# TESTIMONY OF CHARLES J. WILLOUGHBY
# INSPECTOR GENERAL
# BEFORE THE COMMITTEE ON WORKFORCE DEVELOPMENT AND GOVERNMENT OPERATIONS
# PUBLIC OVERSIGHT ROUNDTABLE ON CONTRACTING AND PROCUREMENT IN THE DISTRICT OF COLUMBIA

**November 26, 2007**

GOOD AFTERNOON, CHAIRPERSON SCHWARTZ AND MEMBERS OF THE COMMITTEE. I WELCOME THE OPPORTUNITY TO SHARE WITH YOU OUR PERSPECTIVES CONCERNING THEFT AND FRAUD PREVENTION IN GOVERNMENT CONTRACTING AND PROCUREMENT. SEATED WITH ME IS WILLIAM J. DIVELLO, ASSISTANT INSPECTOR GENERAL FOR AUDITS.

I FIRST WANT TO STATE THAT MANAGEMENT AND INTERNAL CONTROLS PLAY AN IMPORTANT ROLE IN FRAUD PREVENTION AND DETECTION. ALTHOUGH WEAK INTERNAL CONTROLS DO NOT GUARANTEE THE EXISTENCE OF FRAUD, WEAK CONTROLS ARE CONDUCIVE FOR FRAUD TO OCCUR. ACCORDINGLY, AGENCIES MUST ESTABLISH AND MAINTAIN AN ENVIRONMENT THAT FOSTERS A PROACTIVE AND SUPPORTIVE ATTITUDE TOWARD INTERNAL CONTROLS AND CONSCIENTIOUS MANAGEMENT.

IN THIS REGARD, ON OCTOBER 19, 2007, THE OIG ISSUED A MANAGEMENT IMPLICATION REPORT (MIR) ON SYSTEMIC INTERNAL CONTROL DEFICIENCIES REPORTED IN PERFORMANCE AND FINANCIAL AUDIT REPORTS ISSUED BY THE OIG DURING FISCAL YEARS (FYS) 2004-2007 (ATTACHED TO MY STATEMENT). THE INFORMATION, DATA ARRAYS, AND ANALYSES CONTAINED IN THIS REPORT WERE SPECIFICALLY DESIGNED TO BE USED BY DISTRICT LEADERS AND OTHER STAKEHOLDERS IN EVALUATING AREAS IN WHICH INTERNAL CONTROLS MAY NEED STRENGTHENING AT THEIR RESPECTIVE AGENCIES. THE REPORT CLASSIFIED SYSTEMIC CONTROL DEFICIENCIES INTO FOUR CATEGORIES: (1) LACK OF DOCUMENTATION; (2) INEFFECTIVE POLICIES AND PROCEDURES; (3) INEFFECTIVE MANAGEMENT

OVERSIGHT; AND (4) INEFFECTIVE CONTROLS TO PREVENT OR DETECT FRAUD.

I WOULD NOW LIKE TO DISCUSS WITH YOU PAST INTERNAL CONTROL PROBLEMS THAT HAVE BEEN IDENTIFIED WITH RESPECT TO THE DISTRICT'S PROCUREMENT SYSTEM, NEW ACCOUNTING STANDARDS THAT ADDRESS MANAGEMENT'S AND AUDITOR'S RESPONSIBILITIES AS THEY RELATE TO IDENTIFYING AND PREVENTING FRAUD, WORK THAT THE OIG IS DOING IN THIS AREA, AND WHAT DISTRICT MANAGEMENT CAN DO TO PREVENT OR DETECT FRAUD IN THE OPERATIONS THAT THEY OVERSEE.

