

TESTIMONY OF CHARLES C. MADDOX, ESQ.,
INSPECTOR GENERAL, BEFORE THE D.C. COUNCIL
COMMITTEE ON GOVERNMENT OPERATIONS

FISCAL YEAR 2001 BUDGET REVIEW

MARCH 21, 2000

CHAIRPERSON PATTERSON AND MEMBERS OF THE COMMITTEE:

I AM PLEASED TO TESTIFY BEFORE THIS COMMITTEE TODAY CONCERNING OUR PROPOSED FISCAL YEAR (FY) 2001 BUDGET. MADAM CHAIRPERSON, YOU WILL NOTICE THAT MUCH OF WHAT I HAVE TO SAY TODAY, YOU HAVE HEARD BEFORE DURING MY TESTIMONY LAST MONTH AT MY PERFORMANCE HEARING. THIS IS BECAUSE I BELIEVE IT IS AS RELEVANT NOW AS IT WAS THEN IN EXPLAINING OUR JUSTIFICATION FOR OUR BUDGET REQUEST.

BEFORE I DISCUSS MY PROPOSED FY 2001 BUDGET, I WILL PROVIDE BACKGROUND INFORMATION TO EXPLAIN HOW OUR OFFICE'S FY 2000 OPERATING BUDGET WAS ESTABLISHED. OUR ORIGINAL FY 2000 BUDGET SUBMISSION OF \$8.1 MILLION REPRESENTED AN INCREASE OF \$186,000 OVER THE REVISED FY 1999 BUDGET OF \$7.9 MILLION. HOWEVER, THAT BUDGET WAS REDUCED IN THE AMOUNT OF \$1.29 MILLION AND NINE FULL TIME EMPLOYEES (FTEs). THIS REDUCTION LEFT OUR BASELINE FY 2000 BUDGET AT \$6.8 MILLION. SUBSEQUENTLY, THE CONTROL BOARD AGREED TO RETURN \$800,000 TO OUR BUDGET, LEAVING A NET REDUCTION OF \$490,000 FROM OUR BUDGET SUBMISSION.

MY ESTIMATE OF THE FUNDS NECESSARY FOR THE OPERATION OF THE OFFICE OF THE INSPECTOR GENERAL (OIG) FOR FY 2001 WAS SUBMITTED TO THE BUDGET OFFICE ON FEBRUARY 1, 2000, IN THE AMOUNT OF \$12.5 MILLION. APPROXIMATELY \$6.5 MILLION OF THIS AMOUNT WOULD BE ALLOCATED FOR PERSONAL SERVICES, AND \$6.0 MILLION FOR NON-PERSONAL SERVICES.

HOWEVER, A PROPOSED BUDGET FOR THE OIG IN THE AMOUNT OF ONLY \$7.99 MILLION HAS BEEN SENT TO THE COUNCIL FOR REVIEW AND COMMENT. I AM VERY SENSITIVE TO THE POTENTIAL BUDGET SHORTFALLS THE DISTRICT FACES FOR FY 2001. HOWEVER, I AM NOW REQUESTING THAT THE COUNCIL RECOMMEND MY ORIGINAL BUDGET ESTIMATE FOR TWO IMPORTANT REASONS, ONE LEGAL AND THE OTHER FISCAL.

LEGAL ISSUE

I WILL ADDRESS THE LEGAL ISSUE FIRST. THE LAW THAT GOVERNS THE SUBMISSION OF THE OIG ANNUAL BUDGET REQUEST WAS PASSED BY CONGRESS AS PART OF THE DISTRICT OF COLUMBIA FINANCIAL RESPONSIBILITY AND MANAGEMENT ASSISTANCE ACT OF 1995, PUBLIC LAW NO. 104-8. SECTION 303(a)(2) OF THAT LEGISLATION REQUIRES THAT MY ESTIMATE BE FORWARDED BY THE MAYOR TO THE COUNCIL. THE LAW PREVENTS THE MAYOR AND THE COUNCIL FROM REVISING MY ESTIMATED BUDGET BUT DOES PERMIT THE COUNCIL TO COMMENT ON OR MAKE RECOMMENDATIONS CONCERNING THIS ESTIMATE. BECAUSE

MY ENTIRE BUDGET ESTIMATE WAS NOT FORWARDED TO THE COUNCIL, YOU HAVE NOT HAD THE OPPORTUNITY TO CONSIDER AND COMMENT ON ENHANCEMENTS TO MY BUDGET THAT I BELIEVE WILL RESULT IN MEASURABLE BENEFITS TO THE DISTRICT OF COLUMBIA.

I PLAN TODAY TO PROVIDE THE COUNCIL WITH A NUMBER OF IMPORTANT REASONS TO RECOMMEND MY BUDGET SUBMISSION, WHICH INCLUDES ENHANCEMENTS IN THE AMOUNT OF \$4.5 MILLION. BECAUSE THESE ENHANCEMENTS TO MY BUDGET HAVE NOT BEEN FORWARDED TO THE COUNCIL, I WILL NOW PROVIDE A BRIEF EXPLANATION OF THEIR PURPOSE. A COPY OF THESE ENHANCEMENTS, AS SUBMITTED TO THE BUDGET OFFICE, IS ATTACHED FOR YOUR INFORMATION TO THE TRANSCRIPT OF THIS TESTIMONY.

FISCAL CONCERNS

FIRST, IT IS HELPFUL TO UNDERSTAND THAT MOST OF THE ADDITIONAL FUNDS REQUESTED ARE ALREADY OBLIGATED TO NONDISCRETIONARY FUNCTIONS OF THIS OFFICE. \$2.8 MILLION ARE EARMARKED FOR THE COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR) AND OTHER CONTRACT AUDITS WHICH ARE REQUIRED OR REQUESTED. CONTRACT AUDITS ARE EXTREMELY EXPENSIVE. WE ARE PAYING NEARLY A HALF MILLION DOLLARS FROM OUR APPROPRIATED BUDGET TO A FIRM OF CERTIFIED PUBLIC ACCOUNTANTS TO CONDUCT AN AUDIT OF THE DISABILITY OPERATIONS OF THE DEPARTMENT OF EMPLOYMENT SERVICES. I HAD TO CONTRACT THIS AUDIT OUT BECAUSE

OF INSUFFICIENT PERSONNEL IN OUR AUDIT DIVISION, EVEN THOUGH OUR AUDITORS COULD PERFORM THE SAME WORK AT A SUBSTANTIAL SAVINGS. I ESTIMATE THAT OUR AUDITS COST THE DISTRICT ABOUT \$35 PER HOUR PER AUDITOR, WHILE PRIVATE SECTOR FIRMS CHARGE UPWARDS OF \$75 PER HOUR.

