# GOVERNMENT OF THE DISTRICT OF COLUMBIA
## OFFICE OF THE INSPECTOR GENERAL

# AUDIT OF THE OFFICE OF RISK MANAGEMENT'S SYSTEM FOR MANAGING THE RESOLUTION OF AUDIT FINDINGS AND RECOMMENDATIONS

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# CHARLES J. WILLOUGHBY
## INSPECTOR GENERAL

**OIG No. 11-1-08MA**                                   **October 24, 2012**

**Inspector General**

October 24, 2012

Phillip Lattimore
Director and Chief Risk Officer
Office of Risk Management
One Judiciary Square
441 4th Street, N.W., Suite 800S
Washington, D.C. 20001

The Honorable Phil Mendelson
Chairman
Council of the District of Columbia
John A. Wilson Building
1350 Pennsylvania Ave., N.W., Suite 402
Washington, D.C. 20004

Dear Mr. Lattimore and Chairman Mendelson:

Enclosed is our final report summarizing the results of the Office of the Inspector General's (OIG) Audit of the Office of Risk Management's System for Managing the Resolution of Audit Findings and Recommendations (OIG No. 11-1-08MA).

Our report contains five recommendations to the Office of Risk Management (ORM) and two recommendations to the Council of the District of Columbia for necessary actions to correct the described deficiencies. ORM provided a written response to a draft of this report on July 23, 2012. ORM agreed with Recommendations 1, 2, and 3; however, ORM did not provide a detailed plan including target dates to implement the recommendations.

For Recommendations 1, 2, and 3, we request that ORM provide us with a detailed plan by November 26, 2012, for developing and implementing a system that is fully compliant with its establishing legislation, that incorporates relevant provisions of the U.S. Office of Management and Budget's Circular A-50, *Audit Follow-up*, and incorporates requests for support and resources from the Mayor, City Administrator, and Council of the District of Columbia.

ORM disagreed with Recommendations 4, 5, and 6 of the draft report. We consider Recommendations 4 and 5 as unresolved. Based on the response from ORM, we re-examined our facts and conclusions and determined that the report is fairly presented as to Recommendations 4 and 5. However, in light of ORM's response to our draft report, we eliminated Recommendation 6 and related discussion, and, as a result, renumbered the remaining recommendations. We request that ORM reconsider its position taken on Recommendations 4 and 5 and provide a detailed response by November 26, 2012. Our

comments to ORM's response to the draft report are included at Exhibit B. The complete text of ORM's response is included at Exhibit C.

Accordingly, we will continue to work with ORM to reach final agreement on the unresolved recommendations.

As of the date of this report, we have not received a response from the Council of the District of Columbia related to Recommendations 7 and 8 addressed for their consideration in our draft report. Those two recommendations have been renumbered as Recommendations 6 and 7 in the final report. We will continue efforts to work with the Council of the District of Columbia to receive a written response to Recommendations 6 and 7.

We appreciate the cooperation and courtesies extended to our staff during this audit. If you have any questions, please contact me or Ronald W. King, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,

Charles J. Willoughby
Inspector General

Enclosure

CJW/rp

cc:    See Distribution List

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# ACRONYMS

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| **ARMR** | Agency Risk Management Representative |
| **ERM** | Enterprise Risk Management |
| **GAO** | United States Government Accountability Office |
| **OIG** | Office of the Inspector General |
| **OMB** | Unites States Office of Management and Budget |
| **ORM** | Office of Risk Management |
| **RACC** | Risk Management and Control Committee |
| **RMC** | Detroit Risk Management Council |
| **SORM** | Texas State Office of Risk Management |

## EXECUTIVE DIGEST

### OVERVIEW

The District of Columbia Office of the Inspector General (OIG) has completed an audit of the District of Columbia Office of Risk Management's (ORM) system for tracking recommendations in OIG audit reports. As a part of our fiscal year (FY) 2011 Audit Plan, we audited selected District agencies to determine whether previous audit recommendations have been implemented. The objectives of our audit are to determine: (1) the effectiveness of ORM's system for managing the resolution of audit findings and recommendations from various sources; and (2) whether agencies have implemented agreed-to recommendations that were intended to correct reported deficiencies.

This report is the first of two and focuses on the effectiveness of ORM's system for managing the resolution of audit findings and recommendations. The second report will center on whether selected District agencies have implemented agreed-to recommendations. The scope of this review covers FYs 2008 through 2010.

### CONCLUSIONS

ORM is not in full compliance with the provision of its establishing legislation, which requires ORM to implement and maintain a system for managing the resolution of all audit findings and recommendations from various audit agencies. The system currently in place only tracks the status of open and unresolved OIG audit report recommendations, but does not track recommendations made by other audit entities. As currently designed, the system is inadequate to fulfill ORM's statutory responsibilities to manage the resolution of all audit findings and recommendations presented to District agencies. We also found that ORM has not fully implemented audit recommendations set forth in our previous audit report, *Audit of District Agencies' Implementation of Audit Recommendations* (OIG No. 08-1-03MA), issued on March 12, 2009.

Several factors may have contributed to this condition. They include ORM's limited view of its responsibilities regarding certain provisions in its establishing legislation; historical focus of risk management activities limited to health and safety issues; and unclear roles and responsibilities of Agency Risk Management Representatives (ARMRs).

Noncompliance with the regulatory requirements governing the audit follow-up process increases the risk that reported control deficiencies will not be resolved timely to prevent fraud, waste, and abuse in District government operations. Also, District stakeholders cannot be assured that the findings and recommendations contained in various audit and management advisory reports were resolved in a timely manner, and that resolutions were in the District's best interest.

# EXECUTIVE DIGEST

## SUMMARY OF RECOMMENDATIONS

We directed five recommendations to the ORM that we believe are necessary to correct the deficiencies noted in this report. The recommendations, in part, center on:

- Developing and implementing a system fully compliant with ORM's statutory requirement to manage the resolution of findings and recommendations. In developing and implementing its system, ORM should consider the requirements of the U.S. Office of Management and Budget (OMB) Circular No. A-50 Revised, *Audit Followup*.
- Coordinating with District officials for the support and resources necessary to implement its system.
- Finalizing and distributing to relevant staff standard operating procedures that take into consideration relevant provisions of OMB Circular A-50.
- Establishing and communicating clear and concise roles and responsibilities for personnel appointed as ARMRs with regard to audit follow-up of audit findings and recommendations.
- Developing and implementing formal training for personnel appointed as ARMRs that includes, among other things, procedures for the resolution of findings and recommendations.

We also directed two recommendations to the D.C. Council to establish reporting requirements for ORM and implement a directive to all audit organizations issuing audit reports and management letters to District agencies to provide ORM with a copy.

## MANAGEMENT RESPONSES AND OIG COMMENTS

On July 23, 2012, ORM provided a written response to a draft of this report. ORM agreed with recommendations 1, 2, and 3; however, it did not provide a detailed plan including target dates to implement the recommendations.

For Recommendations 1, 2, and 3, we request that ORM provide us with a detailed plan by November 26, 2012, for developing and implementing a system that is fully compliant with its establishing legislation, that incorporates relevant provisions of the U.S. Office of Management and Budget's Circular A-50, *Audit Follow-up*, and incorporates requests for support and resources from the Mayor, City Administrator, and D.C. Council.

ORM disagreed with Recommendations 4, 5, and 6 of the draft report. We consider Recommendations 4 and 5 as unresolved. Based on the response from the ORM, we re-examined our facts and conclusions and determined that the report is fairly presented as to Recommendations 4 and 5. However in view of ORM's response, we did eliminate Recommendation 6. We request that ORM reconsider its position taken on Recommendations 4 and 5 and provide a detailed response by November 26, 2012. Our

# EXECUTIVE DIGEST

comments to ORM's response to the draft report are included at Exhibit B.  The complete text of ORM's response is included at Exhibit C.

As of the date of this report, we have not received a response from the Council of the District of Columbia related to the Recommendations 7 and 8 addressed for their consideration in our draft report.  However, these two recommendations have been renumbered as Recommendations 6 and 7 in the final report.  We will continue efforts to work with the Council of the District of Columbia to receive a written response to Recommendations 6 and 7.

A summary of the potential benefits resulting from the audit is shown at Exhibit A.

# INTRODUCTION

**BACKGROUND**

The Office of Risk Management (ORM) was established pursuant to the 2003 Reorganization Plan No. 1 (Title 1 of the D.C. Code, Chapter 15, Subchapter XVIII, Part A) (the Plan) for the purpose of providing "risk management direction, guidance and support to District government agencies so that they can minimize the total cost of risk, resulting in improved government operations and enhanced service delivery." The Plan § 4(a) (Supp. 2011). ORM is headed by the Chief Risk Officer, who reports directly to the City Administrator.

According to § 6 of the Plan, ORM must, among other things:

- identify gaps, omissions, or inconsistencies in risk management practices and policies and recommend and oversee the implementation of appropriate responsive laws, regulations, rules, or procedures for adoption pursuant to the Plan;
- prepare reports as necessary and required by the Mayor or the D.C. Council;
- minimize the probability, frequency, and severity of accidental losses to the District government on a pre- and post-loss basis through a proactive compliance monitoring program for safety, security, and contingency planning for District government operational interruptions or emergencies;
- conduct and oversee on-site risk management assessments of all District government facilities and operations;
- provide risk management training to District employees and Agency Risk Management Representatives (ARMRs);
- administer, organize, and exercise all of the powers, duties, and functions concerning the District of Columbia Public Sector Occupational Safety and Health Management Program including:
  - The D.C. Occupational Safety and Health Board, Occupational Safety and Health Standards; and
  - The Building Code, the Electrical Code, the Fire Prevention Code, and the Plumbing Code pursuant to the Construction Codes Approval Amendments Act of 1986; and
- implement and maintain a system for managing the resolution of outstanding recommendations/findings from various sources.

Section 10 of the Plan states that the Chief Risk Officer is responsible for creating and managing a Risk Management Council, which consists of ARMRs and professional leaders from ORM. According to the District of Columbia fiscal year (FY) 2011 operating budget, the mission of ORM is "to provide risk identification, analyses, control and financing direction, and support to District agencies so that they can minimize the cost of risk and improve safety in the workplace." *Id.* at A-63. This is accomplished through four programs, described on the next page.

# INTRODUCTION

*Risk Identification and Analysis*

This program contains two activities:

- *Coordination and Integrity of ARMRs* - Coordinates the work of ARMRs who systematically identify, measure, analyze, and document the District of Columbia government's exposure to risk.

