

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

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

**PUBLIC OVERSIGHT HEARING ON THE  
“FISCAL YEAR 2012 COMPREHENSIVE ANNUAL FINANCIAL  
REPORT (CAFR)”**

**FEBRUARY 6, 2013**

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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) 2012 COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR). ACCOMPANYING ME TODAY ARE RONALD W. KING, ASSISTANT INSPECTOR GENERAL FOR AUDITS AND REPRESENTATIVES FROM KPMG LLP (KPMG), OUR INDEPENDENT AUDITORS.

BY LAW, THE INSPECTOR GENERAL MUST ENTER INTO A CONTRACT WITH AN INDEPENDENT AUDITOR TO AUDIT THE CITY’S FINANCIAL STATEMENTS. I AM PLEASED TO REPORT TODAY THAT THE DISTRICT OF COLUMBIA HAS RECEIVED AN UNQUALIFIED OPINION ON ITS FINANCIAL STATEMENTS FOR FY 2012 FROM KPMG. FOR THE FOURTH CONSECUTIVE YEAR, THE AUDIT OF THE CITY’S FINANCIAL STATEMENTS HAS REVEALED NO MATERIAL WEAKNESSES. KPMG’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING, WHICH

ACCOMPANIES THE FY 2012 FINANCIAL STATEMENT REPORT, LISTS FOUR SIGNIFICANT DEFICIENCIES – AS COMPARED TO THE TWO KPMG REPORTED FOR FY 2011 AND THE FIVE KPMG REPORTED FOR FY 2010. HOWEVER, THE SIGNIFICANT DEFICIENCIES REPORTED DO NOT RELATE TO A FAILURE OR LACK OF ADEQUATE POLICIES AND PROCEDURES, BUT RATHER A FAILURE TO ADHERE TO EXISTING POLICIES AND PROCEDURES AND A LACK OF ADEQUATE SUPERVISION OR OVERSIGHT AND EFFECTIVE MONITORING OF CONTROLS. DEFICIENCIES, AS I HAVE PREVIOUSLY INDICATED, THAT ARE CLEARLY AND READILY FIXABLE OR SOLVABLE.

BEFORE WE REVIEW SPECIFICS OF THIS YEAR’S CAFR AUDIT, LET ME SHARE SOME PERSPECTIVES ABOUT THE OIG’S ROLE IN THE CAFR OVERSIGHT PROCESS.

**CAFR OVERSIGHT PROCESS**

AS YOU KNOW, THE OIG HAS ENTERED INTO A CONTRACT WITH KPMG TO PERFORM THE AUDIT OF THE DISTRICT’S CAFR. THIS YEAR’S CAFR WAS THE 3rd YEAR OF A 5-YEAR OPTION CONTRACT. WE MONITOR THIS CONTRACT AND OVERSEE 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, WITH PARTICIPATION FROM MAYORAL AND COUNCIL STAFFS, MEETS REGULARLY THROUGHOUT THE YEAR TO ACHIEVE THAT GOAL. THE COST OF THE FY 2012 CAFR CONTRACT TOTALED ABOUT \$2.8 MILLION, AN INCREASE OF \$100 THOUSAND OVER LAST YEAR'S COST OF APPROXIMATELY \$2.7 MILLION, AN INCREASE OF \$400 THOUSAND OVER THE FY 2010 COST OF APPROXIMATELY \$2.4 MILLION, AND A DECREASE OF \$800 THOUSAND OVER THE FY 2009 COST OF APPROXIMATELY \$3.6 MILLION.

