-up across the District. OIG sampled seven District agencies to determine whether audit recommendations made by OIG, the General Accounting Office, and the independent auditors had been implemented. The sample did not include the core OCFO offices. The audit concluded that approximately 80% of audit recommendations were implemented. OIG recommended that the Office of the City Administrator implement a system to track audit follow-up. The District's Office of Risk Management ("DCORM") eventually became responsible for maintaining a database of all recommendations made by audit agencies and organizations. The database contained recommendations from OIG as well as reports from such agencies as the General Accounting Office, ODCA, and OCFO.

In 2005, OIG conducted its second review of audit follow-up across the District. This review sampled 22 District agencies and concluded that approximately 77% of audit recommendations were implemented. Again, the sample did not include core OCFO offices. During this review, OIG confirmed that DCORM's database did contain reports from agencies such as GAO, ODCA, and the OCFO. With regard to DCORM's responsibilities, the review found:

DCORM officials were unsure as to their role in regard to the tracking and monitoring of District agency implementation of audit recommendations. DCORM officials did have a database that contained information related to audit reports and recommendations for District agencies. However, the database was incomplete and contained errors. Further, reports were not generated from the system or reviewed by DCORM officials, and there was no evidence that any communication existed between DCORM and agency staff in regard to recommendation follow up, even where agencies had taken action to close recommendations. This condition occurred mainly because of a lack of staff in the DCORM. As a result, information necessary to keep the agency head, District executive management, City Council, and OIG informed of the status of recommendations and the actions that the agencies had taken was not kept current and was not maintained in a central location. Consequently, District stakeholders cannot be assured that the conditions identified in the various audit reports have been corrected or that action is ongoing to correct the deficiencies.

After this audit, OIG met with DCORM to discuss the problems. DCORM planned to hire an additional employee who would be responsible for oversight and assuring agency compliance with audit reports. DCORM eventually hired an employee to perform the tracking functions and, in early 2007, DCORM began using a new database system to track audit recommendation implementation. The only audit reports tracked in the database, however, are those issued by OIG that pertain to executive agencies reporting directly to the Mayor's Office, apparently because that is how DCORM perceives its jurisdiction. Unlike earlier versions, the current database does not track audit recommendations issued by ODCA, OIO, or the independent auditors.

(f) Reported Tension between ODCA and the OCFO

Current and former employees from the OCFO and ODCA reported tension between the two offices. Former managers in OTR described a contentious relationship between ODCA and the OCFO. This relationship led the OCFO to view reports issued by ODCA with skepticism. Some former managers of OTR also questioned the quality of ODCA's work. ODCA reportedly approached OTR from an authoritative standpoint; ODCA wanted to obtain information quickly and then did not come back to engage in a dialogue about ODCA's findings, but instead relied on formal exchanges. Further, the D.C. Auditor found that OCFO and OTR staff were sometimes resistant to ODCA's activities and were not always straightforward with the auditors. The D.C. Auditor also described a defensive culture within OTR. In the D.C. Auditor's experience, the OCFO was more likely than other agencies to disagree with ODCA's audit findings and recommendations.

Dr. Gandhi denied in his interview that there has been a lack of support for ODCA by the OCFO. He recounted that he had breakfast and lunch meetings with the D.C. Auditor to discuss issues. However, a former Deputy CFO of OTR described an antagonistic relationship between Dr. Gandhi and the D.C. Auditor. The Deputy CFO told us that Dr. Gandhi was territorial and apparently unhappy that the D.C. Auditor made public what she perceived as deficiencies within OTR. In one example, ODCA conducted an audit of the Homestead Unit and alleged a \$10 million loss arising out of a failure to properly document eligibility for the homestead program.

According to the Deputy CFO, Dr. Gandhi believed that OTR provided ODCA information that pointed to a different conclusion and that ODCA made too much out of a small slice of negative information.

Tension between the OCFO and ODCA may have impeded communication and the free flow of information between the offices. According to one ODCA auditor, the OCFO sometimes delayed giving information to ODCA. One former Deputy CFO of OTR reported a reluctance to contact ODCA about a potential area to audit because of the tense relationship. In the context of ODCA's audit of ITS, a former OTR manager in OTR described that OTR and ODCA did not discuss OTR's disagreement with ODCA's findings because the agencies did not have that type of relationship. By agreeing to disagree and not engaging in a full discussion, the two offices missed an opportunity to address the control deficiencies that existed in the refund process.

2. Independent Auditors

The District retains independent auditors to perform audits of its financial statements. In the District, the independent auditor may serve for a maximum of five consecutive years and cannot succeed itself at the conclusion of that term. An audit involves examining the financial statements to form an opinion on whether the information presented in the financial statements, taken as a whole, is free of material misstatement and is fairly presented. Auditors normally begin their audit work by obtaining an understanding of the organization being audited and then documenting that understanding. Based on the risks, processes, and controls identified, as well as materiality considerations, auditors determine what level of testing of controls and examination of underlying documentation should be performed to formulate their opinion on the financial statements. They plan and perform their audit to obtain reasonable—but not absolute—assurance about whether the financial statements are free of material misstatement. Audits are based on selective testing; auditors do not test every transaction carried out by an organization or every internal control over the processing of financial information. The scope and level of testing in a particular area is a matter of auditor judgment, based, in part, on the perceived level of risk. In areas considered to be lower-risk, audit testing may be limited or not performed at all.

Auditors also normally include fraud-detection steps in their audit plan. These steps typically include gathering information necessary to identify risks of material misstatements due to fraud by inquiring of management and others within the organization about the risks of fraud, applying analytical procedures, and performing certain substantive tests. The auditors do not have a responsibility to detect errors or instances of fraud that are not material to the financial statements.

In the course of our investigation, we did not attempt to evaluate or make conclusions regarding the quality of the audit work performed by the District's independent auditors. We did, however, seek information from two of the independent audit firms the District used during some of the relevant period to see what, if any, light they could shed on the process controls surrounding real property tax refunds. Our analysis was limited solely to reviewing the Comprehensive Annual Financial Reports and the audit workpapers provided to us specifically related to real property tax refunds for fiscal years 2000 to 2007; we did not review all of the independent auditors' workpapers. We also interviewed the then-Senior Manager, now Partner, involved in the OTR audit between fiscal years 2000 and 2003 and the Engagement Partner for

the audits for fiscal years 2005 to 2007. We did not interview anyone with direct involvement in the 2004 audit procedures for real property tax refunds, although the then-Senior Manager was able to provide us some information related to the 2004 workpapers. The independent auditors did have useful and important memoranda detailing the controls surrounding real property tax refunds that assisted us in understanding the environment in which Walters operated. WilmerHale and PwC also noted in the review of the workpapers that several of Walters' fraudulent refunds were in the samples the auditors used for certain limited audit procedures.²³ We found no evidence that the auditors recognized that these refunds were improper.

(a) KPMG

KPMG served as the independent auditor for the District for fiscal years 1995 through 1997 and again from 2000 through 2004.²⁴ For the audits beginning in 2000, KPMG employed approximately 50 to 75 auditors across the entire District engagement, with a senior manager, two regular audit staff, and two information technology auditors dedicated full time to OTR. As part of its risk assessment procedures each year, members of the KPMG audit team met with Dr. Gandhi, as well as senior management at OTR, OIG, ODCA, and OIO. The then-Senior Manager from KPMG did not recall anyone from the OCFO or any of the audit agencies identifying real property tax refunds as a high-risk area in which a material misstatement of the financial statements might occur, nor was this area reflected as one of higher risk in the workpapers WilmerHale and PwC reviewed.

As discussed in Section V.A.3, the KPMG audit teams in 2000 through 2004 prepared memoranda summarizing the real property tax refund process. In 2000, based on information provided by Walters, KPMG's audit team drafted a process memorandum reflecting their understanding of RPTA's standard policies and procedures relating to real property tax refunds. That memorandum details that at least some refunds required approval signatures beyond the manager of the Adjustment Unit: the signature of the Chief of ASD—and for refunds over \$250,000 and \$500,000, respectively, the signatures of the Director of RPTA and the Deputy CFO. The placement of the approval levels in the memorandum could be read to mean that they applied to *all* refunds, but the then-Senior Manager said in his interview that the audit team intended to convey that the approvals were required for only court-ordered refunds. Similar language is included in the 2001 and 2002 versions of the process memorandum.²⁵ The 2003 version, by contrast, clearly states that Walters had authority to approve regular refunds for any amount and that higher level approvals applied only to court-ordered refunds. The workpapers do not explain the reason for the apparent change in the text of the memorandum. The then-Senior Manager stated that although he was most involved in the 2003 audit and remembered it most clearly, he did not believe that the approval levels in the prior years had applied beyond court-ordered refunds. He agreed, however, that the type of refund made no difference to the

²³ Neither audit firm kept copies of the real property tax refund vouchers they reviewed in their workpapers. We do not know if the copies available at the time of this investigation are the same as those the auditors reviewed during the course of the audit.

²⁴ We did not review any workpapers or conduct interviews related to the work of independent auditors prior to 2000.

²⁵ For fiscal years 2001 and 2002, KPMG did not document any meetings with Walters, although she may have interacted with members of the audit team during those audits.

District's financial statements. Walters said during her interview that she believed that the approval levels applied to all refunds, and that she communicated that belief to the auditors. Walters' belief was supported by the actions of her supervisors who authorized a number of regular refunds during that time period. Regardless of how the audit team came to the understanding, its view that only court-ordered refunds required a signature other than Walters' affected KPMG's (and later BDO's) testing of real property tax refunds for proper approvals.

In fiscal years 2000 and 2001, the KPMG audit team did not test any individual real property tax refunds. In fiscal year 2001, the team performed an analytical review of refund amounts and concluded that refund amounts appeared reasonable and consistent with the prior year. The then-Senior Manager explained that additional testing was not required in the audit team's judgment because the dollar value of the real property tax refunds was not material to the financial statements taken as a whole.

As part of its audit work relating to Revenue Accounting Administration for fiscal year 2002, the audit team sampled 30 individual real property tax refunds to test the approval process in RAA for entering refund information into the District's general ledger; the then-Senior Manager did not remember any reason for the decision to perform this procedure given the team's prior judgment that work in this area was not necessary. The KPMG team reviewed the SOAR voucher for each of the 30 refunds to see if it had been signed by an RAA employee; all had been. According to the voucher numbers listed in the workpapers, four of Walters' fraudulent refunds were included as part of KPMG's sample set. The audit team's procedure was not designed to test any RPTA controls or otherwise to verify the appropriateness of the refund. As a result, it does not appear that the KPMG audit team reviewed any of the documentation supporting the refunds. We did not see any evidence that the audit team viewed these four refunds as improper.

In fiscal year 2003, the KPMG audit team performed a test of the controls in RPTA (instead of RAA) to determine whether refunds received the appropriate approvals from that administration. Given the process memorandum described above, it appears that the audit team looked only for Walters' approval on regular refunds; in contrast, a court-ordered refund over a certain dollar amount should have had additional approvals. According to the workpapers, two of Walters' fraudulent refunds were included in KPMG's sample of 30, one to Bellarmine Design Group and the other to Monumen [sic] Realty, LLC. Because the Bellarmine refund was a regular refund, KPMG's audit procedures were satisfied upon verifying that Walters had approved the voucher (which she had). We could not locate a copy of the Monumen Realty, LLC refund, and the voucher packets themselves were not maintained in KPMG's workpapers, so we do not know if it was a regular refund or, if not, whether it contained the appropriate approvals. Once again, the design of the procedure to test this specific control did not call for the auditors to review the documentation underlying the refunds.