**PAST PROBLEMS WITH PROCURMENT**

BEGINNING WITH A MIR ON PROCUREMENT ISSUED IN SEPTEMBER 2002, FOLLOWED BY APPROXIMATELY 30 PROCUREMENT OR PROCUREMENT-RELATED AUDITS ISSUED SINCE THAT TIME, WE HAVE CONSISTENTLY IDENTIFIED SYSTEMIC PROCUREMENT ISSUES AND NUMEROUS DEFICIENCIES IN DISTRICT CONTRACTING ACTIONS. WHILE DISTRICT MANAGERS HAVE MADE SOME GAINS IN ADDRESSING THESE DEFICIENCIES, OUR MOST RECENT AUDITS, INSPECTIONS, AND/OR INVESTIGATIONS HAVE DISCLOSED THAT MANY OF THE FINDINGS ARE REPEAT FINDINGS OR FINDINGS OF A SIMILAR NATURE. FOR EXAMPLE, AUDITS PERTAINING TO THE DISTRICT'S MANAGED CARE ORGANIZATIONS, ADMINISTRATIVE SERVICES MODERNIZATION PROGRAM, AND HOMELAND SECURITY DISCLOSED REPEATED PROBLEMS THAT INCLUDED INEFFECTIVE COMPETITION, MISSING CONTRACT FILE DOCUMENTATION, FAULTY SOLE SOURCE JUSTIFICATIONS, LETTER CONTRACTS THAT DO NOT ACCURATELY DEFINITIZE DELIVERY OF SERVICES, LACK OF PROCUREMENT TRAINING, NON-COMPLIANCE WITH LAWS AND REGULATIONS, LITTLE OR NO EFFECTIVE CONTRACT ADMINISTRATION AND RECORDKEEPING, UNAUTHORIZED COMMITMENTS AND PURCHASES RESULTING IN VIOLATIONS OF ANTIDEFICIENCY LAWS, EXCESSIVE PROFITS MADE, AND OTHER CONTRACT ISSUES.

FOR THE PAST 5 YEARS, OIG AUDIT REPORTS HAVE CITED PROCUREMENT IN OUR ANNUAL AUDIT AND INSPECTION PLANS AND ANNUAL REPORTS AS A HIGH-RISK AREA DUE TO LAPSES IN PROCUREMENT AND CONTRACTING OPERATIONS. ALTHOUGH THESE LAPSES HAVE RESULTED IN COSTLY SIDE EFFECTS AND INEFFICIENCIES, WE DO NOT BELIEVE THEY HAVE DETRIMENTALLY AFFECTED THE OVERALL FINANCIAL HEALTH OF THE CITY. NEVERTHELESS, SYSTEMIC PROBLEMS IN THE DISTRICT'S PROCUREMENT AND CONTRACTING PROGRAMS ARE UNACCEPTABLE BECAUSE THEY DRAIN SCARCE RESOURCES, AND OFTEN DO NOT RESULT IN THE BEST VALUE FOR THE DISTRICT.

SINCE THE SEPTEMBER 2002 MANAGEMENT IMPLICATION REPORT ON PROCUREMENT (NOTED EARLIER), FOLLOWED BY THE NUMEROUS PROCUREMENT-RELATED AUDITS ISSUED SINCE THAT TIME, WE CONTINUE TO IDENTIFY CONSISTENT AND PERVASIVE PROBLEMS IN THE DISTRICT'S PROCUREMENT PROGRAM. ACCORDINGLY, WE AUDIT PROCUREMENT AND CONTRACTING ISSUES ON A CONTINUING BASIS.

**MANAGEMENT ACTIONS NEEDED**

ABUSIVE AND INEFFICIENT PROCUREMENT PRACTICES OCCUR WHEN INDIVIDUALS ENTRUSTED WITH CONTRACTING AUTHORITY FAIL TO ADHERE TO THE BASIC GUIDELINES. THAT SAID, WE BELIEVE THERE ARE SEVERAL AREAS WHERE AGGRESSIVE ACTION IS NEEDED TO IMPROVE DISTRICT PROCUREMENT AND CONTRACTING: 1) INCREASED ACCOUNTABILITY; 2) CREATING A CADRE OF KNOWLEDGEABLE CONTRACTING OFFICIALS AND SUPPORT STAFF; 3) INCREASING USE OF COMPETITION AND EXPANDING THE DISTRICT'S BUSINESS BASE OF CONTRACTORS INCLUDING LSDBE CONTRACTORS; 4) DIRECT PAYMENT VOUCHERS; AND 5) CONTRACT APPROVAL PROCESS.

