

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



**TESTIMONY OF CHARLES J. WILLOUGHBY
INSPECTOR GENERAL, DISTRICT OF COLUMBIA**

BEFORE

**THE SENATE SUBCOMMITTEE ON
OVERSIGHT OF GOVERNMENT MANAGEMENT,
THE FEDERAL WORKFORCE,
AND THE DISTRICT OF COLUMBIA**

MARCH 31, 2009

10:00 A.M.

**ROOM 342
DIRKSEN SENATE OFFICE BUILDING**

SHORT VERSION

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INSPECTOR GENERAL, DISTRICT OF COLUMBIA**

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GOOD MORNING CHAIRMAN AKAKA, SENATOR VOINOVICH, AND MEMBERS OF THE SUBCOMMITTEE. I AM CHARLES J. WILLOUGHBY, AND I AM PLEASED TO SPEAK BEFORE YOU THIS MORNING AT YOUR HEARING ENTITLED, "STABILITY THROUGH SCANDAL: A REVIEW OF THE OFFICE OF THE CHIEF FINANCIAL OFFICER" (OCFO).

YOU ASKED ME TO ADDRESS SPECIFICALLY (1) THE INDEPENDENT AUDITORS REPORT RELATIVE TO MATERIAL WEAKNESSES IDENTIFIED IN THE COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR), (2) PROGRESS THAT THE CHIEF FINANCIAL OFFICER (CFO) HAS MADE IN RESPONDING TO RECOMMENDATIONS FROM THE OFFICE OF THE INSPECTOR GENERAL (OIG), (3) COOPERATION BETWEEN THE OIG AND OCFO TO ACHIEVE EFFICIENCY AND IMPROVE ACCOUNTABILITY, AND (4) WAYS THAT THE OCFO CAN IMPROVE ITS FINANCIAL MANAGEMENT.

WILLIAM J. DIVELLO, THE D.C. OIG ASSISTANT INSPECTOR GENERAL FOR AUDIT, IS ACCOMPANYING ME TODAY. WITH YOUR PERMISSION, A LONGER VERSION OF MY OPENING STATEMENT WILL BE SUBMITTED FOR THE RECORD.

BY LAW, THE INSPECTOR GENERAL MUST ENTER INTO A CONTRACT WITH AN INDEPENDENT AUDITING FIRM TO AUDIT THE CITY'S FINANCIAL STATEMENTS. ON JANUARY 30, 2009, THE DISTRICT OF COLUMBIA RECEIVED AN UNQUALIFIED OPINION ON ITS FINANCIAL STATEMENTS FOR FISCAL YEAR (FY) 2008 FROM ITS INDEPENDENT AUDITORS, BDO SEIDMAN, LLP. IT IS NOTEWORTHY TO MENTION THAT THIS IS THE 12TH CONSECUTIVE YEAR IN WHICH THE DISTRICT HAS RECEIVED A "CLEAN" OPINION ON ITS FINANCIAL STATEMENTS FROM THE INDEPENDENT AUDITORS. WHILE AN UNQUALIFIED OPINION PROVIDES THAT THE FINANCIAL STATEMENTS WERE PRESENTED FAIRLY IN ALL MATERIAL ASPECTS, THE INDEPENDENT AUDITORS ALSO ISSUED A REPORT ON INTERNAL CONTROL AND COMPLIANCE OVER FINANCIAL REPORTING, COMMONLY REFERRED TO AS THE "YELLOW BOOK" REPORT. THE YELLOW BOOK REPORT NOTED A CONTINUING NEED TO ADDRESS SIGNIFICANT INTERNAL CONTROL DEFICIENCIES AND MATERIAL WEAKNESSES.

FISCAL YEAR 2008 MATERIAL WEAKNESSES AND THE CFO'S RESPONSE

THE FY 2008 YELLOW BOOK REPORT CITED TWO MATERIAL WEAKNESSES. THE FIRST WAS THE OFFICE OF THE CHIEF FINANCIAL OFFICER'S TREASURY FUNCTIONS; THE SECOND WAS THE MANAGEMENT OF THE MEDICAID PROGRAM.