In fiscal year 2004, the KPMG audit team expanded its testing of real property tax refunds. The audit team's testing consisted of the following steps for a sample of 30 real property tax refunds:

- Inspecting the SOAR voucher and Refund Research form to determine whether it was authorized by the department supervisor (Walters) for all refunds and authorized by additional managers for large court-ordered refunds;
- Inspecting the SOAR voucher to ensure it was authorized by the appropriate Adjustment Unit personnel;
- Inspecting the SOAR voucher to ensure it was authorized for release by a systems accountant in RAA; and
- Re-performing the calculation of the total refund amount entered into SOAR by tracing and agreeing the totals on the SOAR voucher to the Refund Research form or court-ordered refund form, a step that for the first time called for the audit team to look at documents behind the voucher form.

The team's sample of refunds for the 2004 audit did not include any of Walters' fraudulent refunds.

The audit team did identify one refund that failed the last step of its 2004 audit testing. The refund was for \$6,369.99 and was issued pursuant to a court order. It was, however, erroneously processed by an Adjustment Unit employee for \$636,999.00. The audit team documented that this refund failed the recalculation test, and it took additional steps in response, including asking the employees who processed refunds a series of questions related to refund procedures to test their understanding of the process. The audit team documented that it was satisfied with the employees' responses. The refund also failed the first and second steps of the audit testing procedures because, as a court-ordered refund for more than \$500,000, it should have been authorized by the Director of RPTA; this fact was not noted in the workpapers. Because of the calculation error, the audit team also expanded the sample set to include an additional 10 refunds, all of which were tested against the same criteria as the original sample of 30. One of the 10 additional refunds was a court-ordered refund for \$146,083.32 that had not been signed by the appropriate personnel (the Chief of ASD) and therefore should not have passed the first and second step of the audit testing procedures. KPMG did not note that deficiency in its workpapers and concluded that "the controls over real property refunds appear to be suitably designed to prevent or detect and correct significant misstatements and it appears that the controls are operating effectively."

In fiscal year 2004, the KPMG audit team also tested 20 real property tax credit balances. As discussed in Section III.B.2(b), the procedure at the time was that, before issuing a refund, an accounting technician in the Adjustment Unit had to verify that there was a credit balance due on the RPT2000 system evidencing some form of overpayment. The audit team developed some audit procedures to test these credits. According to the audit procedures, the team inspected the RPT2000 taxpayer account activity profile for each of the 20 credits and ensured that the amount of the credit per the RPT2000 detail traced and agreed to the amount of the credit per the profile. The KPMG audit team also inspected the account activity for the origin of the credit and ensured that any adjustments had been properly accounted for. All 20 credits were noted as passing the testing procedures in the workpapers. The sample set included a credit related to a refund for \$465,509.49 to Monument Realty Group LLC, which we believe to be fraudulent based on the

Walters Statement of Offenses. We have been unable to locate the refund voucher, the supporting documentation, or the RPT2000 taxpayer account activity profile that the audit team reviewed. Significantly, Walters explained in her interview that she often revised credit information in RPT2000 after using fraudulent credits in an effort to avoid detection. We therefore do not know whether the documentation provided to the audit team at the time would have revealed any discrepancy. The then-Senior Manager we interviewed, who by 2004 was no longer assigned to the OTR part of the audit, was unable to provide us with details regarding the nature of the testing or what supporting documentation was reviewed to verify the origin of the credit. He believes, however, that the test would have caught a credit balance on the system that lacked “supporting documentation” as defined in the test.

(b) BDO Seidman

BDO Seidman took over as the District’s independent auditor in fiscal year 2005. Its audit team consists of approximately 50 individuals that typically work on the audit from June until the end of January. The BDO Engagement Partner told us that, based on materiality, he did not believe that the team needed to sample any real property tax refunds. Nonetheless, the BDO audit team performed testing on numerous areas it considered immaterial to the financial statements, including manual real property tax refunds, because of the sensitivity inherent in auditing an entity like the District government.

The BDO audit team began each audit by evaluating risk posed by the various District functions. BDO audit team members also met with OCFO management as well as representatives from the various District audit functions to identify potential areas of risk and/or weakness. Each year, BDO’s team conducted an audit conference, generally in October, at which auditors asked about risk areas. Auditors also met throughout the audit process with managers and employees in the various offices of the OCFO. According to the BDO Engagement Partner, no one from the OCFO or the District audit functions ever identified real property tax refunds as a risk area.

As to refunds, BDO’s audit team prepared a process memorandum and associated workpapers related to the functioning of the Assessment Services Division. The memorandum was almost identical to the process memorandum prepared by KPMG’s audit team in 2004, which likely served as the starting point for BDO’s description. Like KPMG’s summary, BDO’s memorandum set out refund approval requirements for court-ordered refunds based on dollar thresholds. By contrast, the memorandum noted that only the Adjustment Unit Manager (Walters) was required to sign all other refunds, regardless of amount.

Each year for fiscal years 2005-2006, BDO’s audit team selected a sample of 45 manual SOAR and automated ITS real property tax refunds for testing; the sample included both court-ordered and regular refunds. The BDO audit team’s testing of SOAR real property tax refunds consisted of determining whether the following steps, among others, had been followed:

- A Refund Research form and SOAR voucher had been prepared and completed by the RPT Adjustment Unit for each refund.
- The SOAR voucher had been approved by the RPT Adjustment Manager [Walters] for payment.

- The SOAR data had been approved and entered by the System Accountant in the RAA.
- For court-ordered refunds only, the voucher for payments had been approved by the appropriate officials based on dollar amounts.

The BDO Engagement Partner explained that, when reviewing the Refund Research form and SOAR voucher, his audit team never reviewed the underlying supporting documentation because their testing was limited to checking for approval signatures. BDO's audit team concluded in fiscal years 2005 and 2006 that "the critical controls for refund processing within the real property unit are operating effectively."

One fraudulent refund was included in BDO's 2006 sample set, an overpayment refund to Bowen Building, LLC care of Provident Home, Inc. for \$485,680.91. Because BDO understood that higher-level approvals applied only to court-ordered refunds, BDO did not review the refund to ensure that it had any approval beyond Walters.

VI. RECOMMENDATIONS

A. Summary of Recommendations

This Report and its recommendations are intended to assist the District government in determining how Walters' scheme occurred and to reduce the risk of similar frauds being perpetrated. In the months since the discovery of the scheme, the OCFO has taken steps to address the weaknesses that the scheme exposed in its systems and controls. The OCFO has received a number of recommendations from various sources on improvements, but it should give additional consideration to a few key areas.

Controls Improvements. Walters' scheme went undetected for such a long time in part because of the lack of sufficient controls, the failure of existing controls to operate effectively, and the lack of management oversight of those controls. The OCFO first should undertake a full risk assessment across the organization, including a detailed examination of the risks of fraud and misconduct. The OCFO then should take these findings and integrate them into a comprehensive risk management process. As part of this process, the OCFO should carefully analyze its internal controls and ensure that its policies and procedures are fully documented. Management should evaluate controls on the basis of their design and operation and monitor the continued functioning of these controls.

The OCFO also should increase oversight of its fraud management efforts and internal controls. The District should create an Independent Oversight Committee to oversee its fraud management program and coordinate the several audit entities that cover the OCFO. The OCFO should appoint a Chief Risk Officer who will be responsible for assessing and mitigating the various risks the OCFO faces and conducting periodic risk assessments. Additional improvements in the District's audit entities and fraud management efforts will strengthen the OCFO's ability to prevent and detect fraud.

Systems Improvements. The vast majority of Walters' fraudulent refunds were processed manually. OTR continued to process a substantial number of real property tax refunds manually through SOAR even after ITS was available to process these refunds in 2005. ITS, however, is not immune to fraudulent schemes, and Walters was able to use ITS to process fraudulent refunds. The use of a manual process for real property tax refunds, coupled with the lack of adequate controls in both SOAR and ITS, created an environment that was and is susceptible to fraud.

Given the increased susceptibility to fraud associated with the manual processes, the OCFO should eliminate or reduce the use of manual processes wherever possible. The OCFO should conduct a thorough review of its information technology systems, including SOAR and ITS, to identify weaknesses and make appropriate changes. The OCFO also should make increased use of reports and data analysis to track transactions and identify patterns that may suggest misconduct.

Work Environment Improvements. Our review identified fundamental problems with OTR's work environment that contributed to the failure to detect Walters' scheme for nearly 20 years. The OCFO should create a culture of compliance within the organization, which should begin with a strong example set by senior management. Managers should take an active role in

trying to combat fraud and become more involved in the day-to-day operations of their areas of responsibility. They should clearly communicate their expectations that employees will take responsibility for ensuring the integrity of the organization, and a policy of zero tolerance for fraud and misconduct should be established and enforced. In addition, the OCFO should increase coordination and communication among its disparate divisions so that employees are more readily able to identify areas of potential concern and raise issues with those more familiar with the subject matter.

Although there are and have been many knowledgeable and dedicated employees throughout the OCFO, some employees lacked the necessary qualifications and skills to carry out their duties. The OCFO should determine the skill set that is required for each position. Current employees should be trained or reassigned if they are not qualified for their positions. The OCFO should endeavor to recruit and hire qualified individuals to fill open positions. Written performance reviews should be fair and accurate, and employees should be held accountable for their job performance, including adherence to ethical workplace behavior and knowledge of the internal controls applicable to their job functions. The OCFO should evaluate its training programs to ensure that employees develop a thorough understanding of their job responsibilities. The OCFO also should determine how to make training more effective in ensuring that employees understand the importance of workplace accountability and responsibility.

B. Recommendations

The well-publicized fraudulent behavior by Walters has affected the District's reputation, caused operational disruption, and harmed employee morale. These consequences are in addition to the financial impact of her scheme. Failure to prevent or detect fraud and misconduct can also lead to damaging relationships with taxpayers and others and result in inaccurate financial reporting and unreliable disclosures. Reactions to the recent scandals have led the public in general, and taxpayers in particular, to expect a "zero fraud tolerance" attitude in the District government.²⁶

During the course of the investigation, WilmerHale and PwC identified significant weaknesses in the OCFO's controls, systems, and workplace environment. We recommend that the OCFO, and others in the District government as appropriate, take the following steps to address those weaknesses.

