

TESTIMONY OF DANIEL W. LUCAS, INSPECTOR GENERAL

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

PUBLIC OVERSIGHT HEARING ON THE “FISCAL YEAR 2014 COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)”

February 5, 2015

GOOD MORNING CHAIRMAN MENDELSON AND MEMBERS OF THE COMMITTEE. I AM DANIEL W. LUCAS, INSPECTOR GENERAL FOR THE DISTRICT OF COLUMBIA, AND I AM PLEASED TO SPEAK BEFORE YOU THIS MORNING ON THE ISSUANCE OF THE DISTRICT’S FISCAL YEAR (FY) 2014 COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR). ACCOMPANYING ME TODAY ARE RONALD W. KING, ASSISTANT INSPECTOR GENERAL FOR AUDITS AND REPRESENTATIVES FROM KPMG LLP (KPMG), THE AUDIT FIRM THAT THE OFFICE OF THE INSPECTOR GENERAL (OIG) CONTRACTED TO AUDIT THE DISTRICT’S FINANCIAL STATEMENTS.

KPMG GAVE THE DISTRICT OF COLUMBIA AN UNQUALIFIED, OR A CLEAN AUDIT OPINION, ON ITS FINANCIAL STATEMENTS FOR FY 2014. THIS REPRESENTS THE 18th CONSECUTIVE YEAR THAT THE DISTRICT HAS RECEIVED A “CLEAN” OPINION FROM ITS INDEPENDENT AUDITORS. ACCOMPANYING THE FINANCIAL STATEMENT AUDIT AND OPINION IS THE YELLOW BOOK REPORT, OFFICIALLY KNOWN AS THE *INDEPENDENT AUDITORS’ REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS*. THE YELLOW

BOOK REPORT DISCUSSES THE INTERNAL CONTROLS OVER FINANCIAL REPORTING, WITH A PARTICULAR FOCUS ON SIGNIFICANT DEFICIENCIES AND COMPLIANCE WITH LAWS AND REGULATIONS.

THE 2014 CAFR IS THE 6th CONSECUTIVE YEAR THE AUDIT FOUND NO MATERIAL WEAKNESSES IN THE CITY'S FINANCIAL STATEMENTS. THE AUDIT, HOWEVER, DID NOTE THREE SIGNIFICANT DEFICIEINCES RELATED TO A FAILURE TO ADHERE TO EXISTING POLICIES AND PROCEDURES, AND A LACK OF ADEQUATE SUPERVISION OR OVERSIGHT AND EFFECTIVE MONITORING OF CONTROLS.

FROM THE OIG'S PERSPECTIVE, THE DISTRICT OF COLUMBIA'S OVERALL FINANCIAL MANAGEMENT CONTINUES TO PROGRESS. LET ME SHARE SOME PERSPECTIVES ABOUT THE OIG'S ROLE IN THE CAFR OVERSIGHT PROCESS.

CAFR OVERSIGHT PROCESS

THE OIG MONITORS THE CONTRACT AND OVERSEES THE AUDIT PROCESS WITH THE ASSISTANCE OF THE CAFR OVERSIGHT COMMITTEE, WHICH THE OIG CHAIRS. THE COMMITTEE ENSURES THAT OBSTACLES THAT MAY HINDER THE COMPLETION OF THE AUDIT, OR MATTERS THAT NEED DISTRICT MANAGEMENT'S ATTENTION, ARE DISCUSSED WITH THE APPROPRIATE DECISION MAKERS AND PROMPTLY RESOLVED. THE COST OF THE FY 2014 CAFR CONTRACT TOTLED ABOUT \$3 MILLION, THE SAME AS LAST YEAR'S COST.

THIS AUDIT MARKS THE 5TH AND FINAL YEAR FOR KPMG TO AUDIT THE CAFR. KPMG'S ROLE WILL CONCLUDE ON APRIL 30, 2015. THE OIG HAS ALREADY BEGUN THE PROCESS TO PROCURE ANOTHER INDEPENDENT AUDITOR TO BEGIN AUDITING THE DISTRICT'S FINANCIAL STATEMENTS BY MAY 1, 2015.

AREAS REQUIRING MANAGEMENT'S ATTENTION

THE CAFR AUDIT IDENTIFIED THREE SIGNIFICANT DEFICIENCIES THAT COULD AFFECT THE DISTRICT'S ABILITY TO INITIATE, AUTHORIZE, RECORD, PROCESS, RECONCILE, AND REPORT FINANCIAL DATA; SPECIFICALLY:

1. GENERAL INFORMATION TECHNOLOGY (IT) CONTROLS;
2. PROCUREMENT AND DISBURSEMENT CONTROLS; AND
3. MEDICAID AND GRANTS ADMINISTRATION AND MONITORING CONTROLS.

IN ADDITION, KPMG REPORTED TWO INSTANCES OF NONCOMPLIANCE WITH PROVISIONS OF LAWS, REGULATIONS, CONTRACTS, AND/OR GRANT AGREEMENTS: THE PROCUREMENT PRACTICES ACT REGULATIONS, AND THE QUICK PAYMENT ACT.

