

TESTIMONY OF CHARLES J. WILLOUGHBY, INSPECTOR GENERAL

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

**PUBLIC OVERSIGHT ROUNDTABLE ON THE
“FISCAL YEAR 2013 COMPREHENSIVE ANNUAL
FINANCIAL REPORT (CAFR)”**

February 5, 2014

GOOD MORNING CHAIRMAN MENDELSON AND MEMBERS OF THE COMMITTEE. I AM CHARLES J. WILLOUGHBY, 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) 2013 COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR). ACCOMPANYING ME TODAY ARE RONALD W. KING, ASSISTANT INSPECTOR GENERAL FOR AUDITS AND REPRESENTATIVES FROM KPMG LLP (KPMG), THE AUDITING FIRM WITH WHOM THE OFFICE OF THE INSPECTOR GENERAL (OIG) CONTRACTED TO AUDIT THE DISTRICT’S FINANCIAL STATEMENTS.

I AM PLEASED TO REPORT TODAY THAT THE DISTRICT OF COLUMBIA HAS RECEIVED AN UNQUALIFIED (OR CLEAN) OPINION ON ITS FINANCIAL STATEMENTS FOR FY 2013 FROM KPMG. THE FY 2013 CAFR AUDIT REPRESENTS THE 17th CONSECUTIVE YEAR IN WHICH 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 *AUDITOR'S REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING AND ON COMPLIANCE*.

FOR THE 5TH CONSECUTIVE YEAR, THE AUDIT FOUND NO MATERIAL WEAKNESSES IN THE CITY'S FINANCIAL STATEMENTS. 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 2013 AUDIT NOTED FOUR SIGNIFICANT DEFICIENCIES, WHICH I WILL ADDRESS SHORTLY. THE SIGNIFICANT DEFICIENCIES REPORTED DO NOT RELATE TO A FAILURE OR LACK OF ADEQUATE POLICIES AND PROCEDURES; RATHER, THEY INDICATE 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. ADDITIONALLY, AS I HAVE PREVIOUSLY STATED, THE SIGNIFICANT DEFICIENCIES ARE CLEARLY AND READILY FIXABLE OR SOLVABLE. BEFORE WE REVIEW SPECIFICS OF THIS YEAR'S CAFR AUDIT, I WILL SUMMARIZE THE OIG'S ROLE IN THE CAFR OVERSIGHT PROCESS.

CAFR OVERSIGHT PROCESS

AS YOU KNOW, THE OIG ENTERED INTO A 5-YEAR CONTRACT WITH KPMG TO PERFORM THE AUDIT OF THE DISTRICT'S CAFR. THE FY 2013 AUDIT IS KPMG'S 4th YEAR OF THE CONTRACT. 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 CAFR COMMITTEE MEETS REGULARLY THROUGHOUT THE YEAR TO ACHIEVE THAT GOAL. THE COST OF THE FY 2013 CAFR CONTRACT WAS APPROXIMATELY \$3.0 MILLION, AN INCREASE OF \$200,000 OVER LAST YEAR'S COST OF APPROXIMATELY \$2.8 MILLION.

IMPROVEMENTS NOTED IN THE FY 2013 CAFR

AS MENTIONED IN MY OPENING REMARKS, WE HAVE SEEN IMPROVEMENTS IN THIS YEAR'S CAFR; HOWEVER, WE STILL NEED TO ADDRESS SOME LONG-STANDING DEFICIENCIES AND MAINTAIN PROGRESS IN THOSE IMPROVED AREAS.

AREAS REQUIRING MANAGEMENT'S ATTENTION

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

1. GENERAL INFORMATION TECHNOLOGY (IT) CONTROLS;
2. PROCUREMENT AND DISBURSEMENT CONTROLS;
3. CAPITAL PROJECTS NOT TIMELY TRANSFERRED TO INSERVICE; AND
4. CASH RECONCILIATIONS AND CASH MANAGEMENT.

IN ADDITION TO THE IDENTIFIED DEFICIENCIES, THE INDEPENDENT AUDITORS' YELLOW BOOK REPORTED TWO INSTANCES OF NONCOMPLIANCE WITH PROVISIONS OF LAWS, REGULATIONS, CONTRACTS, AND/OR GRANT AGREEMENTS: THE PROCUREMENT PRACTICES REFORM ACT REGULATIONS AND THE QUICK PAYMENT ACT.