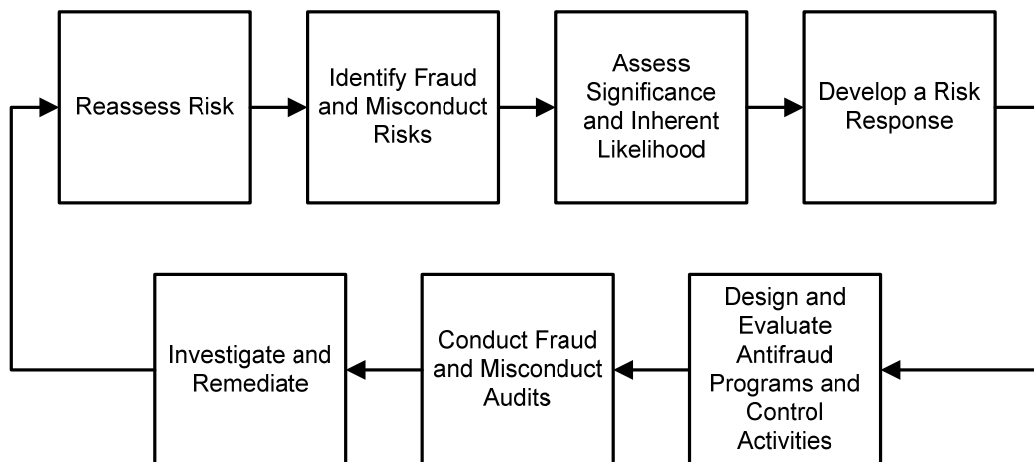
1. Control Improvements

(a) Risk Management Process

The OCFO should undertake a diligent and ongoing effort to protect itself against future acts of fraud and misconduct. The OCFO should undertake a global risk assessment and analysis of the organization and should integrate the findings of this risk assessment into a comprehensive risk management process. The following graphic illustrates the process that the OCFO should

²⁶ Following the discovery and public disclosure of the fraud, we understand based on witness interviews and review of documents that the OCFO has sought to change its policies, procedures, and internal controls in an effort to reduce the likelihood of a recurrence of similar fraudulent schemes. The OCFO, with the assistance of the District's internal and independent auditors and outside consulting firms, has conducted risk analyses and evaluations of internal controls of OTR and OFT. WilmerHale and PwC did not participate in these risk assessments.

implement in light of Walters' scheme.



(i) Risk Assessment

OTR should conduct a fraud and misconduct risk assessment. This assessment should begin as soon as possible and should be performed across all business units, with a particular emphasis on ASD and RAA. The OCFO also should consider the need to conduct similar fraud and misconduct risk assessments, either independently or in conjunction with an overall risk assessment, in other areas of the organization.

A fraud and misconduct risk assessment is more extensive than a traditional risk assessment. Traditional risk assessment is a broad-based approach to assessing a variety of risks that could severely affect an organization. Examples include evaluating the likelihood of risks to the organization from legal action, regulatory changes, environmental concerns, excessive debt, and adverse economic conditions, to name a few. In contrast, a fraud and misconduct risk assessment considers various ways that fraud and misconduct can occur within the organization as well as against the organization. Fraud and misconduct risk assessments also consider exposure to management overrides and potential schemes to circumvent existing internal controls. The focus is on how fraud and misconduct can be perpetrated and concealed.

First, the OCFO should identify all fraud and misconduct risks, at all levels of OTR and the other divisions being examined. The focus should be on the inherent fraud risk in each area, without regard to existing controls or probability of occurrence of a fraud. The OCFO could gather this information through brainstorming sessions with management and employees, reviews of past occurrences of fraud and misconduct, the use of focus groups, and comparison to experiences of similar organizations. The following is a general approach to obtaining the required information:

- Establish a core team of professionals to conduct the assessment. This team should include members that have subject-matter expertise as to how fraudulent schemes are perpetrated and concealed.

- Obtain input during the assessment from various disciplines and levels of management, including senior management, OIG, ODCA, OIO, risk management personnel, and operating personnel.
- Specifically consider the vulnerability of existing controls, risk of management overrides, and potential schemes to circumvent existing control activities.
- Develop “red flags” or fraud indicators so that employees are aware of identified risks and can inform their supervisors of potential fraudulent behavior.

Next, the OCFO should consider the likelihood and significance of, and assess the exposure from, each identified fraud and misconduct risk. The likelihood of fraud and misconduct should be considered without regard to controls that can be implemented. The following should be considered when assessing risk:

- The likelihood of fraud (e.g., remote, reasonably possible, or probable), its magnitude, and its potential impact on the financial statements (e.g., inconsequential, significant, or material).
- How incentives and pressures on employees and managers may cause them to commit fraud and how to address these risks properly.
- Solutions to address the various types of fraud and misconduct, such as misappropriation of assets, financial statement fraud, and bribery/kickbacks.

(ii) Overall Fraud and Misconduct Risk Management Process

In addition to completing an initial risk assessment, the OCFO should implement an ongoing fraud and misconduct risk management process. The following are five key principles that provide a recommended framework for such a process, derived from guidance by the Institute of Internal Auditors, The American Institute of Certified Public Accountants, and the Association of Certified Fraud Examiners:²⁷

Principle 1: Fraud and Misconduct Risk Governance. The OCFO should have a fraud risk management program as part of its governance structure, which should include a written policy (or policies) that conveys the expectations of senior management and other stakeholders regarding fraud risk. The OCFO has some written policies and procedures to manage fraud and misconduct risks. However, there should be a concise, comprehensive summary of these activities and documents to assist the OCFO in communicating and evaluating the relevant processes.

Principle 2: Fraud and Misconduct Risk Assessment. After conducting the risk assessment discussed above, the OCFO should reassess its fraud risk exposure

²⁷ *Managing the Business Risk of Fraud: A Practical Guide*, at 6, <http://www.ace.com/documents/managing-business-risk.pdf>.

periodically to identify specific types of potential schemes and risks that it needs to mitigate. Regular performance of a fraud and misconduct risk assessment will assist the OCFO in prioritizing the key risks that require immediate attention and assist the various audit functions, including OIG, OIO, and ODCA, in designing and planning audit programs.

Principle 3: Fraud and Misconduct Prevention Techniques. The OCFO should establish and enhance prevention techniques to minimize the risk of fraud and misconduct. Prevention can occur through the OCFO's policies and procedures, training, and overall communication to employees. The OCFO needs to ensure that employees throughout the organization are familiar with the fraud and misconduct risk management program, as well as the types of fraudulent schemes that may exist. Prevention techniques alone are not a guarantee that fraud or misconduct will not occur. They are, however, the first line of defense in minimizing fraud and misconduct risk.

Principle 4: Fraud and Misconduct Detection Techniques. The OCFO should establish detection techniques to uncover fraud when preventive measures fail or risks are realized. Detection techniques can include enhanced use of the whistleblower hotlines within the OCFO and controls designed to detect fraudulent activity. Although this does not necessarily prevent fraud and misconduct, it sends a message that fraud and misconduct will be detected and therefore serves as a deterrent.

Principle 5: Fraud and Misconduct Investigative Process. The OCFO should strengthen its reporting process to solicit input on potential fraud, develop a coordinated approach to investigate potential fraud, and take corrective action to help ensure potential fraud is addressed appropriately and in a timely manner. Senior management should ensure the OCFO develops a system for promptly investigating and remediating all fraud and misconduct.

The initial fraud and misconduct risk assessment will set out the risks that need to be immediately addressed and provide the basis for the OCFO to develop the internal controls and monitoring procedures to address those risks. The ongoing fraud and misconduct risk management process will provide the OCFO with the framework for reevaluating how the organization can reduce the risk of fraud and misconduct on a continuous basis.

(b) General Controls, Policies, and Procedures

The OCFO needs both effective internal controls and formal policies and procedures to reduce the opportunity to commit fraud or misconduct. As discussed in Section V.A, failures of internal controls and the lack of formal policies and procedures made the OCFO vulnerable to Walters' scheme. When making changes in these areas, the OCFO should give particular attention to areas in which cash or other financial instruments are controlled, disbursed, or received.

(i) Internal Controls

The OCFO management should evaluate the design and operating effectiveness of the OCFO's internal controls and implement additional internal controls or modify existing controls,

as necessary. When evaluating design effectiveness, management should consider (i) whether the fraud risk will be adequately mitigated if the identified controls operate as designed and (ii) how a potential perpetrator could seek to collude, override, or otherwise circumvent fraud control activities. When evaluating operating effectiveness, management should consider (i) whether a control is operating as designed and (ii) whether the people carrying out the control possess the necessary authority, skill, and qualifications to perform the control activity. The OCFO should evaluate the controls in its newly implemented policies and procedures to assess whether they are operating as intended.

As management evaluates the design and operating effectiveness of the OCFO's internal controls, it should consider the following:

- One of the breakdowns in internal controls was the failure to set out clear approval requirements or to enforce those in place for real property tax refunds. The OCFO should define approval levels clearly and ensure that they are consistently followed, that employees understand the requirements, and that only properly authorized management personnel can approve changes in authority levels.
- Management should ensure that there is a proper segregation of duties at all levels in OTR and the OCFO, especially in instances requiring manual processing, such as real property tax refunds.
- The processing of real property tax refunds through ITS also should receive particular attention. ITS refunds should have the same approval levels as manual refunds.
- The OCFO should evaluate the use of manual processing functions, such as the real property tax refund process, that may exist in other parts of the organization. Because manual processes generally require specifically designed internal controls, the OCFO should determine whether these processes have the proper internal controls and update such controls, as necessary.
- Walters used hold for pick up checks as part of her scheme. The District has business reasons why a hold for pick up check is sometimes necessary for a taxpayer or vendor. However, the use of hold for pick up checks was excessive and not in accordance with the District's policy of use only in emergency situations. The volume of hold for pick up checks has decreased significantly for OTR since the discovery of Walters' fraud and these checks are subject to special review procedures. However, the total number of hold for pick up checks outside of OTR has not decreased significantly. Management should consider ways to further limit the use of this procedure and have checks mailed to payees whenever possible.
- Presently, hold for pick up checks are returned to the agency that requests them. Basic segregation of duties principles dictate that a check should not be returned to the person who authorized it. As such, checks should not be released to requesting employees, and in most instances, should be picked up by the payee at an independent

agency that is not part of the authorization process for approving the check.

After conducting the initial review of internal controls, management should continually monitor these controls and perform periodic performance reviews. Management should consider using information technology systems to monitor for potential fraud and misconduct. Management should review its processes and procedures for monitoring daily activity and devise meaningful reports that track key metrics. Management also should consider using data analysis to identify suspicious activity. Data analytics can be used to perform “continuous auditing” and monitor information on a real-time basis to detect patterns of unusual activity. This allows for more rapid investigation of high-risk transactions and trends.

Management also should ensure that sufficient corrective action is taken on a timely basis when control exceptions, significant deficiencies, and material internal control weaknesses occur. The OCFO should have an appropriate reporting protocol to address these concerns as they are identified. It should capture and report control deficiencies identified by internal and external sources and designate a management-level employee with sufficient authority to ensure that follow-up takes place.

(ii) Formal Policies and Procedures

The OCFO should adopt formal, detailed policies and procedures for all of its divisions. Management should ensure that its new policies and procedures are complete, accurate, and well-documented, and that they adequately address the risk of fraud and misconduct. Where policies and procedures already exist, the OCFO should ensure that these procedures are up to date and disseminated to all relevant employees. We understand that OTR has developed specific procedures and checklists to use in the processing and approval of real property tax refunds, and is in the process of developing new formal policies in this area. OTR should ensure that results of the fraud and misconduct risk assessment are incorporated into the procedures and checklists as soon as possible.

