

TESTIMONY OF CHARLES J. WILLOUGHBY, INSPECTOR GENERAL

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

**ISSUANCE OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR FISCAL YEAR 2010**

FEBRUARY 8, 2011

GOOD MORNING CHAIRMAN BROWN AND MEMBERS OF THE COMMITTEE. I AM CHARLES J. WILLOUGHBY, AND I AM PLEASED TO SPEAK BEFORE YOU THIS MORNING ON THE ISSUANCE OF THE DISTRICT'S FISCAL YEAR (FY) 2010 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 2010 FROM KPMG. FOR THE SECOND CONSECUTIVE YEAR, THE AUDIT OF THE CITY'S FINANCIAL STATEMENTS HAS REVEALED NO MATERIAL WEAKNESSES. WHILE KPMG'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING, WHICH ACCOMPANIES THE FY 2010 FINANCIAL STATEMENT REPORT, LISTS FIVE

SIGNIFICANT DEFICIENCIES - AS COMPARED TO THE THREE BDO SEIDMAN, LLP REPORTED FOR FY 2009 – FROM THE OFFICE OF THE INSPECTOR GENERAL’S (OIG) PERSPECTIVE, THE DISTRICT OF COLUMBIA’S OVERALL FINANCIAL MANAGEMENT CONTINUES TO PROGRESS. MOST NOTEWORTHY OF THIS PROGRESS IS THE FINDING OF NO MATERIAL WEAKNESSES. ADDITIONALLY, THE SIGNIFICANT DEFICIENCIES REPORTED DO NOT RELATE TO A FAILURE OR LACK OF ADEQUATE MECHANISMS, BUT RATHER A FAILURE OR LACK OF ADEQUATE SUPERVISION OR OVERSIGHT; DEFICIENCIES 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 LLP TO PERFORM THE AUDIT OF THE DISTRICT’S CAFR. THIS YEAR’S CAFR WAS THE 1ST 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 2010 CAFR CONTRACT TOTALED ABOUT \$2.4 MILLION, A DECREASE OF \$1.2 MILLION OVER LAST YEAR'S COST OF APPROXIMATELY \$3.6 MILLION.

THE FY 2010 CAFR - WORK REMAINS BUT IMPROVEMENTS NOTED

THE FY 2010 CAFR AUDIT REPRESENTS THE 14th CONSECUTIVE YEAR IN WHICH THE DISTRICT 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 2010 YELLOW BOOK REPORT, KPMG IDENTIFIED FIVE 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;
2. PROCUREMENT AND DISBURSEMENT CONTROLS;
3. MONITORING FINANCIAL REPORTING AND NON-ROUTINE TRANSACTIONS OF DISTRICT AGENCIES;
4. FINANCIAL REPORTING AT THE OFFICE OF TAX AND REVENUE; AND
5. THE PAYROLL PROCESS-COMPENSATION AND PERSONNEL/PAYROLL.

IN ADDITION TO THE FIVE 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 EXEMPLIFIED BY AND INCLUDING THE FOLLOWING:

- CONTRACTING ACTIONS AT THE OFFICE OF THE CHIEF TECHNOLOGY OFFICER - AN AUDIT THAT DETERMINED, AMONG OTHER THINGS, THAT THE DISTRICT PAID UNREASONABLE CONTRACT PRICES FOR IT SERVICES, AND, OVER A 3-YEAR PERIOD, A DISPROPORTIONATE AMOUNT OF CONTRACT PAYMENTS FOR IT SERVICES WENT TO SEVEN IT SERVICE PROVIDERS. AMONG THE AUDIT'S FINDINGS WERE: LOSS OF SALES DISCOUNT REVENUE IN EXCESS OF \$500,000; UNREASONABLE VENDOR PRICING, RESULTING IN EXCESS PROFIT OF MORE THAN \$600,000; AND INADEQUATE DOCUMENTATION TO SUPPORT \$2.5 MILLION IN VENDOR INVOICES THAT THE DISTRICT PAID FOR THE PERIOD IN QUESTION, FY 2007 TO FY 2008. *SEE SEPTEMBER 15, 2010, AUDIT OF CONTRACTING ACTIONS AT THE OFFICE OF THE CHIEF TECHNOLOGY OFFICER (08-2-06TO (a)).*
- PAYROLL VERIFICATION - AN AUDIT THAT FOUND INSTANCES OF FORMER D.C. PUBLIC SCHOOLS (DCPS) EMPLOYEES WHO WERE IMPROPERLY PAID, INACCURATE PERSONNEL FILES WITH RESPECT TO EMPLOYEES' ACTUAL PERIODS OF EMPLOYMENT, AMONG OTHER THINGS, AND FAILURE TO SEGREGATE TIMEKEEPING RESPONSIBILITIES. SPECIFICALLY, THE AUDIT CONCLUDED THAT DCPS IMPROPERLY PAID \$40,208 TO 20 INDIVIDUALS WHO WERE NOT BONA FIDE EMPLOYEES DURING THE APPLICABLE PAY

PERIOD (PAY PERIOD ENDING NOVEMBER 10, 2007). FURTHER, THE AUDIT CONCLUDED THAT IF THESE 20 INDIVIDUALS WERE PAID THE SAME PAYMENTS AS RECEIVED ON NOVEMBER 23, 2007, FOR EACH PAY PERIOD BETWEEN THE TIME THEIR DCPS EMPLOYMENT TERMINATED AND THE NOVEMBER 23, 2007, PAYMENT, DCPS IMPROPERLY PAID THESE 20 INDIVIDUALS BY APPROXIMATELY \$300,000. *SEE JULY 30, 2010, PAYROLL VERIFICATION AUDIT OF THE DISTRICT OF COLUMBIA PUBLIC SCHOOLS (08-2-02GA).*

- MANAGEMENT OPERATIONS OF THE OFFICE OF CABLE TELEVISION (OCT) – AN AUDIT THAT HIGHLIGHTED ISSUES SURROUNDING A CONTRACT AWARD ON A SOLE-SOURCE BASIS, WITHOUT ADEQUATE JUSTIFICATION AND REASONABLE ASSURANCE THAT THE CONTRACTOR COULD PERFORM THE CONTRACT REQUIREMENTS. OCT’S PREPONDERANT FAILURES RESULTED IN WASTE OF OVER \$4 MILLION FOR DESIGN, EQUIPMENT, AND INSTALLATION OF AN HDTV PRODUCTION STUDIO THAT WAS NEVER BUILT OR INSTALLED, INCLUDING THE POTENTIAL OBSOLESCENCE OF OVER \$3 MILLION OF HDTV EQUIPMENT THAT WAS NEVER USED. WE WERE ASKED TO CONDUCT THIS AUDIT AT THE REQUEST OF THE EXECUTIVE OFFICE OF THE MAYOR (EOM) AFTER THE EOM RECEIVED ALLEGATIONS OF IMPROPRIETIES IN MANAGEMENT OPERATIONS AT OCT. *SEE DECEMBER 17, 2009, AUDIT OF THE MANAGEMENT OPERATIONS OF THE OFFICE OF CABLE TELEVISION (08-1-19CT).*

OVERARCHING MANAGEMENT ACTIONS STILL NEEDED

AS I HAVE 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 MANAGERS, AS APPROPRIATE, TO HELP THEM MONITOR THE 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 SCHEDULED DURING FY 2011. 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; THE LATE JEFF COUDRIET, 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 LLP, 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.