ALSO INCLUDED IN THE ENHANCEMENT REQUEST IS THE DISTRICT'S REQUIRED 25 PERCENT MATCH (\$368,550) TO THE FEDERALLY-FUNDED MEDICAID FRAUD CONTROL UNIT (MFCU). SUBTRACTING THE FUNDS REQUIRED FOR THE CONTRACT AUDITS AND MEDICAID UNIT FROM OUR ENHANCEMENT PACKAGE LEAVES ABOUT \$1.4 MILLION TO FUND 16 ADDITIONAL FTEs. APPROXIMATELY \$1.1 MILLION OF THIS AMOUNT ARE ALLOCATED FOR PERSONAL SERVICES, AND \$300,000 ARE FOR NON-PERSONAL SERVICES. THE ADDITIONAL FTEs WOULD BE ALLOCATED AS FOLLOWS: INSPECTIONS AND EVALUATIONS DIVISION – SIX EMPLOYEES; AUDIT DIVISION – FIVE EMPLOYEES; INVESTIGATIONS DIVISION – TWO EMPLOYEES; ADMINISTRATIVE DIVISION – TWO EMPLOYEES; INFORMATION TECHNICIAN – ONE EMPLOYEE.

THESE EMPLOYEES WILL BE USED TO ADDRESS ADDITIONAL RESPONSIBILITIES PLACED ON THIS OFFICE. FOR AN EXAMPLE, WE ANTICIPATE A NEW CONGRESSIONALLY MANDATED AUDIT OF THE DISTRICT'S HIGHWAY TRUST FUND TO BE CONDUCTED EVERY YEAR BEGINNING IN FY 2001. I ESTIMATE THAT THIS AUDIT ALONE WILL REQUIRE AT LEAST TWO FTEs. AT PRESENT, THIS RESPONSIBILITY RESTS

WITH THE GENERAL ACCOUNTING OFFICE. ADDITIONALLY, IT BECAME PUBLIC LAST WEEK THAT, IN AN ATTEMPT TO CUT DISTRICT AGENCY RECEIVERS' COSTS AND IMPROVE THEIR ACCOUNTABILITY, CONGRESS IS INTRODUCING LEGISLATION THAT CALLS FOR THE COURT MONITORS TO SUBMIT THEIR BUDGETS TO THE MAYOR AND COUNCIL FOR REVIEW. THE OIG WOULD THEN CONDUCT ANNUAL AUDITS OF THE AGENCIES UNDER RECEIVERSHIP: CHILD AND FAMILY SERVICES; THE COMMISSION ON MENTAL HEALTH SERVICES; AND SPECIAL EDUCATION AND JUVENILE JUSTICE.

NEGATIVE IMPACT

I WOULD LIKE FOR THIS COUNCIL TO BE SENSITIVE TO THE FACT THAT IN MY VIEW THE FAILURE TO APPROVE OUR ENHANCEMENT PACKAGE WILL CREATE A NEGATIVE IMPACT ON A BROAD RANGE OF OUR CORE SERVICES. FOR EXAMPLE:

- THE COST TO PERFORM THE CAFR AUDIT AND OTHER REQUIRED AUDITS WILL INCREASE SUBSTANTIALLY IN FY 2001. THE CAFR AND OTHER AUDITS REQUIRED BY LAW WOULD BE AT RISK UNLESS DRASTIC COST-CUTTING STEPS ARE TAKEN WHICH WILL RESULT IN THE ELIMINATION OF OTHER VITALLY NEEDED AUDITS.
- THE OIG'S ABILITY TO INITIATE INDEPENDENT DISCRETIONARY CONTRACT AUDITS WILL BE DEGRADED. FOR EXAMPLE, THE OIG

FUNDED OUT OF ITS OWN FY 2000 BUDGET TWO AUDITS WHICH ALONE COST ABOUT \$750,000. THESE AUDITS PERTAIN TO THE DEPARTMENT OF EMPLOYMENT SERVICES AND THE EMERGENCY MANAGEMENT AGENCY. AS NOTED ABOVE, WITH ADDITIONAL FTEs, OUR AUDIT DIVISION COULD RESPOND TO AUDIT REQUESTS AT A COST SAVINGS TO THE DISTRICT OF ABOUT 50 PERCENT.

- WE CURRENTLY RECEIVE MANY REQUESTS FOR OIG SERVICES THAT WE CAN NOT ACCOMMODATE. THIS CONDITION WILL CONTINUE WITHOUT BUDGET AUGMENTATION TO OUR BASELINE. THE FOLLOWING ARE JUST A FEW EXAMPLES OF THE MANY REQUESTS FOR AUDITS THAT CAN NOT BE ACCOMMODATED: (1) A REQUEST FROM A COUNCILMEMBER TO AUDIT THE SPECIAL EDUCATION PROGRAM; (2) A REQUEST TO PERFORM AN AUDIT OF THE HOMESTEAD PROGRAM AT THE DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT; AND (3) AN ENERGY MANAGEMENT AUDIT OF THE DISTRICT'S PAYMENT OF UTILITIES - AN AUDIT THAT COULD RESULT IN SIGNIFICANT SAVINGS. MOREOVER, IN ORDER TO RESPOND TO PRIORITY REQUESTS FOR AUDITS IMPACTING ON SAFETY AND HEALTH ISSUES, SUCH AS THE BLUE PLAINS AND THE MRDDA AUDITS, WE HAD TO SUSPEND ONGOING AUDITS - SUCH AS THE AUDIT OF Y2K FUNDING AND PROCUREMENT - AND DELAY THE START OF OTHER NEW AUDITS GEARED TOWARD IDENTIFYING MONETARY BENEFITS.