OCFO management also should develop a comprehensive set of antifraud policies and procedures and communicate them clearly to all employees. These policies can help ensure that employees fully understand the relevance of the antifraud program to their job functions and the difference between acceptable and unacceptable behavior. The OCFO should establish a zero tolerance policy for fraud and misconduct and communicate through its policies that it will take appropriate and timely remedial action in instances of violations, including termination of employment.

(c) Increased Oversight

(i) Independent Oversight Committee

The District should create an Independent Oversight Committee (“IOC”) to oversee the District’s fraud prevention programs and audit functions. Although management has responsibility for implementing and conducting a fraud and misconduct risk assessment program, the IOC would provide oversight of management. The IOC can provide support to management by overseeing management’s establishment of antifraud programs and controls, the adequacy of fraud audit procedures and investigations into alleged or suspected fraud, and the appropriateness

of remedial measures. The IOC also should coordinate audit efforts between the District's audit agencies and ensure there is adequate follow-up on audit recommendations.

The District can implement an IOC that fits within the District's unique structure and legal requirements. Representatives from the Council (in particular, the Committee on Finance and Revenue), the Mayor's office, the OCFO (including the Office of Integrity and Oversight), the Office of the Inspector General, and the Office of the District of Columbia Auditor could serve in a collaborative manner to carry out these responsibilities. The IOC would serve in addition to the Audit Committee established by the CFO in December 2007, which is providing assistance to the CFO. The IOC would have a broader responsibility than the already-established Audit Committee and be independent of the CFO.

The IOC should ensure that the three audit agencies address fraud risk on a District-wide level and that the agencies' audit efforts are coordinated. The District has three separate audit agencies: OIO, which reports to the CFO; ODCA, which reports to the Council; and OIG, which reports to the Mayor. As described in Section V.C.1(d), these audit agencies operate independently of each other, with only a limited level of coordination of their audit efforts. The coordination provided by the IOC would allow for more effective and efficient audit coverage, while still maintaining the independence and reporting responsibilities of the various audit agencies.

In addition, the IOC should ensure that recommendations for improvement provided by both internal and independent auditors are followed up on and appropriately resolved. Currently, the internal and independent auditors can make recommendations, but they do not have the authority to ensure that recommendations are actually implemented. The non-audit members of the proposed IOC have the authority over their respective agencies to see that recommendations are implemented on a timely basis. As part of this effort, the IOC should catalogue all recommendations and track their implementation.

Finally, the District has learned a number of lessons as a result of the scrutiny of the controls, processes, and work environment in OTR. The IOC would be able to determine which of the various recommendations and process-improvement issues have applicability beyond OTR and should be addressed in other agencies.

(ii) Chief Risk Officer

The OCFO should appoint a Chief Risk Officer with responsibility for assessing and mitigating strategic, reputational, operational, financial, information technology, and security risk. The officer should be accountable to the CFO and make regular reports to the Audit Committee and the IOC. He or she would be responsible for conducting regular risk assessments of the various OCFO agencies, providing input on the internal audit plans based on those assessments, and ensuring audit recommendations are implemented.

A Chief Risk Officer is needed because the OCFO's current risk assessment and control design functions are divided among the Controller, the Director of OIO, and the heads of the various OCFO divisions. As discussed in Section V.C.1.(e), the District's Office of Risk Management plays no role in monitoring risk for the OCFO. There is no single person in the OCFO whose sole responsibility is assessing risk across the organization and ensuring that the

proper controls are in place.²⁸ The Chief Risk Officer should be involved in assessing the risk of new or updated technology and ensuring that controls are adequate to prevent fraud and ensure that data are secure.

(iii) Internal Audit Entities

OIO, OIG, and ODCA should evaluate how they structure their audit programs. The audit agencies should consider incorporating fraud auditing procedures into their internal audit plans, particularly for high-risk areas. Incorporating fraud auditing procedures will allow the District to be proactive instead of reactive. Fraud auditing combines aspects of forensic investigation and standard auditing techniques and generally requires knowledge of how frauds occur and the indicators of fraud schemes that appear during an audit.

The District also should consider the level of staffing for these audit agencies and the necessary skill sets for the audit staff. In particular:

- The District should evaluate audit requirements and determine the appropriate level of staffing for each of the internal auditing groups. There is much more audit work scheduled than can be accomplished with the present level of internal audit staffing, especially when ad hoc requests are added throughout the year. For example, the OIG typically has twice as many audits in its audit plan than can be accomplished in a given year, even before being asked to address additional issues as they arise.
- The District should conduct a general review of the qualifications and expertise of the internal audit staff to ensure that the requisite expertise is available to carry out the annual audit plans. This is particularly the case if the District will be conducting proactive fraud audits where specialized skills are required.
- The District should hire more Information Technology auditors. The extensive use of computerized systems means the audit agencies must be able to address computerized processing and internal controls adequately. None of the audit agencies currently has sufficient information technology audit support.

Additionally, the audit agencies should take responsibility for ensuring follow-up on their recommendations, which has often been lacking. Although the IOC can help in this effort, each audit agency should follow up on its recommendations and alert management of the appropriate agency or the IOC if there are difficulties getting an agency to follow through on recommendations.

(d) Ethics Hotline/Whistleblower Program

Although the District has a hotline and reporting program that is available for employees to report suspected inappropriate conduct, it is our understanding that there were no reports relating to Walters' scheme and that the level of reporting through the hotline is generally low.

²⁸ One senior auditor at ODCA suggested during her interview that the District should avoid the current problems of coordination among its audit agencies by creating a central "risk management" office charged with monitoring all audit findings, developing follow-up with each agency, and ensuring that audited agencies have put corrective action plans in place.

The OCFO publicizes points of contact for reporting, including OIO and OIG hotlines, but several current or former employees that we talked to were unaware of the existence of the hotlines. We were also informed by certain OTR personnel that employees may not be inclined to report potentially inappropriate incidents or believe it is not their business to report on their colleagues.

The OCFO should revisit its ethics hotline and whistleblower program to determine how to make them more effective. The OCFO should reinforce to its employees the importance of reporting potentially inappropriate activity. Employees should be surveyed to provide insight into their willingness or unwillingness to use the ethics hotline and what changes could be made to increase reporting. In particular, there seems to be a general sense that the hotlines are not anonymous and that there is no real way to report a problem without being identified as the person making the report. To address this concern, the OCFO should consider using an outside hotline service to receive initial calls, in addition to the present avenues of reporting. The hotline should be unrelated to any District agency to be truly anonymous, and measures should be taken to protect the confidentiality of the caller.

In addition, all reported incidents should be documented and formally tracked to determine trends that may be emerging in one business area or across the organization. The status of reported or alleged incidents of fraud should be summarized and reported to the Audit Committee and the IOC on a regular basis.

(e) Investigative Process

The OCFO should develop a plan for the performance of forensic investigations to ensure that potential fraud and misconduct is dealt with in a timely manner. This approach should include both a written plan and a process for tracking and responding to allegations of fraud and misconduct. Where appropriate, the investigative process should allow for investigation independent of management. Internal and independent auditors should be advised of all significant deficiencies in internal controls and of any fraud involving management or other employees who play a significant role in internal controls.

Once the investigation is complete, or during the investigation where appropriate, management should determine the appropriate action to take regarding individuals involved in the fraudulent activity. Management should take strong disciplinary action appropriate to the circumstances and establish a zero tolerance policy for fraud. The OCFO should refer fraud to legal authorities. Strong action can serve as a deterrent for other employees who perceive that any fraud or misconduct will be detected and that there will be consequences.

Management also should consider the root causes of how and why specific instances of fraud and misconduct were able to occur and determine remedial and corrective action to respond to the findings. Management should impose a remediation plan and enhance internal controls that will mitigate against the risk of similar frauds and periodically test the newly implemented controls to ensure they are operating. The OCFO also should examine the nature, scope, and extent of the fraud to ensure that similar activity is not taking place in other parts of the organization. The results of remediation activities should be communicated to internal and external interested parties, such as government oversight agencies and independent auditors.

2. Systems Improvements

The OCFO should review the information technology systems used both in OTR and throughout the organization to assess areas in which improvements should be made. Although we did not conduct a detailed analysis of the OCFO's information technology systems, we noted certain weaknesses that should be addressed.

First, the OCFO should reduce the use of manual processes, which by their nature are subject to more risk. To help meet that objective, the OCFO should enhance the functioning of its automated systems to handle transactions that currently require the use of manual processes.

Second, the OCFO should perform a thorough review of the capabilities and weaknesses of all of its information technology systems. The automated systems in OTR should be evaluated for proper internal controls as soon as possible. Further, any fraud and misconduct risk assessment should incorporate an analysis of all relevant information technology systems. When reviewing these systems, the OCFO should consider the following:

- ITS and SOAR should receive particular attention. A thorough analysis of the system controls in ITS should be performed and interim manual controls should be instituted while programming changes are being made.
- The OCFO should review the accuracy and consistency of shared information across all systems. Shared data, such as square and lot numbers, are not currently synchronized across systems and are stored in multiple formats. Due to the existence of fields in some systems (i.e., SOAR) that allow data entry of free text, the same square and lot numbers can exist in multiple formats. All of these variations should be identified and standardized to allow for system validation of key data fields.
- OTR currently uses several standalone systems. The OCFO should conduct an analysis to determine the need for internal controls for these various systems. The OCFO should consider eliminating these systems where possible and incorporating their functions into existing systems.
- Internal and independent auditors and consultants have made several recommendations relating to information technology software changes as a result of Walters' scheme. Management responded in many instances that these types of recommendations will be implemented on a timetable. The OCFO should conduct a risk assessment of those recommendations that will take time to implement to determine if immediate, interim measures are needed.

In addition, the OCFO should implement a reporting system to review and track transactions across the organization and consider where data analysis would be appropriate. In particular:

- Data entered into SOAR and ITS should be validated and verified against known control sources for accuracy before the transaction is saved. For example, the square and lot numbers entered into SOAR are not compared against any database to

determine that they are valid, which allowed the use of non-existent square and lot numbers in many of the fraudulent transactions.

- Exception reports should be generated for transactions that exceed specified limits or match other criteria, for review by management. At a minimum, exception reports should identify possible duplicate refunds, high dollar refunds, and multiple payments to similar names and addresses.
- When real property tax refund information was converted to ITS from RPT2000, credit balances, known as “converting credits,” were transferred into ITS. These converting credits allowed a user to create a credit balance on any account, and, in turn, generate a refund. Because it has been approximately three years since the introduction of ITS in RPTA, a determination should be made as to whether converting credits should be eliminated from the system. If converting credits are still needed, they should be subject to independent review by management and included on an exception report.
- Certain transactions require employees to create a credit in ITS to generate a real property tax refund. To ensure proper approval of the credits, creation of a credit should be listed on an exception report that is reviewed and approved by management.
- ITS does not maintain a complete audit trail of the users that have created and modified transactions. Only the last person who modified or approved the transaction is listed. As a result, it is not possible to determine all of the users who modified transactions. Audit logs should be maintained that include the user identification, and the date and time when all transactions are created, modified, or deleted by a user. Steps also should be taken to protect against users utilizing other users’ login identifications and passwords.

