

**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 2015 COMPREHENSIVE ANNUAL  
FINANCIAL REPORT (CAFR)”**

**FEBRUARY 3, 2016**

---

GOOD MORNING CHAIRMAN MENDELSON AND MEMBERS OF THE COMMITTEE. I AM DANIEL W. LUCAS, INSPECTOR GENERAL FOR THE DISTRICT OF COLUMBIA. I AM PLEASED TO SPEAK BEFORE YOU THIS MORNING ON THE ISSUANCE OF THE DISTRICT’S FISCAL YEAR (FY) 2015 COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR). ACCOMPANYING ME TODAY ARE MEMBERS OF MY OFFICE AND REPRESENTATIVES FROM SB & COMPANY (SB&C), THE AUDIT FIRM THAT THE OIG CONTRACTED WITH TO AUDIT THE DISTRICT’S FINANCIAL STATEMENTS.

FOR FY 2015, THE DISTRICT OF COLUMBIA RECEIVED AN UNQUALIFIED, OR A CLEAN AUDIT OPINION, ON ITS FINANCIAL STATEMENTS. THIS REPRESENTS THE 19<sup>th</sup> CONSECUTIVE YEAR THAT THE DISTRICT HAS RECEIVED A “CLEAN” OPINION FROM ITS INDEPENDENT AUDITORS.

EVEN BETTER NEWS IS THAT THE 2015 AUDIT DID NOT IDENTIFY ANY MATERIAL WEAKNESSES OR SIGNIFICANT DEFICIENCIES RELATED TO THE DISTRICT’S FINANCIAL STATEMENTS. THIS MEANS THERE WILL NOT BE A NEED TO PUBLISH

A YELLOW BOOK REPORT THIS YEAR.<sup>1</sup> I BELIEVE THE LACK OF A YELLOW BOOK REPORT IS DUE, IN PART, TO THE WORK OF THE REMEDIATION TASK FORCE, WHICH WAS CONVENED SHORTLY AFTER THE FY 2014 CAFR HEARING TO ADDRESS RECURRENT SIGNIFICANT DEFICIENCIES. THIS TASK FORCE INCLUDED THE OFFICE OF THE CITY ADMINISTRATOR (OCA), OFFICE OF THE CHIEF FINANCIAL OFFICER (OCFO), AND MY OFFICE.

**CAFR REMEDIATION TASK FORCE**

EACH OF OUR OFFICES PLAYED A DISTINCT ROLE IN THE TASK FORCE. THE CITY ADMINISTRATOR SET THE “TONE AT THE TOP” BY ENSURING SIGNIFICANT DEFICIENCY REMEDIATION WAS A PRIORITY FOR DISTRICT AGENCIES. THE CHIEF FINANCIAL OFFICER AND HIS STAFF PROVIDED TECHNICAL EXPERTISE IN ASSISTING AGENCIES WITH REMEDIATING THE DEFICIENCIES, AND FINALLY, MY OFFICE PERFORMED REMEDIATION TESTING TO INDEPENDENTLY DETERMINE: (1) WHETHER SIGNIFICANT DEFICIENCIES HAD BEEN REMEDIATED; (2) WHETHER AGENCY REMEDIATION PLANS WERE EFFECTIVE IN CORRECTING THE SIGNIFICANT DEFICIENCIES; AND (3) IF THERE WERE BARRIERS THAT MAY HAVE IMPEDED SIGNIFICANT DEFICIENCY REMEDIATION EFFORTS.

OUR COLLECTIVE EFFORTS ENSURED THAT DISTRICT AGENCIES MADE DEFICIENCY REMEDIATION A PRIORITY, HAD ACCESS TO THE REQUISITE TOOLS AND KNOWLEDGE TO CORRECT THE DEFICIENCIES, AND HAD AN OBJECTIVE

---

<sup>1</sup> OFFICIALLY KNOWN AS THE *INDEPENDENT AUDITORS’ REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS*.

ASSESSMENT REGARDING THE SUCCESS OF THEIR REMEDIATION EFFORTS. OVERALL, I BELIEVE THESE EFFORTS WERE INSTRUMENTAL IN THE LACK OF A NEED TO PUBLISH A YELLOW BOOK REPORT FOLLOWING THE FY 2015 CAFR AUDIT. FROM MY PERSPECTIVE, THE DISTRICT OF COLUMBIA'S OVERALL FINANCIAL MANAGEMENT CONTINUES TO PROGRESS. IN THIS REGARD, LET ME SHARE SOME HIGHLIGHTS ABOUT OUR ROLE IN THE CAFR OVERSIGHT PROCESS.

