

**TESTIMONY OF DANIEL W. LUCAS, INSPECTOR GENERAL**  
**BEFORE THE**  
**COUNCIL OF THE DISTRICT OF COLUMBIA**  
**COMMITTEE ON GOVERNMENT OPERATIONS AND FACILITIES**  
**PUBLIC OVERSIGHT HEARING ON:**  
**“Emergency Procurements During the Public Health Emergency”**  
**July 14, 2021**

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Good afternoon Chairperson White and Members of the Committee. I am Daniel W. Lucas, Inspector General for the District of Columbia. I am pleased to appear before the Committee to talk about the Office of the Inspector General’s (OIG) oversight work related to emergency procurements during the COVID-19 Public Health Emergency. Joining me today is Fekede (Fed) Gindaba, Assistant Inspector General for Audits. In addition to leading the District’s Comprehensive Annual Financial Report (CAFR) Audit Committee, Mr. Gindaba’s team conducted the [\*Audit of District Procurement During the COVID-19 Public Health Emergency\*](#)<sup>1</sup> (hereafter Close Out Letter).

Regarding the Committee’s Oversight Roundtable today, I would now like to discuss the OIG’s oversight work to date, specifically our reporting in the OIG’s [\*Fiscal Year \(FY\) 2020 Management Recommendations Report \(or Report\)\*](#)<sup>2</sup> and our May 2021 Close Out Letter.

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<sup>1</sup> D.C. OFFICE OF THE INSPECTOR GEN., CLOSEOUT LETTER OF THE AUDIT OF DISTRICT PROCUREMENT DURING THE COVID-19 PUBLIC HEALTH EMERGENCY (OIG Project No. 20-1-01MA)(May 2021), <http://app.oig.dc.gov/news/view2.asp?url=release10%2FAudit+of+the+District+Procurement+During+the+COVID%2D19+Public+Health+Emergency+%28sanitized%29%2Epdf%0A%0A&mode=audit&archived=0&month=20214&agency=0> (last visited Jul. 10, 2021).

<sup>2</sup> D.C. OFFICE OF THE INSPECTOR GEN., GOV’T OF THE D.C. COMPREHENSIVE ANNUAL FINANCIAL REPORT MANAGEMENT RECOMMENDATIONS FOR FISCAL YEAR ENDED SEPTEMBER 30, 2020 (OIG Project No. 21-1-03MA)(Jan. 2021),

## **FY 2020 CAFR Audit and Management Recommendations**

The OIG is statutorily responsible for contracting with an independent “auditor who is not an officer or employee of the [OIG]”<sup>3</sup> to “audit the complete financial statement and report on the activities of the District government for [each] fiscal year....”<sup>4</sup>

In addition to auditing the District’s financial statements and issuing audit opinions, the independent auditors must also communicate to management and those charged with governance any other matters related to the District’s internal control effectiveness. The *FY 2020 Management Recommendations Report* contains the independent auditors’ findings, conclusions, and recommendations designed to improve internal control, operation, and compliance with applicable laws and regulations. In the Report, one of the independent auditors’ findings, entitled “Controls Over Emergency Procurement Were Not Operating Effectively,” discussed in detail five control deficiencies over emergency procurements.<sup>5</sup> Absent effective controls that would allow management to prevent, or detect and correct an error on a timely basis, the independent auditors concluded there was a “risk that the cost of items procured under a valid emergency procurement procedure will be disallowed for reimbursement [by the federal government],”<sup>6</sup> and the District would be forced to pay for these procurements using local funds. To effectively address the risk, the independent auditors recommended that the “Chief Operating Officer of [the Office of Contracting and Procurement (OCP) should] ensure that all applicable

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<http://app.oig.dc.gov/news/view2.asp?url=release10%2FOIG+No%2E+21%2D1%2D03MA%28a%29+DC+Govt+F Y20+Management+Letter%2Epdf&mode=audit&archived=0&month=20211&agency=0> (last visited Jul. 10, 2021).

<sup>3</sup> D.C. Code § 1-301.115a(a)(4).

<sup>4</sup> D.C. Code § 1-301.115a(a)(3)(H).