- *Review and Guide Risk Assessment Control Committees* - Reviews and guides agency Risk Assessment Control Committees' activities relative to risk management plans.

*Risk Control Division*

This program minimizes the probability, frequency, and severity of accidental losses on a pre- and post-loss basis through a compliance-monitoring program for safety, security, and contingency planning for emergencies by all District agencies. It contains the Safety, Security Emergency Planning activity, which provides training to increase participants' knowledge of emergency planning.

*Risk Financing Division*

This program contains two activities:

- *Claims Examination* - Reviews and manages adjudicated disability compensation claims filed against the District of Columbia government as well as tort liability claims and recoveries.

- *Claims Management* - Provides the District of Columbia government's oversight of the claims administration process by third-party administrators.

*Agency Management*

This program, standard for all agencies using performance-based budgeting, provides for administrative support to achieve operational and programmatic results.

**OBJECTIVE, SCOPE, AND METHODOLOGY**

The scope of this review covers FYs 2008 through 2010. Our audit objective was to determine the effectiveness of ORM's system for managing the resolution of findings and recommendations from various sources. To accomplish our objective, we conducted interviews with responsible ORM officials to obtain an understanding of the system used to track D.C. Office of the Inspector General (OIG) recommendations. Also, we identified relevant provisions of the Plan and reviewed ORM's budget. Further, we met with selected

# INTRODUCTION

ARMRs to discuss and document their roles and responsibilities as agency employees and as members of the Risk Management Council.

Additionally, we reviewed the operations of risk management offices in other jurisdictions for the purpose of determining their core functions and the extent to which their risk management practices include managing the resolution of audit findings and recommendations. Finally, we reviewed our prior audit to determine the status of findings and recommendations.[1]

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

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[1] For a summary of our previous recommendations, see Prior Audit Recommendations section on page 15 of this report.

# FINDING AND RECOMMENDATIONS

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> ### FINDING:  ORM IS NOT IN FULL COMPLIANCE WITH A PROVISION IN ITS ESTABLISHING LEGISLATION

## SYNOPSIS

We found that ORM is not in full compliance with the provision of its establishing legislation that requires implementing and maintaining a system for managing the resolution of audit findings and recommendations from various audit entities.  The system currently in place only tracks the status of open and unresolved OIG audit report recommendations, but does not track recommendations issued by other D.C. oversight entities.  As currently designed, the system is inadequate to fulfill ORM's statutory responsibilities to manage the resolution of all audit findings and recommendations issued to District agencies.  We also found that ORM has not fully implemented audit recommendations made in our previous audit report meant to aid ORM in complying with its statutory mandate.

We attribute this condition to several factors that include:  ORM's limited view of its responsibilities regarding certain provisions in its establishing legislation; historical focus of risk management activities concerning health and safety issues; unclear expectations from District officials; and unclear roles and responsibilities for ARMRs.

Noncompliance with the regulatory requirements governing the audit follow-up process increases the risk that reported control deficiencies will not be timely resolved to prevent fraud, waste, and abuse in District government operations.  Additionally, District stakeholders cannot be assured that the findings and recommendations contained in various audit and management advisory reports were resolved in a timely manner, and that resolutions were in the District's best interest.

## DISCUSSION

ORM's system only tracks open and unresolved OIG audit report recommendations.[2]  Using a spreadsheet, an ORM program analyst enters pertinent information from OIG audit reports concerning open and unresolved recommendations.  An email is sent to the corresponding ARMR (or contact person for agencies not under the authority of the Mayor) requesting closure of the recommendation within 6 months of the date of the email.  Other than the email submitted, ORM does not ensure that agency officials or ARMRs take appropriate

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[2] Open recommendations are those where agency management and the OIG are in agreement on the action to be taken, but the agency has not provided an estimated date for implementation.  Unresolved recommendations are those where management has neither agreed to take the recommended action nor proposed satisfactorily alternative actions to correct the condition.  Closed recommendations are those where agency management has advised that the action necessary to correct the condition is complete.

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timely action to ensure that open and unresolved recommendations are closed in a timely manner. ORM relies only on information obtained from ARMRs and notification from the OIG when the OIG's follow-up process confirms a recommendation has been closed. At that point of notification, the ORM program analyst records the recommendation as "closed" in the tracking spreadsheet. It is our position that ORM needs to adhere to its mandate and "manage" the resolution of the audit finding and ensure that agencies take timely action to implement and close audit recommendations to negate the identified risks to the District.

With regard to audit reports from other audit organizations, ORM advised us that it only receives audit reports from the OIG and, unless audit reports are sent from other audit entities or forwarded by District audited agencies, ORM would have no knowledge of those findings and recommendations that present a potential financial risk to the District. As discussed later in this report, District officials have not established a process that requires all audit organizations (i.e., D.C. Auditor, KPMG, audit contractors, etc.) issuing audit reports to District agencies, to also remit a copy of their audit report(s) to ORM. This failure may have contributed to the problem of unresolved audit findings and recommendations.

Section 6(o) of the Plan requires ORM to "[i]mplement and maintain a system for managing the resolution of outstanding recommendations/findings from various sources including the Inspector General, the D.C. Auditor, external District-wide audits with management letter recommendations, court orders, retained consultants and others . . . ."

Regarding follow up, the United States Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* states:

> Monitoring of internal control should include policies and procedures for ensuring that the findings of audits and other reviews are promptly resolved. Managers are to (1) promptly evaluate findings from audits and other reviews, including those showing deficiencies and recommendations reported by auditors and others who evaluate agencies' operations, (2) determine proper actions in response to findings and recommendations from audits and reviews, and (3) complete, within established time frames, all actions that correct or otherwise resolve the matters brought to management's attention.

STANDARDS FOR INTERNAL CONTROL IN THE FEDERAL GOVERNMENT GAO/AIMD-00-21.3.1 20 (Nov. 1999).

Factors that may have contributed to this condition include ORM's limited view of its statutory responsibility; historical focus of risk management activities on health and safety issues; and unclear roles and responsibilities for ARMRs.

# FINDING AND RECOMMENDATIONS

We also found that ORM has not fully implemented audit recommendations intended to aid in fulfillment of its mandate. Of 11 recommendations directed to ORM in our report entitled *Audit of District Agencies' Implementation of Audit Recommendations*, OIG No. 08-1-03MA issued March 12, 2009, we found that 2 have been implemented, 1 has been partially implemented, and 8 have not been implemented. We discuss this matter in detail starting on page 15 of this report.

**ORM's Limited View of its Responsibilities:** Our audit found that ORM's limited view of its statutory responsibility to manage the resolution of audit findings and recommendations (to negate potential risk to the District) contributed to its failure to fully comply with applicable provisions of the Plan. As previously stated, the current system only tracks open and unresolved OIG audit report recommendations, but does not take a proactive approach to ensure that agency officials or ARMRs take appropriate, timely action to implement the recommendation(s) and thereby negate the potential risk of the audit finding to the District. ORM officials currently rely on the OIG to notify them when an open recommendation has been closed. According to ORM officials, the current process is in compliance with their responsibility to track the status of open recommendations.

Further, ORM's system does not track findings and recommendations in audit reports from audit organizations other than the OIG. Moreover, ORM does not maintain supporting documentation for closed recommendations. As a result, the system is inadequate to fulfill ORM's responsibilities to manage the resolution of findings and recommendations from all sources as required by the establishing legislation.

**Historical Focus on Health and Safety:** We performed procedures to determine the roles and responsibilities of risk management offices in selected cities and states, noting that, historically, these offices have focused on health and safety issues. However, we also found efforts to expand the focus to managing risk from unconventional areas such as finance, contracts, and other related risk areas. ORM, with its mandate to manage the resolution of audit findings and recommendations, has a unique opportunity to participate in resolving issues in areas auditors have identified as presenting risks, which would greatly contribute to the fulfillment of its mission and purpose. Expanding from conventional ways of conducting business/the historical focus of risk management offices, however, will present challenges.

We benchmarked the roles and responsibilities of risk management offices in Baltimore, Maryland; Atlanta, Georgia; Detroit, Michigan; and the State of Texas. We discuss our findings below.

*Baltimore Office of Risk Management:* This office was established to administer the Self-Insurance Fund to cover, among others, casualty and property losses defined as "uninsured losses to City buildings and contents, City vehicles, City water craft, City boilers and machinery; workers' compensation and employers liability; and third-party general liability and automobile liability losses." (Baltimore City Code Art. 5, § 12-1(b)). Its mission,

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according to its website, is "to create and promote a safe and supportive work environment and reduce financial exposure throughout the City of Baltimore."[3]  The responsibilities of this office include overseeing commercial insurance programs; administering contracts with private vendors for workers' compensation claims and health services; assisting with adjudication of workers' compensation and job-related claims; and conducting safety and accident prevention programs for city employees.

*Atlanta Risk Management Division:*  This division was established "to minimize the financial burden incurred by [the City of Atlanta's] citizens and taxpayers as a result of fortuitous or accidental loss to which the city is exposed and to protect the assets, operations and employees of the city to the maximum extent from the adverse consequences of such loss . . . ." Atlanta Code of Ordinances Art. XIII, § 2-1741.  According to its website, Atlanta's Risk Management Division's objective is to "ensure that the City is protected through risk transfer in contractual agreements, to review and approve insurance provisions and requirements in a timely manner…, to hold the City harmless in City contracts…[and to] ensure that a safe work place exists for employees . . . ."[4]

The foregoing discussion of city ordinances in Baltimore and Atlanta illustrates that the purpose of establishing risk management offices in these cities is cost reduction through the implementation of insurance programs, which cover financial losses incurred as part of the governments' normal operations, such as workers' compensation programs.  However, we also identified other jurisdictions' attempts to expand into areas that more closely reflect key governmental operations.  For example, in risk management reports from the City of Detroit and the State of Texas, we found that the current responsibilities and related levels of service provided by risk management offices are limited to containing costs resulting from accidental losses; these reports also acknowledge the existence of, and the need for adequate coverage for, losses in other areas of government operations including financial, reputational, and contractual operations and other risk-related activities.