**CAFR CONTRACT AWARD, ADMINISTRATION, AND OVERSIGHT**

AS YOU ARE AWARE, THE D.C. CODE REQUIRES MY OFFICE TO ENTER INTO A CONTRACT WITH AN INDEPENDENT AUDITOR TO AUDIT THE DISTRICT'S FINANCIAL STATEMENTS. THE INDEPENDENT AUDITOR MAY NOT PROVIDE AUDIT SERVICES FOR MORE THAN 5 CONSECUTIVE YEARS. FY 2015 MARKS THE FIRST YEAR THAT SB&C SERVED AS THE DISTRICT'S INDEPENDENT AUDITOR. THE SELECTION OF SB&C WAS BASED ON EVALUATION CRITERIA THAT INCLUDED: 1) EXPERIENCE AND REFERENCES; 2) PROPOSED KEY PERSONNEL; AND 3) TECHNICAL APPROACH TO CONDUCTING THE FINANCIAL STATEMENT AUDIT.

SB&C'S PROPOSED PRICE FOR THE BASE YEAR WAS \$1.74 MILLION, WHICH IS ABOUT \$1.3 MILLION LESS THAN THE PRIOR INDEPENDENT AUDITOR'S COST. THIS SIGNIFICANT SAVINGS IS DUE TO THE STRUCTURE OF THE SOLICITATION, WHICH RESULTED IN HEIGHTENED COMPETITION AMONG THE PROSPECTIVE

CONTRACTORS. THE HEIGHTENED COMPETITION WAS REFLECTED IN THE RANGE OF BID PROPOSALS BEING ONLY \$180 THOUSAND.

DURING THE FY 2015 CAFR AUDIT, MY OFFICE MONITORED THE CONTRACT AND OVERSAW THE AUDIT PROCESS WITH THE ASSISTANCE OF THE CAFR OVERSIGHT COMMITTEE, WHICH MY OFFICE CHAIRS. IN CAREFUL COORDINATION WITH THE OCFO, AND THE RESPONSIVENESS OF DISTRICT AGENCIES, WE WERE ABLE TO ENSURE A SMOOTH EXECUTION, LEADING TO TIMELY COMPLETION OF THE FY 2015 CAFR AUDIT.

**AREAS REQUIRING MANAGEMENT'S ATTENTION**

WHILE THE DISTRICT'S OVERALL FINANCIAL STATEMENT AUDIT DID NOT IDENTIFY ANY MATERIAL WEAKNESSES OR SIGNIFICANT DEFICIENCIES, THE COMPONENT AUDITS DID IDENTIFY ONE MATERIAL WEAKNESS AND TWO SIGNIFICANT DEFICIENCIES, ALL WITHIN THE UNITED MEDICAL CENTER (UMC). SPECIFICALLY, THE MATERIAL WEAKNESS HAD TO DO WITH MEDICARE BILLING VIOLATIONS UNDER CENTERS FOR MEDICARE & MEDICAID SERVICES REGULATIONS, AND THE TWO SIGNIFICANT DEFICIENCIES HAD TO DO WITH:

(1) A LACK OF FORMAL PROCESSES FOR THE REVIEW OF CHANGES TO EMPLOYEE RECORDS AND UPDATING EMPLOYEE DEDUCTIONS; AND (2) A LACK OF WRITTEN PROCEDURES RELATED TO THE MONTHLY AND YEAR-END CLOSE OUT PROCESS, AND REVIEWS OF MONTHLY RECONCILIATIONS AND SUPPORT PROVIDED TO OUTSIDE REIMBURSEMENT SPECIALISTS.

WHILE THESE WEAKNESSES ARE NOT MATERIAL TO THE DISTRICT'S OVERALL FISCAL HEALTH, THEY DO PRESENT THE NEED FOR UMC MANAGEMENT TO IMPROVE ITS INTERNAL CONTROL ENVIRONMENT. AS WE DID FOR FY 2014, MY OFFICE WILL CONTINUE TO PROVIDE AN INDEPENDENT ASSESSMENT OF UMC'S REMEDIATION EFFORTS RELATED TO THESE DEFICIENCIES.

ADDITIONALLY, SIMILAR TO PREVIOUS YEARS, THE INDEPENDENT AUDITOR WILL PROVIDE A *MANAGEMENT LETTER REPORT* IN MARCH 2016. THIS REPORT WILL PROVIDE COMMENTS AND RECOMMENDATIONS INTENDED TO IMPROVE INTERNAL CONTROLS OR RESULT IN OTHER OPERATING EFFICIENCIES WITHIN THE DISTRICT GOVERNMENT. THE OFFICE OF THE CITY ADMINISTRATOR, THE OFFICE OF THE CHIEF FINANCIAL OFFICER, AND MY OFFICE INTEND TO INCLUDE THESE RECOMMENDATIONS AS PART OF THIS YEAR'S REMEDIATION TASK FORCE.

## **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 AUDIT OVER THE LAST SEVERAL MONTHS, KEEPING MANAGEMENT AND OTHERS ABREAST OF THE ADDITIONAL REQUIRED WORK, AND ASSISTING THE AUDITORS IN COMPLETING THE AUDIT ON SCHEDULE. IN THAT REGARD, I WANT TO GIVE SPECIAL RECOGNITION TO THE CAFR COMMITTEE CHAIR MARIE HART, FROM MY OFFICE; BILL SLACK FROM THE OCFO; AND GRAY SMITH AND

THE REPRESENTATIVES OF SB&C 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.