

**TESTIMONY OF CHARLES C. MADDOX, ESQ.  
INSPECTOR GENERAL BEFORE THE D.C. COUNCIL  
COMMITTEE OF THE WHOLE AND THE COMMITTEES ON FINANCE AND  
REVENUE AND GOVERNMENT OPERATIONS**

**FEBRUARY 3, 2000**

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COUNCIL CHAIRMAN CROPP AND COUNCIL MEMBERS:

I APPRECIATE THE OPPORTUNITY TO APPEAR BEFORE THE COMMITTEE OF THE WHOLE AND THE COMMITTEES ON FINANCE AND REVENUE AND GOVERNMENT OPERATIONS TO RENDER TESTIMONY, ALONG WITH OTHER WITNESSES, ON THE COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR) FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1999.

BACKGROUND

PUBLIC LAW 104-8 § 303(b)(2), THE DISTRICT OF COLUMBIA FINANCIAL RESPONSIBILITY AND MANAGEMENT ASSISTANCE ACT OF 1995, PROVIDES THAT THE OFFICE OF THE INSPECTOR GENERAL (OIG) SHALL ENTER INTO A CONTRACT WITH AN INDEPENDENT AUDITOR TO AUDIT THE FINANCIAL STATEMENTS AND REPORT ON ACTIVITIES OF THE DISTRICT GOVERNMENT FOR A FISCAL YEAR. SECTION 302(d)(7) PROVIDES THAT NOT LATER THAN 120 DAYS AFTER THE END OF EACH FISCAL YEAR, THE DISTRICT'S CHIEF FINANCIAL OFFICER SHALL PREPARE THE COMPLETE FINANCIAL STATEMENT AND REPORT ON ACTIVITIES OF THE DISTRICT FOR SUCH FISCAL YEAR FOR THE MAYOR'S USE. D.C. CODE § 47-310(a)(4) PROVIDES THAT THE MAYOR SHALL SUBMIT TO THE COUNCIL BY FEBRUARY 1<sup>ST</sup> OF EACH YEAR A COMPLETE FINANCIAL STATEMENT AND REPORT FOR THE PRECEDING FISCAL YEAR.

THE OIG ENTERED INTO A CONTRACT WITH MITCHELL & TITUS LLP, A CERTIFIED PUBLIC ACCOUNTING FIRM, ON JULY 7, 1998 TO CONDUCT AN AUDIT OF THE COMPLETE FINANCIAL STATEMENTS AND REPORT ON ACTIVITIES OF THE DISTRICT GOVERNMENT FOR FISCAL YEAR 1998. THE AUDITED FINANCIAL STATEMENTS AND REPORT ARE REFERRED TO AS “THE CAFR.”

THE CONTRACT ALSO CONTAINED OPTIONS TO CONDUCT SUCH AUDITS FOR FISCAL YEARS 1999 AND 2000. THE OPTION TO CONDUCT THE AUDIT FOR FISCAL YEAR 1999 WAS AWARDED ON APRIL 2, 1999. THE CONTRACT SPECIFIED THAT THE CAFR MUST BE SUBMITTED TO THE UNITED STATES CONGRESS, THE PRESIDENT, THE MAYOR, THE DISTRICT OF COLUMBIA COUNCIL AND THE COMPTROLLER GENERAL OF THE UNITED STATES ON OR BEFORE FEBRUARY 1<sup>ST</sup> OF EACH YEAR.

#### ROLE OF THE OIG

THE OIG FUNCTIONS AS THE CONTRACTING OFFICER FOR THE CAFR CONTRACT. BY LAW, THE OIG IS THE LIAISON REPRESENTATIVE FOR ALL EXTERNAL AUDITS OF THE DISTRICT OF COLUMBIA. IN ORDER TO OVERSEE THE PROGRESS OF THE AUDIT, THE OIG ESTABLISHED AN AUDIT COMMITTEE COMPOSED OF REPRESENTATIVES FROM VARIOUS ENTITIES. THE ENTITIES INCLUDE THE OIG, THE FINANCIAL RESPONSIBILITY AND MANAGEMENT ASSISTANCE AUTHORITY, THE MAYOR’S OFFICE, THE DISTRICT’S OFFICE OF THE CHIEF FINANCIAL OFFICER, AND THE UNITED STATES CONGRESS. A REPRESENTATIVE FROM THE U.S. GENERAL ACCOUNTING OFFICE ALSO ATTENDS THE MEETINGS.

THE AUDIT BEGINS WITH A KICK-OFF SESSION CONVENED TO INFORM DISTRICT FINANCIAL AND PROGRAM PERSONNEL OF THE AUDIT AND OF VARIOUS TASKS EXPECTED OF THEM, INCLUDING PREPARING FINANCIAL

CLOSING PACKAGES FOR THE CITY'S AGENCIES IN ORDER TO ENSURE THAT THE AUDIT PROCEEDS SMOOTHLY AND IS COMPLETED ON TIME.

THE AUDIT COMMITTEE MEETS, AS NEEDED, TO DISCUSS THE PROGRESS OF THE AUDIT AND ANY ISSUES WHICH MAY AFFECT THE AUDIT.

