

**TESTIMONY OF INSPECTOR GENERAL CHARLES C. MADDOX, ESQ.,
BEFORE THE COMMITTEE OF HUMAN RIGHTS, LATINO AFFAIRS AND
PROPERTY MANAGEMENT
HEARING ON THE AUDIT OF RENT COLLECTIONS
IN THE DISTRICT OF COLUMBIA GOVERNMENT**

FEBRUARY 11, 2003

CHAIRMAN GRAHAM AND MEMBERS OF THE COMMITTEE, I AM HERE TODAY TO DISCUSS THE RESULTS OF OUR AUDIT OF RENT COLLECTIONS IN THE DISTRICT OF COLUMBIA GOVERNMENT THAT WERE RELEASED ON OCTOBER 29, 2002. SEATED WITH ME IS WILLIAM DIVELLO, THE ASSISTANT IG FOR OUR AUDIT DIVISION. MY STATEMENT WILL PROVIDE INFORMATION ABOUT THE OFFICE OF PROPERTY MANAGEMENT'S (OPM) PORTFOLIO MANAGEMENT, FOCUSING SPECIFICALLY ON OPM'S LEASE ADMINISTRATION RELATED TO MONITORING AND MAINTAINING DISTRICT PROPERTIES THAT ARE RENTED TO PRIVATE SECTOR CLIENTS. I WILL ALSO DESCRIBE THE AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY EMPLOYED BY MY OFFICE TO EVALUATE THE EFFICIENCY AND EFFECTIVENESS OF THE PROGRAM.

I WILL BEGIN BY PROVIDING YOU WITH BACKGROUND INFORMATION TO HELP PLACE THIS AUDIT IN PERSPECTIVE AND THEN OUTLINE THE MAJOR FINDINGS AND CONCERNS.

OPM HAS PRIMARY RESPONSIBILITY FOR REAL PROPERTY ASSET MANAGEMENT SERVICES WITHIN THE DISTRICT OF COLUMBIA GOVERNMENT. IT ALSO PROVIDES OVERSIGHT AND COORDINATION FOR DISTRICT-WIDE REAL ESTATE FUNCTIONS. LEASE PORTFOLIO MANAGEMENT INVOLVES MATTERS RELATING TO ACQUISITION, LEASE MANAGEMENT, AND PLANNING. SPECIFICALLY, MANAGEMENT CONSISTS OF DIRECTING AND MAINTAINING THE DISTRICT'S INVENTORY OF PROPERTIES THAT ARE LEASED TO PRIVATE SECTOR CLIENTS.

LEASES OF DISTRICT PROPERTY ARE COMMONLY REFERRED TO AS OUTLEASES. OUTLEASE RENTAL INCOME REPRESENTS AN ADDED SOURCE OF INCOME FOR THE DISTRICT. THE AVERAGE REVENUE FOR OUTLEASES IS APPROXIMATELY \$1 MILLION ANNUALLY; HOWEVER, THE AMOUNT VARIES FROM YEAR TO YEAR, DUE TO THE INITIATION OR TERMINATION OF SOME OUTLEASES AND RENEWAL AND AMENDMENT OF OTHERS. OUTLEASE REVENUE IS USED TO MAINTAIN TENANT PROPERTIES BY PROVIDING SERVICES SUCH AS TRASH COLLECTION, MAINTENANCE, AND SNOW REMOVAL.

OUR AUDIT OBJECTIVES WERE TO DETERMINE WHETHER TENANT OUTLEASES FOR THE DISTRICT WERE IN COMPLIANCE WITH APPLICABLE DISTRICT LAWS, REGULATIONS, POLICIES AND PROCEDURES. FURTHERMORE, WE SOUGHT TO DETERMINE WHETHER AGENCY MONITORING PROCESSES OVER OUTLEASE RENT COLLECTION ACTIVITIES WERE EFFECTIVE AND EFFICIENT. THE AUDIT GENERALLY COVERED THE PERIOD FY 1998 THROUGH FY 2001.

THE MAJOR FINDINGS OF OUR AUDIT FOCUSED ON NEEDED IMPROVEMENTS IN AREAS RELATED TO THE MANAGEMENT OF OPM'S OUTLEASE PROGRAM. SPECIFICALLY, MANAGEMENT CONTROLS OVER OPM'S OUTLEASE ADMINISTRATION WERE INCOMPLETE. AS A RESULT OF INADEQUATE MANAGEMENT CONTROLS, PROGRAM DEFICIENCIES MATERIALIZED IN THE ADMINISTRATION OF OUTLEASE PROCESSES. ACCORDINGLY, WE IDENTIFIED OVER \$1.1 MILLION IN LOST RENTAL REVENUE TO THE DISTRICT.

OPM'S MANAGEMENT OF THE OUTLEASE PROGRAM NEEDED IMPROVEMENT FOR THE FOLLOWING REASONS:

- OPM DID NOT OPTIMIZE REVENUE BY ADJUSTING ALL TENANT LEASES ANNUALLY FOR RENTAL INCREASES AND FAIR MARKET VALUATIONS;
- OPM DID NOT ENSURE THAT TENANTS MAINTAINED LIABILITY, FIRE AND CASUALTY, AND/OR COMPREHENSIVE PUBLIC LIABILITY INSURANCE COVERAGE; AND
- OPM DID NOT ALWAYS DEPOSIT RENT CHECKS TIMELY.

ADDITIONALLY, WE FOUND THAT POLICIES AND PROCEDURES DID NOT ADEQUATELY ADDRESS THE FOLLOWING ISSUES, WHICH CONTRIBUTED TO INEFFICIENT RENTAL OPERATIONS. OPM DID NOT:

- ASSIGN AND COLLECT FEES ASSOCIATED WITH LATE RENTAL PAYMENTS;
- NOTIFY TENANTS REGARDING UPCOMING ANNUAL INCREASES, THE NEED FOR CURRENT INSURANCE CERTIFICATES, AND CHANGES IN RENT DUE TO FAIR MARKET VALUATIONS;
- PROCESS TENANT SECURITY DEPOSITS AND TENANT RENTAL CHECKS IN A TIMELY MANNER;
- CROSS-TRAIN THE OPM STAFF IN OUTLEASE MONITORING;
- RECONCILE ACTIVE OUTLEASES WITH THE OFFICE OF FINANCE AND RESOURCE MANAGEMENT'S (OFRM) MONTHLY RENT COLLECTION REPORT; AND
- PROPERLY STORE AND LIMIT ACCESS TO LEASE FILES.

DURING OUR AUDIT, OPM TOOK IMMEDIATE AND DECISIVE ACTION TO GREATLY IMPROVE RECORD KEEPING AND RECORD RETENTION IN THE WAREHOUSE STORAGE AREAS.

WE RECEIVED RESPONSES TO OUR DRAFT AND FINAL REPORTS FROM THE DIRECTOR OF OPM AND THE DIRECTOR OF OFRM. WE ARE PLEASED TO REPORT THAT BOTH AGENCY HEADS CONCURRED WITH THE FINDINGS AND AGREED TO TAKE ACTIONS TO CORRECT DEFICIENCIES IDENTIFIED.

AGAIN, THANK YOU FOR PROVIDING ME THE OPPORTUNITY TO SHARE THE RESULTS OF OUR AUDIT. AT THIS TIME, I WILL BE HAPPY TO ANSWER ANY QUESTIONS THAT YOU MAY HAVE.