ADDITIONALLY, WE WOULD HAVE TO DELAY IMPLEMENTATION OF OUR NEW PROCUREMENT AUDIT STRATEGY. WE PLANNED TO PERFORM PROCUREMENT AUDITS ON A CONTINUOUS BASIS THROUGHOUT THE FISCAL YEAR, ISSUING A REPORT AFTER THE COMPLETION OF AUDIT WORK AT EACH AGENCY. WITHOUT OUR ENHANCEMENTS, THIS WILL NOT OCCUR.

- AN IMPORTANT INITIATIVE THAT WILL ACT AS A CHECK-AND-BALANCE ON GOOD GOVERNMENT OPERATIONS WILL NOT BE FULLY IMPLEMENTED. WE PLAN TO IMPLEMENT A TRACKING AND FOLLOW UP SYSTEM TO ENABLE US TO ENSURE THAT MANAGEMENT IMPLEMENTS OUR AUDIT RECOMMENDATIONS. IN THIS REGARD, WE ALSO PLAN TO ADD A PERFORMANCE MEASURE FOR FY 2001 TO GAUGE THE PERCENTAGE OF AUDIT RECOMMENDATIONS IMPLEMENTED. WE STRONGLY BELIEVE THAT THIS WILL PROVIDE VALID FEEDBACK OF OUR WORTH BECAUSE IT IS AN OUTCOME MEASURE. AUDIT FINDINGS AND RECOMMENDATIONS DO NOT PRODUCE THE DESIRED OUTCOMES UNLESS THEY ARE IMPLEMENTED.
- WE WILL NOT BE ABLE TO IMPLEMENT FULLY OUR MEDICAID FRAUD CONTROL UNIT AS ENVISIONED. THE U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES HAS AGREED TO PROVIDE 75 PERCENT OF OUR

OPERATING COST, BUT THIS FUNDING IS WHOLLY CONTINGENT ON THE DISTRICT PROVIDING THE REMAINING 25 PERCENT.

- LIKewise, we will not be able to realize fully the benefits that can be achieved from our inspection and evaluation unit. For example, given the limited personnel resources available to us at this time, we will be able to complete only two more inspections this fiscal year. As you know, much attention was focused on our DMV report. I believe that these inspections will be viewed as an essential element of the city's strategic plan to establish and enforce performance measures throughout the district government. The results will be improvements in the delivery of vital services to district citizens.
- At present, our investigations division has resources available to investigate only about half of the volume of complaints and allegations brought to our attention. This comes at a time when we are experiencing a 97 percent increase in investigative matters referred to us. It is important to note here that during FY 1999, sixteen individuals were convicted of criminal violations as a result of our investigations. A total of over one million

DOLLARS WAS RECOUPED THROUGH COURT-ORDERED RESTITUTIONS AND RECOVERIES. THESE COMPLEX CRIMINAL INVESTIGATIONS ARE AMONG THE MOST LABOR-INTENSIVE RESPONSIBILITIES OF THIS OFFICE. BECAUSE WE CANNOT CUT BACK OUR COMMITMENT TO CRIMINAL MATTERS, A FAILURE TO RECEIVE ADDITIONAL FTEs WILL RESULT IN FEWER ADMINISTRATIVE CASES BEING OPENED.

RETURN ON INVESTMENT

PERHAPS THE BEST REASON TO SUPPORT MY BUDGET PROPOSAL IS THAT THE RETURN ON INVESTMENT IN THE OIG WILL MORE THAN PAY FOR ITSELF BY IDENTIFYING MONETARY BENEFITS WHICH CAN BE REALIZED BY THE DISTRICT. ALTHOUGH WELL FUNDED INSPECTOR GENERAL OFFICES HAVE PROVED TO BE A WISE INVESTMENT IN ALL KINDS OF ECONOMIC ENVIRONMENTS, THEY ARE ESPECIALLY VALUABLE WHEN BUDGETARY RESOURCES ARE STRESSED. IN THIS REGARD, DURING MY TESTIMONY LAST MONTH AT THE PERFORMANCE REVIEW, I URGED YOU TO TAKE INTO CONSIDERATION THE VALUE OF AUDIT SAVINGS AND HOW THOSE SAVINGS CAN BE LEVERAGED BY ADDING RESOURCES TO A TEAM THAT HAS SHOWN POSITIVE FISCAL RESULTS.

THE TRACK RECORD OF OUR AUDIT DIVISION OVER THE LAST FEW YEARS HAS BEEN TRULY REMARKABLE. THE FY 1998 SAVINGS FROM AUDITS WAS \$12.4 MILLION. WE REALIZED SAVINGS OF \$28.4 FOR FY 1999,

MORE THAN DOUBLE THE SAVINGS OF THE PREVIOUS YEAR. SO FAR IN FY 2000, THE COST SAVINGS ATTRIBUTABLE TO AUDITS IS \$29.2 MILLION.