THE INDEPENDENT AUDIT FIRM

MITCHELL & TITUS, THE INDEPENDENT ACCOUNTING FIRM, CONDUCTS THE AUDIT. IT IS RESPONSIBLE FOR PLANNING THE AUDIT, ASSESSING RISKS, EVALUATING INTERNAL AND MANAGEMENT CONTROLS, AND PERFORMING SUBSTANTIVE TESTS. THE FIRM RENDERS AN OPINION AS TO WHETHER THE FINANCIAL STATEMENTS PRESENT FAIRLY THE FINANCIAL POSITION OF THE DISTRICT. THE FIRM ALSO RENDERS OPINIONS ON THE OPERATIONS FOR THE PERIOD UNDER AUDIT, IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.

RESPONSIBILITY FOR PREPARING THE FINANCIAL STATEMENTS RESTS WITH THE OFFICE OF THE CHIEF FINANCIAL OFFICER. THE INDEPENDENT AUDITOR ALSO PREPARES AN AUDITOR'S REPORT, A REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS, A REPORT ON INTERNAL CONTROLS, AND A MANAGEMENT LETTER.

DELAY IN CAFR

AS STATED EARLIER, THE CAFR DUE DATE IS FEBRUARY 1. MITCHELL & TITUS INFORMED THE OIG AND AUDIT COMMITTEE ON JANUARY 10, 2000 THAT THEY DID NOT THINK THAT THE FEBRUARY 1 DEADLINE WOULD BE MET. ACCORDING TO MITCHELL & TITUS, THERE WERE THREE AREAS CONTRIBUTING TO THE DELAY: 1) THERE WERE PROBLEMS OBTAINING ACCOUNT SUMMARY TRIAL BALANCES FROM THE SYSTEM OF ACCOUNTING AND REPORTING (SOAR) WHICH AGREED WITH DETAILED TRANSACTION LISTINGS; 2) LARGE BALANCES REMAINED IN SUSPENSE

ACCOUNTS; AND 3) THERE WAS DIFFICULTY RETRIEVING ELECTRONIC FILES.

ISSUES RELATED TO “SOAR”, THE DISTRICT’S NEW FINANCIAL MANAGEMENT SYSTEM, APPEARED TO BE THE PRIMARY SOURCES OF THE PROBLEM. ON NOVEMBER 9, 1999, MITCHELL AND TITUS ISSUED A REPORT ENTITLED “A PRE-AUDIT REVIEW OF THE DISTRICT’S SYSTEM OF ACCOUNTING AND REPORTING (SOAR)” IN WHICH THEY STATED THAT SOAR WAS NOT FULLY FUNCTIONAL BECAUSE IT HAD NOT BEEN FULLY IMPLEMENTED AND INTEGRATED. THEY ALSO SAID THAT:

“THE DISTRICT REMAINS CHALLENGED TO ‘CLOSE’ ITS BOOKS AND RECORDS AND PRODUCE A RELIABLE CAFR FOR THE YEAR ENDED SEPTEMBER 30, 1999.”

THE OBJECTIVE OF THE PRE-AUDIT REVIEW WAS TO DETERMINE THE FUNCTIONALITY OF SOAR AND SOAR’S ABILITY TO PRODUCE CERTAIN FINANCIAL STATEMENTS.

PROBLEMS WITH SOAR ALSO RESULTED FROM CONVERSIONS THAT WERE NOT EXECUTED PROPERLY WHEN TRANSFERRING ENDING BALANCES FOR FISCAL YEAR 1998 FROM THE OLD FINANCIAL MANAGEMENT SYSTEM TO SOAR.

AS A RESULT, THE OIG SOUGHT ASSURANCES FROM THE CHIEF FINANCIAL OFFICER AS TO WHETHER THE FEBRUARY 1<sup>ST</sup> DEADLINE FOR THE CAFR WOULD BE MET.

#### IMPACT OF DELAY

BECAUSE OF THE DELAY, THE CITY HAS NOT MET THE FEBRUARY 1 DEADLINE REQUIRED BY FEDERAL STATUTE. IN ADDITION, THE DELAY

WILL REQUIRE DISTRICT PERSONNEL, AS WELL AS CONTRACT AUDITORS, TO EXPEND MORE TIME AND EFFORT TO FINALIZE THE CAFR. ALSO, BECAUSE THE DELAY WILL REQUIRE ADDITIONAL WORK, THE FIRM HAS ASKED FOR ADDITIONAL COMPENSATION.

CONCLUDING REMARKS

AGAIN, THANK YOU FOR ALLOWING ME THE OPPORTUNITY TO SHARE THIS TESTIMONY. I HOPE THAT I HAVE HELPED TO CLARIFY THE STATUTORY MANDATES REGARDING THE CAFR, AS WELL AS THE RESPECTIVE ROLES OF THE OFFICE OF THE INSPECTOR GENERAL AND THE INDEPENDENT AUDITING FIRM. I LOOK FORWARD TO ANSWERING ANY OF YOUR QUESTIONS AT THIS TIME.