<sup>5</sup> A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

<sup>6</sup> *Supra* FN 2 at 15-16.

documentation supporting the procurement of and payment for goods and services procured using emergency procurement processes is maintained and that appropriate, timely notification be made to Council of such emergency procurements as required by law.”<sup>7</sup>

As required by Generally Accepted Government Auditing Standards (GAGAS), OCP was provided an opportunity to respond to the independent auditor’s findings. OCP’s response to the draft findings is contained verbatim in the *FY 2020 Management Recommendations Report*. Based on OCP’s response, the independent auditors re-examined their facts and conclusions, determined that their draft findings, conclusions, and recommendations were fairly presented, and elected to keep the findings as presented.<sup>8</sup>

As the OIG’s independent auditors conduct their FY 2021 CAFR audit work, they are contractually required to report to the OIG on the implementation status of the FY 2020 recommendations. To date, the independent auditors have indicated that the recommendation concerning “Controls Over Emergency Procurement Were Not Operating Effectively” has not been implemented. Over the remainder of FY 21, the OIG CAFR Audit Committee will discuss the status of the open recommendations and the FY 2022 Management Recommendations Report will memorialize the implementation status of the recommendations as of September 30, 2021.

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<sup>7</sup> *Supra* FN 2 at 17.

<sup>8</sup> *Id.*

## **OIG Audit of District Procurement During the Public Health Emergency**

Concurrent with the independent auditors' work, the OIG was continuously monitoring the fraud risk associated with emergency procurements during the COVID-19 pandemic. On May 15, 2020, we notified OCP in a Management Alert Report (MAR)<sup>9</sup> of the risks the OIG and other state and federal entities identified related to COVID-19 procurement fraud.

Throughout the remainder of FY 2020 we felt the risks related to the District's emergency procurements remained due to the prolonged length of COVID-19 pandemic. As such, we elected to do our own look into emergency procurements, beyond the work of our independent auditors. We identified this project in the OIG's [\*FY 2021 Audit and Inspection Plan\*](#)<sup>10</sup> as the "Audit of District Procurement During the COVID-19 Public Health Emergency."

Following publication of our *FY 2021 Audit and Inspection Plan*, the OIG notified OCP that we planned to start the audit on or about September 21, 2020.<sup>11</sup> Our objectives were to determine whether: (1) the District received the goods and services in accordance with agreed-to terms and conditions; (2) supplies and services were procured at fair market value; and (3) procurements had proper approvals and were adequately managed.

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<sup>9</sup> An OIG MAR is issued to inform a specific agency's management of a matter that surfaced during our work that requires immediate attention.

<sup>10</sup> D.C. OFFICE OF THE INSPECTOR GEN., FISCAL YEAR 2021 AUDIT AND INSPECTION PLAN (Aug. 2020), <https://oig.dc.gov/sites/default/files/dc/sites/oig/publication/attachments/DC-OIG-FY21-Audit-and-Inspection-Plan.pdf> (last visited Jul. 10, 2021).

<sup>11</sup> See Letter from Daniel W. Lucas, Inspector Gen., to Christopher Rodriguez, Director of the D.C. Homeland Security and Emergency Mgmt. Agency, and George A. Shutter, Director of the D.C. Office of Contracting and Procurement (Sept. 16, 2021), <http://app.oig.dc.gov/news/view2.asp?url=release10%2FOIG+No%2E+21%2D1%2D01MA+%2D%2D+Engagement+Letter+on+the+Audit+of+the+District%27s+Procurement+During+COVID%2D19+Public+Emergency%2Epdf&mode=letters&archived=0&month=00000&agency=0> (last visited Jul. 10, 2021).

Following the OIG’s announcement of this audit, OCP requested two postponements. OCP’s initial request asked to delay the audit until the COVID-19 pandemic ends and District procurement activities return to steady-state. The OIG elected to postpone the audit start until the end of October 2020. In its October 31, 2020, amended postponement request, OCP noted that its staff “needed to address this audit, including uploading the necessary documents [to its information technology systems].” The OIG ultimately postponed the audit entrance conference to January 11, 2021.

**OIG Field Work.** After the entrance conference, OCP raised concerns over the OIG’s access to systems and databases OCP used to manage activities such as receiving, storing, and issuing procured goods. OCP initially indicated that access to two of its systems, QuickBase and BarCloud, “w[ould] not be provided as the systems contain confidential, deliberative and procurement sensitive information well beyond the scope of the current audit.” During the audit team’s review of these two systems, the OIG learned of another system (Smartsheet) – not previously disclosed – with which OCP tracked and monitored outstanding orders from suppliers. The OIG had several meetings with OCP officials to overcome OCP’s objections to providing the OIG access to these systems. Despite the OIG’s statutory authority granting access to the systems, the OIG was unable to access the entirety of information OCP maintained in the BarCloud and Smartsheet systems during the engagement.<sup>12</sup>

Notwithstanding impediments relating to access to OCP’s systems, on March 12, 2021, the OIG audit team visited three of six warehouses to observe the existence, location, and condition of the

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<sup>12</sup> D.C. Code § 1-301.115a(c)(1) states that the OIG “shall have access to the books, accounts, records, reports, findings, and all other papers, items, or property belonging to or in use by all departments, agencies, instrumentalities, and employees of the District government, including agencies which are subordinate to the Mayor, independent agencies, boards, and commissions, but excluding the Council of the District of Columbia, and the District of Columbia Courts, necessary to facilitate an audit, inspection or investigation.”

inventory, including receiving and issuing procedures for the inventory. The OIG audit team observed that warehouse managers needed additional time to complete several processes: inventory counting; identifying and addressing inventory items that have been damaged beyond usability; and developing a process for inventory valuations and adjustments.