THE TREASURY FUNCTIONS CONTRIBUTING TO THE MATERIAL WEAKNESS INVOLVED THE FAILURE TO RECONCILE CASH AND INVESTMENT ACCOUNT ACTIVITIES. THE OFFICE OF THE CHIEF FINANCIAL OFFICER GENERALLY RESPONDED POSITIVELY TO THESE FINDINGS, PROVIDING DETAILED ACTIONS TO RECONCILE ALL ACCOUNTS ON A MONTHLY BASIS.

THE SECOND MATERIAL WEAKNESS INVOLVED MANAGEMENT OF THE MEDICAID PROGRAM, WHICH HAS BEEN A LONG-STANDING PROBLEM FOR THE DISTRICT, HAVING BEEN REPORTED AS A REPORTABLE CONDITION IN PRIOR CAFR YEARS AND A MATERIAL WEAKNESS FOR FYS 2007 AND 2008.

RECOGNIZING THAT MANY OF THE CITY'S MEDICAID PROBLEMS RESIDE IN THE BILLING AND ACCOUNTABILITY AREAS, THE DISTRICT RECENTLY CREATED THE DEPARTMENT OF HEALTH CARE FINANCE TO BETTER MANAGE THE MEDICAID PROGRAM.

FISCAL YEAR 2007 MATERIAL WEAKNESSES AND THE CFO'S RESPONSE

IN THE FY 2007 CAFR YELLOW BOOK REPORT, THE INDEPENDENT AUDITORS CITED CONDITIONS AT THE DISTRICT'S OFFICE OF TAX AND REVENUE (OTR) AS A MATERIAL WEAKNESS THAT CONTRIBUTED TO A \$50 MILLION FRAUD PERPETRATED BY AN OTR MANAGER WORKING COLLUSIVELY WITH SEVERAL OTHER INDIVIDUALS. GIVEN THE SEVERITY OF THE FRAUD, THE DISTRICT'S CITY COUNCIL ESTABLISHED A TAX AND REVENUE INVESTIGATION SPECIAL COMMITTEE (SPECIAL COMMITTEE) TO REVIEW THE OTR FRAUD.

THE SPECIAL COMMITTEE RETAINED WILMER CUTLER PICKERING HALE AND DORR, LLP (WILMER HALE), TO EXAMINE THE FACTS AND CIRCUMSTANCES SURROUNDING THE FRAUD SCHEME AND TO MAKE RECOMMENDATIONS TO PREVENT A RECURRENCE. APPROXIMATELY 38 RECOMMENDATIONS WERE DIRECTED TO THE OCFO THAT ADDRESSED THE FAILURE OF INTERNAL CONTROLS, A CULTURE OF APATHY AND SILENCE WHICH WAS PERVASIVE AMONG MANY OTR EMPLOYEES, AND THE LACK OF EFFECTIVE OVERSIGHT.

OIG AUDITS AND THE CFO'S RESPONSE

IN THE PAST SEVERAL YEARS, THE OIG HAS ISSUED NUMEROUS REPORTS THAT ADDRESSED IMPROVEMENTS IN VARIOUS OCFO AREAS. ONE IMPORTANT REPORT WAS A MANAGEMENT IMPLICATION REPORT (MIR) THAT WE ISSUED IN

OCTOBER OF 2007 CONCERNING SYSTEMIC INTERNAL CONTROL DEFICIENCIES. A MIR IS A REPORT THAT NOTIFIES ENTITIES OR AGENCIES OF DEFICIENCIES THAT POSSIBLY HAVE CITYWIDE RAMIFICATIONS. THESE DEFICIENCIES ADDRESSED SUCH ISSUES AS INEFFECTIVE POLICIES AND PROCEDURES, INEFFECTIVE CONTROLS TO PREVENT OR DETECT FRAUD, LACK OF DOCUMENTATION, AND INEFFECTIVE MANAGEMENT OVERSIGHT. IN ANOTHER MIR ISSUED IN JANUARY 2009, THE OIG FOCUSED ON INTERNAL CONTROL WEAKNESSES IN THE DISTRICT'S PAYMENT PROCESS.

