

TESTIMONY OF CHARLES J. WILLOUGHBY, INSPECTOR GENERAL

**BEFORE THE
COUNCIL OF THE DISTRICT OF COLUMBIA
COMMITTEE OF THE WHOLE**

**PUBLIC OVERSIGHT ROUNDTABLE ON THE
“FISCAL YEAR 2011 COMPREHENSIVE ANNUAL FINANCIAL
REPORT (CAFR)”**

February 6, 2012

GOOD MORNING CHAIRMAN BROWN AND MEMBERS OF THE COMMITTEE. I AM CHARLES J. WILLOUGHBY, INSPECTOR GENERAL FOR THE DISTRICT OF COLUMBIA, AND I AM PLEASED TO SPEAK BEFORE YOU THIS MORNING ON THE ISSUANCE OF THE DISTRICT’S FISCAL YEAR (FY) 2011 COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR). ACCOMPANYING ME TODAY ARE RONALD W. KING, ASSISTANT INSPECTOR GENERAL FOR AUDITS AND REPRESENTATIVES FROM KPMG LLP (KPMG), OUR INDEPENDENT AUDITORS.

BY LAW, THE INSPECTOR GENERAL MUST ENTER INTO A CONTRACT WITH AN INDEPENDENT AUDITOR TO AUDIT THE CITY’S FINANCIAL STATEMENTS. I AM PLEASED TO REPORT TODAY THAT THE DISTRICT OF COLUMBIA HAS RECEIVED AN UNQUALIFIED OPINION ON ITS FINANCIAL STATEMENTS FOR FY 2011 FROM KPMG. FOR THE THIRD CONSECUTIVE YEAR, THE AUDIT OF THE CITY’S FINANCIAL STATEMENTS HAS REVEALED NO MATERIAL WEAKNESSES. KPMG’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING, WHICH ACCOMPANIES THE FY 2011 FINANCIAL STATEMENT REPORT, LISTS TWO

SIGNIFICANT DEFICIENCIES – AS COMPARED TO THE FIVE KPMG REPORTED FOR FY 2010. FROM THE OFFICE OF THE INSPECTOR GENERAL’S (OIG) PERSPECTIVE, THE DISTRICT OF COLUMBIA’S OVERALL FINANCIAL MANAGEMENT CONTINUES TO PROGRESS. ADDITIONALLY, THE SIGNIFICANT DEFICIENCIES REPORTED DO NOT RELATE TO A FAILURE OR LACK OF ADEQUATE POLICIES AND PROCEDURES, BUT RATHER A FAILURE TO ADHERE TO EXISTING POLICIES AND PROCEDURES AND A LACK OF ADEQUATE SUPERVISION OR OVERSIGHT AND EFFECTIVE MONITORING OF CONTROLS; DEFICIENCIES, AS I HAVE PREVIOUSLY INDICATED, THAT ARE CLEARLY AND READILY FIXABLE OR SOLVABLE.

BEFORE WE REVIEW SPECIFICS OF THIS YEAR’S CAFR AUDIT, LET ME SHARE SOME PERSPECTIVES ABOUT THE OIG’S ROLE IN THE CAFR OVERSIGHT PROCESS.

CAFR OVERSIGHT PROCESS

AS YOU KNOW, THE OIG HAS ENTERED INTO A CONTRACT WITH KPMG TO PERFORM THE AUDIT OF THE DISTRICT’S CAFR. THIS YEAR’S CAFR WAS THE 2nd YEAR OF A 5-YEAR OPTION CONTRACT. WE MONITOR THIS CONTRACT AND OVERSEE THE AUDIT PROCESS WITH THE ASSISTANCE OF THE CAFR OVERSIGHT COMMITTEE, WHICH THE OIG CHAIRS. THE COMMITTEE ENSURES THAT OBSTACLES THAT MAY HINDER THE COMPLETION OF THE AUDIT, OR MATTERS THAT NEED DISTRICT MANAGEMENT’S ATTENTION, ARE DISCUSSED WITH THE APPROPRIATE DECISION MAKERS AND PROMPTLY RESOLVED. THE CAFR

COMMITTEE, WITH PARTICIPATION FROM MAYORAL AND COUNCIL STAFFS, MEETS REGULARLY THROUGHOUT THE YEAR TO ACHIEVE THAT GOAL. THE COST OF THE FY 2011 CAFR CONTRACT TOTALED ABOUT \$2.7 MILLION, AN INCREASE OF \$.3 MILLION OVER LAST YEAR'S COST OF APPROXIMATELY \$2.4 MILLION, AND A DECREASE OF \$.9 MILLION OVER THE FY 2009 COST OF APPROXIMATELY \$3.6 MILLION.