3. Workplace Environment Improvements

(a) Culture of Compliance

The OCFO should work to create a culture of compliance within the organization. This starts with an appropriate tone at the top. Senior management is responsible for ensuring that the right tone filters down to lower-level managers and employees. To accomplish this, management should uphold principles of integrity and exhibit behavior that creates an ethical atmosphere in the workplace. Management also should develop an awareness program to reinforce that everyone in the organization is responsible for preventing and detecting fraud and misconduct. In addition, the OCFO should consider incorporating all aspects of its fraud risk management program into a single comprehensive fraud policy document.

Managers at all levels of the organization also should provide more oversight of the day-to-day operations of the organization. Many OTR managers did not have an adequate understanding of the policies and procedures in their areas of assigned responsibility. This was especially the case for managers on temporary assignment. All managers should be required to

obtain an in-depth understanding of the operations under their area of responsibility and to perform periodic walkthroughs and testing of day-to-day processes to have first-hand knowledge of what is transpiring in their business units. Further, managers should exercise a healthy skepticism and a higher level of critical thinking when performing their assigned duties and responsibilities. Management should follow up on identified issues and refer them to relevant audit entities as appropriate.

The OCFO should increase its use of background checks. When OTR began performing background checks on employees, including educational background, employment history, credit history, and criminal background searches, it did not perform background checks on existing employees. We understand that OTR is now completing background checks on all employees, including existing employees who have not had background checks in the past. Background checks should be updated annually for employees in sensitive financial positions, such as those that involve handling cash, checks, or wire transfers, as well as certain recordkeeping functions. They also should be updated when employees are promoted or transferred into new positions that are financially sensitive.

The OCFO should consider revising its published Code of Conduct in light of Walters' scheme to reemphasize the culture that the OCFO hopes to promote. An effective Code of Conduct should address inappropriate behavior or illegal acts and promote maintenance of accurate accounting records and compliance with laws and regulations. The revised Code should emphasize zero tolerance of inappropriate behavior and illegal acts. The current Code of Conduct states: "Employees who violate provisions of this Code of Conduct *may* be subject to disciplinary action up to and including dismissal." (emphasis added.) The OCFO should consider adopting stronger language such as "failure to abide by this Code of Conduct, or any law or regulation, will lead to disciplinary action appropriate to the violation, up to and including termination of employment." Management should then require employees to sign annual certifications acknowledging their understanding of and agreement to comply with the Code of Conduct.

Management also should include a provision in the Code of Conduct prohibiting employees from receiving non-trivial gifts or loans from anyone, including those within the District government, similar to the provision that applies to federal government employees.

(b) Improve Communications Among Divisions

The OCFO should improve the communications and coordination among its various divisions. As discussed in Section V.B.2, the OCFO divisions operate largely in separate silos. Lower-level employees and middle management of various divisions, in particular, do not have much interaction outside of specific functions on which they may work together. Increasing communications between divisions will allow employees to identify issues that may be of concern to other divisions.

The OCFO should train employees about the functions performed by various divisions so that they can learn what issues may pose a concern to those in other areas. Training on the roles and responsibilities of business units outside employees' specific areas of responsibility will also give them a better understanding of how their tasks fit into the organization as a whole. In

addition, the OCFO should open up lines of communication between lower-level employees and managers so that they can discuss potential areas of concern and determine whether there is a need to bring an issue to the attention of more senior management.

(c) Hiring, Evaluation, and Promotion Procedures

The OCFO should recruit, train, and retain the right people for each job. While there are a number of knowledgeable and hard-working employees in the District government, there are improvements that should be made in hiring employees and evaluating job performance.

As an initial matter, the OCFO should assess whether it has the right people in various positions and where it may need to hire new personnel. Management should determine the skill sets that are needed for each position. Job descriptions should be in writing and duties and responsibilities should be clearly spelled out. Management can use this information to ensure that qualified, competent employees are placed in each position. Likewise, the OCFO should ensure that its managers have the appropriate experience and expertise in their areas of responsibility and, where necessary, recruit and hire new managers with more experience in these areas.

The OCFO should then ensure it is effectively monitoring and evaluating employee performance. OTR sets annual goals and objectives for its employees. Managers should ensure that employees clearly understand these goals and objectives and hold employees accountable for their performance. In addition, employee performance evaluations should be fair and objective. Several managers noted that they received significant pressure to rate employees higher on evaluations than they felt was justified or that their employees expected to receive high performance ratings merely because they had been in their positions for a long time. Employee evaluations should instead be an accurate assessment of performance.

The OCFO should then take timely remedial action when employees are not meeting expectations. Human Resources should be more proactive in assisting managers to resolve issues with underperforming and disruptive employees. Moreover, the process involved in employee remediation or termination decisions should be streamlined. We heard from several managers that it was very time-consuming to document employee problems properly, work on remediation plans, send employees to an employee assistance program, and then monitor and document their progress. Managers should have the ability and support to discipline, or terminate if necessary, under-performing or disruptive employees.

Similarly, promotions should be based on performance rather than attrition or longevity. Employees should be promoted based on merit, past accomplishments, integrity, and ethical behavior. In addition, OTR should reconsider instituting the rotation of job responsibilities, where it makes operational sense, to provide cross-training and increased internal control. Although RPTA attempted to institute a job rotation program for employees where managers worked in different business units to provide varied management experience and greater organizational flexibility, significant resistance to this idea prevented the plan from being implemented. One of the managers who would have been reassigned was Walters.

(d) Training

The OCFO should strengthen its training programs. The lack of formal job training, coupled with the lack of written policies and procedures, helped to create an environment in RPTA that was susceptible to fraud and misconduct. The OCFO should reevaluate its training programs to determine what is working and what is not. Personnel throughout the OCFO should be trained in their job responsibilities, have a good understanding of the business processes in their assigned areas, and have a working knowledge of the importance of relevant internal controls.

The OCFO should take the following steps to restructure its training program:

- The OCFO should establish formal mandatory training for all employees on their roles and responsibilities, including the appropriate use of information technology and managerial skills, at the beginning of their employment or prior to assuming a new role. The OCFO also should provide periodic updates tailored to changing processes, rules, and regulations.
- The OCFO should conduct training specific to the processing of real property tax refunds for relevant OTR personnel, including managers responsible for reviewing and approving real property tax refunds. As discussed in Section V.B.3, in many instances managers did not adequately review real property refund tax vouchers that were presented to them for approval. Managers should understand that by signing a document, they are taking responsibility for its contents and that they are accountable for errors contained therein. We understand that OTR plans to develop training for OTR personnel once written policies and procedures have been completed and implemented. Due to the obvious high risk of fraud, training for the processing of real property tax refunds should be done immediately if it has not already been implemented.
- Training should emphasize a culture of compliance with the Code of Conduct and ethical business practices. It also should include development of a better understanding of the importance of internal controls and how employees play a role in ensuring the proper functioning of these controls.

The OCFO also should develop effective training for employees on the role they should play in upholding the organization's ethical principles and ensuring the integrity of the District's finances. OIO conducts annual ethics training for all OCFO employees, but at least one employee to whom we spoke noted that it was not engaging. The OCFO should revisit how it is conducting its ethics training to ensure that it keeps the employees' attention and determine whether employees actually understand their reporting obligations. Ethics training may be tailored to reflect areas and issues relevant to employees' job functions. The training program also should be used to encourage strong knowledge-sharing among employees regarding fraud risks, control activities, allegations of fraud, and remediation efforts. The OCFO should consider implementing a mandatory assessment at the end of the training course to reinforce employees' knowledge of the training material.

* * *

These changes cannot be implemented overnight, and they will require both commitment and significant coordination among the various branches of the District government. Unless and until these changes are made, however, the District's vulnerability to fraudulent schemes will remain at an unacceptably high level.

APPENDIX A

FMS Fraudulent Refunds

Date	Voucher	Payee	Description	Amount
06/20/1989	VRRECARE9579	ALETHIA GROOMS		\$ 4,060.00
07/20/1989	VRRECARE9670	ALETHIA GROOMS		4,848.66
08/10/1989	VRRECARE9715	[FRIEND OF GROOMS]		9,678.63
08/10/1989	VRRECARE9719	[FRIEND OF GROOMS]		4,525.33
10/05/1989	VRRECARE9845	[FRIEND OF GROOMS]		4,914.68
12/13/1989	VRRECARE1003	[FRIEND OF GROOMS]		3,707.27
01/10/1990	VRRECARE1119	ALETHIA O GROOMS	S2900L0004	4,628.40
05/14/1990	VRRECARE1575	PATRICIA FLOOD	1990 BASIC TAX	4,359.79
06/13/1990	VRRECARE1653	A.O. GROMES	1990 BASIC TAX	4,236.44
06/18/1990	VRRECARE1648	S.M. STEVEN	1990 BASE TAX	4,739.26
07/23/1990	VRRECARE1735	PAT A FLOOD	1990 BASIC TAX	4,719.70
07/23/1990	VRRECARE1743	MRS ROBERT R. STEVENS	1990 BASIC TAX	4,844.94
08/14/1990	VRRECARE1790	[FRIEND OF GROOMS]	1990 BASIC TAX	2,297.87
09/11/1990	VRRECARE1805	P A STEVENS	1989 BASIC TAX	4,219.30
11/19/1990	VRRECARE1928	S. MARIE STEPHENS	1991 BASIC TAX	4,056.00
12/11/1990	VRRECARE2232	[RELATIVE OF GROOMS]	1986 BASIC TAX	4,785.75
12/14/1990	VRRECARE2241	P. ANN FLOOD	1991 BASIC TAX	4,129.34
02/04/1991	VRRECARE2784	OLIVIA GROOMS	1990 BASIC TAX	4,932.30
02/23/1991	VRRECARE862	R.O.& P.A. STEPHENS	1991BASIC TAX	4,735.50
05/03/1991	VRRECARE3281	EARL POPE & ASSOCIATES INC	1990 BASIC TAX	37,639.00
06/15/1991	VRRECARE3508	[FRIEND OF GROOMS]	1991 BASIC TAX	4,794.80
07/09/1991	VRRECARE3449	FLOOD AND ASSOCIATES	1991 BASIC TAX	14,791.01
09/16/1991	VRRECARE3561	EARL POPE AND ASSOCIATES	1991 BASIC TAX	23,333.52
10/22/1991	VRRECARE3672	RIVERSIDE/BELLARIME	1991 BASIC TAX	58,250.41
12/04/1991	VRRECARE4022	PAT STEPHENS	1992 BASIC TAX	3,559.28
12/17/1991	VRRECARE4050	ALETHIA MACK	1992 BASIC TAX	3,514.51
12/17/1991	VRRECARE4051	A OILIVIA GROOMES	1991 BASIC TAX	4,602.75
02/27/1992	VRRECARE4864	PATRICIA FLOOD	1990 BASIC TAX	4,711.29
06/08/1993	VRRECARE6913	BELLARMINE DESIGNS	1993 BASE TAX	62,478.20
07/20/1993	VRRECARE8010	WALKER-POPE & ASSOCS	1990 BASIC TAX	28,656.01
07/20/1993	VRRECARE8016	BELLAMINE ASSOCIATES	1991 BASIC TAX	58,250.41
10/01/1993	VRRECARE7417	RIVERSIDE-BELLARMINE & ASSOCS	1989 BASE TAX	53,483.90
10/01/1993	VRRECARE7699	POPE AND ASSOCIATES	1989 BASIC TAX	43,432.63
01/11/1994	VRRECARE8410	BELLAMARMINE INC	1993 BASE TAX	53,784.02
01/31/1994	VRRECARE7821	WALKER-POPE INC	1993 BASIC TAX	52,963.00
01/31/1994	VRRECARE7820	RIVERSIDE-BELLARMINE & ASSOC	1989 BASIC TAX	84,959.80
03/02/1994	VRRECARE8905	POPE AND ASSOCS INC	9-15-93 BASE TAX	46,880.00
03/21/1994	VRRECARE9411	RIVERSIDE-BELLARMINE & ASSOC	9-15-93 PYMT.	72,990.00
04/08/1994	VRRECARE9417	BELLARMINE & ASSOCIATES INC.	9-15-93 PAYMENT	52,784.66
04/28/1994	VRRECARE0015	POPE AND ASSOCIATES, INC	1993 BASE TAX	58,020.90
04/28/1994	VRRECARE0014	RIVERSIDE-BELLARMINE INC	1992 BASE TAX	66,560.00