THE DISTRICT NEEDS TO ENFORCE ACCOUNTABILITY FOR INDIVIDUALS WHO INITIATE PROCUREMENT ACTIONS, ESPECIALLY WHEN THOSE ACTIONS FAIL TO COMPLY WITH DISTRICT GUIDELINES AND/OR PROVE TO BE COSTLY OR INEFFICIENT. TO EFFECTIVELY ENFORCE ACCOUNTABILITY, THE OFFICE OF CONTRACTING AND PROCUREMENT (OCP) NEEDS TO ESTABLISH COMPLETE VISABILITY WITH RESPECT TO ITS OPERATIONS, INCLUDING AN ACCURATE AND COMPLETE CONTRACT FILE MAINTENANCE SYSTEM AND DATA SYSTEM TO CAPTURE ALL CONTRACT ACTIONS.

THE DISTRICT ALSO NEEDS TO EVALUATE ITS CONTRACTING OFFICERS AND SUPPORT STAFF TO ENSURE THAT THE CITY EMPLOYS EDUCATED AND TRAINED CONTRACTING PROFESSIONALS TO PROVIDE THE DISTRICT WITH EFFECTIVE AND EFFICIENT CONTRACTING SERVICES.

**OTHER OVERSIGHT EFFORTS**

THE GOVERNMENT ACCOUNTABILITY OFFICE (GAO) REPORTED EARLIER IN 2007 THAT THE DISTRICT'S PROCUREMENT SYSTEM NEEDS MAJOR REFORM. THE GAO REPORT FOUND THAT THE DISTRICT DID NOT INCORPORATE A NUMBER OF GENERALLY ACCEPTED KEY PRINCIPLES AND PRACTICES FOR PROTECTING TAXPAYER RESOURCES FROM FRAUD, WASTE, AND ABUSE.

FURTHER, A REPORT ISSUED BY THE DISTRICT OF COLUMBIA CONTRACTING AND PROCUREMENT TASK FORCE, ESTABLISHED BY FORMER COUNCILMEMBER VINCENT ORANGE TO MAKE RECOMMENDATIONS TO IMPROVE THE DISTRICT'S CONTRACTING AND PROCUREMENT LAWS AND REGULATIONS, CONCLUDED THAT THE PROBLEMS IN THE PROCUREMENT SYSTEM ARE IN THE COMMITMENT TO TRAIN ITS PERSONNEL AND TO FOLLOW EXISTING RULES AND GENERALLY RECOGNIZED BEST PRACTICES.

THE RESULTS OF THESE TWO REPORTS WHICH INCORPORATED OTHER DISTRICT AUDIT REPORTS (INCLUDING SEVERAL ISSUED BY THE OIG),

CONSISTENTLY SHOW THE LACK OF PROPER CONTROLS TO PROPERLY ADMINISTER THE PROCUREMENT SYSTEM.

**NEW ACCOUNTING STANDARDS**

DURING THE PAST SEVERAL YEARS, A STREAM OF CORPORATE SCANDALS IN THE PRIVATE SECTOR LED TO SUBSTANTIAL CHANGES IN ACCOUNTING METHODS, FINANCIAL STATEMENT PREPARATION, AND INTERNAL AUDIT REPORTS. ONE SUCH CHANGE WAS THE SARBANES-OXLEY ACT OF 2002, (PUB.LAW 107-204). THIS ACT PLACED GREAT EMPHASIS ON THE REQUIREMENT FOR AN EFFECTIVE INTERNAL CONTROL ENVIRONMENT AND LED, IN PART, TO A MAJOR REVISION OF THE GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS (GAGAS) IN JULY 2007. REVISIONS TO THE GAGAS CHANGED THE DEFINITION OF INTERNAL CONTROL STANDARDS AND STRENGTHENED THE REPORTING REQUIREMENT GOVERNING DISCLOSURE OF INTERNAL CONTROL WEAKNESSES. MOST IMPORTANTLY, AUDITORS ARE NOW REQUIRED TO ELEVATE REPEAT FINDINGS (PREVIOUSLY REPORTED MANAGEMENT LETTER COMMENTS AND REPORTABLE CONDITIONS) TO SIGNIFICANT DEFICIENCIES OR EVEN MATERIAL WEAKNESSES. (SAS 112)