Based on a limited review of OCP's documentation and our site visit to OCP's warehouses, we could not gather sufficient and appropriate evidence to answer our three audit objectives due to our inability to access OCP records and databases. As a result, the OIG issued the Close Out Letter documenting our observations and identifying six specific opportunities for improvement. I have included those opportunities for improvement as an attachment to my written testimony.

**Why Close Out vs. Complete the Audit?** The OIG conducts its audits in accordance with generally accepted government auditing standards (GAGAS) promulgated by the U.S. Government Accountability Office (GAO).<sup>13</sup> GAO standards require the OIG to obtain “sufficient, appropriate evidence to provide a reasonable basis for addressing the audit objectives and supporting [our] findings and conclusions.”<sup>14</sup>

At the time of our fieldwork, OCP was unable to provide the OIG with sufficient, appropriate documentation and information to allow the OIG to address the audit's objectives. Specifically, the OIG audit team was unable to establish OCP's universe of emergency procurements and unable to draw statistically valid sample items. Because we could not satisfy GAGAS

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<sup>13</sup> D.C. Code § 1-301.115a(b)(1).

<sup>14</sup> U.S. GOV'T ACCOUNTABILITY OFFICE, GAO-21-368G, GOVERNMENT AUDITING STANDARDS, § 8.90 at 179 (Apr. 2021), <https://www.gao.gov/assets/gao-21-368g.pdf>.

requirements in conducting the audit and producing an audit report, the OIG issued the Close Out Letter with a modified compliance statement due to scope limitations. Further, in providing our observations and opportunities for improvement in an expedited fashion, it afforded OCP with more time to improve its internal control system while it operated with emergency procurement authority, before the OIG reengaged its oversight work.

### **Conclusion**

In conclusion Chairperson White and members of the Committee, procurement in an emergency environment introduces heightened risks as internal controls are relaxed to facilitate expediency – which can lead to suboptimal procurement actions and outcomes. The independent auditors’ management recommendations, as well as the results from our work, present common-sense solutions to help improve the District’s emergency procurement activity control environment. Addressing these findings will help the District to ensure it receives the goods and services it has paid for, there is integrity in the entirety of the District’s supply chain, District agencies receive supplies needed to support the emergency response, and the District is able to seek and receive reimbursement from the federal government. I look forward to hearing from the Chief Procurement Officer on how he and his team are taking steps to address the matters I have discussed today.

As a final note, the OIG has not concluded its oversight of the District procurement during the Public Health Emergency. Currently, the OIG’s independent auditors are following up on recommendations made during the FY 2020 CAFR audit. Simultaneously, the OIG is planning incremental oversight using our FY 2022 budget enhancement made possible by this Committee.

And, as we finalize our FY 2022 Audit and Inspection Plan, the OIG will include subsequent engagements that build upon our *Audit of District Procurement During the COVID-19 Public Health Emergency*.

This concludes my testimony, and I welcome any questions.

Attachment to:

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**OCP Opportunities for Improvement Identified in the OIG's**

*Audit of District Procurement During the COVID-19 Public Health Emergency*

Based on the conditions the OIG observed during this engagement, we recommend that the Chief Procurement Officer consider the following suggestions to improve warehouse operations and management:

1. Implement additional procedures to complete stock existence validation, identify and address stock deterioration and damages, and reconcile discrepancies among physical count and inventory records.
2. Develop additional standardized forms similar to the DLC WAREHOUSE ORDER PICKLIST to track proof of deliveries from suppliers and upload the forms into the BarCloud system as part of updating inventory records.
3. Develop additional procedures to upload signed copies of the DLC WAREHOUSE ORDER PICKLIST forms into the BarCloud system.
4. Automate the reconciliation process by interfacing the four IT systems used to order, receive, store, and issue inventory items.
5. Capture unit cost in the BarCloud system to calculate the total dollar value of inventory purchased, issued, and in-stock at six warehouses.
6. Increase resources for each warehouse to complete some of the work-in-progress activities.