*Detroit Risk Management Council:*  A report by Detroit's Risk Management Council (RMC) explains that the mission of the city's Risk Management Division is to protect the city's assets and earning power from loss or destruction, but acknowledges that its responsibilities are limited to "workers compensation, central safety, long-term disability, and the administration of the self-insurance Risk Management Fund."[5]  In what the Detroit RMC labels a "silo approach" to its management strategy, this division manages insurance risks while the remainder of its risk is managed at the department or agency level.  "These functional areas or departments do not systematically coordinate efforts or explore opportunities to collaborate in the management of the entire risks of the City even if risks are

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[3] *See* http://www.baltimorecity.gov/Government/AgenciesDepartments/Finance/RiskManagement.aspx (last visited Feb. 23, 2012).

[4] *See* http://www.atlantaga.gov/index.aspx?page=215 (last visited Feb. 23, 2012).

[5] *See*  2005 EVALUATION OF THE CITY OF DETROIT'S RISK MANAGEMENT FUNCTION, CITY OF DETROIT'S RISK MANAGEMENT COUNCIL (Dec. 2005).

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known to be intertwined between multiple departments, or there are similar processes or functions across departments and  agencies[,]" the report adds.[6]  As a result, the report concludes, the city not only has failed to incorporate risk management into its overall plans but lacks consistency in how it identifies, assesses, and manages risk.

***Texas State Office of Risk Management:***  In a report from an internal assessment, the Texas State Office of Risk Management (SORM) recognizes that, historically, its efforts have focused on health and safety risks but that, recently, client agencies have begun requesting assistance with a broader range of risks.[7]  SORM explains that other areas that are experiencing increased focus include fraud detection and prevention, frequency and severity analysis, workplace violence, state property loss analysis, return to work, risk transfer analysis, and risk management program expenditure to result analysis.  *Id.*  Among internal factors likely to impact risk management efforts is the extent to which "the Office is asked by agencies to support the development of [Enterprise Risk Management (ERM)[8]] programs and concepts, as opposed to its historical focus on client agency health and safety issues."  *Id.* at 9.

As the preceding discussion demonstrates, risk management offices are beginning to realize not only the urgency of incorporating into their operations areas outside health and safety, but also the value that expanding their coverage has on the overall management of risk.

Fully implementing its mandate to manage the resolution of audit findings and recommendations and, in doing so, expanding into areas unexplored by most risk management offices will require a commitment by ORM and the full support and necessary resources from other District officials.  Achieving this goal will present challenges but will also provide increased returns.

We discussed our conclusions with ORM officials who indicated that, in conversation with risk management offices in adjacent jurisdictions, all agreed that ORM's requirement to manage the resolution of findings and recommendations is unusual for a risk management office.  ORM officials, however, stressed that it is a responsibility ORM is accomplishing.

**Unclear Expectations From District Officials:**  We found that District officials may not be aware of ORM's responsibilities related to audit follow-up for the resolution of audit findings and recommendations.  For example, District officials generally reach out to sources other

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[6] *Id.* at 2.

[7] *See* STATE OFFICE OF RISK MANAGEMENT AGENCY STRATEGIC PLAN FOR THE FISCAL YEARS 2007-11 PERIOD 10 (July 2006).

[8] In a report by PricewaterhouseCoopers LLP entitled Enterprise Risk Management – Integrated Framework, September 2004, sponsored by the Committee of Sponsoring Organizations of the Treadway Commission, ERM is defined as "a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives."  *Id.* at 2.

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than ORM when seeking information on the status of audit findings and recommendations. Also, ORM lacks a mechanism to report its follow-up activities to District officials and these officials do not request reports from ORM. Further, we found that District officials have not established a process by which District agencies remit copies of audits performed at their respective agency to ORM. District officials generally inquire of the OIG and others regarding the status of audit findings and recommendations, rather than ORM or the responsible agency director.

While the foregoing circumstances reflect a lack of awareness on the part of District officials with regard to ORM's responsibility to manage the resolution of audit findings and recommendations, an opportunity exists for District officials to realize the abundance of information they may be able to obtain should they look to ORM for status updates in this area.

**Roles and Responsibilities of Agency Risk Management Representatives:** We found that ORM has not specified clear and concise roles and responsibilities for personnel appointed as Agency Risk Management Representatives (ARMRs) with respect to audit findings and recommendations. While ARMRs we interviewed clearly communicated their responsibilities related to health and safety issues, one seemed uncertain about ARMR roles and duties with respect to audit findings and recommendations while another has been conducting follow-up activities as part of the employing agency's normal functions and not as a result of any coordination with ORM. We also did not find evidence of ARMRs' activities as members of the Risk Management Council, other than bi-monthly meetings with the Chief Risk Officer. We reviewed the functions of risk management councils and committees in certain cities, noting that they perform oversight responsibilities and fulfill an advisory role for the risk management offices/programs in their respective jurisdictions.

*Agency Risk Management Representatives.* As discussed earlier, ORM contacts ARMRs via email requesting that within 6 months they close open and unresolved recommendations from OIG audit reports issued to their agencies. In addition, the number of open and unresolved recommendations issued to their agencies is one item in the Accountability Chart, which is a comprehensive report that the Chief Risk Officer uses to coordinate ARMR activities and discuss ARMRs progress during bi-monthly meetings with them. In response to our inquiry regarding the process to close recommendations, ORM officials advised us that ARMRs have received training on the procedures to close recommendations. The results of our interviews, however, revealed that ARMRs are not always certain of their roles and responsibilities with respect to audit findings and recommendations. One ARMR in particular could not recall receiving any training on the procedures to close recommendations.

We judgmentally selected two ARMRs and conducted interviews to discuss their roles and responsibilities, noting that their functions are largely a factor of their agency management's

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commitment to addressing risk management issues rather than the level of assistance and coordination provided by ORM.

One ARMR interviewed is also the director of the agency's office of risk management, which was originally established several years ago to perform internal operational and financial audits for its organization and currently continues to do so. While the office coordinates with ORM in areas of claims, subrogation, and emergency response plans, its core functions are in financial, operational, and regulatory audits. Audits are conducted in accordance with an annual audit plan developed with input from office staff and executive agency management. Upon receipt of a request from ORM to follow-up on audit recommendations issued by the OIG, its staff meets to discuss the findings and to identify the division responsible for implementation of recommendations. The responsible division is then contacted and requested to respond within the time stipulated in the audit report.

The other ARMR interviewed was appointed to the position after the predecessor ARMR was released following a reduction-in-force. The appointment was originally made verbally followed by an email. However, neither the verbal appointment nor the ensuing email contained specifics regarding the roles and responsibilities of the agency's ARMR. The ARMR advised us, though, that the agency provides follow-up on requests from ORM mostly in the areas of health and safety, including incident reports, facilities, and ergonomics. In response to our inquiry regarding any ORM-provided training, including that related to closing recommendations, the ARMR indicated that ORM had not provided formal training. Regarding the ARMRs' responsibility with respect to the number of audit recommendations in ORM's Accountability Chart, the ARMR explained that ORM recently introduced this chart during an ARMRs' bi-monthly meeting, but no policies, procedures, standard operating procedures, or any other documentation guiding their responsibilities with respect to the chart have been provided, except for a copy of the PowerPoint presentation used to introduce the chart.

As the foregoing discussion illustrates, ARMRs' roles and responsibilities regarding findings and recommendations depends on each individual agency management's direction and not on any direction provided by ORM.

# FINDING AND RECOMMENDATIONS

**RECOMMENDATIONS:**

We recommend that the Chief Risk Officer, ORM:

1. Develop and implement a system fully compliant with ORM's statutory requirement to manage the resolution of findings and recommendations, not only from the OIG, but also from various sources including the District of Columbia Auditor, external District-wide audits with management letter recommendations, court orders, retained consultants, and others.

**ORM RESPONSE**

ORM agrees with this OIG recommendation and stated that, going forward and in order to comply with its statutory requirements, it will add the audit recommendations from other entities (i.e., D.C. Auditor, the CAFR auditors, etc.) to its current audit management system.

**OIG Comment**

The OIG considered ORM's planned actions to be responsive to this recommendation. We request that ORM provide us with an estimated date for completing the detailed plan for developing and implementing a system that is fully compliant with its establishing legislation.

2. In developing and implementing its system, consider the requirements in the U.S. Office of Management and Budget Circular No. A-50 Revised, *Audit Followup*, § 8.a.[9]

**ORM RESPONSE**

ORM has indicated that, even though it is not legally obligated to implement any of the Circular's recommendations, it has no objections to implementing the Circular requirements that may be relevant to the District's risk management program if resources are available.

**OIG Comment**

The OIG considered ORM's planned actions to be responsive to this recommendation.

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[9] We note that OMB Circular No. A-50 Revised, §1 states that the purpose of the circular is to provide "the policies and procedures for use by executive agencies when considering reports issued by the Inspector General (IG), other executive branch audit organizations, the [U.S] General [Accountability] Office (GAO), and non-Federal auditor where follow-up is necessary." Further, § 4 states that "[t]he principal objectives of this revision are . . . b. To strengthen the procedures for resolution of audit findings and corrective action on recommendations contained in audit reports by IGs, other audit organizations, and the GAO."

# FINDING AND RECOMMENDATIONS

3. Coordinate with the Mayor, City Administrator, and D.C. Council for the support and resources to implement a system that provides ORM with the tools to incorporate into its risk management functions the resolution of audit findings and recommendations.

**ORM RESPONSE**

ORM agrees with the OIG recommendation.  ORM is in the process of working with the Office of the City Administrator and other District agencies to manage the resolution of audit findings and recommendations that are issued from sources other than the OIG.

**OIG Comment**

The OIG considered ORM's planned actions to be responsive to this recommendation.  We request that ORM provide us an estimated date for completing its request for support and resources for implementing its system to manage the resolution of audit findings and recommendations as part of its risk management functions.

4. Establish and communicate clear and concise roles and responsibilities for personnel appointed as ARMRs with respect to audit findings and recommendations.

**ORM RESPONSE**

ORM strenuously disagrees with this recommendation as it appears to be based on OIG's erroneous conclusion that ORM has failed to inform ARMRs about their duties with respect to following up on and closing OIG audit findings and recommendations.  In support for their response (Exhibit C), ORM provided documentation of the processes and procedures for appointing and training ARMRs and minutes of Risk Management Council meetings.

**OIG Comment**

The OIG considered ORM's position to be nonresponsive to this recommendation.  Although ORM provided documentation regarding ARMRs responsibilities for tracking recommendations in CapStat,[10] it did not provide evidence relating to clear and concise roles and responsibilities of ARMRs with respect to the resolution of audit findings and recommendations to negate the potential risk to the District.