**THE FY 2012 CAFR – WORK REMAINS BUT IMPROVEMENTS NOTED**

THE FY 2012 CAFR AUDIT REPRESENTS THE 16<sup>th</sup> CONSECUTIVE YEAR IN WHICH THE DISTRICT HAS RECEIVED A “CLEAN” OPINION FROM THE 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*. THE YELLOW BOOK REPORT DISCUSSES THE INTERNAL CONTROLS OVER FINANCIAL REPORTING, WITH A PARTICULAR FOCUS ON SIGNIFICANT DEFICIENCIES AND COMPLIANCE WITH LAWS AND REGULATIONS. 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**

IN THE FY 2012 YELLOW BOOK REPORT, KPMG IDENTIFIED FOUR SIGNIFICANT DEFICIENCIES THAT COULD AFFECT THE DISTRICT'S ABILITY TO INITIATE, AUTHORIZE, RECORD, PROCESS, RECONCILE, AND REPORT FINANCIAL DATA.

THOSE IDENTIFIED DEFICIENCIES ARE:

1. GENERAL INFORMATION TECHNOLOGY (IT) CONTROLS;
2. PROCUREMENT AND DISBURSEMENT CONTROLS;
3. CONTROLS SURROUNDING TAX REVENUE ACCOUNTING AND REPORTING; AND
4. FINANCIAL REPORTING FOR CAPITAL ASSETS.

IN ADDITION TO THE FOUR SIGNIFICANT DEFICIENCIES IDENTIFIED IN THE INDEPENDENT AUDITORS' YELLOW BOOK REPORT, TWO INSTANCES OF NONCOMPLIANCE WITH PROVISIONS OF LAWS, REGULATIONS, CONTRACTS, AND/OR GRANT AGREEMENTS WERE IDENTIFIED: THE PROCUREMENT PRACTICES ACT REGULATIONS AND THE QUICK PAYMENT ACT. WHILE WORK REMAINS, IT IS NECESSARY TO RECOGNIZE AND BUILD UPON THE IMPROVEMENTS, AND TO KEEP THE FINDINGS AND RECOMMENDATIONS IN CONTEXT. FOR THESE REASONS, THE OIG HAS CONDUCTED AND WILL CONTINUE TO CONDUCT AUDITS IN KEY AREAS. OUR AUDIT WORK TO DATE INCLUDES:

- AUDIT OF THE CONSTRUCTION CONTRACTS AWARDED UNDER THE AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) TO THE DISTRICT'S DEPARTMENT OF TRANSPORTATION – OUR AUDIT DISCLOSED THAT THE DISTRICT DEPARTMENT OF TRANSPORTATION (DDOT) DID NOT: EFFECTIVELY MANAGE THE CHANGE ORDER PROCESS FOR ARRA-FUNDED CONSTRUCTION CONTRACTS; ENSURE THAT PROJECT DESIGNS WERE CURRENT, ACCURATE, AND COMPLETE; MONITOR CONTRACTOR COMPLIANCE WITH ARRA REPORTING REQUIREMENTS; AND ASSESS PENALTIES FOR CONTRACTOR NONCOMPLIANCE. WE DIRECTED 10 RECOMMENDATIONS TO DDOT FOR ACTIONS NECESSARY TO CORRECT THE DESCRIBED DEFICIENCIES. *SEE FEBRUARY 15, 2012; AUDIT OF THE CONSTRUCTION CONTRACTS AWARDED UNDER THE AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) TO THE DISTRICT'S DEPARTMENT OF TRANSPORTATION (OIG NO. 10-1-13KA).*
- AUDIT OF THE REPORT ON NONCOMPLIANCE WITH THE REQUIREMENT TO PERFORM COST ANALYSES – THE OIG ISSUED A MANAGEMENT ALERT REPORT (MAR), ON NONCOMPLIANCE WITH THE REQUIREMENT TO PERFORM COST ANALYSES, OIG MAR NO. 11-A-01, TO THE OFFICE OF CONTRACTING AND PROCUREMENT (OCP) ON OCTOBER 7, 2011. WE DISCOVERED THIS WEAKNESS DURING OUR AUDIT OF CONTRACTING ACTIONS AT THE OFFICE OF THE CHIEF TECHNOLOGY OFFICER (OIG NO. 08-2-06TO(a)) AND DURING OUR AUDIT OF THE INFORMATION