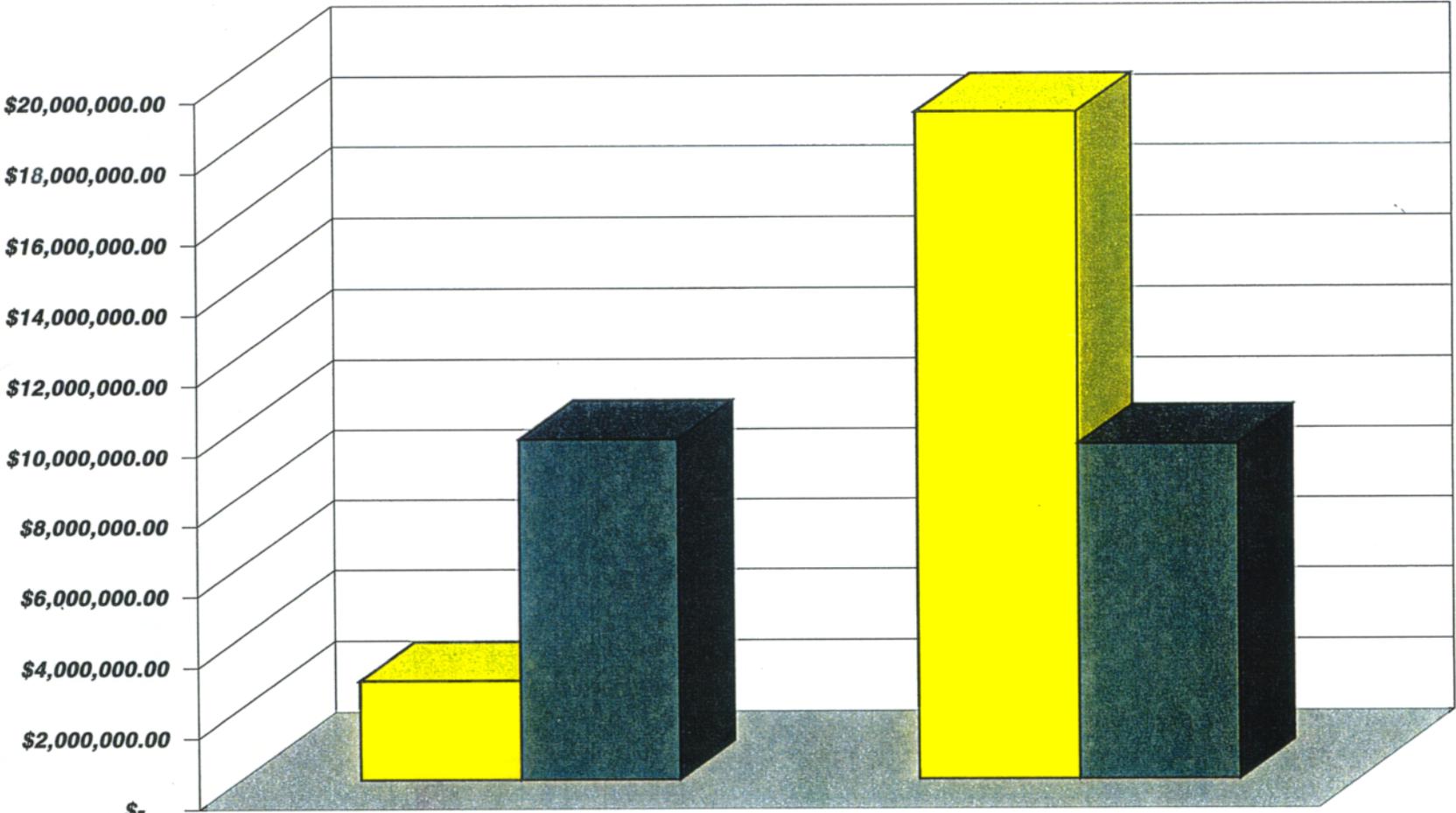
AUDIT SAVINGS FALL INTO THREE CATEGORIES: RECOVERED FUNDS; FUNDS PUT TO BETTER USE; AND QUESTIONED COSTS. THESE ARE NOT ABSTRACT SAVINGS. MUCH OF THESE ARE RECOVERED COSTS THAT THE DISTRICT IS REALIZING RIGHT NOW. FOR EXAMPLE, AS YOU ARE AWARE, AS A RESULT OF THE CASH MANAGEMENT REVIEW, THE FEDERAL GOVERNMENT AGREED TO REIMBURSE THE DISTRICT IN THE AMOUNT OF \$3.5 MILLION LAST NOVEMBER. THESE ARE MONIES THE DISTRICT WOULD NOT HAVE RECEIVED IF THE AUDIT IN THAT AREA HAD NOT BEEN DONE.

WE ATTRIBUTE OUR INCREASE IN DOLLAR SAVINGS TO OUR AUDIT PLANNING PROCESS, WHICH PLACES AN EMPHASIS ON SCHEDULING AUDITS WHICH WILL BEST IDENTIFY ECONOMIES AND EFFICIENCIES THAT CAN BE ACHIEVED IN CARRYING OUT DISTRICT GOVERNMENT OPERATIONS.

IN ADDITION, AS YOU MAY RECALL FROM MY TESTIMONY AND VISUAL AIDS LAST MONTH, OUR OWN AUDITORS ARE CAPABLE OF GENERATING SIGNIFICANTLY MORE RECOVERIES THAN CONTRACT AUDITORS. DURING FY 1999, THE AUDIT DIVISION ISSUED 28 REPORTS, WITH ASSOCIATED DOLLAR SAVINGS TO THE CITY OF \$18.9 MILLION (CONTRASTED WITH \$2.8 MILLION IN FY 1998). RECOVERIES FROM CONTRACT AUDITS REMAINED CONSTANT. THESE NUMBERS ARE ILLUSTRATED BY THE YELLOW BARS ON THE CHART FOLLOWING THIS

PAGE OF MY TESTIMONY. THE GREEN BARS REPRESENT SAVINGS
DERIVED FROM EXTERNAL AUDITS.