OVERALL, THE FINDINGS AND RECOMMENDATIONS THE OIG HAS DIRECTED TO THE OCFO HAVE BEEN MET WITH APPROVAL, ACCEPTANCE, AND IMPLEMENTATION OF CORRECTIVE ACTIONS.

INTERAGENCY COOPERATION BETWEEN THE OIG AND OCFO

BECAUSE THE OCFO PLAYS AN ESSENTIAL ROLE IN MAINTAINING THE INTEGRITY OF THE CITY'S FINANCES AND SERVING AS THE PRIMARY ACCOUNTANT FOR ALL FISCAL MATTERS ON A LOCAL BUDGET OF ABOUT \$8 BILLION, WE HAVE ENGAGED THE OCFO ON SEVERAL LEVELS TO IMPROVE INTERAGENCY COOPERATION AND OVERSIGHT EFFORTS. FOR EXAMPLE, WHILE NOT A VOTING MEMBER OF THE CAFR OVERSIGHT COMMITTEE CHAIRED BY THE OIG, THE OCFO ENJOYS A TENURED ROLE AS AN ACTIVE PARTICIPANT IN REGULARLY SCHEDULED CAFR MEETINGS. CAFR COMMITTEE MEETINGS SERVE

AN EXTREMELY IMPORTANT FUNCTION IN GETTING MANAGEMENT OF DISTRICT AGENCIES AND INDEPENDENT COMPONENTS, ALONG WITH THE OCFO, TO COOPERATE AND COORDINATE EFFORTS TO PERMIT TIMELY COMPLETION OF THE INDEPENDENT AUDITORS' FINANCIAL STATEMENT AUDIT.

WAYS THE OCFO CAN IMPROVE ITS FINANCIAL MANAGEMENT

WHILE THE OCFO HAS TAKEN MANY CORRECTIVE ACTIONS RELATIVE TO ITS OPERATIONS, WE BELIEVE THERE ARE SEVERAL AREAS WHERE ADDITIONAL MANAGEMENT ACTIONS SHOULD BE TAKEN TO IMPROVE OCFO OPERATIONS:

- GIVEN THE IMPACT THAT SOUND INTERNAL CONTROL HAS ON ACCOUNTABILITY AND EFFECTIVE AND EFFICIENT GOVERNMENT OPERATIONS, THE OCFO SHOULD ISSUE A CITYWIDE DIRECTIVE REQUIRING MANAGERS TO ESTABLISH, ASSESS, CORRECT, AND REPORT ON INTERNAL CONTROLS.
- REGARDING THE PAYMENT PROCESS, THE OCFO NEEDS TO ASSIGN ACCOUNTS PAYABLE OFFICIALS MORE ACCOUNTABILITY BY DEVELOPING WRITTEN POLICIES AND PROCEDURES THAT REQUIRE DUE DILIGENCE PRIOR TO THE PAYMENT OF INVOICES. FOR EXAMPLE, STEPS MUST BE TAKEN TO ENSURE THAT THE PAYMENT OF CONTRACTORS' INVOICES IS MADE ONLY PURSUANT TO THE APPROVAL OF AUTHORIZED AGENCY PERSONNEL.

- RECENT FRAUDS PERPETRATED AGAINST THE DISTRICT DISCLOSED A NEED FOR AN INTENSIFIED ANTI-FRAUD PROGRAM. BY INTENSIFYING ITS ANTI-FRAUD PREVENTIVE AND DETECTIVE CONTROLS, THE OCFO CAN BETTER CREATE A CULTURE OF ETHICAL BEHAVIOR IN THE WORKPLACE.
- THE OCFO NEEDS TO RECRUIT AND RETAIN QUALIFIED PERSONNEL, THEN PROPERLY SUPERVISE ITS STAFF, TO INCLUDE MANAGEMENT REVIEW OF TRANSACTIONS AND PROCESSES, AND TIMELY AND ACCURATE EMPLOYEE EVALUATIONS.

CONCLUSION

IN SUMMARY, MY OFFICE WILL CONTINUE TO PROVIDE AN INDEPENDENT ASSESSMENT OF THE OCFO TO HELP MAINTAIN THE HIGHEST STANDARD OF CONDUCT, INTEGRITY, AND EFFICIENT AND EFFECTIVE GOVERNMENT OPERATIONS.

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