Date	Voucher	Payee	Description	Amount
05/03/1994	VRRECARE0721	WALKER-POPE ASSOCIATES	9-15-93 BASE TAX	48,900.00
05/03/1994	VRRECARE0722	RIVERSIDE-BELLARMINE & ASSOCS	1990 BASE TAX	69,843.94
05/20/1994	VRRECARE0010	BELLARMINE AND ASSOCS, INC.	1989-90 BASE TAX	68,495.84
07/08/1994	VRRECARE0017	RIVERSIDE-BELLARMINE & ASSOCS	1993 BASE TAX	77,990.43
07/08/1994	VRRECARE0022	POPE-WALKER AND ASSOCS	1992 BASE TAX	48,321.79
07/08/1994	VRRECARE0021	BELLARMINE, INC AND ASSOCS	1991 BASE TAX	64,782.09
09/01/1994	VRRECARE0011	WALKER-POPE & ASSCOS INC	1994 BASE TAX	55,820.69
09/01/1994	VRRECARE0012	RIVERSIDE-BELLARMINE & ASSOCS	1994 BASE TAX	72,548.54
11/02/1994	VRRECARE0019	WALKER-POPE & ASSOCS	1994 BASE TAX	58,670.98
11/02/1994	VRRECARE0018	BELLARMINE & ASSOCS INC	1993-94 BASE TAX	72,340.12
11/29/1994	VRRECARE0023	POPE AND ASSOCIATES, INC	1993 BASE TAX	52,642.33
11/29/1994	VRRECARE0024	BELLARMINE-RIVERSIDE & ASSOC	1994 BASE TAX	58,125.99
01/24/1995	VRRECARE2028	WALKER-POPE & ASSOC INC	9-15-93 BASE TAX	46,874.98
01/24/1995	VRRECARE2029	RIVERSIDE-BELLARMINE INC	1992 BASE TAX	68,320.23
02/23/1995	VRRECARE2031	STEVENS MANAGEMENT INC	1990 BASE TAX	66,509.18
03/31/1995	VRRECARE2030	POPE AND ASSOCIATES, INC	1994 BASE TAX	63,729.89
03/31/1995	VRRECARE2034	BELLARMINE & ASSOCIATES, INC	9-15-93 BASE TAX	76,045.90
05/11/1995	VRRECARE2038	STEVENS-OCHS AND ASSOCS	1993 BASE TAX	74,002.50
05/15/1995	VRRECARE3811	POPE AND ASSOCIATES	1994 BASE TAX	57,929.09
05/15/1995	VRRECARE3803	BELLARMINE & ASSOCS INC	1995 BASE TAX	82,674.89
05/15/1995	VRRECARE3800	STEVEN & ASSOCS. INC	09/15/1993	78,941.01
06/15/1995	VRRECARE3003	WALKER-POPE & ASSOCIATES INC	1994 BASE TAX	63,375.67
06/15/1995	VRRECARE3004	BELLARMINE & ASSOCIATES INC	1989 BASE TAX	89,673.24
06/15/1995	VRRECARE3001	STEVENS AND ASSOCIATES INC	1990 BASE TAX	76,900.90
07/24/1995	VRRECARE3015	FLOOD-STEVEN & ASSOCS INC	1995 BASE TAX	84,977.09
08/24/1995	VRRECARE3018	RIVERSIDE-BELLARMINE & ASSOC I	1995 BASE TAX	87,983.23
08/28/1995	VRRECARE3011	POPE MANAGEMENT INC	1993 BASE TAX	74,293.02
08/28/1995	VRRECARE3012	STEVEN WALKER JONES ASSOCS	1993-94 BASE TAX	63,090.23
11/17/1995	VRRECARE3024	RIVERSIDE-BELLARMINE & ASSOC'	9-15-93 BASE TAX	88,906.23
12/01/1995	VRRECARE3028	STEVEN & ASSOC INC	1990-94 BASE TAX	86,423.86
12/07/1995	VRRECARE1101	STEVEN-FLOOD ASSOCS INC	PENALTY & INTEREST	92,586.45
02/02/1996	VRRECARE1125	POPE-WALKER INC	1994 BASE TAX	61,499.36
02/22/1996	VRRECARE1126	BELLARMINE & ASSOCIATES INC	1994 BASE TAX	89,060.42
02/22/1996	VRRECARE1124	FLOOD-STEVEN INC ASSOC	INTEREST	92,864.83
07/10/1997	VRRECARE6049	STEVEN ASSOCS INC	1996 BASE TAX	543,423.50

FMS Total

76

\$ 3,937,427.70

SOAR Fraudulent Refunds

Date	Voucher	Payee	Address	Address	Amount
12/04/1998	VRRE7419	BELLARMINE AND ASSOCIATES, INC	C/O JEFF NADEL, ESQ	HOLD FOR PICK-UP	\$ 221,901.76
12/04/1998	VRRE7420	C.L. ALEXANDER, INC.	C/O CHARLES CAMALIER, ESQ	HOLD FOR PICK-UP	53,992.14
03/26/1999	VRRE7747	WALKER-POPE, INC.	[C/O N ST ASSOC]	HOLD FOR PICKUP	92,779.88
03/26/1999	VRRE7748	C.L. ALEXANDER, ETC	C/O CENTURY MORTGAGE, INC.	4071 BEE RIDGE ROAD	51,510.16
03/26/1999	VRRE7750	BELLARNINE & ASSOC.	C/O AMERICAN REALTY GROUP	4400 MASS AVE, N.W.	190,230.00
06/30/1999	VRRE1834	BELLARMINE CORPORATION	PREM MALKANI ESQ,	1625 1 MASS AVE SUITE #11042	113,412.56
06/30/1999	VRRE1846	TALIAFARO, INC	R.O. STEPHEN	ONE ADVANTAGE WAY	122,413.73
08/19/1999	VRRE1924	THE WINKLER COMPANY	STEVEN CAMPBELL	4900 SEMINARY ROAD #900	187,167.50
10/20/1999	VRRE2089	GREYROCK CAPITAL GROUP, INC	DOROTHY INGALLS	201 BROAD STREET	257,287.28
10/20/1999	VRRE2090	254 LIMITED PARTNERSHIP	STEVEN CAMPBELL	1001 G STREET N.W. #700W	229,721.32
03/24/2000	VRRE2514	QUADRANGLE DEVELOPMENT, INC	ATTN: DAVID SAFFERN ESQ	HOLD FOR PICK-UP	363,382.25
06/08/2000	VRRE2680	MEDICAL PROPERTIES, LLC	ATTN: C.L. ALEXANDER, ESQ	1150 CONN AVE N.W. #701	85,430.00
06/08/2000	VRRE2681	BELLARMINE & ASSOCIATES	ATTN: JEFF NADEL, ESQ	8707 GEORGIA AVE #807	181,054.08
06/08/2000	VRRE2682	NINJA JO ASSOCIATES	CAMPBELL-STEVEN, INC	11501 HUFF COURT	223,001.38
08/03/2000	VRRE2813	I & G CAPITOL, INC	C/O C.L. ALEXANDER, ESQ	8807 GEORGIA AVE SUITE 700	125,069.25
08/03/2000	VRRE2814	PRIVATE PROPERTIES MGT	C/O P A STEVEN & ASSOCIATES	1818 18TH STREET N.W.	176,784.40
08/04/2000	VRRE2828	1250 EYE STREET & ASSOCIATES	C/O KWP STEVEN, AGENT	HOLD FOR PICK-UP	194,135.00
08/22/2000	VRRE2838	1800 INVESTORS LP	C/O STUART A TUROW	HOLD FOR PICK-UP	47,255.28
09/26/2000	VRRE2974	AEGIS COMPANY, LLC	ATTN: MAHT ACCOUNT	HOLD FOR PICK-UP	158,558.20
10/18/2000	VRRE2976	CSN DEVELOPMENTAL GROUP	FINANCE GROUP /ATO-01	808 17TH STREET N.W.	287,581.85
11/01/2000	VRRE3024	HELMET-CROW COMPANY	ATTN: JEFF NADEL, ESQ	HOLD FOR PICK-UP	124,829.01
11/06/2000	VRRE2973	STEVENS PROPERTY MANAGEMENT	C/O P.A. STEVEN, ESQ	465 MAPLE AVENUE	290,646.95
11/22/2000	VRRE3178	FIRST AMERICAN COMPANY	ATTN: TAMMIE JOHNSON	HOLD FOR PICK UP	71,777.95
12/04/2000	VRRE3089	MODERN MANAGEMENT CORP	ATTN: CAFRITZ CO, AGENT	HOLD FOR PICK UP	258,325.58
01/04/2001	VRRE3240	WILLICO CONSTRU & ASSOCIATES	ATTN: C.L. ALEXANDER, ESQ	HOLD FOR PICK-UP	236,500.00
01/29/2001	VRRE3241	NORWEST CORPORATION	C/O P.A. STEVEN, ESQ	HOLD FOR PICK UP	222,640.01
01/29/2001	VRRE3248	PRIVATE PROPERTIES, INC	C/ABN-AMRO	1818 18TH STREET, N.E.	110,372.34
02/09/2001	VRRE3279	WASHINGTON R.E. INVESTMENT	C/O STUART TUROW, ESQ	HOLD FOR PICKUP	137,571.33
02/28/2001	VRRE3387	LASOLANA DC, INC	ATTN: HELMET-CROW, AGENT	HOLD FOR PICK-UP	168,163.08
03/16/2001	VRRE3405	PM REALTY GROUP	C/O STUART TUROW, ESQ	HOLD FOR PICK UP	251,270.50
03/28/2001	VRRE3388	CARR REAL ESTATE SERVICES	ATTN: P.A STEVEN, ESQ	1850 STREET, N.W.	347,068.49
04/19/2001	VRRE3463	HORNING HOUSING CORPORATION	1350 CONN AVE #808		190,065.38
05/08/2001	VRRE3412	900 F ST ASSOCIATE, LLC	C/O GMACC MORTGAGE CORP	650 DRESTER ROAD	201,867.11
05/08/2001	VRRE3474	DEVELOPMENT RESOURCES	C/O 799 NINTH STREET LP II	HOLD FOR PICK UP	95,148.74
05/23/2001	VRRE3557	JONES LAND LASALLE	ATTN: C. E. ZARNEKE	HOLD FOR PICK UP	135,269.34
06/18/2001	VRRE3558	MONUMENT REALTY GROUP	ATTN: DAVID FUSS, ESQ	HOLD FOR PICK UP	105,217.46
07/02/2001	VRRE3618	STOLADI PROPERTY, INC	13434 PT PLEASANT DRIVE		250,000.00
08/10/2001	VRRE3696	STILLMAN GROUP, INC	670 WHITE PLAINS ROAD		141,345.99
08/10/2001	VRRE3727	INTREPID EYE STREET, LLC	ATTN: C.L. ALEXANDER	1720 EYE STREET NW	122,078.21
09/13/2001	VRRE3765	ACQUIPORT FOUR	ATTNI DAVID FUSS, ESQ	1666 K STREET, N.W.	437,575.91
10/15/2001	VRRE3847	JBS VENTURE	ATTN: C.L. ALEXANDER, INC	PO BOX 75	126,000.00