TECHNOLOGY STAFF AUGMENTATION (ITSA) CONTRACT (OIG NO. 10-1-19TO). AS A RESULT OF THE MAR, WE DIRECTED ONE RECOMMENDATION TO OCP FOR ACTION WE CONSIDERED NECESSARY TO CORRECT THE IDENTIFIED DEFICIENCIES. *SEE MARCH 22, 2012, REPORT ON NONCOMPLIANCE WITH THE REQUIREMENT TO PERFORM COST ANALYSES (OIG NO. 10-1-19TO(b))*

- AUDIT OF THE EXERCISING OF THE ITSA CONTRACT OPTION YEAR 4 – THIS MANAGEMENT ALERT REPORT (MAR) RECOMMENDS THAT THE OFFICE OF CONTRACTING AND PROCUREMENT (OCP) DECLINE TO EXERCISE THE REMAINING OPTION YEAR FOR THE ITSA CONTRACT. ON AUGUST 3, 2011, THE OIG ISSUED THE FIRST AUDIT REPORT IN THE SERIES, WHICH CONCLUDED THAT THE USE OF DISTRICT EMPLOYEES TO MANAGE THE IT SERVICES PROCUREMENT PROCESS, RATHER THAN THE USE OF A CONTRACTOR, WAS SUBSTANTIALLY MORE ECONOMICAL. IN TOTAL, WE CALCULATED THAT THE DISTRICT MAY LOSE AS MUCH AS \$10.8 MILLION OVER THE PERIOD OF THE 5-YEAR CONTRACT TERM IF THE DISTRICT CONTINUED USING A CONTRACTOR TO MANAGE THE IT SERVICES PROCUREMENT PROCESS. THE CONTRACTOR REMAINED UNDER CONTRACT TO OCP TO MANAGE IT SERVICES PROCUREMENT PROCESSES. *SEE SEPTEMBER 27, 2012, EXERCISING INFORMATION TECHNOLOGY STAFF AUGMENTATION (ITSA) CONTRACT OPTION YEAR 4, OIG NO. 10-1-19TO(c).*

- TRIENNIAL FOLLOW-UP AUDIT OF THE DISTRICT AGENCIES’  
IMPLEMENTATION OF AUDIT RECOMMENDATIONS FOR FYS 2008-2010 –  
THE RESULTS OF OUR AUDIT INDICATE THAT OIG RECOMMENDATIONS  
WERE NOT TIMELY RESOLVED. WE CONDUCTED AUDIT TESTING AT 21  
DISTRICT AGENCIES IN OUR AUDIT UNIVERSE TO DETERMINE  
WHETHER THEY HAD IMPLEMENTED AGREED-TO ACTIONS IN  
RESPONSE TO OUR AUDIT RECOMMENDATIONS. DISTRICT AGENCY  
OFFICIALS REPORTED THAT: (1) ACTION HAD BEEN COMPLETED TO  
ADDRESS 206 OF 239 RECOMMENDATIONS (86 PERCENT) REVIEWED;  
AND (2) 33 RECOMMENDATIONS (14 PERCENT) REMAINED OPEN. WE  
ALSO FOUND THAT AGENCIES MAY HAVE: (1) IMPLEMENTED  
CORRECTIVE ACTIONS, BUT DID NOT MAINTAIN APPROPRIATE  
SUPPORTING DOCUMENTATION FOR RECOMMENDATIONS REPORTED  
AS CLOSED; OR (2) REPORTED RECOMMENDATIONS AS CLOSED  
WITHOUT IMPLEMENTING THE NECESSARY CORRECTIVE ACTIONS. WE  
SELECTED 68 OF THE 239 RECOMMENDATIONS DIRECTED TO 9 DISTRICT  
AGENCIES FOR VERIFICATION. WE WERE ONLY ABLE TO VERIFY THAT  
35 OF THE 68 RECOMMENDATIONS (51 PERCENT) WERE ACTUALLY  
CLOSED BASED ON DOCUMENTATION MAINTAINED BY AGENCY  
OFFICIALS. THE OIG DIRECTED TWO RECOMMENDATIONS TO THE  
OFFICE OF RISK MANAGEMENT (ORM) FOR ACTIONS WE CONSIDERED  
NECESSARY TO CORRECT IDENTIFIED DEFICIENCIES. *SEE SEPTEMBER  
21, 2012, TRIENNIAL FOLLOW-UP AUDIT OF THE DISTRICT AGENCIES’*