SUMMARY OF MONETARY ACCOMPLISHMENTS FY 1998 VS FY 1999



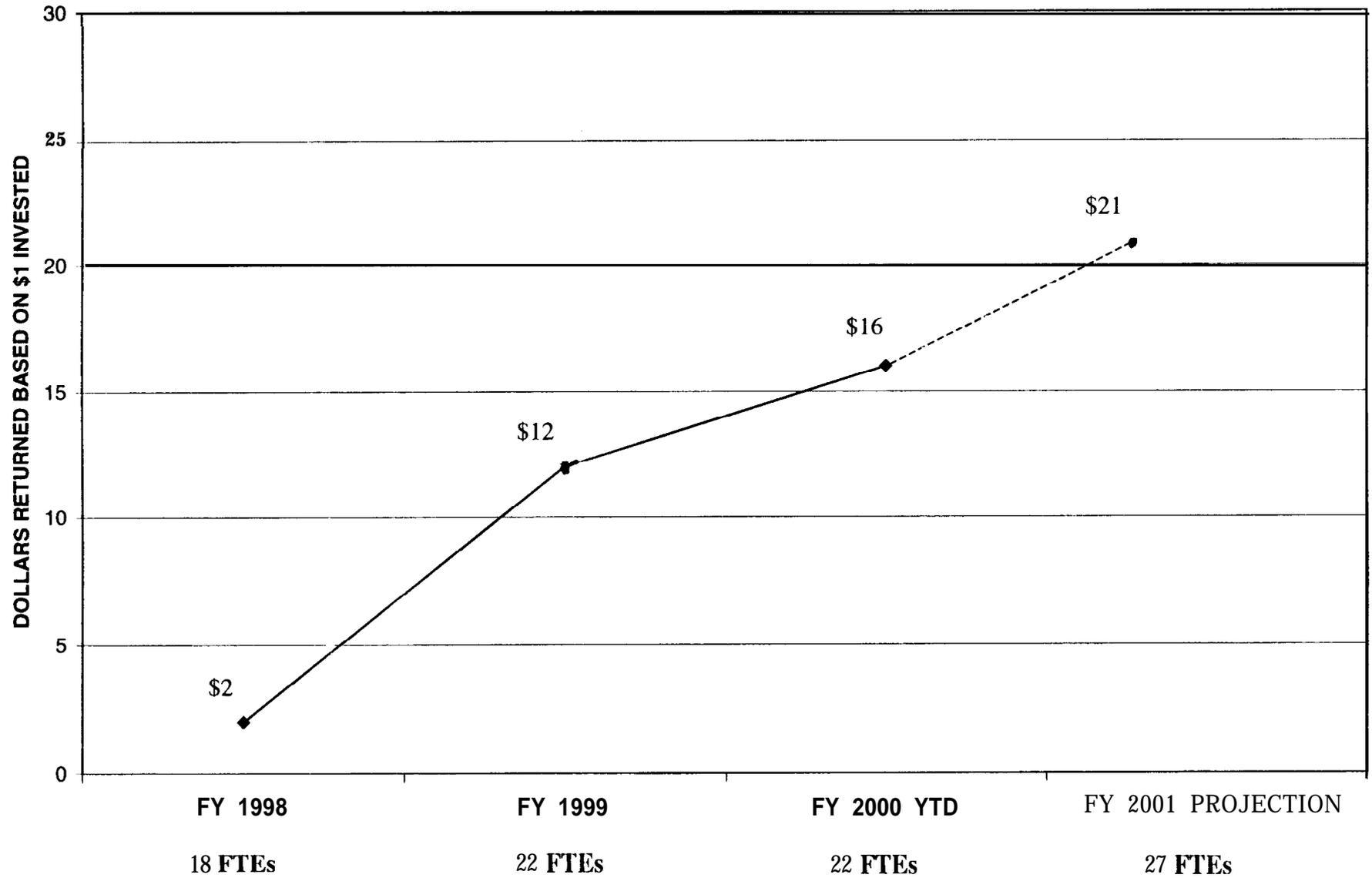
■ Internal Audit Savings
■ Contract Audit Savings

1998
\$2,798,000.00
\$9,650,000.00

1999
\$18,884,000.00
\$9,482,500.00

THE IMPACT OF THESE SAVINGS BECOMES APPARENT WHEN MEASURED AGAINST THE AUDIT DIVISION'S OPERATIONAL COSTS. DURING FY 1999, WITH 22 FTEs AND AN OPERATIONAL COST OF \$1.6 MILLION, THE RESULTING RETURN ON INVESTMENT FOR AUDITS PERFORMED WAS APPROXIMATELY \$12 FOR EACH DOLLAR INVESTED. IN CONTRAST, FOR 1998, USING 18 FTEs, WE RETURNED TO THE DISTRICT TWO DOLLARS FOR EVERY DOLLAR SPENT CONDUCTING AUDITS. SO FAR IN FY 2000, WITH 22 FTEs, THE RETURN IS \$16 FOR EVERY ONE DOLLAR SPENT. IF WE HAD FIVE ADDITIONAL FTEs, I ESTIMATE THAT WE COULD INCREASE THE RETURN ON INVESTMENT TO \$21 FOR EVERY ONE DOLLAR SPENT. THE ACCOMPANYING LINE GRAPH, WHICH I SHARED WITH YOU LAST MONTH AND WHICH FOLLOWS THIS PAGE OF MY TESTIMONY, SHOWS THE STEEP INCREASE IN RETURN AS FTEs ARE ADDED TO OUR AUDIT STAFF.

ANALYSIS OF RETURN ON INVESTMENT FY 1998 TO FY 2001



MEDICAID FRAUD CONTROL UNIT

PERHAPS OUR MOST PROMISING INITIATIVE IN TERMS OF RETURNING LOST FUNDS TO THE DISTRICT IS THE MEDICAID FRAUD CONTROL UNIT THAT IS NOW FORMING IN OUR OFFICE. AS YOU KNOW, THESE UNITS ARE THE PRINCIPAL FORCE USED BY EACH STATE TO CONTROL FRAUD IN MEDICAID PROGRAMS. DESPITE THE FACT THAT APPROXIMATELY \$842 MILLION IN MEDICAID FUNDS WERE SPENT IN THE DISTRICT LAST YEAR, THIS IS ONE OF THE FEW JURISDICTIONS IN THE NATION THAT HAS NOT HAD A FEDERALLY FUNDED MEDICAID FRAUD CONTROL UNIT.