Date	Voucher	Payee	Address	Address	Amount
10/15/2001	VRRE3899	DELOITTE & TOUCHE PROPERTY	ATTN: DAVID A. FUSS, ESQ		262,167.75
11/06/2001	VRRE3936	PRUDENTIAL ASSET RESOURCES	C/O BRENDA SMITH	2200 ROSS AVENUE SUITE 4200E	160,691.25
12/03/2001	VRRE4068	FEDDISTRICT, LLC/TRAMMELL	ATTN: ALEXANDER LEMOS, ESQ	BOX 300060	124,829.01
12/18/2001	VRRE4149	INSIGNIA/ESG, INC	ATTN: JEFF NADEL, ESQ	7507 GEORGIA AVENUE	145,145.32
01/09/2002	VRRE4192	DC 17TH STREET CORPORATION	ATTN: C. L. LEMOS, ESQ		114,196.98
02/08/2002	VRRE4368	NEHEMIAH LTD PARTNERSHIP	JEFF NADEL, ESQ	2400 14TH STREET, N.W.	190,065.38
02/26/2002	VRRE4319	GRUBB AND ELLIS	C/O LEMOS HOME SERVICES	ATTN: CHERI DELANEY, RPA	185,627.02
04/04/2002	VRRE4421	JONES LANG LASALLE, INC	C/O WILES AND ARTIS	HOLD FOR PICK UP	222,303.28
04/23/2002	VRRE4458	JENCO GROUP, INC	ATTN; LEMOSHUME SERVICES	730 11TH STREET, N.W. #700	86,576.42
04/23/2002	VRRE4459	WIYNTER AND ASSOCIATES, INC	C/O WILKES AND ARTIS	HOLD FOR PICKUP	74,299.20
05/14/2002	VRRE4475	KAEMPFER MANAGEMENT, SER	ATTN: TANYA CASTRO	1501 K STREET, NW #300	347,392.12
05/29/2002	VRRE4517	J R MORRISS & ASSOCIATES, LLC	JEFF NADEL, ESQ	9805 KIRKTREE COURT	105,382.11
07/01/2002	VRRE4198	ARENT FOX KINTNER	ATTN: KATHERINE KELLY	1050 CONN AVENUE NW	393,852.06
07/11/2002	VRRE4786	HUNSON PAIGE ASSOCIATES, LTD	C/O WILKES AND ARTIS, ESQ	1660 K STREET, NW	229,376.50
08/15/2002	VRRE4882	AVALONBAY COMMUNITIES, INC	C/O C.L. ALEXANDER, ESQ	HOLD FOR PICK UP	214,452.00
09/10/2002	VRRE4955	RM REALTY GROUP	ATTN: STUART TUROW, ESQ	HOLD FOR PICKUP	251,270.50
10/22/2002	VRRE8082	PIPER RUDRICK PARTNERSHIP	C/O LENA HOME SERVICES	HOLD FOR PICK UP	225,835.05
11/05/2002	VRRE8166	CAPITOL COMMONS	C/O ALEXADER POPE.	HOLD FOR PICK UP	134,099.89
11/25/2002	VRRE8212	CAPMARK SERVICES, INC	LENAHOME TAX SERVICE CORP	1717 H ST. NW	271,045.02
12/05/2002	VRRE8304	L AND B 1775 I STREET GROUP	C/O WILKES AND ARTIS	HOLD FOR PICK-UP	240,508.00
12/23/2002	VRRE8457	TRIZECHAHN INC, LLC	C/O LEMOSHOMES SERVICES	HOLD FOR PICK-UP	375,466.75
02/03/2003	VRRE8593	LEGNAHOME SERVICES, INC	ATTN: C.L. ALEXANDER, ESQ	HOLD FOR PICK-UP	179,184.72
02/13/2003	VRRE8693	THE WASHINGTON DEVELOPMENT	C/O BELLARMINE GROUP	HOLD FOR PICK-UP	289,018.08
03/11/2003	VRRE8771	MONUMEN REALTY, LLC	C/O WILKES AND ARTIS ESQ	HOLD FOR PICK-UP	250,000.00
04/02/2003	VRRE8799	BOSTON PROPERTIES, INC	LEGNAHOME SERVICES	HOLD FOR PICK-UP	290,646.95
04/11/2003	VRRE8814	CHARLES E. SMITH REALTY GROUP	LEGNAHOME SERVICES, INC	HOLD FOR PICK-UP	242,609.00
05/02/2003	VRRE8885	TRAMMELL CROW COMPANY	C/O LEGHOME SERVICES, LLC	HOLD FOR PICK-UP	258,990.35
05/23/2003	VRRE9042	BERNARD S. GEWIRZ. CO	LEGNAHOME SERVICES, INC	HOLD FOR PICK UP	248,801.08
06/23/2003	VRRE9213	LEGNAHOME SERVICE, INC	1666 K STREET, NW		339,088.00
07/03/2003	VRRE9279	BELLARMINE DESIGN GROUP	C/O SHRODER R.E	ATTN: DAVID FUSS, ESQ	284,165.00
08/05/2003	VRRE9445	IB ASSOCIATES LIMTED	C/O DAVID FUSS, ESQ	HOLD FOR PICK-UP	392,261.00
08/05/2003	VRRE9446	1511 K STREET PARTNERSHIP	C. DAVID FUSS, ESQ	1911 K STREET NW #650	157,732.85
09/03/2003	VRRE9608	1201 F STREET, LLC	C/O WILKES ARTIS/DAVID FUSS	HOLD FOR PICK-UP	379,600.10
09/03/2003	VRRE9609	1500 K STREET, LLC	C/O LEGNA HOMESERVICES, INC	WILKES AND ARTIS/DAVID FUSS	176,400.00
10/02/2003	VRRE9717	THE JDG COMPANIES	C/O STUART TUROW/WILKES ARTIS	HOMD FOR PICK-UP	177,665.49
10/15/2003	VRRE9736	CAPMARK SERVICE, LP	C/O LEGNAHOME SVS	245 PEACH TREET CTR	180,663.60
10/15/2003	VRRE9791	555 11TH LLP	C/O STUART TURNE	WILKES & ANTIS	270,896.00
12/02/2003	VRRE0294	TREMCO, LP	C/O STUART TUROW, ESQ	HOLD FOR PICK-UP	241,210.77
12/02/2003	VRRE0298	TRAMMELL CROW COMPANY	C/O STUART TUROW, ESQ	HOLD FPR PICK-UP	225,686.00
12/16/2003	VRRE0364	THE MARK WINKLER COMPANY	C/O DAVID FUSS/WILKES &	ANTIS, ESQ	187,167.56
01/09/2004	VRRE0491	KAEMPFER MANAGEMENT, LLC	C/O LEGNAHOMES SERVICES	1501 K STREET NW #300	295,359.80
01/22/2004	VRRE0493	2011 LAND, LTD	WILKES ARTIS, ESQ	HOLD FOR PICK-UP	195,655.24
02/04/2004	VRRE0678	LEGNAHOME SVC, LLC	C/O DAVID FUSS, ESQ	HOLD FOR PICK-UP	357,800.00