THE FY 2011 CAFR - WORK REMAINS BUT IMPROVEMENTS NOTED

THE FY 2011 CAFR AUDIT REPRESENTS THE 15th CONSECUTIVE YEAR IN WHICH THE DISTRICT HAS RECEIVED A "CLEAN" OPINION FROM THE INDEPENDENT AUDITORS. ACCOMPANYING THE FINANCIAL STATEMENT AUDIT AND OPINION IS THE YELLOW BOOK REPORT, OFFICIALLY KNOWN AS THE *AUDITOR'S REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING AND ON COMPLIANCE*. THE YELLOW BOOK REPORT DISCUSSES THE INTERNAL CONTROLS OVER FINANCIAL REPORTING, WITH A PARTICULAR FOCUS ON SIGNIFICANT DEFICIENCIES AND COMPLIANCE WITH LAWS AND REGULATIONS. AS MENTIONED IN MY OPENING REMARKS, WE HAVE SEEN IMPROVEMENTS IN THIS YEAR'S CAFR; HOWEVER, WE STILL NEED TO ADDRESS SOME LONG-STANDING DEFICIENCIES AND MAINTAIN PROGRESS IN THOSE IMPROVED AREAS.

AREAS REQUIRING MANAGEMENT'S ATTENTION

IN THE FY 2011 YELLOW BOOK REPORT, KPMG IDENTIFIED TWO SIGNIFICANT DEFICIENCIES THAT COULD AFFECT THE DISTRICT'S ABILITY TO INITIATE, AUTHORIZE, RECORD, PROCESS, RECONCILE, AND REPORT FINANCIAL DATA. THOSE IDENTIFIED DEFICIENCIES ARE:

1. GENERAL INFORMATION TECHNOLOGY (IT) CONTROLS; AND
2. PROCUREMENT AND DISBURSEMENT CONTROLS.

IN ADDITION TO THE TWO SIGNIFICANT DEFICIENCIES IDENTIFIED IN THE INDEPENDENT AUDITORS' YELLOW BOOK REPORT, TWO INSTANCES OF NONCOMPLIANCE WITH PROVISIONS OF LAWS, REGULATIONS, CONTRACTS, AND/OR GRANT AGREEMENTS WERE IDENTIFIED: THE PROCUREMENT PRACTICES ACT REGULATIONS AND THE QUICK PAYMENT ACT. WHILE WORK REMAINS, IT IS NECESSARY TO RECOGNIZE AND BUILD UPON THE IMPROVEMENTS, AND TO KEEP THE FINDINGS AND RECOMMENDATIONS IN CONTEXT. FOR THESE REASONS, THE OIG HAS CONDUCTED AND WILL CONTINUE TO CONDUCT AUDITS IN KEY AREAS. OUR WORK TO DATE INCLUDES:

- AUDIT OF THE INFORMATION TECHNOLOGY STAFF AUGMENTATION (ITSA) CONTRACT – IT WAS DETERMINED, AMONG OTHER THINGS, THAT OCP AWARDED THE CONTRACT FOR A HIGHER CONTRACT PRICE THAN PROPOSED, WHICH WILL RESULT IN ADDITIONAL EXPENDITURES FOR THE DISTRICT. ADDITIONALLY, WE FOUND THAT OCP DID NOT

MAINTAIN ADEQUATE INTERNAL CONTROLS OVER THE PROCUREMENT PROCESS. WE DIRECTED 10 RECOMMENDATIONS TO OCP FOR ACTIONS NECESSARY TO CORRECT THE DESCRIBED DEFICIENCIES. *SEE AUGUST 3, 2011, AUDIT OF THE INFORMATION TECHNOLOGY STAFF AUGMENTATION CONTRACT (10-1-19TO).*

- AUDIT OF THE OFFICE OF CONTRACTING AND PROCUREMENT'S (OCP) CONTRACTING OFFICER QUALIFICATIONS – THIS AUDIT DETERMINED THAT ONLY 10 OF 23 CONTRACTING OFFICERS (CO'S) (43 PERCENT) HAD PROFESSIONAL CERTIFICATIONS. WE RECOMMENDED THAT THE CHIEF PROCUREMENT OFFICER ESTABLISH A FORMAL TRAINING PROGRAM FOR OCP'S CONTRACTING STAFF, TO INCLUDE CERTIFICATION AND CONTINUING EDUCATION REQUIREMENTS. *SEE SEPTEMBER 22, 2011, AUDIT OF THE OFFICE OF CONTRACTING AND PROCUREMENT'S CONTRACTING OFFICER QUALIFICATIONS (09-2-20PO).*
- AUDIT OF THE PROCUREMENT ACTIVITIES AT THE OFFICE OF PUBLIC EDUCATION FACILITIES MODERNIZATION (OPEFM) – THIS AUDIT FOUND THAT OPEFM DID NOT HAVE FINALIZED PROCUREMENT RULES AND THE EMERGENCY PROCUREMENT RULES THAT OPEFM HAD ADOPTED DID NOT CONTAIN NECESSARY PROVISIONS AND CONTAINED PROVISIONS THAT WERE NOT CONSISTENT WITH EXISTING PROCUREMENT LAWS. WE DIRECTED EIGHT RECOMMENDATIONS TO THE EXECUTIVE DIRECTOR OF OPEFM, AND ONE RECOMMENDATION TO THE CPO, OCP, THAT WE BELIEVE