We, therefore, request that ORM reconsider its response and provide one that is responsive to our audit recommendation.

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[10] The CapStat tracker is an application used by the Office of the City Administrator to capture, monitor, and report the status of a set of issues important to the City Administrator and the Mayor.

# FINDING AND RECOMMENDATIONS

5. Develop and implement a formal training plan for personnel appointed as ARMRs that includes, among others, the procedures for managing the resolution of audit findings and recommendations.

**ORM RESPONSE**

ORM strenuously disagrees with this recommendation and stated that it hosts a formal training of all newly appointed ARMRs after their initial appointment that includes, among others, responding to outstanding audit recommendations and findings.

**OIG Comment**

The OIG considered ORM's position to be nonresponsive to this recommendation. We reviewed ORM's training documentation used during new ARMR orientation, noting that it discusses the new tracking system, CapStat, and responding to OIG recommendations. However, the information ORM supplied does not provide evidence relating to the resolution of audit findings and recommendations that eliminates potential risk to the District. See Exhibit B for the results of our review of documentation provided by ORM.

We recommend that the D.C. Council consider passing legislation to:

6. Establish reporting requirements for ORM to communicate its activities with respect to managing the resolution of audit findings and recommendations.

We did not receive a response from the D.C. Council relating to this recommendation. We will continue efforts to work with the Council of the District of Columbia to obtain a written response to Recommendation 6.

7. Establish requirements for District agencies to remit copies of audits performed at their agencies to ORM.

We did not receive a response from the D.C. Council relating to this recommendation. We will continue efforts to work with the Council of the District of Columbia to obtain a written response to Recommendation 7.

# PRIOR AUDIT RECOMMENDATIONS

ORM has not implemented several recommendations intended to correct the deficiencies identified in our prior audit report.  Of 11 recommendations issued, we found that 8 have not been implemented, 1 was partially implemented, and 2 have been implemented.  Failure to implement audit recommendations contributes to unresolved audit findings and serves to sustain ORM's risk-exposure level.

We reviewed our prior report on ORM entitled *Audit of District Agencies' Implementation of Audit Recommendations*, OIG No. 08-1-03MA, and performed audit procedures to determine the status of  the following audit recommendations.  Following each recommendation is ORM's reported status and the results of audit procedures performed:

1. ***Work collaboratively with the City Administrator to issue District-wide guidance requiring agency heads and management officials to establish, assess, correct, and report on internal controls related to their audit follow-up systems.  Such systems should: (a) ensure the prompt and proper resolution and implementation of audit recommendations from various sources; and (b) provide for complete records of actions taken on both monetary and non-monetary findings and recommendations. Additionally, the guidance could be patterned after the FMFIA, OMB Circular No. A-50, and the Federal Claims Collection Standards.***

   *ORM Status: Implemented within the scope of ORM's authority*

   <u>ORM Response</u>:  ORM has worked collaboratively with both the Office of the City Administrator (OCA) and District government agencies to report audit resolutions.  ORM works with Agency Risk Management Representatives to close recommendations through the reporting of "open" and "unresolved" recommendations at bi-monthly Risk Management Council (RMC) meetings.  ORM has also created Standard Operating Procedures (SOP) for the handling of such recommendations.

   ORM does not have the statutory responsibility or expertise to evaluate the adequacy of internal accounting and administrative controls as set forth in the FMFIA.  Although ORM has responsibility for assessing risks in the District and "managing the resolution" of findings issued by the Office of the Inspector General (OIG), ORM does not have the expertise to assess whether agencies maintain internal accounting systems to assess the risk of fraud, waste, abuse, and mismanagement but that is an OIG function.

   *OIG Status: Not Implemented*

   <u>OIG Comment</u>:  The recommendation required ORM to "[w]ork collaboratively with the City Administrator **to issue District-wide guidance** requiring agency heads and management officials to establish, assess, correct, and report on internal controls related to their audit follow-up systems" (emphasis added).  However, we found no evidence that the District-wide guidance has been issued.

# PRIOR AUDIT RECOMMENDATIONS

2. ***Implement a comprehensive Web-based database system to accurately and completely track recommendations directed to the District agencies and to facilitate the timely resolution of outstanding recommendations from various sources including the OIG, D.C. Auditor, GAO, federal inspectors general, and external auditors.***

*ORM Status: Not implemented*

ORM Response: ORM agrees that tracking OIG recommendations issued to agencies and facilitating the resolution of outstanding recommendations from the OIG and other entities are part of its responsibilities. However, the reorganization plan does not impose on ORM the requirement to use a web-based data system to track OIG recommendations that have been issued to agencies. ORM currently tracks "open" and "unresolved" recommendations through Microsoft Excel. The current tracking system is sufficient for recommendation tracking. Moreover, ORM works collaboratively with the OIG to ensure the accuracy of such reporting.

*OIG Status: Not implemented*

OIG Comment: During meetings with ORM officials, we were advised that ORM is currently working with OCA to implement CapStat, the system under the purview of OCA and used by the previous administration to track the progress of agencies' performance goals. Given its format and notification features, ORM is considering using CapStat as the database to track the status of OIG's recommendations. The estimated date for implementation was at the end of FY 2011; however, the new database had not been completed at the time of our fieldwork.

3. ***Ensure that the District's central audit follow-up system incorporates requirements similar to those set forth by OMB Circular A-50, including a provision for agencies to promptly and properly resolve all outstanding recommendations within a maximum of 6 months after issuance or receipt of a final report.***

*ORM Status: Implemented within the scope of ORM's authority*

ORM Response: As described in the SOP regarding the implementation of OIG recommendations, ORM has the responsibility to follow-up with agencies and facilitate agency response to OIG recommendations.

*OIG Status: Not implemented*

OIG Comment: ORM's SOP, describing the follow-up process with a revision date of April 2011, has neither been finalized nor implemented but is in draft form. Also, the SOP has not incorporated requirements similar to those in OMB A-50.

# PRIOR AUDIT RECOMMENDATIONS

4. *Reevaluate staffing levels to determine whether they are sufficient to track and manage timely resolution of recommendations from various sources, and ensure that designated personnel are adequately trained to more effectively discharge their follow-up responsibilities.*

*ORM Status: Implemented within the scope of ORM's authority*

ORM Response:  The current staffing level of the ORM is 17 FTEs responsible for managing the day-to-day operations of the Public Sector Workers' Program, Tort Liability Division, Medical Liability Captive Insurance Company, and the Risk Identification Analysis and Control Division, among other things.  As currently staffed, it is extremely difficult for ORM to remediate and/or assess the risks identified in all of the OIG audit reports.

Moreover, OIG houses the Inspections and Evaluations (I&E) Division, tasked with auditing and monitoring "compliance with published recommendations to ensure a continued effort to mitigate deficient conditions noted in our [OIG] reports and improve service delivery to District residents and others who have a vested interest in efficient and effective government operations," as outlined in the *Summary of Compliant Activities* dated February 2011.  Furthermore, these divisions have more than 17 FTEs devoted to agency recommendation compliance and performance audits.

Furthermore, it is unclear as to what is meant that ORM is required to discharge its "follow-up responsibilities" in that these are vague and ambiguous terms, particularly in light that the responsibilities assigned to ORM appear to exceed its scope of authority.

Finally, ORM does not have the resources to adequately ensure compliance of approximately 200 OIG recommendations from 2008 to the present.

*OIG Status: Partially implemented*

OIG Comments:  ORM's response describes tracking open recommendations in OIG reports but does not address the "manage" function in the recommendation while, at the same time, explains the limitations with its current staff levels.  We believe that managing audit recommendations involves establishing and maintaining communication channels with District agencies regarding the implementation of audit recommendations. Given their limited available resources, ORM officials can utilize the accessibility and expertise of ARMRs to assist them with this endeavor.

5. *Establish controls to ensure the accuracy and completeness of data contained in the audit follow-up system.*

*ORM Status: Implemented*

# PRIOR AUDIT RECOMMENDATIONS

<u>ORM Response</u>:  ORM's policy analyst and senior manager for Risk Identification and Analysis Control Division will develop annual goals, objectives, and performance targets for following up with agencies that must respond to OIG recommendations.  In addition, ORM has a tracking log with email alerts that signal the need for agency follow-up.

*OIG Status: Fully Implemented*

<u>OIG Comments</u>:  ORM's Occupational Safety and Health Manager performs quarterly reviews of information in the spreadsheet, although admitting that not everything is double-checked.  Further, this control is not reflected in ORM's SOP.

6. ***Develop and disseminate formal goals and objectives of the audit follow-up process as part of the annual performance-based budgeting approach, and emphasize individual accountability for conforming to the related control guidelines.  Management should continuously monitor follow-up activities to achieve the established objectives.***

   *ORM Status: In the process of implementing within statutory authority*

   <u>ORM Response</u>:  ORM has drafted SOPs regarding ORM's process for following up with agencies on addressing OIG recommendations.  However, these policies would only impact ORM's operations.

   *OIG Status: Not implemented*

   <u>OIG Comments</u>:  ORM's General Counsel advised us that the goals for ORM include those for core services such as OSHA safety, health, and inspections on buildings, but acknowledged that goals for follow-up activities have not been incorporated in performance plans.

7. ***Ensure that follow-up policies and procedures are written, communicated, promoted, accessible, and used consistently in work processes and activities.  These documents should be periodically updated to reflect current follow-up practices.***

   *ORM Status: Implemented*

   <u>ORM Response</u>: ORM has drafted standard operating procedures regarding ORM's process for following up with agencies on addressing OIG recommendations.  However, these policies would only impact ORM's operations.

   *OIG Status: Not implemented*

   <u>OIG Comments</u>:  As noted in our comments to Recommendation 3 above, ORM's SOPs have not been finalized nor implemented but are in draft form.

# PRIOR AUDIT RECOMMENDATIONS

8. *Maintain an accurate, complete, and current listing of all designated contact points for both mayoral and non-mayoral agencies, including telephone numbers and email addresses, to facilitate an efficient and effective audit follow-up process.*

   *ORM Status: Implemented*

   ORM Response:  ORM provided an ARMR contact list for agencies subordinate to the Mayor.  ORM does not have authority to handle agency matters for independent entities that have no reporting requirements to the Mayor.

   *OIG Status: Implemented*

   OIG Comments:  ORM's process to maintain information regarding agencies' ARMRs is adequate to ensure current contact information for ARMRs.