THE DISTRICT HAS NOT HAD SUCH A UNIT SINCE 1983, WHEN THE PREVIOUS ONE WAS DECERTIFIED BY THE U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS) FOR LACK OF PRODUCTIVITY. ASSUMING THAT THE DISTRICT'S FRAUD RATE IS AT LEAST EQUAL TO THE ESTIMATED NATIONAL AVERAGE OF 10 PERCENT, THERE HAS BEEN A LOST OPPORTUNITY TO RECOVER APPROXIMATELY \$84 MILLION IN MEDICAID FUNDING EACH YEAR. TO MAKE MATTERS WORSE, OUR OFFICE HAS FAILED TO RECEIVE FEDERAL SUBSIDIES – A SUM CAPPED AT ONE PERCENT OF THE TOTAL MEDICAID COST PER JURISDICTION EACH YEAR – TO ESTABLISH AND OPERATE A MFCU. THAT MEANS WE HAVE LOST THE OPPORTUNITY TO APPLY FOR FUNDING OF UP TO \$8 MILLION PER YEAR SINCE 1983.

IT IS IMPORTANT TO NOTE THAT LAST YEAR CONGRESS PASSED LEGISLATION THAT SIGNIFICANTLY EXPANDED THE JURISDICTION OF MEDICAID CONTROL FRAUD UNITS TO INVESTIGATE AND PROSECUTE FRAUD IN FEDERAL HEALTH CARE PROGRAMS OTHER THAN MEDICAID. THUS, OUR OFFICE CAN NOW CONDUCT INVESTIGATIONS AND AUDITS INVOLVING MEDICARE AND OTHER FEDERAL HEALTH CARE PROGRAMS WHEN THERE IS A NEXUS TO A MEDICAID INQUIRY. FOR INSTANCE, IF WE ESTABLISH MEDICAID FRAUD ON THE PART OF A PATIENT WITH DUAL COVERAGE, WE CAN ALSO LOOK INTO FRAUDULENT ACTIVITY INVOLVING MEDICARE OR TRICARE FUNDS AS THEY APPLY TO THAT PERSON.

WHILE RECOVERY OF LARGE SUMS OF MONEY LOST THROUGH FALSE CLAIMS IS SIGNIFICANT, IT IS VITALLY IMPORTANT TO POINT OUT ANOTHER, PERHAPS LESS WELL KNOWN FUNCTION OF THE UNIT – THAT IS, INVESTIGATIONS CONDUCTED TO REDRESS PATIENT ABUSE AND NEGLECT. THE FEDERAL LEGISLATION I JUST REFERRED TO HAS ALSO EXPANDED THE JURISDICTION OF STATE MEDICAID FRAUD CONTROL UNITS BEYOND ISSUES OF FINANCIAL INTEGRITY AND CREATED REMEDIES TO REDRESS VIOLATIONS OF PATIENTS’ RIGHTS AND ENFORCEMENT OF BOARD AND CARE STANDARDS, EVEN IN NON-MEDICAID FACILITIES. THUS, ONE OF THE MOST IMPORTANT FUNCTIONS OF THE CONTROL UNIT WILL BE TO INVESTIGATE AND SEEK THE PROSECUTION OF MEDICAL PERSONNEL WHO INFLICT PHYSICAL OR

MENTAL ABUSE ON MEDICAID OR MEDICARE PATIENTS UNDER THEIR CARE. RECENT HEADLINES CONCERNING THE QUALITY OF CARE OF SOME OF THE DISTRICT'S MOST VULNERABLE CITIZENS UNDERSCORES THE NEED FOR THIS TYPE OF PROTECTION AS SOON AS POSSIBLE.

AFTER WE WERE INFORMED THAT OUR APPLICATION FOR CERTIFICATION HAD BEEN APPROVED BY HHS, WE SUBMITTED A BUDGET PROPOSAL IN THE AMOUNT OF \$1.6 MILLION TO GET THE UNIT STARTED. THE PROPOSAL CALLS FOR A COMPLEMENT OF 15 FTEs, TO INCLUDE A DIRECTOR, A DEPUTY DIRECTOR, TWO PROSECUTORS, TWO AUDITORS, SIX INVESTIGATORS, AND THREE OTHER ADMINISTRATIVE POSITIONS. UNDER THE TERMS OF THE GRANT, 75 PERCENT OF THE COST OF RUNNING THIS UNIT WILL BE FUNDED BY THE FEDERAL GOVERNMENT, BEGINNING MARCH 1, 2000. THE REMAINING 25 PERCENT (\$368,550) REPRESENTS THE REQUIRED MATCH FROM DISTRICT FUNDS. FOR THE REMAINDER OF THIS FISCAL YEAR, WE HAVE OBTAINED THOSE FUNDS BY MEANS OF AN INTERAGENCY TRANSFER. FOR FY 2001, THOSE FUNDS SHOULD BE ADDED TO OUR BASELINE.

AS I NOTED DURING MY TESTIMONY LAST MONTH, I BELIEVE THAT OUR CONTRIBUTION TO THE RESURGENCE OF THIS CITY COULD HAVE BEEN EVEN GREATER WITH ADDITIONAL HUMAN RESOURCES. IT IS FRUSTRATING TO KNOW THAT, WITH THE ADDITIONAL FTEs REQUESTED IN OUR ENHANCEMENT PACKAGE, WE WOULD HAVE THE ABILITY TO ACHIEVE AUDIT SAVINGS OF 21 DOLLARS FOR EVERY ONE DOLLAR SPENT.

REGRETABLELY, THOSE SAVINGS MAY NOT BE REALIZED BECAUSE WE SIMPLY HAVE TOO FEW AUDITORS. SIMILARLY, IT IS UNFORTUNATE THAT OUR INSPECTION PROCESS, WHICH SO EFFECTIVELY ILLUMINATED SYSTEMIC DIFFICULTIES AT DMV, CANNOT IMMEDIATELY ADDRESS SIMILAR DIFFICULTIES THAT WE ALL MUST REASONABLY SUSPECT EXIST IN MANY OTHER AGENCIES. UNFORTUNATELY, OUR INVESTIGATIONS DIVISION, WHICH IS NOW STRECHED TO ITS LIMITS, CAN ADDRESS ONLY ABOUT 50 PERCENT OF THE INVESTIGATIVE MATTERS RECEIVED.

