

**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 2009**

**February 5, 2010**

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GOOD MORNING CHAIRMAN GRAY 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) 2009 COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR). ACCOMPANYING ME TODAY ARE WILLIAM J. DIVELLO, ASSISTANT INSPECTOR GENERAL FOR AUDIT AND REPRESENTATIVES FROM BDO SEIDMAN, LLP (BDO), OUR INDEPENDENT AUDITORS.

BY LAW, THE INSPECTOR GENERAL MUST ENTER INTO A CONTRACT WITH AN INDEPENDENT AUDITOR TO AUDIT THE CITY'S FINANCIAL STATEMENTS. THE DISTRICT OF COLUMBIA RECEIVED AN UNQUALIFIED OPINION ON ITS FINANCIAL STATEMENTS FOR FY 2009 FROM BDO. IN A SEPARATE REPORT ON INTERNAL CONTROLS THAT ACCOMPANIES THE FY 2009 FINANCIAL STATEMENT REPORT, BDO REPORTED ON THREE SIGNIFICANT DEFICIENCIES. I AM PLEASED TO REPORT PROGRESS RELATIVE TO THE FINANCIAL MANAGEMENT OF THE

DISTRICT OF COLUMBIA IN COMPARISON TO LAST YEAR'S REPORT OF SIX SIGNIFICANT DEFICIENCIES, TWO OF WHICH WERE CONSIDERED MATERIAL WEAKNESSES.

HOWEVER, BEFORE WE REVIEW SPECIFICS OF THIS YEAR'S CAFR AUDIT, LET ME SHARE SOME PERSPECTIVES ABOUT THE ROLE OF THE OFFICE OF THE INSPECTOR GENERAL (OIG) IN THE CAFR OVERSIGHT PROCESS.

### **CAFR OVERSIGHT PROCESS**

AS YOU KNOW, THE OIG HAS ENTERED INTO A CONTRACT WITH BDO SEIDMAN, LLP TO PERFORM THE AUDIT OF THE DISTRICT'S CAFR. THIS YEAR'S CAFR WAS THE 5<sup>TH</sup> AND FINAL 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 2009 CAFR CONTRACT TOTALED ABOUT \$3.6 MILLION, A DECREASE OF \$700,000 OVER LAST YEAR'S COST OF APPROXIMATELY \$4.3 MILLION.

## **THE FY 2009 CAFR - WORK REMAINS BUT IMPROVEMENTS NOTED**

THE FY 2009 CAFR AUDIT REPRESENTS THE 13<sup>TH</sup> 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 2009 YELLOW BOOK REPORT, BDO IDENTIFIED THREE SIGNIFICANT DEFICIENCIES THAT COULD AFFECT THE DISTRICT’S ABILITY TO INITIATE, AUTHORIZE, RECORD, PROCESS, RECONCILE, AND REPORT FINANCIAL DATA: DISTRICT OF COLUMBIA SCHOOLS – PAYROLL; MANAGEMENT OF THE MEDICAID PROGRAM; AND THE OFFICE OF TAX AND REVENUE (OTR). IN ADDITION TO THE THREE SIGNIFICANT DEFICIENCIES IDENTIFIED IN THE INDEPENDENT AUDITORS’

YELLOW BOOK REPORT, THREE INSTANCES OF NONCOMPLIANCE WITH PROVISIONS OF LAWS, REGULATIONS, CONTRACTS, AND/OR GRANT AGREEMENTS WERE IDENTIFIED: PROCUREMENT REGULATIONS; THE QUICK PAYMENT ACT; AND EXPENDITURES IN EXCESS OF BUDGETARY AUTHORITY. WHILE WORK REMAINS, IT IS NECESSARY TO RECOGNIZE THE IMPROVEMENTS AND TO KEEP THE FINDINGS AND RECOMMENDATIONS IN CONTEXT.

FOR EXAMPLE, IT IS IMPORTANT TO NOTE THE PROGRESS AT OTR. AT THE REQUEST OF THIS COMMITTEE, WE CONDUCTED A REVIEW OF THE OFFICE OF THE CHIEF FINANCIAL OFFICER'S (OCFO) IMPLEMENTATION OF RECOMMENDATIONS MADE IN THE WILMER CUTLER PICKERING HALE AND DORR LLP (WILMER HALE) REPORT. OUR REPORT, ISSUED DECEMBER 9, 2009, CONCLUDED THAT OCFO'S MANAGEMENT ACTIONS, TAKEN AND PLANNED, WERE RESPONSIVE TO 60 OF THE 62 (97 PERCENT) OF THE WILMER HALE RECOMMENDATIONS.

#### **OVERARCHING MANAGEMENT ACTIONS STILL NEEDED**

#### **FOLLOW-UP**

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 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.

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 BILL DIVELLO, OF MY

STAFF; ERIC GOULET AND JEFF COUDREIT, FROM THE CITY COUNCIL; MERAV BUSHLIN, FROM THE EXECUTIVE OFFICE OF THE MAYOR; TONY POMPA FROM THE CHIEF FINANCIAL OFFICER'S OFFICE; AND THE REPRESENTATIVES OF BDO SEIDMAN, 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