9. *Implement and monitor management controls to ensure that deficiencies identified in this report are fully addressed prior to the next triennial follow-up audit.*

   *ORM Status: Implemented*

   ORM Response:  ORM's SOP provides guidance regarding the implementation of OIG recommendations.

   *OIG Status: Not implemented*

   OIG Comments:  As noted in our comments to Recommendation 3 above, ORM's SOPs have not been finalized nor implemented but are in draft form.

10. *Follow-up with agency officials on the 38 recommendations that remain open and the 44 recommendations that the OIG classified as not fully implemented to ensure that agencies continue to work aggressively to timely close these recommendations.*

    *ORM Status: Implemented*

    ORM Response:  ORM will continue to work with ARMRs to respond to recommendations through the reporting of open and unresolved recommendations at bi-monthly Risk Management Council meetings.

    *OIG Status: Not implemented*

    OIG Comments:  The 38 recommendations that remained open and 44 classified as not fully implemented relate to fiscal years 2005-2007, a period which ORM does not track.

# PRIOR AUDIT RECOMMENDATIONS

***11. Ensure that sufficient supporting documentation is maintained for all audit recommendations that District agencies report as closed.***

*ORM Status: Implemented*

<u>ORM Response</u>:  All documentation is stored by agency at ORM's headquarters.

*OIG Status: Not implemented*

<u>OIG Comment</u>:  ORM's Occupational Safety and Health Manager advised us that ORM only tracks the status of open recommendations but does not maintain or request from ARMRs documentation supporting the closing of an audit recommendation.

# EXHIBIT A:  SUMMARY OF POTENTIAL BENEFITS
## RESULTING FROM AUDIT

| Recommendations | Description of Benefit | Amount and Type of Benefit | Agency Reported Estimated Completion Date | Status[11] |
|---|---|---|---|---|
| 1 | **Compliance.**  Develop and implement a system fully compliant with ORM's statutory requirement to manage the resolution of findings and recommendations, not only from the OIG, but from various sources including the District of Columbia Auditor, external District-wide audits with management letter recommendations, court orders, retained consultants, and others. | Non-monetary | TBD | Open |
| 2 | **Efficiency.**  Consider the requirements of the U.S. Office of Management and Budget's (OMB) Circular No. A-50 Revised, *Audit Follow-up*, in developing and implementing its system. | Non-monetary | TBD | Open |
| 3 | **Internal Control and Efficiency.**  ORM coordinates with the Mayor, City Administrator, and D.C. Council for the support and resources to implement a system that provides ORM with the tools to incorporate into its risk management functions the resolution of audit findings and recommendations.  This support will also assist ORM to comply with its statutory mandate. | Non-monetary | TBD | Open |

[11] This column provides the status of a recommendation as of the report date.  For final reports, "Open" means management and the OIG agree on the action to be taken, but is not complete. "Closed" means management has advised that the action necessary to correct the condition is complete.  If a completion date was not provided, the date of management's response is used.  "Unresolved" means that management has neither agreed to take the recommended action nor proposed satisfactory alternative actions to correct the condition.

# EXHIBIT A:  SUMMARY OF POTENTIAL BENEFITS
## RESULTING FROM AUDIT

| Recommendations | Description of Benefit | Amount and Type of Benefit | Agency Reported Estimated Completion Date | Status[11] |
|---|---|---|---|---|
| 4 | **Internal Control.**  Establish and communicate clear and concise roles and responsibilities of personnel appointed as ARMRs with respect to audit findings and recommendations. | Non-monetary | Unresolved | Open |
| 5 | **Internal Control.**  Develop and implement a formal training plan for personnel appointed as ARMRs that includes, among others, procedures for managing the resolution of audit findings and recommendations. | Non-monetary | Unresolved | Open |
| 6 | **Internal Control.**  Establish reporting requirements for ORM to communicate its activities with respect to managing the resolution of audit findings and recommendations. | Non-monetary | Unresolved | Open |
| 7 | **Internal Control and Efficiency.** Establish requirements for District agencies to remit copies of audits performed at their respective agency to ORM. | Non-monetary | Unresolved | Open |

# EXHIBIT B:  OIG'S COMMENTS TO ORM's RESPONSE TO DRAFT REPORT

**OFFICE OF THE INSPECTOR GENERAL COMMENTS TO THE DISTRICT OF COLUMBIA OFFICE OF RISK MANAGEMENT'S RESPONSE TO THE DRAFT REPORT ON OUR AUDIT OF THE OFFICE OF RISK MANAGEMENT'S SYSTEM FOR MANAGING THE  RESOLUTION OF AUDIT FINDINGS  AND RECOMMENDATIONS (OIG No. 11-1-08MA)**

<u>**OIG Overall Comments**</u>

In analyzing ORM's response, OIG staff considered the information that ORM provided, and adjusted the report where warranted.  Specific OIG comments appear below following excerpts of ORM's detailed response to the draft report.  For ORM's full response, see Exhibit C.

The OIG based its finding and related recommendations in this audit report on facts gathered during the course of the audit.  Our audit results and conclusions are fully supported by sufficient and appropriate audit evidence.

***ORM's Limited View of its Responsibility (page 6 of draft audit report)***.  Our audit found that ORM's limited view of its statutory responsibility to manage the resolution of audit findings and recommendations (to negate potential risk to the District) contributed to its failure to fully comply with applicable provisions of the Plan.

**ORM Response, pages 2 and 3:**  The OIG finds that ORM does not meet its statutory obligations because it does not track the recommendations issued by other D.C. oversight entities (i.e. D.C. auditor, courts, etc).  Accordingly, ORM falls short of "implementing and maintaining a system for managing the resolution of all audit findings and recommendations from various audit entities." *See* OIG Report at p. 4.

Although one can assert, as OIG does, that ORM is able to review and analyze "all" outstanding audit recommendations that may help reduce the cost of risk throughout the District government, including audit reports from the D.C. Auditor and Comprehensive Annual Financial Report (CAFR) auditor, the reality is that ORM has not had the staff or resources within the last five years to meet this objective, let alone the broad and far-reaching statutory responsibility of managing the resolution of every court order (i.e. administrative, local and federal) and "all" outstanding audit recommendations that impact District government agencies.  ORM does not currently have the resources to monitor all of these statutorily required activities and would need additional funding and staff to collectively administer such a comprehensive risk analysis and reduction program.

Consequently, the ORM leadership between 2008 to 2010 considered its limited resources and defined ORM's responsibility as only tracking OIG audit findings.[]  In order to meet its

# EXHIBIT B:  OIG'S COMMENTS TO ORM's RESPONSE TO DRAFT REPORT

statutory requirements, going forward ORM will add the audit recommendations from other entities (i.e., D.C. Auditor, the CAFR auditor) to its current audit management system.

**OIG Comment**:  While we stated that "ORM's system only tracks open and unresolved OIG audit recommendations," we also indicated that it "does not take a proactive approach to ensure that agency officials or ARMRs take appropriate, timely action to implement the recommendation(s) and thereby negate the potential risk of the audit finding to the District." Our finding on ORM's limited view stems from statutory requirement, or that it goes beyond simply "tracking" the status of "open" and "unresolved" audit recommendations.  In our opinion, managing the resolution of audit findings suggests ensuring that control weakness and/or deficiencies identified by auditors are timely resolved and the risk eliminated or minimized to acceptable levels.

Our audit reports also discuss "closed" audit recommendations.  Our definition of "closed" recommendations includes those for which "[auditee] management has advised that the action necessary to correct the condition is complete."  When reporting on closed recommendations, we rely on management's representations and do not verify that such actions are complete.  To comply with its responsibility for outstanding audit findings and recommendations, ORM should incorporate management of closed audit recommendations into its system.

***Agency Risk Management Representatives (ARMRs) (page 9 of audit draft report)***.  The results of our interviews reveal that ARMRs are not always certain of their roles and responsibilities with respect to audit findings and recommendations.

**ORM Response, pages 3-6:**  The draft report's Recommendations 4 and 5 regarding ARMRs appear to be based on OIG's erroneous conclusion that ORM has failed to inform ARMRs about their duties with respect to following up on and closing out OIG audit findings and recommendations *See* OIG Report at p. 9-10.

As a preliminary matter of sound auditing practices, ORM objects in principle to OIG's reaching conclusions about ORM's performance with respect to ARMRs based on its "judgmentally" selecting two anonymous ARMRs out of a total of forty two ARMRs.  Even if the views of the two ARMRs were acceptable representations from an auditing standpoint, the two ARMRs' representations are belied by ORM's process and procedures for appointing and training ARMRs, as well as years of public data that shows that ORM has consistently trained its ARMRs about how to carry out their duties. . . .

**OIG Comment**:  ORM notes that we judgmentally selected 2 out of 42 ARMRs.  During our documentation of their system, ORM officials advised us that they provide training to ARMRs on how to close open audit recommendations.  To determine ARMRs' roles and responsibilities as well as the extent of training received, we communicated to ORM our

# EXHIBIT B:  OIG'S COMMENTS TO ORM's RESPONSE
# TO DRAFT REPORT

intent to meet with a couple of ARMRs.  Using a list of ARMRs that ORM provided to us, we pointed out to ORM officials the two individuals we selected for our inquiries.  In order to provide ORM officials with an opportunity to participate during our inquires, we properly include ORM in our requests to ARMRs for a meeting.

With respect to ORM's processes and procedures for appointing and training ARMRs, we reviewed "the record [of] evidence" given ORM's assertion "that for years, ORM has consistently communicated to ARMRs their risk and safety responsibilities in general as well as how to follow up on audit findings and recommendations issued by OIG,"  noting the following:

- The ARMRs Description of Duties/Expectations (ORM's Exhibits  1 and 2) used in the appointment process is silent as to ARMRs' responsibilities with the audit resolution process;
- A PowerPoint presentation used  during new ARMRs' orientation (ORM's Exhibit 3) describes, among others, the major components of ORM, none of which is managing the resolution of audit findings and recommendations, with one slide dedicated to ORM's tracking OIG audit recommendations and agencies' responses in CapStat;
- Minutes of meetings of the Risk Management Council (ORM's Exhibits 4 and 5), with dates that coincide with our triennial follow-up audits, discuss the scope of our audits as well as ORM's planned use of CapStat.  However, they do not reflect discussions regarding the status of audit recommendations directed to agencies represented by attending ARMRs;
- ORM ARMR Resource Guide (ORM's Exhibit 6), a 12-page document discussing ARMRs' roles and responsibilities, with a 3-line paragraph explaining that a section in the Accountability Chart entitled "Office of Inspector General Recommendations (OIG Recs.)," represents the number of recommendations in OIG audit reports directed to their respective agencies. The guide, though, does not explain ARMRs' responsibilities with respect to this item in the Accountability Chart but, as reported earlier, one of two ARMRs interviewed explained that "ORM recently introduced [the Accountability] chart during an ARMRs' bi-monthly meeting, but no policies, procedures, standard operating procedures, or any other documentation guiding their responsibilities with respect to the chart have been provided, except for a copy of the PowerPoint presentation used to introduce the chart."