*IMPLEMENTATION OF AUDIT RECOMMENDATIONS FOR FYS 2008-2010, OIG  
NO. 11-1-08MA(a).*

THESE FOREGOING REPORTS, LIKE OUR INVESTIGATION AND INSPECTION REPORTS, ARE WIDELY DISSEMINATED AND PLACED ON OUR WEBSITE FOR INFORMATIONAL PURPOSES AS WELL AS, AMONG OTHER THINGS, TO PROVIDE USEFUL TOOLS TO THE COUNCIL IN THE PERFORMANCE OF ITS OVERSIGHT RESPONSIBILITIES. ACCORDINGLY, ALL ARE ENCOURAGED TO REGULARLY VISIT THE OIG WEBSITE TO SEE THE BREADTH OF WORK PERFORMED.

**OVERARCHING MANAGEMENT ACTIONS STILL NEEDED**

AS PREVIOUSLY STATED, WE 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 THEM MONITOR IMPLEMENTATION OF RECOMMENDATIONS, AND WE WILL CONDUCT PERIODIC FOLLOW-UP AUDITS TO ASSESS AGENCY PROGRESS IN CORRECTING REPORTED DEFICIENCIES. THE RESULTS OF OUR PAST FOUR TRIENNIAL FOLLOW-UP AUDITS SHOW A STEADY RATE AT WHICH DISTRICT AGENCIES IMPLEMENTED AGREED-TO AUDIT RECOMMENDATIONS – 80 PERCENT IN FY 2002, 77 PERCENT IN FY 2005, 88

PERCENT IN FY 2008 AND 86 PERCENT IN 2011. A REPORT ENTITLED A *SUMMARY OF DISTRICT AGENCY COMPLIANCE WITH OIG AUDIT RECOMMENDATIONS (FEBRUARY 2008-SEPTEMBER 2012)* SHOWED 56 OPEN RECOMMENDATIONS (24%) IN 17 AUDIT REPORTS – *SEE* JANUARY 28, 2013, OIG 13-2-03MA. THIS COMPLIANCE REPORT WAS RECENTLY ISSUED TO FURTHER ASSIST COUNCILMEMBERS IN THEIR OVERSIGHT RESPONSIBILITIES AT UPCOMING PERFORMANCE HEARINGS FOR DISTRICT AGENCIES.

WITH REGARD TO HOW THE OIG CAN BEST SERVE THE DISTRICT IN ASSESSING AND MITIGATING RISKS ASSOCIATED WITH THIS YEAR’S CAFR, WE WILL:

- DEDICATE AUDIT RESOURCES TO HELP MITIGATE RISKS RELATIVE TO THIS YEAR’S CAFR;
- PROVIDE INSTITUTIONAL KNOWLEDGE REGARDING DEFICIENCIES REPORTED IN PAST AUDITS;
- IDENTIFY AND RESOLVE (WORKING WITH MANAGEMENT) CONSISTENT AND PERVASIVE PROBLEMS IDENTIFIED IN DISTRICT OPERATIONS; AND
- CONTINUE TO SERVE AS A CHANGE AGENT AND INTERNAL CONTROL MECHANISM.

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 LAST SEVERAL MONTHS, KEEPING MANAGEMENT AND OTHERS ABREAST OF THE ADDITIONAL REQUIRED WORK, 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 CITY COUNCIL; ERIC GOULET, FROM THE EXECUTIVE OFFICE OF THE MAYOR; TONY POMPA FROM THE OFFICE OF THE CHIEF FINANCIAL OFFICER; AND PAUL GERATY AND THE 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.