I ALSO BELIEVE THAT IT WOULD BE HELPFUL TO COMPARE, IN TERMS OF PROPORTIONALITY, OUR RESOURCES AND ACCOMPLISHMENTS WITH THOSE OF OTHER STATE AND LOCAL GOVERNMENT AUDIT OFFICES. FOR EXAMPLE, THE AVERAGE NUMBER OF INSPECTORS IN A SINGLE FEDERAL AGENCY IS 18. WE HAVE ONLY SIX FOR THIS ENTIRE CITY.

A SURVEY CONDUCTED LAST YEAR BY THE FAIRFAX COUNTY INTERNAL AUDIT STAFF OF THE 50 LARGEST STATE AND LOCAL AUDIT STAFFS IN THE UNITED STATES SHOWED THAT THE AVERAGE RATIO OF AUDITORS TO THE NUMBER OF EMPLOYEES IN AN ORGANIZATION WAS ONE TO 713. THE RATIO OF OIG AUDITORS TO TOTAL EMPLOYEES IN THE DISTRICT IS ONE TO 1,523. THE AVERAGE RATIO OF THE 50 AUDIT STAFFS TO TOTAL BUDGET DOLLARS WAS ONE TO \$100,183,489. THE AVERAGE RATIO OF OUR AUDIT STAFF TO TOTAL DISTRICT BUDGET WAS ONE TO \$242,257,140. THEREFORE, OUR AUDITORS' RESPONSIBILITIES ARE

STRETCHED BETWEEN TWO AND TWO AND A HALF TIMES GREATER THAN THE NATIONAL AVERAGE FOR STATE AND LOCAL AUDIT STAFFS.

HAVING SAID THAT, THE ACCOMPLISHMENTS OF OUR OFFICE FOR THE PAST TWO YEARS IN TERMS OF COST SAVINGS, REVENUE ENHANCEMENTS, AND IMPROVEMENTS IN ORGANIZATIONAL INTERNAL CONTROLS WERE WELL DOCUMENTED DURING MY TESTIMONY LAST MONTH. THESE ACCOMPLISHMENTS WILL SIGNIFICANTLY INCREASE IF WE ARE GIVEN THE ADDITIONAL FUNDING THAT I HAVE REQUESTED TO PROVIDE THE BROADER COVERAGE THAT THE DISTRICT NEEDS AND DESERVES.

BECAUSE I BELIEVE THAT FUNDING DEDICATED TO OUR OFFICE BRINGS BENEFITS THAT THIS CITY CANNOT AFFORD TO LOSE, I HAVE PERSISTED IN REQUESTING THE ENHANCEMENTS TO OUR BUDGET THAT WILL PROVIDE THE NEEDED ADDITIONAL RESOURCES FOR THE AUDIT, INSPECTIONS, AND INVESTIGATIONS DIVISIONS. I HAVE SERIOUS CONCERN THAT WHILE DISTRICT OFFICIALS AS WELL AS CERTAIN MEMBERS OF THIS COUNCIL ARE SUPPORTIVE OF OUR COST SAVING INITIATIVES AND ENFORCEMENT OF PERFORMANCE-BASED MANAGEMENT STANDARDS, THERE IS NOT YET A FULL APPRECIATION OF THE LINKAGE BETWEEN AVAILABLE RESOURCES AND WHAT CAN BE REALISTICALLY EXPECTED AND ACCOMPLISHED.

AT THIS TIME I WILL BE HAPPY TO ANSWER ANY QUESTIONS THAT
YOU MAY HAVE.

**Office of the Inspector General (ADO)
FY 2001 Decision Package Summary**

Programmatic Adjustments				
Agency Priority	Description	Responsibility Center (RC)	Total Fiscal Impact	Total FTEs Impacted
1	The establishment of a District government Medicaid Fraud Control Unit	1000	368,552	15
2	Enhancement of OIG coverage of District agencies and programs	1000	4,147,266	16
3				
4				
Total			\$ 4,515,818	31.0
Technical Adjustments				
Agency Priority	Description	Responsibility Center (RC)	Total Fiscal Impact	Total FTEs Impacted
Total			\$ -	-

**Office of the Inspector General
FY 2001 Decision Package**

FORM DP - 2

Adjustment Title: The Establishment of a Medicaid Fraud Control Unit		
A	Adjustment Description: The Mayor has authorized the OIG to submit an application for a grant that would provide seventy-five percent of the operating cost for this initiative. Such an application has been completed and submitted. The goals of the Medicaid Fraud Control Unit will be to prosecute medicaid fraud, recover monies lost due to false claims, and investigate patient abuse. This request represents the required twenty-five percent match.	
B	Adjustment Type: (T) Technical or (P) Programmatic	P
C	Priority (1-4 Programmatic Only)	1
D	RC Number	1000
E	RC Name	The Inspector General
F	Object Class 11 (salaries)	\$237,037
G	Object Class 12	\$0
H	Object Class 13	\$0
I	Object Class 14 (fringe benefits)	\$30,815
J	Sub-total Personal Services	\$267,852
K	Object Class 20 (office supplies)	\$2,719
L	Object Class 30 (rent / telephone)	\$54,248
M	Object Class 40 (contract/other)	\$35,733
N	Object Class 50	\$0
O	Object Class 70 (equipment)	\$8,000
P	Sub-total Non-personal Services	\$100,700
Q	Total	\$368,552
R	FTEs	15.00
S	Citizen's Summit Goal Code	D1
T	Agency Point of Contact	Ranee Phillips

DECISION PACKAGE DETAILED ANALYSIS

Agency Name: Office of the Inspector General

Agency Code: AD

Agency Priority Ranking: # 1

Description: Establishment of a Medicaid Fraud Control Unit

Responsibility Center Code: 1000

Responsibility Center Name: Office of the Inspector General

Total Amount of Local Funds: \$368,552

FTE's : 15

Problem Statement:

Despite the fact that approximately \$840,000,000 in Medicaid funds were spent in the District last year, this city is one of the few jurisdictions in the United States that lacks a federally-funded Medicaid Fraud Control Unit (MFCU) to investigate and prosecute healthcare fraud and patient abuse. To make matters worse, federal subsidies available to establish and operate a MFCU have gone unclaimed.