WHILE WORK REMAINS, IT IS NECESSARY TO RECOGNIZE AND BUILD UPON THE IMPROVEMENTS, SUCH AS THREE SIGNIFICANT DEFICIENCIES THIS YEAR INSTEAD OF FOUR FY 2013 SIGNIFICANT DEFICIENCIES, AND TO KEEP THE FINDINGS AND RECOMMENDATIONS IN CONTEXT. FOR THESE REASONS, THE OIG HAS CONDUCTED, AND WILL CONTINUE TO CONDUCT, AUDITS IN KEY

AREAS, ESPECIALLY THE AREA OF PROCUREMENTS. I AM CONSIDERING THREE NEW INITIATIVES TO HELP THE DISTRICT BETTER UNDERSTAND ITS INTERNAL CONTROL ENVIRONMENT AND MITIGATE VULNERABILITIES WHEN UNCOVERED. MY GOAL, WORKING WITH THE MAYOR AND CITY COUNCIL IS TO HAVE THESE INITIATIVES IMPLEMENTED BY THE END OF FY16.

THE FIRST INITIATIVE FOCUSES ON THE CONTRACTING AND PROCUREMENT ENVIRONMENT. I PLAN TO BUILD A MULTI-DISCIPLINED TEAM CONSISTING OF AN AUDITOR, AN INSPECTOR, AN INVESTIGATOR, A CONTRACTING AND PROCUREMENT SPECIALIST, AND AN ATTORNEY. THIS TEAM WILL SYSTEMATICALLY EXAMINE THE INTEGRITY OF THE CONTRACTING AND PROCUREMENT FUNCTION IN THOSE AGENCIES THAT HAVE CONTRACTING AUTHORITY. THE GOAL IS TO ASSESS WHETHER THE CONTINUUM, FROM DETERMINING PROCUREMENT REQUIREMENT ALL THE WAY TO RECEIVING GOODS AND SERVICES, IS FREE OF VULNERABILITIES RELATED TO FRAUD, WASTE, ABUSE OR MISMANAGEMENT.

THE SECOND INITIATIVE IS TO CONDUCT PROACTIVE DATA MINING WITHIN THE DISTRICT'S FINANCIAL MANAGEMENT INFORMATION SYSTEMS. THE GOAL IS TO ESTABLISH A CONSTRUCT WHERE DEFINED ANAMOLIES, OR RED FLAGS, CAN BE MORE EASILY IDENTIFIED. THESE INDICATORS WILL THEN DRIVE THE PRECISE APPLICATION OF OIG RESOURCES TO EXAMINE POTENTIAL FRAUDULENT AND OR WASTEFUL PRACTICES.

FINALLY, AS YOU MAY NOTE, THERE HAVE BEEN RECURRING FINDINGS WITHIN THE CAFR OVER THE LAST SEVERAL YEARS. MY LAST INITIATIVE IS TO AFFECT A MORE ROBUST SYSTEM TO TRACK AND IMPLEMENT RECOMMENDATIONS THAT RESULT FROM AUDITS, INSPECTIONS, AND INVESTIGATIONS. THE GOAL IS TO PARTNER WITH DISTRICT AGENCIES AND ACTUALLY FIX THE PROBLEMS UNCOVERED AS A RESULT OF OUR WORK, INSTEAD OF SIMPLY IDENTIFYING ISSUES.

IN SUMMARY, MY OVERARCHING GOAL IS TO MORE AGGRESSIVELY FIND AND AFFECT CHANGES THAT IMPROVE THE DISTRICT'S EFFECTIVENESS AND EFFICIENCY OF OPERATIONS.

ACTIONS STILL NEEDED

MANAGEMENT HAS BEEN ADVISED OF THE SIGNIFICANT DEFICIENCIES PREVIOUSLY MENTIONED. IN THIS REGARD, I BELIEVE THAT THE OIG CAN BEST SERVE THE DISTRICT IN ASSESSING AND MITIGATING RISKS ASSOCIATED WITH THE IDENTIFIED DEFICIENCIES IN THIS YEAR'S CAFR BY:

- DEDICATING OIG RESOURCES TO HELP MITIGATE RISKS; AND,
- IDENTIFYING AND RECOMMENDING IMPROVEMENTS TO THE CONSISTENT AND PERVERSIVE PROBLEMS IN DISTRICT OPERATIONS; INCLUDING INTERNAL CONTROL MECHANISMS.

CONCLUSION

IN CLOSING, I WOULD LIKE TO TAKE THIS OPPORTUNITY TO THANK THE CAFR COMMITTEE MEMBERS FOR THEIR LEADERSHIP AND EXPERTISE IN MONITORING THE CAFR OVER THE LAST SEVERAL MONTHS, KEEPING MANAGEMENT AND OTHERS ABREAST OF THE ADDITIONAL REQUIRED WORK, AND ASSISTING THE AUDITORS IN FACILITATING THE COMPLETION OF THE AUDIT ON SCHEDULE. IN THAT REGARD, I WANT TO GIVE SPECIAL RECOGNITION TO RON KING, OF MY STAFF; BILL SLACK FROM THE OFFICE OF THE CHIEF FINANCIAL OFFICER; AND PAUL GERATY AND THE REPRESENTATIVES OF KPMG FOR THEIR PROFESSIONALISM, HARD WORK, AND COMMITMENT TO GETTING THE JOB DONE.

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