As noted, the evidence provided by ORM reflects efforts toward "tracking" OIG recommendations but fails to be fully compliant with the establishing legislation that requires managing the resolution of outstanding audit findings and recommendations from all audit organizations.  Our position remains that tracking is not a substitute for implementing steps to be implored by ARMs in relationship to audit resolution and remediation.

# EXHIBIT B: OIG'S COMMENTS TO ORM's RESPONSE
# TO DRAFT REPORT

*Risk Management Council (page 10 of draft audit report)*. In addition to unclear ARMRs' roles and responsibilities with respect to managing the resolution of audit findings and recommendations, we also found that ARMRs are not familiar with their responsibilities as members of the Risk Management Council and, in some instances, they are unaware that they are members by virtue of having been appointed as ARMRs.

**ORM Response, pages 6-8:** The draft report's Recommendation 6 appears to be based on the astonishing conclusion that OIG did not find any evidence of ARMRs activities as members of the Risk Management Council, other than bi-monthly meetings with the Chief Risk Officer. This finding is so fundamentally flawed and unsupported by information that OIG had in its custody and possession, that it leads ORM to the inescapable conclusion that this finding is misleading.

**OIG Comment**: Our draft report contained a section entitled "Risk Management Council" in which we compared ARMRs current responsibilities as members of the Council with activities required in § 10(c) of the Plan and concluded that we found no evidence indicating ARMRs are performing required activities other than participating in bi-monthly meetings with the Chief Risk Officer. However, § 10(c) of the Plan does not include responsibilities for managing the resolution of audit findings and recommendations, for which ORM officials, not the ARMRs, are accountable. Because ARMRs are not required to manage the resolution of audit findings and recommendations, this issue is outside the scope of our audit. Therefore, we removed the entire section and related Recommendation 6 from the final report.

*Historical Focus on Health and Safety (page 6 of draft audit report)*. We performed procedures to determine the roles and responsibilities of risk management offices in selected cities and states, noting that, historically, these offices have focused on health and safety issues.

**ORM Response, pages 8-10:** OIG finds that ORM has historically focused on carrying out risk management activities that pertain to occupational safety and health matters, and consequently, this limited focus by ORM may have prevented ORM from managing other types of governmental risks (i.e. fraud detection and prevention, workplace violence, property loss analysis, return to work, workers' compensation). OIG Report at p. 6. OIG's finding is very troubling. First, OIG's inquiry was specifically limited to assessing whether ORM had "implemented and maintained a system for managing the resolution of all audit findings and recommendations issued to agencies subordinate to the Mayor." However, OIG broadened the scope of its original inquiry and provided irrelevant commentary about the types of risk activities that ORM carries out, which is irrelevant to how the District tracks, manages and resolves outstanding audit findings. Furthermore, it is the prerogative of the executive branch to decide what type of risk activities it may evaluate. Therefore, when offering commentary about what types of risk activities that the government should assess,

# EXHIBIT B:  OIG'S COMMENTS TO ORM's RESPONSE TO DRAFT REPORT

when it is irrelevant to the scope of the underlying investigation, OIG intrudes on the executive branch's discretionary and policy-making authority to determine what types of risk assessments and analysis it will conduct on behalf of the government.  Moreover, OIG's finding that the District's risk management activities is focused primarily on health and safety matters is so fundamentally flawed that OIG should seriously consider vacating this entire section from its report since ORM's risk management efforts are quite broad.

In support for its erroneous conclusion that ORM's risk reduction efforts primarily focus on health and safety matters, OIG references four jurisdictions (Baltimore City, Detroit City, Atlanta City and the State of Texas) that should serve as a benchmark for ORM to strive towards for broadening its risk management initiatives.  ORM has reviewed the risk management programs for each of these four jurisdictions and concludes, as clearly set forth throughout its response, that they cannot serve as benchmark for ORM because the scope of the risk management activities for these four jurisdictions are no more broader, and maybe even narrower, than the risk activities of ORM . . . .[1]

**OIG Comment**:  The purpose of reviewing the operations of other risk management offices was to determine the extent to which the risk management concept in these jurisdictions incorporates risks identified in audit reports, and we concluded that "historically, these offices have focused on health and safety issues."  Instead of "broaden[ing] the scope of [OIG's] original inquiry and [providing] irrelevant commentary about the types of risk activities that ORM carries out, which is irrelevant to how the District tracks, manages and resolves outstanding audit findings" as ORM claims (*see* ORM's response at page 8), we found and reported that "ORM, with its mandate to manage the resolution of audit findings and recommendations, has a unique opportunity to participate in resolving issues in areas auditors have identified as presenting risks, which would greatly contribute to the fulfillment of its mission and purpose," while also acknowledging that "[e]xpanding from conventional ways of conducting business…will present challenges." (*See* page 6 of draft audit report).

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[1] In the remaining portion of this section, ORM compares its activities with offices in the four jurisdictions.

# EXHIBIT C:  OFFICE OF RISK MANAGEMENT'S RESPONSE

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**
Office of Risk Management
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July 23, 2012

Charles J. Willoughby, Esq.
Inspector General
717 14th Street, N.W.
Washington, D.C.  20005

Dear Mr. Willoughby:

Enclosed is the Office of Risk Management's (ORM) response to the Office of the Inspector General's draft report dated June 18, 2012  on how ORM manages the resolution of audit findings and recommendations (OIG No. 11-1-08MA).  Although ORM agrees with some of the OIG's findings, several recommendations are without merit and are beyond the scope of the original audit.  ORM strongly objects to any recommendations beyond the intended scope of the report.  Please see below for a thorough response to each of the OIG's recommendations and associated assertions.

After carefully reviewing the findings of the audit, ORM agrees with Recommendations 1, 2 and 3 on page 13 of the draft report.  In fact, ORM is already in the process of working with the Office of the City Administrator and other District agencies to manage the resolution of audit findings/recommendation that are issued from sources other than the Office of Inspector General (OIG).  For example, ORM recently started to track audit findings issued by the D.C. Auditor. While expanding the scope of the recommendations that it tracks, ORM will continue to utilize its current system for notifying and tracking whether an agency has responded to outstanding audit instruments.  As OIG illustrates through its accounting of an interview with one of two Agency Risk Management Representatives (ARMRs), the current ORM process for managing the resolution of outstanding audit recommendations appears to be working.  To further improve the District's internal tracking of various audit findings and recommendations, ORM is planning to develop a Quickbase database to track the status of outstanding audit recommendations, and store documentary proof from agencies that open and unresolved recommendations are closed in a timely manner.

Although ORM agrees with these first three recommendations, ORM strenuously disagrees with Recommendations 4 through 6 of the draft report.  These recommendations and their related

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findings are so fundamentally flawed, and contrary to the evidence that OIG had in its possession, that it appears that the information was not fully considered by OIG.

ORM is very troubled by the draft report's assertions about ORM's "limited" view of its responsibilities, and its alleged "historical focus on health and safety." ORM is also concerned with the draft report's accompanying research and discussion of "benchmark" cities. It is ORM's understanding that the OIG's audit was limited to assessing whether ORM had implemented and maintained a system for managing the resolution of all audit findings and recommendations issued to agencies subordinate to the Mayor, which is required by its enacting statute. Any discussion outside of this narrow issue inappropriately broadens the scope of OIG's inquiry and provides non-germane policy commentary on the types of risk activities that are carried out by ORM. Moreover, when venturing into areas outside of the proper scope of the audit, it appears that many of the OIG's findings lack factual support as a result of a failure to understand ORM's risk management activities and initiatives over the years.

As set forth below, ORM takes exception to the OIG's implication that ORM has had a historically narrow focus on risk management activities that pertain to occupational safety and health matters when compared to other jurisdictions. To the contrary, the District's risk management activities are remarkably similar, and in some cases broader than the risk management initiatives of some of the "benchmark" cities OIG references in its report.

### ORM's Limited View of its Statutory Responsibility

The OIG finds that ORM does not meet its statutory obligations because it does not track the recommendations issued by other DC oversight entities (i.e. D.C. Auditor, courts, etc). Accordingly, ORM falls short of "implementing and maintaining a system for managing the resolution of all audit findings and recommendations from various audit entities." *See* OIG Report at p. 4.

Unlike most local and state jurisdictions with risk management agencies and initiatives, the enabling legislation that establishes ORM provides ORM with broad and far-reaching responsibilities to "implement and maintain a system for managing the resolution of outstanding recommendations/findings from various sources including the Inspector General, the D.C. Auditor, external District-wide audits with management letter recommendations, court orders, retained consultants and others." *See* Reorganization Act of 2003, Section 6 (o).

Although one can assert, as OIG does, that ORM is able to review and analyze "all" outstanding audit recommendations that may help reduce the cost of risk throughout the District government, including audit reports from the D.C. Auditor and the Comprehensive Annual Financial Report (CAFR) auditor, the reality is that ORM has not had the staff or resources within the last five years to meet this objective, let alone the broad and far-reaching statutory responsibility of managing the resolution of every court order (i.e. administrative, local and federal) and "all" outstanding audit recommendations that impact District government agencies. ORM does not

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currently have the resources to monitor all of these statutorily required activities and would need additional funding and staff to effectively administer such a comprehensive risk analysis and reduction program.

Consequently, the ORM leadership between 2008 to 2010 considered its limited resources and defined ORM's responsibility as only tracking OIG audit findings.[1] In order to meet its statutory requirements, going forward ORM will add the audit recommendations from other entities (i.e. D.C. Auditor, the CAFR auditor) to its current audit management system.