WHILE WORK REMAINS, IT IS NECESSARY TO RECOGNIZE AND BUILD UPON THE IMPROVEMENTS, AND KEEP THE FINDINGS AND RECOMMENDATIONS IN CONTEXT. FOR THESE REASONS, THE OIG HAS CONDUCTED AND WILL CONTINUE TO CONDUCT AUDITS IN KEY AREAS. OUR WORK TO DATE INCLUDES:

- *THE AUDIT OF THE APPLICATION CONTROL REVIEW OF THE INTEGRATED TAX SYSTEM*, ISSUED ON MAY 15, 2013. OUR AUDIT DISCLOSED THAT THE OFFICE OF THE CHIEF FINANCIAL OFFICER'S (OCFO'S) OFFICE OF TAX AND REVENUE (OTR) LACKED ADEQUATE MANAGEMENT CONTROLS TO

ENSURE THAT: (1) SUFFICIENT AND EFFECTIVE GOVERNANCE TOOLS WERE FORMALLY DEVELOPED TO BETTER DIRECT IT EXPENDITURES FOR OPTIMAL ADVANTAGE AND RISK MANAGEMENT; (2) RISKS ASSOCIATED WITH THE DELIVERY AND SUPPORT OF SOFTWARE APPLICATIONS WERE SUFFICIENTLY MITIGATED; AND (3) APPLICATION AND GENERAL CONTROLS WERE ALIGNED WITH APPLICABLE STATUTORY PROVISIONS AND BEST PRACTICES TO MINIMIZE THE RISK OF ERRORS AND FRAUD.

- *THE AUDIT OF THE DISTRICT'S PLAN TO PROCURE AND MANAGE INFORMATION TECHNOLOGY SERVICES*, ISSUED ON SEPTEMBER 24, 2013. OUR AUDIT DISCLOSED THAT THE OFFICE OF CONTRACTING AND PROCUREMENT (OCP) DID NOT OBTAIN A BUSINESS PLAN FROM THE OFFICE OF CHIEF TECHNOLOGY OFFICER (OCTO) AND DID NOT PERFORM A COST ESTIMATE PRIOR TO ISSUING A REQUEST FOR PROPOSAL FOR IT SERVICES TO JUSTIFY THAT USE OF A CONTRACT TO MANAGE DISTRICT IT PROCUREMENT SERVICES IS MORE ECONOMICAL THAN USING DISTRICT PERSONNEL. WE DIRECTED ONE RECOMMENDATION TO OCTO AND ONE RECOMMENDATION TO OCP FOR ACTIONS NECESSARY TO CORRECT THE DEFICIENCIES. IMPLEMENTING THE TWO RECOMMENDATIONS WOULD YIELD APPROXIMATELY \$9.1 MILLION IN COST SAVINGS TO THE DISTRICT GOVERNMENT.
- *THE AUDIT OF THE CONTRACTING AND PROCUREMENT OPERATIONS OF THE OFFICE OF THE CHIEF FINANCIAL OFFICER*, ISSUED ON AUGUST 30, 2013. THE AUDIT FOUND THAT OCFO DID NOT FULLY COMPLY WITH TITLE 27

DCMR PROVISIONS WHEN AWARDING CONTRACTS FOR SERVICES.

SPECIFICALLY, OCFO DID NOT: (1) PERFORM A REQUIRED COST ANALYSIS TO DETERMINE THE COST REASONABLENESS FOR SOME OF THE CONTRACTS REVIEWED; (2) ADEQUATELY ESTABLISH PRICES FOR AN OFFICE SUPPLY CONTRACT AWARDED IN THE AMOUNT OF \$350,000; AND (3) PROVIDE ADEQUATE JUSTIFICATION TO USE THE SINGLE AVAILABLE SOURCE METHOD OF PROCUREMENT FOR SOME OF THE CONTRACTS REVIEWED. WE DIRECTED NINE RECOMMENDATIONS TO OCFO FOR ACTIONS NECESSARY TO CORRECT THE DEFICIENCIES. OCFO AGREED WITH ALL NINE RECOMMENDATIONS AND PROVIDED DETAILED PLANS TO IMPLEMENT THEM. IMPLEMENTING THE RECOMMENDATIONS WOULD YIELD \$679,763 IN COST SAVINGS TO THE DISTRICT GOVERNMENT.