Date	Voucher	Payee	Address	Address	Amount
03/09/2004	VRRE0776	BELLARMINE ASSOCIATES, INC	KAEMPFER MGMT SVC	HOLD FOR PICK-UP	335,000.00
03/15/2004	VRRE0796	BEERS AND CUTLER	C/O CAROLYN WIDNER	HOLD FOR PICK UP	245,900.00
04/12/2004	VRRE0928	2020 F STREET JOINT VENTURE	C/O WILKES ARTIS ESQ	HOLD FOR PICK-UP	317,147.25
04/12/2004	VRRE0929	BTODKELFD INC. LTD	C/O WILKES ARTIS ESQ	HOLD FOR PICK-UP	346,700.00
04/27/2004	VRRE0987	BOSTON PROPERTIES	C/O WILKES ARTIS ESQ	HOLD FOR PICK-UP	271,045.02
05/28/2004	VRRE1161	EQUITY PROPERTY GROUP, LLC	C/O LEGNAHOMW SERVICES	HOLD FOR PICK-UP	297,615.00
06/10/2004	VRRE1260	GRUBB AND ELLIS	C/O LEGNAHOME SERVICES	HOLD FOR PICK-UP	202,263.76
06/10/2004	VRRE1261	TROMMEL CROW COPR	C/O WILKES ARITS, LLC	HOLD FOR PICK-UP	324,000.00
07/02/2004	VRRE1415	CARRREALTY GROUP INC,	C/O LEGNAHAOME SERVICES	HOLD FOR PICK-UP	368,000.00
07/02/2004	VRRE1416	CAPTAINCO AMERICA LLC	C/O LEGNAHAME SERVICES INC.	HOLD FOR PICK-UP	324,416.91
07/14/2004	VRRE1491	PRINCIPAL FINANCIAL PARTNERS	C/O LEGNAHOME SERVICES INC	HOLD FOR PICK-UP	264,429.22
08/04/2004	VRRE1537	TOWER CONSTRUCTION CO.	C/O LEGNAHOME SERVICES	HOLD FOR PICK-UP	452,620.99
08/24/2004	VRRE1597	2001 ASSOCIATED CROW LLX	C/O LEGNAHOME SERVICE, INC.	HOLD FOR PICK-UP	360,870.00
09/09/2004	VRRE1647	225 VIRGINA/TREMONT LLC	C/O LEGNAHAME SERVICE INC	HOLD FOR PICK-UP	425,660.00
09/09/2004	VRRE1648	19TH AND K VENTURE	C/O WILKES ARTIS LLC	HOLD FOR PICK-UP	388,200.96
11/03/2004	VRRE1889	TRAMMEL CROW CORP	C/O LEGNAHOMW WERVICES	HOLD FOR PICK-UP	333,981.65
11/24/2004	VRRE1981	BILKEMOR LLC REAL ESTATE INC.	C/O DAVID FUSS ESQ	HOLD FOR PICK-UP	346,700.00
12/02/2004	VRRE2045	MONUMENT REALTY GROUP LLC	C/O LENAHOME SERVICES	HOLD FOR PICK-UP	465,509.49
12/02/2004	VRRE2046	TRIZECHAHN, LLC	C/O DAVID FUSS, ESQ	HOLD FOR PICK-UP	326,000.00
12/16/2004	VRRE2088	CSC PENN, LLC	C/O DAVID FUSS ESQ	HOLD FOR PICK-UP	367,025.00
12/16/2004	VRRE2089	PAOST MASS AVE, LLC	C/O DAVID FUSS ESQ	HOLD FOR PICK-UP	319,339.89
12/28/2004	VRRE2125	PENN AVE PROPERTIES GROUP	C/O LEGNAHOME SERVICES INC.	HOLD FOR PICK-UP	369,580.16
12/30/2004	VRRE2124	K STREET GROUP LLC,	C/O DAVID FUSS ESQ	HOLD FOR PICK-UP	340,900.00
01/13/2005	VRRE2156	MASS AVE LLC,	LEGNAHOME SERVICES INC	HOLD FOR PICK-UP	223,593.11
01/18/2005	VRRE2157	SUMMITT PROPERTIES	C/O CHAPAHOME LLC	HOLD FOR PICK-UP	338,772.62
02/02/2005	VRRE2233	111 13TH STREET LLC	C/O CHAPPAHOME SERVICES INC.	HOLD FOR PICK-UP	397,007.00
02/02/2005	VRRE2234	TISHMANSPEYER PROPERTIES	C/O LEGNAHOMES SERVICES	HOLD FOR PICK-UP	362,000.00
03/10/2005	VRRE2337	1301 LIMITED PARTNERSHIP	C/O CHAPPAHOME SERVICES INC.	HOLD FOR PICK-UP	350,000.00
03/29/2005	VRRE2358	JAD ASSOCIATES, INC.	C/O CHAPPAHOME SERVICING	HOLD FOR PICK-UP	379,000.00
05/03/2005	VRRE2431	BGW, LLP	C/O WILKES & ARTIS LLC	HOLD FOR PICK-UP	329,913.31
05/25/2005	VRRE2525	FRANKLIN TOWERS LLP	C/O DAVID FUSS ESQ	HOLD FOR PICK-UP	356,900.00
05/25/2005	VRRE2526	LASALLE PARTNERSHIP LLP	C/O WILKES ARTIS	HOLD FOR PICK-UP	340,000.00
07/05/2005	VRRE2587	CAR FRTZ COMPANY	C/O DAVID FUSS, ESQ	HOLD FOR PICK-UP	410,900.00
07/05/2005	VRRE2588	WASHINGTON REALTY GROUP	C/O WILKES ARTIS, LLC	HOLD FOR PICK-UP	349,600.00
07/25/2005	VRRE2655	TRAMMEL CROW COMPANY	WILKES & ARTIS STUART TUROW	HOLD FOR PICK	225,686.00
08/15/2005	VRRE2654	BREBLACKTHORNE REALTY	C/O DAVID FUSS, ESQ	HOLD FOR PICK-UP	344,625.59
09/14/2005	VRRE2776	SECOND STREET	WILKES ARTIS STRENT TUROW	HOLD FOR PICK-UP	301,196.00
10/18/2005	VRRE2822	BGEE LLP/CHAPPA HOME	C/O WILKES ARTIS	HOLD FOR PICK-UP	329,913.31
10/18/2005	VRRE2823	FUND III GMB HAND COKE, LLC	C/O DAVID FUSS	HOLD FOR PICK-UP	373,005.00
11/14/2005	VRRE2871	JACKSON-CAMPBELL	CHAPPAHOME DESIGN, INC.	HOLD FOR PICK-UP	234,227.20
11/14/2005	VRRE2872	PROPERTY DEVELOPMENT CORP	C/O DAVID FUSS ESQ	HOLD FOR PICK-UP	422,890.00
12/19/2005	VRRE2908	COLLIER INTERNATIONAL, LLC	C/O DAVID FUSS, ESQ	HOLD FOR PICK-UP	348,000.49
12/19/2005	VRRE2909	FIFTEEN STREET LTD PARTNERSHIP	C/O CHAPPAHOME CORPORATION	HOLD FOR PICK-UP	309,900.08

Date	Voucher	Payee	Address	Address	Amount
01/12/2006	VRRE2936	THIRTEENTH STREET ASSOCIATES	C/O CHAPPAHOME, INC	HOLD FOR PICK-UP	380,000.00
02/09/2006	VRRE2971	BBLAKE COMPANY LLC	CHAPPAHOME INC	HOLD FOR PICK-UP	346,800.00
02/21/2006	VRRE2973	SRANN COMPANY	C/O DAVID FUSS ESQ	HOLD FOR PICK-UP	325,000.00
03/09/2006	VRRE3025	1425 F STREET, LLC CHAPPAHOME	C/O DAVID FUSS, ESQ	HOLD FOR PICK-UP	356,900.00
03/10/2006	VRRE3024	111 13TH STREET, LLC	C/O PROVIDENT HOME INC	HOLD FOR PICK-UP	385,500.36
04/12/2006	VRRE3069	BPCRF AVE, LLC	C/O PROVIDENT HOME INC	901 NEW YORK AVE UNIT #400	420,540.90
04/12/2006	VRRE3071	STOLADI PROPERTY GROUP	C/O CHAPPA HOME INC.		385,700.00
05/15/2006	VRRE3117	POTOMANC ASSOCIATES, LLP	C/O BELLARMINE DESIGN	HOLD FOR PICK-UP	352,000.00
05/15/2006	VRRE3118	MRL POST, LLC	C/O CHAPPAHOME LIMITED	HOLD FOR PICK-UP	387,900.00
06/15/2006	VRRE3134	1401 H STREET LLC	C/O PROVIDENTHOME, INC	HOLD FOR PICK-UP	468,000.00
06/15/2006	VRRE3143	12TH STREET PROPERTIES	C/O BELLARMIN DESIGN GROUP	HOLD FOR PICK-UP	456,990.00
07/06/2006	VRRE3142	BOWEN BUILDING, LLC	PROVIDENT HOME, INC	HOLD FOR PICK-UP	485,680.91
07/06/2006	VRRE3194	BELLARMINE HOME, LLC	C/O WILKES, ARTIS ESQ	HOLD FOR PICK-UP	490,000.00
08/25/2006	VRRE3296	1120 VERMONT STREET ASSOC, LLC	C/O CHAPPAHOME LLC	HOLD FOR PICK-UP	410,000.00
08/25/2006	VRRE3297	1919 M STREET ASSOC, LLC	C/O PROVIDENT HOME	HOLD FOR PICK-UP	375,815.00
09/26/2006	VRRE3362	LINCON SQUARE, LLC	C/O PROVIDENT HOME LTD	HOLD FOR PICK-UP	375,800.00
09/26/2006	VRRE3363	LINCON SQUARE, LLC	CHAPPAHOME DESIGN LTD	HOLD FOR PICK-UP	458,670.00
10/18/2006	VRRE3395	COMMERCE BULIDING ASSOC	C/O BELLARMINE CORPORATION	HOLD FOR PICK-UP	375,800.00
10/18/2006	VRRE3396	1118 LO ASSOC	C/O HELMET CORPORATION	HOLD FOR PICK-UP	460,000.00
01/25/2007	VRRE3514	SECOND STREET FUNDING	C/O PROVIDENTHOME, INC	HOLD FOR PICK-UP	450,683.90
01/25/2007	VRRE3513	R L REAL ESTATE CORP	[C/O S.C.]	HOLD FOR PICK-UP	483,940.00
02/12/2007	VRRE3515	HHEMLET COMPANY., INC	C/O DAVID A FUSS, ESQ	HOLD FOR PICK-UP	490,560.54
02/12/2007	VRRE3537	ALETHIA GROOMS	C/O JEFF NADEL, ESQ	HOLD FOR PICK-UP	84,101.80
03/15/2007	VRRE3663	SAMUEL EARL POPE	[C/O BARNABY TERRACE]		83,199.62
04/04/2007	VRRE3538	CHAPPAHOME INC, LLC	C/O JEFF NADEL ESQ	HOLD FOR PICK-UP	465,000.00
04/25/2007	VRRE3700	PROVIDENT HOME INC	C/O 1440 K STREET LLC	HOLD FOR PICK-UP	468,000.00
04/25/2007	VRRE3715	CHAPPAHOME INC.	C/O WILKES ARTIS, LLC	HOLD FOR PICK-UP	398,680.00
04/25/2007	VRRE3716	[S.C.C.]	[C/O J.K.Y.]	10705 CONN AVE NW	275,000.00
05/01/2007	VRRE3734	SAMUEL POPE	HOLD FOR PICK-UP		75,242.31
05/15/2007	VRRE3701	FIRST AMERICAN HOME	C/O DAVID FUSS ESQ	HOLD FOR PICK-UP	410,000.00
05/22/2007	VRRE3755	HELMET INC, COP	C/O DAVID FUSS ESQ	HOLD FOR PICK-UP	541,100.74
06/04/2007	VRRE3782	AWSOMGRAPHICS GROUP	ATTN: A GROOMS/CARFRITZ REALTY	HOLD FOR PICK-UP	125,000.00
06/14/2007	VRRE3787	AURORA RE ENTERPRISES, LLC	C/O WILKES ARTIS, ESQ	HOLD FOR PICK-UP	459,990.00
06/14/2007	VRRE3788	PROVIDENT HOME, LLC	C/O JEFF NADEL, ESQ	HOLD FOR PICK-UP	399,498.00
08/08/2007	VRRE3841	AWSOMEGRAPHICS, ENTERPRISES	C/O JEFF NADEL, ESQ	HOLD FOR PICK-UP	189,000.00
08/08/2007	VRRE3842	AURORA R.E. ENTERPRISES, INC.	C/O JEFF NADEL ESQ	8700 GEORGIA AVENUE	345,500.00

SOAR Total	163	\$ 45,323,213.69
FMS Total	76	3,937,427.70
Total Amount	239	\$ 49,260,641.39

APPENDIX C

Glossary of Acronyms

<u>Acronym</u>	<u>Definition</u>
AICPA	American Institute of Certified Public Accountants
ASD	Assessment Services Division, Real Property Tax Administration
BRPAA	Board of Real Property Assessment and Appeals
CAFR	Comprehensive Annual Financial Report
CFO	Chief Financial Officer
DCORM	Office of Risk Management
FMS	Financial Management System
IAIS	Office of Internal Audit and Internal Security
IAISA	Office of Tax and Revenue Internal Audit and Internal Security Administration
IOC	Independent Oversight Committee
ITS	Integrated Tax System
OCFO	Office of the Chief Financial Officer
OCTO	Office of the Chief Technology Officer
ODCA	Office of the District of Columbia Auditor
OFOS	Office of Financial Operations and Systems
OFT	Office of Finance and Treasury
OIG	Office of Inspector General
OIO	Office of Integrity and Oversight
ORA	Office of Revenue Analysis
OTR	Office of Tax and Revenue
RAA	Revenue Accounting Administration
RPTA	Real Property Tax Administration

SOAR

System of Accounting and Reporting