Proposed Solution:

Based on the OIG's proposal to establish a federally-certified MFCU for the District, the Mayor has authorized the OIG to submit an application for a grant that would provide seventy-five percent of the operating cost of this initiative. Such an application has been completed and submitted. This request represents the required twenty-five percent match.

Cost-Benefit Analysis:

Assuming that the District's fraud rate is approximately equal to the national average of ten percent of total dollars spent and based on an estimation of \$840,000,000 being spent by the District last year in Medicaid funds, the OIG would have an opportunity to recover over \$84,000,000. of revenues lost due to medicaid fraud.

**Office of the Inspector General
FY 2001 Decision Package**

FORM DP - 2

Adjustment Title: Enhancement of OIG coverage of District agencies		
A	Adjustment Description: The OIG is requesting an additional sixteen FTE's. This request will facilitate the OIG's ability to enhance its audit, investigative, and inspection and evaluations coverage throughout the District government. This additional coverage is essential to meet the growing demands that have been place on the OIG by District managers. District managers are now faced with risk/management challenges relating to the Mayor's strategic initiatives such as making government work, economic development, and building healthy neighborhoods. In addition, Congress has passed legislation requiring the OIG to audit the District of Columbia Highway Trust Fund. This responsibility was previously with the General Accounting Office.	
B	Adjustment Type: (T) Technical or (P) Programmatic	P
C	Priority (1-4 Programmatic Only)	2
D	RC Number	1000
E	RC Name	The Inspector General
F	Object Class 11 (salaries)	\$888,230
G	Object Class 12	\$0
H	Object Class 13	\$0
I	Object Class 14 (fringe benefits)	\$130,122
J	Sub-total Personal Services	\$1,018,352
K	Object Class 20 (office supplies)	\$8,687
L	Object Class 30(rent/telephone)	\$115,142
M	Object Class 40 (contract/other)	\$2,898,335
N	Object Class 50	\$0
O	Object Class 70 (equipment)	\$106,750
P	Sub-total Non-personal Services	\$3,128,914
Q	Total	\$4,147,266
R	FTEs	16.00
S	Citizen's Summit Goal Code	D1
T	Agency Point of Contact	Ranee Phillips

Form DP-3

DECISION PACKAGE DETAILED ANALYSIS

Agency Name: Office of the Inspector General

Agency Code: AD

Agency Priority Ranking: #2

Description: Enhancement of OIG coverage of District agencies

Responsibility Center Code: 1000

Responsibility Center Name: Office of the Inspector General

Total Amount of Local Funds: \$4,147,266

FTE's: 16

Problem Statement:

With the additional responsibilities imposed on management to make improvements in district programs and operations in relation to District's strategic initiatives such as making government work, economic development, and building healthy neighborhoods, the Office of the Inspector General (OIG) will have to increase its auditing, investigation, and inspections and evaluations activities. Thus ensuring the integrity and improvements made by management in District operations, programs, functions and activities.

Because of previous work done or on-going work, the OIG has major concerns that include material internal control breakdowns in almost every agency the OIG has looked at, and agency non-compliance with District and federal regulations. These instances of breakdowns and noncompliance have resulted in wasteful spending and abuses within the programs.

The OIG is mandated by D.C. code § 1-1182.8(a) (3) (I) to prepare an annual Audit and Investigation Plan. The OIG was so inundated in FY 1999 with emergency audit and investigation work (unplanned) request for immediate audit and investigation coverage such as the Mental Retardation Development Disability Program and the Blue Plains Facility, that the planned coverage had to suffer. The Investigation division ended the fiscal year with ten cases pending inactive status (not being worked).

Lastly, Congress proposed a new statutory requirement for the OIG this year. Legislation was proposed requiring the OIG to audit the District of Columbia Highway Trust Fund every year, with a report required to be submitted to Congress no later than May 31 of each year, beginning with FY 2001. This was previously with the General Accounting Office.

The OIG supports the Mayor's Agency Strategic Alignment and Citizen's Summit Goals, which is why it's essential that the District government is aggressive in dealing with the aforementioned concerns. The aforementioned concerns deal with specific issues that relate to the heart of District operations, which include the following topics:

- Infrastructure – Improvements are needed in the District's infrastructure in administrative areas, real property, and plant and equipment. The OIG through audits, investigations, and inspections have identified a lack of administrative controls to ensure safeguarding of assets, and adherence to policies, procedures, and regulations. as well as poor controls over real property, plant and equipment.
- Control Issues – A few of the major control issues facing District Management includes integrity and fund control.
- Technology – A long-term management challenge is to exploit state- of- the-art technology while maintaining operational/mission effectiveness. A short-term challenge was resolving Year 2000 (Y2K) problems. The OIG issued several reports related to the Y2K area and information technology area, which were subsequently used as benchmarks and references in congressional hearings on this subject.

Form DP-3

DECISION PACKAGE DETAILED ANALYSIS

Agency Name: Office of the Inspector General

Agency Code: AD

Agency Priority Ranking: #2

Description: Enhancement of OIG coverage of District agencies

Responsibility Center Code: 1000

Responsibility Center Name: Office of the Inspector General

Total Amount of Local Funds: \$4,147,266

Problem Statement:

- Resource Constraints – Budget reductions and personal shortfalls will continue to challenge management to find more efficient and effective ways to implement strategic initiatives. Our audits and inspections identified inefficiencies and recommended improvement options to help the District Government work more efficiently and effectively.

Proposed Solution:

In order to alleviate the above mention concerns and to ensure that District managers are carrying out their mandated missions in an efficient and effective manner to prevent and detect fraud, waste and abuse and to meet the OIG's additional legislated responsibilities, the OIG is requesting sixteen additional FTE's with an increase cost of \$1,018,352 in personal services. The OIG is also requesting an increase of \$318,914 in non-personal services which represents support costs that are associated with the additional FTE's.

This request also includes an increase of \$2,810,000 for contractual services for the Comprehensive Audit and Financial Report (CAFR). The current contractor gave the District a "discount rate" of \$1,800,000 for fiscal years 1998 through 2000. However, the cost for fiscal year 1997 audit was \$2,300,000. The current firm can not bid on the proposal.