**HIGH RISK AREAS - WHAT THE OIG IS DOING**

BY LAW, THE IG IS MANDATED TO REVIEW PROCUREMENT EACH YEAR. AS NOTED, FOR THE PAST 5 YEARS WE HAVE CITED PROCUREMENT IN OUR ANNUAL AUDIT AND INSPECTION PLANS AND ANNUAL REPORTS AS A HIGH RISK AREA DUE TO LAPSES IN PROCUREMENT AND CONTRACTING OPERATIONS. AS IN PAST YEARS, THE OIG CONTINUES TO DEVOTE SIGNIFICANT RESOURCES TO AUDITS, INSPECTIONS, AND INVESTIGATIONS OF THOSE PROGRAMS AND INITIATIVES THAT POSE SERIOUS CHALLENGES AND RISKS FOR DISTRICT EXECUTIVES AND MANAGERS, CITIZENS AND STAKEHOLDERS. OUR GOALS REMAIN FOCUSED ON EVALUATING THOSE

RISK AREAS, PARTICULARLY THE RISK POSED BY PROCUREMENT AND CONTRACTING, THAT REPRESENT ISSUES OF CRITICAL CONCERN TO THE MAYOR AND CITY COUNCIL.

IN LOOKING FOR WAYS TO MITIGATE THE VARIOUS RISKS FACING THE DISTRICT, WE FASHION AUDITS AND INSPECTIONS TO ASSESS THE RESULTS OF BUDGETED PROGRAMS, INCLUDING THE ECONOMY, EFFICIENCY, AND EFFECTIVENESS OF MANAGEMENT ACTIONS TAKEN TO ADDRESS THOSE RESULTS. ON A CONTINUING BASIS, WE WORK WITH DISTRICT OFFICIALS BY ADVISING THEM EARLY IN THE REVIEW PROCESS OF RECENTLY DISCOVERED PROBLEMS AND AUDIT/INSPECTION FINDINGS. WE WILL ISSUE A MANAGEMENT ALERT REPORT (MAR) TO OBTAIN PROMPT RESOLUTION AND CORRECTIVE ACTION ON PARTICULAR EMERGENT AND TIME-SENSITIVE ISSUES. WHEN WE FIND A PROBLEM THAT POTENTIALLY HAS SYSTEMIC IMPACT AMONG SEVERAL DISTRICT AGENCIES, WE ISSUE A MIR TO THE HEADS OF ALL DISTRICT AGENCIES TO ALERT THEM TO THE DEFICIENCIES SO THAT THEY CAN TAKE PREEMPTIVE ACTION TO DETERMINE IF THE PROBLEM EXISTS IN THEIR AGENCIES AND INITIATE THE APPROPRIATE CORRECTIVE MEASURES.