ARE NECESSARY TO CORRECT THE DEFICIENCIES NOTED IN THE REPORT. *SEE JUNE 29, 2011, AUDIT OF THE PROCUREMENT ACTIVITIES AT THE OFFICE OF PUBLIC EDUCATION FACILITIES MODERNIZATION (09-2-28GM).*

- AUDIT OF THE HAWK ONE SECURITY INCORPORATED CITYWIDE GUARD SERVICES CONTRACT – IT WAS DETERMINED THAT THE DEPARTMENT OF REAL ESTATE SERVICES (DRES) DID NOT ADEQUATELY MONITOR HAWK ONE’S CONTRACT PERFORMANCE DURING THE CONTRACT PERIOD; AND THAT UNSUPPORTED INVOICES WERE CERTIFIED FOR PAYMENT. WE DIRECTED THREE RECOMMENDATIONS TO OCP AND FOUR RECOMMENDATIONS TO DRES. *SEE SEPTEMBER 27, 2011, AUDIT OF THE HAWK ONE SECURITY INCORPORATED CITYWIDE GUARD SERVICES CONTRACT (09-2-07P0).*

OVERARCHING MANAGEMENT ACTIONS STILL NEEDED

AS PREVIOUSLY STATED, WE STRONGLY BELIEVE THAT AUDIT RECOMMENDATIONS DO NOT PRODUCE THE DESIRED OUTCOMES UNLESS THEY ARE IMPLEMENTED. ACCORDINGLY, AGENCY OFFICIALS MUST ENSURE THAT RECOMMENDED CORRECTIVE ACTIONS ARE TAKEN AND INSTITUTIONALIZED TO OBTAIN LASTING IMPROVEMENTS. THE OIG WILL CONTINUE TO WORK WITH AGENCIES, AS APPROPRIATE, TO HELP THEM MONITOR IMPLEMENTATION OF

RECOMMENDATIONS, AND WE WILL CONDUCT PERIODIC FOLLOW-UP AUDITS TO ASSESS AGENCY PROGRESS IN CORRECTING REPORTED DEFICIENCIES.

A TRIENNIAL FOLLOW-UP REVIEW OF AGENCIES' IMPLEMENTATION IS CURRENTLY UNDER WAY AND IS EXPECTED TO BE COMPLETED BY NEXT QUARTER. THE RESULTS OF OUR PAST THREE TRIENNIAL FOLLOW-UP AUDITS SHOW A STEADY RATE AT WHICH DISTRICT AGENCIES IMPLEMENTED AGREED-TO AUDIT RECOMMENDATIONS – 80 PERCENT IN FY 2002, 77 PERCENT IN FY 2005, AND 88 PERCENT IN 2008.

WITH REGARD TO HOW THE OIG CAN BEST SERVE THE DISTRICT IN ASSESSING AND MITIGATING RISKS ASSOCIATED WITH THIS YEAR'S CAFR, WE WILL:

- DEDICATE AUDIT RESOURCES TO HELP MITIGATE RISKS RELATIVE TO THIS YEAR'S CAFR;
- PROVIDE INSTITUTIONAL KNOWLEDGE REGARDING DEFICIENCIES REPORTED IN PAST AUDITS;
- IDENTIFY AND RESOLVE (WORKING WITH MANAGEMENT) CONSISTENT AND PERVASIVE PROBLEMS IDENTIFIED IN DISTRICT OPERATIONS; AND
- CONTINUE TO SERVE AS A CHANGE AGENT AND INTERNAL CONTROL MECHANISM.

IN CLOSING, I WOULD LIKE TO TAKE THIS OPPORTUNITY TO THANK THE CAFR COMMITTEE MEMBERS FOR THEIR LEADERSHIP AND EXPERTISE IN MONITORING

THE CAFR OVER THE LAST SEVERAL MONTHS, KEEPING MANAGEMENT AND OTHERS ABREAST OF THE ADDITIONAL REQUIRED WORK, AND ASSISTING THE AUDITORS IN FACILITATING THE COMPLETION OF THE AUDIT ON SCHEDULE. IN THAT REGARD, I WANT TO GIVE SPECIAL RECOGNITION TO RON KING, OF MY STAFF; RUTH WERNER, FROM THE CITY COUNCIL; ERIC GOULET, FROM THE EXECUTIVE OFFICE OF THE MAYOR; TONY POMPA FROM THE OFFICE OF THE CHIEF FINANCIAL OFFICER; AND JACK REAGAN AND THE REPRESENTATIVES OF KPMG FOR THEIR PROFESSIONALISM, HARD WORK, AND COMMITMENT TO GETTING THE JOB DONE.

THIS CONCLUDES MY TESTIMONY AND I WILL BE HAPPY TO ANSWER ANY QUESTIONS YOU MAY HAVE.