It should be noted that OIG has not set forth any industry standard or best practice that is "binding" on the District that shows that the manner in which ORM presently manages the resolution of outstanding audit recommendation does not facilitate the resolution of outstanding audit recommendations. In fact, OIG admits in its report (at p.10) that it interviewed an Agency Risk Management Representative (ARMR), who stated that under ORM's current audit management tracking system, he/she promptly responds to and closes out outstanding OIG audit recommendations after receiving notice from ORM that the audit recommendations are open. Thus, the manner in which ORM currently notifies ARMRs about outstanding audit recommendation and directs them to close out and update the outstanding audit recommendation in an excel database is working. As previously mentioned, ORM's plans to implement a Quickbase database will further improve ORM's monitoring capabilities.

Further, the draft report recommends that ORM consider incorporating the requirements of the U.S. Office of Management and Budget (OMB) Circular No. A-50 Revised into its process for managing the resolution of outstanding audit findings and recommendations. *See* report at p. ii. ORM has reviewed the OMB Circular. Even though ORM is not legally obligated to implement any of the Circular's recommendations, ORM has no objections to implementing the Circular requirements that may be relevant to the District's risk management program if resources are available. In fact, ORM is already implementing some of the Circular recommendations such as a six month time period for resolving outstanding audit recommendations.

### Agency Risk Manager Representatives (ARMR)

The draft report's Recommendations 4 and 5 regarding ARMRs appear to be based on OIG's erroneous conclusion that ORM has failed to inform ARMRs about their duties with respect to following up on and closing out OIG audit findings and recommendations. *See* OIG Report at p. 9-10. The OIG "judgmentally" selected and interviewed two of forty-two ARMRs, one of whom stated that he/she was not provided any formal training or documents about his general duties as

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[1] ORM did not have a manager heading the Risk, Identification, Analysis and Control Division between 2008 and 2010. Moreover, there are no budgeted staff employed in this division that have chief responsibility for identifying, analyzing and documenting the District's exposure to risk. Consequently, ORM has assigned a policy analyst and a manager, both of whom have other ORM responsibilities, to help keep track of outstanding audit findings and recommendations issued by OIG and the D.C. Auditor.

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an ARMR, and was uncertain about the roles and duties with respect to closing out audit findings and recommendations. A second ARMR stated in an interview that after receiving notice from ORM to close out outstanding audit recommendations, she/he "follow-up" on the outstanding audit recommendation as part of the employing agency's normal functions [but] not as a result of any coordination with ORM." OIG Report at p. 9-10. Based on these two ARMR interviews, OIG concludes that "ARMRs are not always certain of their roles and responsibilities with respect to audit findings and recommendations." *Id.* ORM *strongly* objects to this erroneous finding because the record evidence reveals that for years, ORM has consistently communicated to ARMRs their risk and safety responsibilities in general as well as how to follow up on audit findings and recommendations issued by OIG.

As a preliminary matter of sound auditing practices, ORM objects in principle to OIG's reaching conclusions about ORM's performance with respect to ARMRs based on its "judgmentally" selecting two anonymous ARMRs out of a total of forty two ARMRs. Even if the views of the two ARMRs were acceptable representations from an auditing standpoint, the two ARMRs' representations are belied by ORM's processes and procedures for appointing and training ARMRs, as well as years of public data that shows that ORM has consistently trained its ARMRs about how to carry out their duties.

Once an agency head notifies ORM in writing of the appointment of an agency ARMR, ORM provides the agency head and ARMR with a very detailed and specific description of general duties and expectations for the ARMR.[2] *See* Exh. No. 1. The written description, which is three pages long, informs ARMRs of their risk management duties, which are to be coordinated with ORM. The description of duties also informs ARMRs that they will be held accountable for their risk management duties according to the risk management program objectives of ORM, *see* Exh. No. 1, p. 1. It also states that they must actively participate on the Risk Management Council (RMC). Exh. No. 1, p.2. .

Furthermore, ORM hosts a formal training of all newly appointed ARMRs after their initial appointment. The training covers the following areas: attending and participating in RMC meetings; ARMR responsibilities; ORM overview; the requirement to deliver risk management reports to ORM; agency risk management plans; responding to outstanding audit recommendations and findings; and emergency response plans, etc. Exh. No. 3. In fact, the attached RMC meeting attendance sheets and minutes demonstrate that ARMRs are aware of the

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[2] In response to OIG's finding that one of the interviewed ARMRs stated that he/she was notified of his appointment verbally and by email, please note that ORM generally receives formal, written notices of ARMR appointments from agency heads along with an agency organizational chart and a description of the duties of the ARMR. *See* Exh. No. 2. In the future, ORM will not officially accept an ARMR appointment until the agency head for the ARMR submits an official, written notice informing the Chief Risk Officer of the ARMR designation. The agency will also be required to submit a description of ARMR duties and the agency's organizational chart. After receiving the documents, ORM will begin to train the ARMR about his/her responsibilities.

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existence of the Council and the requirement that they attend Council meetings. Exh. No. 4. Therefore, the assertion by the interviewed ARMR that he did not know about the Risk Management Council or the need for him or her to attend Council meeting lacks merit.

Moreover, since 2008, ORM has been educating and training agency ARMRs about how to follow up on audit findings and recommendations issued by the Office of Inspector General. At the March 12, 2008, Risk Management Council meeting, Chief Risk Officer Valentine invited Ladonia Wilkins, an OIG employee, to the Council meeting to discuss outstanding OIG audit recommendations. At this meeting, OIG informed ARMRs about the importance of resolving findings and recommendations since they help to improve the effectiveness and efficiency of government operations. The ARMRs were directed by the Chief Risk Officer to "establish systems to assure the prompt and proper resolution and implementation of audit recommendations." *See* Risk Management Council Meeting Minutes (March 12, 2008, p. 1), Exh. 5. In addition, they were provided with an "Audit Report Recommendation Status" form that outlined the process for closing recommendations, training guides, and information on fulfilling ORM safety and risk requirements. *Id*. at p. 1-2. Thirty-one agency representatives out of forty (at that time) attended this meeting.

In 2009, ORM continued to train ARMRs about their general duties and how to follow up with outstanding OIG audit recommendations by providing ARMRs with information and resource guides about how ORM would track outstanding audit findings and recommendations in the Accountability Chart. *See* ORM ARMR Resource Guide, p. 5 (2009). Exh. No. 6. In 2011, ARMRs participated in training sessions on how to enter their agencies' responses to outstanding audit findings and/or recommendations and were reminded of this obligation in 2012. Exh. No. 7.

Despite all of this documentary evidence that contradicts the statements of one of the interviewed ARMRs, and despite an interviewed ARMR's acknowledgment that he or she resolves OIG recommendations after being reminded by ORM, the draft report goes so far as to suggest that ORM should not receive credit for this result because the ARMR did so as part of the "employing agency's normal functions [but] not as a result of any coordination with ORM." OIG Report at 9. ORM finds this conclusion very troubling, and contradictory, because OIG admits that the agency ARMR followed-up on the outstanding OIG audit recommendations within the time frame set forth in the audit report after he/she received notification from ORM. The second interviewed agency ARMR stated:

> *Upon receipt of a request from ORM to follow-up on audit recommendations issued by the OIG*, its staff meets to discuss the findings and to identify the division responsible for implementation of recommendations. The responsible division is then contacted and requested to respond within the time stipulated in the audit report.

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OIG Report at 10.  Therefore, it is inconceivable how OIG can disregard ORM's role in the process cited by the interviewed ARMR when it was ORM that first notified the ARMR at issue to timely close out the audit recommendations.

Finally, OIG intimates (at p. 4-5) that ORM's six month time frame for agencies to follow up on and resolve outstanding OIG audit recommendations may be too long of a period of time to resolve audit recommendations. In support of its finding that ORM does not timely close unresolved OIG audit recommendations, OIG cites to the Standards for Internal Control in Federal Government, which provides that audit findings and reviews shall be reviewed "promptly" or "within established time frames."   Here, the Mayor, through his Chief Risk Officer, has concluded, after considering available government and agency resources, that resolving outstanding audit recommendations within a six month time period is reasonable and within the "established time frame." Moreover,  the OMB Circular No. A-50, which OIG references as a benchmark for ORM to follow to resolve open audit recommendations, recommends that agencies resolve audit recommendations *within a maximum period of "six months"* after the issuance of a final report. *See* OMB Circular No. A-50 (Revised), ¶8(a) 2. Thus, it appears that the time frame that ORM gives its ARMRs and agencies to resolve outstanding audit recommendations conforms with OIG's benchmark, the OMB Circular. Accordingly, OIG should delete any representation in its report that the time period that ORM gives its agencies to resolve outstanding audit recommendations may be too long.

## Risk Management Council

The draft report's Recommendation 6 appears to be based on the astonishing conclusion that OIG did not find any evidence of ARMR's activities as members of the Risk Management Council, other than bi-monthly meetings with the Chief Risk Officer.  This finding is so fundamentally flawed and unsupported by information that OIG had in its custody and possession, that it leads ORM to the inescapable conclusion that this finding is misleading.

In its report (at p. 9, ¶ 3), OIG states that it "did not find evidence of ARMR's activities as members of the Risk Management Council, other than bi-monthly meetings with the Chief Risk Officer."  However, at the same time, OIG acknowledges that ORM maintains an "Accountability Chart," which OIG admits is a "comprehensive report that the Chief Risk Officer uses to *coordinate ARMR activities and discuss ARMS progress during bi-monthly meetings.*" Emphasis added.  *See* OIG Report at p. 9.  ORM cannot reconcile how OIG can acknowledge ARMR activities by citing the Accountability Chart, and then conclude at the same time that there is no evidence of ARMR Council activities.

ARMRs must carry out certain government-wide risk management requirements.  ORM keeps track of how ARMRs carry out and comply with these risk management requirements through the ARMR Accountability Chart.  ARMRs report to ORM the cost that agencies spend on risk reduction efforts and submit a risk management plan to ORM each year.  ARMRs submit

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minutes for the Risk Assessment Control Committee for each agency.  They are also responsible for developing their agencies' COOP Plan.  In addition to drafting an emergency response plan, ARMRs are required to respond to OIG/ODCA audit recommendations.  They assist ORM in investigating and abating safety violations at agencies.  They also assist ORM in investigating and resolving tort claims that are filed against the city as a result of the alleged negligence of an employee or their agency.  ARMRs work closely with ORM in carrying out the requirements under the city's Vehicle Accountability policies, and they facilitate the OSHA training of agency employees.  *See* Exhibit No. 8 (ARMR Deliverables/Agency Accountability Chart).  Because ORM, through the Council, has tracked this data for years, *see* 2008 Accountability Chart (Exh. No. 9), ORM cannot reconcile how OIG can find on one hand that ARMRs are not involved in the activities of the RMC but at the same time reference and detail ORM's RMC "Accountability Chart," which provides absolute proof that through the RMC, ORM tracks and monitors the progress of ARMR in carrying out the government's key risk management activities in at least eleven key areas, and that ORM is holding ARMRs "accountable," as the document is named, in carrying out District risk management activities.