AS YOU KNOW, AUDIT RECOMMENDATIONS DO NOT PRODUCE THE DESIRED OUTCOMES UNLESS THEY ARE IMPLEMENTED. FURTHER, THE COMPTROLLER GENERAL'S GOVERNMENT AUDITING STANDARDS EMPHASIZE THE IMPORTANCE OF FOLLOW-UP ON SIGNIFICANT FINDINGS AND RECOMMENDATIONS FROM PRIOR AUDITS. IN ACCORDANCE WITH THIS STANDARD, THE OIG'S AUDIT DIVISION ADDRESSES FOLLOW-UP IN 3 STAGES. FIRST, WE INCLUDE FOLLOW-UP AS A PART OF EVERY AUDIT. SECOND, THE OIG CONDUCTS FOLLOW-UP OF AGENCY PROGRAMS IN INSTANCES IN WHICH THE SERIOUSNESS OR NUMBER OF DEFICIENCIES WARRANT SUCH AN IN-DEPTH REVIEW OF THE PROGRAM FOR A SECOND TIME. THIRD, THE OIG CONDUCTS A TRI-ANNUAL REVIEW OF RECOMMENDATIONS MADE BY THE OIG IN THE PREVIOUS 3 FISCAL YEARS. ADDITIONALLY, AS AN

ORGANIZATION, WE HAVE ORGANIZATIONALLY AMENDED THIS IMPORTANT FUNCTION TO INCLUDE TRACKING AUDIT RECOMMENDATIONS SO THAT WE CAN ASSESS THE PROGRESS OF CORRECTIVE ACTIONS.

WHILE THIS OFFICE WILL CONTINUE TO ASSESS DISTRICT AGENCIES IN PURSUING CORRECTIVE ACTIONS, IT IS THE RESPONSIBILITY OF DISTRICT GOVERNMENT MANAGEMENT TO ENSURE THAT AGENCIES CORRECT THE DEFICIENCIES NOTED IN AUDIT REPORTS. THE OIG WILL WORK WITH MANAGERS, AS APPROPRIATE, TO HELP THEM MONITOR THEIR IMPLEMENTATION OF RECOMMENDATIONS.

**RESPONSIBILITY OF DISTRICT MANAGEMENT**

DISTRICT GOVERNMENT EXECUTIVES AND MANAGERS HAVE AN INHERENT RESPONSIBILITY, AS PART OF THE PUBLIC TRUST EXTENDED TO THEM, TO PROTECT GOVERNMENT ASSETS ENTRUSTED TO THEIR CARE. CRUCIAL TO THE EXECUTION OF THIS RESPONSIBILITY IS THE DEVELOPMENT AND IMPLEMENTATION OF WRITTEN POLICIES, PROCEDURES, DIRECTIVES, AND GUIDANCE (FULLY SUPPORTED BY THE MANAGERIAL AND ADMINISTRATIVE INFRASTRUCTURE) THAT PROVIDES THE NECESSARY INTERNAL CONTROL ENVIRONMENT AND TOOLS TO PERFORM GOVERNMENT SERVICES CONSISTENT WITH THESE GUIDELINES IN A PRUDENT MANNER.

IN THIS REGARD, MANAGERS NEED TO IMPLEMENT INTERNAL CONTROLS TO INCLUDE:

- TOP LEVEL REVIEWS OF ACTUAL PERFORMANCE
- REVIEWS BY MANAGEMENT AT THE FUNCTIONAL OR ACTIVITY LEVEL
- CONTROLS OVER INFORMATION PROCESSING
- PHYSICAL CONTROL OVER VULNERABLE ASSETS
- ESTABLISHMENT AND REVIEWS OF PERFORMANCE MEASURES AND INDICATORS

- SEGREGATION OF DUTIES
- ACCURATE AND TIMELY RECORDING OF TRANSACTIONS AND EVENTS
- ACCESS RESTRICTIONS TO, AND ACCOUNTABILITY FOR, RESOURCES AND RECORDS
- INTERNAL COMPLIANCE AUDITS
- APPROPRIATE DOCUMENTATION OF TRANSACTION AND INTERNAL CONTROL

THANK YOU FOR PROVIDING ME THE OPPORTUNITY TO SHARE WITH YOU MY THOUGHTS ON THE DISTRICT'S PROCUREMENT AND CONTRACTING PROGRAM. AT THIS TIME, MY COLLEAGUES AND I WILL BE HAPPY TO ANSWER YOUR QUESTIONS.