- *THE AUDIT OF THE OFFICE OF RISK MANAGEMENT'S (ORM'S) SYSTEM FOR MANAGING THE RESOLUTION OF AUDIT FINDINGS AND RECOMMENDATIONS*, ISSUED ON OCTOBER 24, 2012. OUR AUDIT DISCLOSED THAT ORM DID NOT IMPLEMENT A TRACKING SYSTEM TO ADEQUATELY FULFILL ITS STATUTORY RESPONSIBILITIES FOR MANAGING THE RESOLUTION OF ALL AUDIT FINDINGS AND RECOMMENDATIONS PRESENTED TO DISTRICT AGENCIES. THE AUDIT ALSO DISCLOSED THAT ORM DID NOT FULLY IMPLEMENT AUDIT RECOMMENDATIONS SET FORTH IN A PREVIOUS AUDIT REPORT ISSUED ON MARCH 12, 2009.

OVERARCHING MANAGEMENT ACTIONS STILL NEEDED

AS PREVIOUSLY STATED, I STRONGLY BELIEVE THAT AUDIT RECOMMENDATIONS DO NOT PRODUCE THE DESIRED OUTCOMES UNLESS THEY ARE IMPLEMENTED. ACCORDINGLY, AGENCY OFFICIALS MUST ENSURE THAT RECOMMENDED CORRECTIVE ACTIONS ARE TAKEN AND INSTITUTIONALIZED TO OBTAIN LASTING IMPROVEMENTS.

THE OIG WILL CONTINUE TO WORK WITH AGENCIES, AS APPROPRIATE, TO HELP MONITOR IMPLEMENTATION OF RECOMMENDATIONS, AND WE WILL CONDUCT PERIODIC FOLLOW-UP AUDITS TO ASSESS AGENCY PROGRESS IN CORRECTING REPORTED DEFICIENCIES. OVERALL, THE RESULTS OF OUR PAST TRIENNIAL FOLLOW-UP AUDITS SHOW A STEADY INCREASE IN IMPLEMENTATION OF AUDIT RECOMMENDATIONS. THE PREVIOUS THREE TRIENNIAL FOLLOW-UP AUDITS INDICATE THAT DISTRICT AGENCIES IMPLEMENTED AGREED-TO AUDIT RECOMMENDATIONS AT THE FOLLOWING RATES – 80 PERCENT IN FY 2002, 77 PERCENT IN FY 2005, AND 88 PERCENT IN FY 2008. HOWEVER, THE MOST RECENT TRIENNIAL FOLLOW-UP AUDIT ISSUED ON SEPTEMBER 21, 2012, *AUDIT OF THE DISTRICT AGENCIES' IMPLEMENTATION OF AUDIT RECOMMENDATIONS*, NOTED AN IMPLEMENTATION RATE OF 51 PERCENT, OR BARELY HALF.

I BELIEVE THAT THE OIG CAN BEST SERVE THE DISTRICT IN ASSESSING AND MITIGATING RISKS ASSOCIATED WITH THIS YEAR'S CAFR BY:

- DEDICATING AUDIT RESOURCES TO HELP AGENCIES MITIGATE RISKS;

- PROVIDING INSTITUTIONAL KNOWLEDGE REGARDING DEFICIENCIES REPORTED IN PRIOR AUDITS;
- WORKING WITH MANAGEMENT TO IDENTIFY AND RESOLVE CONSISTENT AND PERVASIVE PROBLEMS IDENTIFIED IN DISTRICT OPERATIONS; AND
- CONTINUING TO SERVE AS A CHANGE AGENT AND INTERNAL CONTROL MECHANISM.

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 PAST YEAR, KEEPING MANAGEMENT AND OTHERS ABREAST OF THE ADDITIONAL WORK REQUIRED, 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; RUTH WERNER FROM THE COUNCIL; ERIC GOULET FROM THE EXECUTIVE OFFICE OF THE MAYOR; BERT MOLINA FROM THE OFFICE OF THE CHIEF FINANCIAL OFFICER; AND PAUL GERATY AND OTHER 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.