Furthermore, the agendas for the Risk Management Council meetings and their minutes clearly demonstrate that the Chief Risk Officer for the District does more than just meet with ARMRs. As described above, since 2008, ORM has utilized the Risk Management Council meetings to train ARMRs how to manage and resolve outstanding audit findings and recommendations.  For many years, ORM used the Council to educate and train ARMR about the government's risk management process, the role of ORM in the risk management process and policy development, OSHA record-keeping requirements, and emergency evacuation plans.  *See* ORM Agency Risk Management Representative (ARMR) Orientation, p.5 (April, 2006).  Exh. No. 6.  Furthermore, the attached exhibits demonstrate (exhibits nos. 4, 5) that ORM has consistently held Council meetings where ARMRs actively engages ORM staff to discuss risk management issues that impact the overall operations of the District Government.  In addition to the risk areas cited above, Council members have discussed how to reduce loss prevention and have reviewed information to determine risk trends throughout the government.  Exh. No. 11.  Around 2007 or 2008, Council member were educated about how to handle the H1N1 virus in the workplace. They were also trained about the government's tort subrogation process, workplace violence, and reforms that were taking place with the District's workers' compensation program, including the government's return to work initiative.  In 2010, ORM worked with Council members on the development of a city-wide policy on securing confidential personal information of employees, customers and clients.  Exh. Nos. 4, 5.

Finally, OIG asserts that the cities of Baltimore and Detroit, along with state of Texas should serve as benchmarks for how the District should operate its Risk Management Council. However, OIG's failure to understand and grasp the facts regarding the work and activities of the District's Risk Management Council over the years (as set forth further below) is so

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fundamentally flawed that OIG is not in a position to assess or compare the District's RMC to any other jurisdiction.

In sum, OIG fails to completely acknowledge the activities of the Risk Management Council. Moreover, OIG neither describes how ORM interfaces with the Council to manage and/or oversee ARMR activities nor does it acknowledge how ORM utilizes Council meetings to discuss risk management issues and policies that impact government agencies in particular and the District of Columbia in general. Instead, OIG merely gives Council meetings "short-shift" treatment by concluding that the Chief Risk Officer just convenes a bi-monthly meeting with ARMR. ORM objects to this conclusory and misleading finding.

### Historical Focus on Health and Safety

OIG finds that ORM has historically focused on carrying out risk management activities that pertain to occupational safety and health matters, and consequently, this limited focus by ORM may have prevented ORM from managing other types of governmental risks (i.e. fraud detection and prevention, workplace violence, property loss analysis, return to work, workers' compensation). OIG Report at p.6. OIG's finding is very troubling. First, OIG's inquiry was specifically limited to assessing whether ORM had "implemented and maintained a system for managing the resolution of all audit findings and recommendations issued to agencies subordinate to the Mayor." However, OIG broadened the scope of its original inquiry and provided irrelevant commentary about the types of risk activities that ORM carries out, which is irrelevant to how the District tracks, manages and resolves outstanding audit findings. Furthermore, it is the prerogative of the executive branch to decide what type of risk activities that it may evaluate. Therefore, when offering commentary about what types of risk activities that the government should assess, when it is irrelevant to the scope of the underlying investigation, OIG intrudes on the executive branch's discretionary and policy-making authority to determine what types of risk assessments and analysis that it will conduct on behalf of the government. Moreover, OIG's finding that the District's risk management activities is focused primarily on health and safety matters is so fundamentally flawed that OIG should seriously consider vacating this entire section from its report. As described immediately above in the Risk Management Council section (p. 7 ), ORM's risk management efforts are quite broad.

In support of its erroneous conclusion that ORM's risk reduction efforts primarily focus on health and safety matters, OIG references four jurisdictions (Baltimore City, Detroit City, Atlanta City and the State of Texas) that should serve as a benchmark for ORM to strive towards for broadening its risk management initiatives. ORM has reviewed the risk management programs for each of these four jurisdictions and concludes, as clearly set forth throughout this document, that they cannot serve as a benchmark for ORM because the scope of the risk management activities for these four jurisdictions are no more broader, and maybe even narrower, than the risk activities of ORM.

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For example, in its report (at p. 6-7), OIG details the risk reduction activities that are carried out by the Office of Risk Management for the city of Baltimore. Similar to the Office of Risk Management for the city of Baltimore, ORM manages the District's Settlement and Judgment Fund, which covers all losses to the city's buildings and their contents, city vehicles, employer liability, auto liability losses and constitutional violations. *See* Reorganization Plan of 2003, Section 10. As with Baltimore, ORM oversees insurance programs, administers contracts with private vendors for workers' compensation claims and health services, assist with the adjudication of workers' compensation and job-related claims, and conducts safety and accident prevention programs for city employees. And considering that ORM manages a Captive Medical Liability Insurance Agency, and that Baltimore has no similar responsibility, it appears that ORM may have more far-reaching risk duties than the risk management office of Baltimore, Maryland, particularly since the OIG report does not state that Baltimore is required, by law, to also implement and maintain a system, like ORM, for managing and resolving outstanding audit recommendations.

OIG further cites (at p. 7) the risk management activities of the city of Atlanta as a benchmark for ORM because Atlanta's risk efforts protect the city through risk transfer in contract agreements by reviewing insurance provisions requirements so as to hold the city harmless and ensure a safe workplace for employees. Because ORM carries out the same risk management services as Atlanta, this Southern city cannot serve as a benchmark for the District.

As set forth in ORM's public performance oversight hearings, ORM staff works with the Office of Contract and Procurement (OCP) to assess insurance requirements on any procurement over $100,000, and requires that contractors maintain certain types of insurance coverage with designated amounts during the entire time of the contract term. In addition, agency staff and government officials at the highest levels often seek advice from ORM on unique contract projects to determine if ORM can identify risk areas not addressed in OCP policies. In FY 11, ORM conducted 199 contract assessments of insurance requirements for District contracts. In addition, ORM staff participated in government wide training sessions on insurance requirements. Therefore, the city of Atlanta's risk management responsibility in the area of insurance is no different than the responsibility of ORM.

Furthermore, like Atlanta and Baltimore, ORM has implemented insurance programs to assist the government in reducing the cost of risk. For example, as a result of reforming the government's public sector workers' compensation insurance program in recent years, ORM saved the District $2 million in FY 11. In addition, ORM manages a Medical Liability Captive Insurance Agency that provides risk management advice and assessment to clinics in some of the District's disadvantaged communities, which allows ORM and the District to insure clinics up to $3 million in medical liability insurance so that the clinic doors can remain open and provide access to quality health care service to disadvantaged District citizen. This risk activity can hardly be considered an occupational health and safety matter. Instead, it is a unique risk reduction initiative that provides a much needed public service to a large segment of the city's population.

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Also, the Detroit Risk Management Council cited by OIG in its report (at p. 7-8) cannot serve as a benchmark agency for ORM because Detroit carries out its risk management program at the agency/department level, which prevents Detroit's risk management program from identifying, assessing and managing risk, and implementing a consistent risk reduction program throughout the entire city.  In fact, the OIG report (at 7-8) cites a study that is highly critical of Detroit's Risk Management Council.  Consequently, ORM is constrained to understand why Detroit is cited as a benchmark for ORM.  Unlike Detroit, which manages its risk reduction activities at each city agency, ORM's risk management program is city-wide, and policies are consistently applied throughout the entire government.

ORM posits that like Texas, it too has broadened its risk reduction efforts to also focus on fraud detection and prevention, workplace violence, property loss analysis, return to work, and other risk reduction programs.  For example, recently, ORM worked with DCHR to draft a city-wide workplace violence policy that should be issued in Fall 2012. ORM has instituted a return to work program for its workers' compensation insurance program, and for the first time in ORM's history, hired a Return to Work Coordinator to facilitate returning workers back into the workplace after they have recovered from their injuries.  In 2011, ORM looked at the District's tort claim payouts and identified the top five agencies who had incurred the most payouts. Exh. No. 10.  ORM met with the agency heads to discuss its findings and to begin a dialogue on how to remediate these risks.  ORM referred workers' compensation claimants to OIG and the United States Attorney Office for criminal prosecution when it received information that injured workers had received benefits as a result of fraud.  In addition, ORM has engaged the Office of Attorney General (OAG) to file civil lawsuits against injured workers to collect benefits that were secured through fraud.  Also, ORM is drafting a city-wide policy to secure confidential, personal information of employees, government customers and clients.  ORM also meets with Office of Attorney General senior management to discuss litigation issues and to identify risk issues that may need to be addressed as a result of the filing of lawsuits with similar risk issues.

As the preceding discussion illustrates, ORM is implementing risk reduction programs that clearly fall outside of the area of health and safety.  OIG's failure to acknowledge ORM's broad risk management activities, which began during the relevant time period that covers this audit, demonstrates that OIG staff may not completely understand the mission, work and current activities of ORM.  In fact, it appears that OIG requested very little information or documents from ORM regarding ORM's risk management activities, initiatives or goals.  And as stated above, ORM had no prior notice that OIG would be looking into and commenting on the type of risk management activities that it assesses through its programs.  Moreover, it appears that OIG may have inappropriately broadened the scope of its initial inquiry, which concerned whether ORM has "implemented and maintained a system for managing the resolution of audit recommendations."  The failure to understand ORM's risk management activities, operations and initiative may have led to this erroneous finding.

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ORM appreciates the important work that is carried out by OIG.  ORM welcomes the opportunity to sit down with OIG staff to further discuss the scope of this report and how the two agencies can work together to improve the efficiency of District Government operations.  Please feel free to contact me if you have any further questions about ORM's response to your audit finding.  In the spirit of cooperation, I am

Respectfully,

Phillip A. Lattimore III, Esq.
Chief Risk Officer and Director


cc:     Allen Lew, City Administrator
        Chairman Phil Mendelson, Council of the District of Columbia

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