

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

JUNE 9, 2000

GOOD MORNING CHAIRMAN EVANS AND COUNCIL MEMBERS. I APPRECIATE THE OPPORTUNITY TO APPEAR BEFORE THE COMMITTEE ON FINANCE AND REVENUE TO PROVIDE TESTIMONY ON THE COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR) FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1999, AND OUR ONGOING AND PLANNED EFFORTS TO HELP IMPROVE THE CAFR PROCESS.

I SHARE WITH THIS COUNCIL A STRONG COMMITMENT TO IMPROVING THE CAFR PROCESS IN LIGHT OF THE PIVOTAL ROLE THE CAFR PLAYS IN HELPING THIS GOVERNMENT MOVE THE CITY FORWARD. I AM MINDFUL THAT THE DISTRICT MUST SHOW A BALANCED BUDGET FOR FY 2000 IN ORDER FOR THE DISTRICT TO MOVE TOWARD HOME RULE. I AM EQUALLY MINDFUL THAT THE TIMELY AND ACCURATE COMPLETION OF THE CAFR IS A CRITICAL PREREQUISITE TO SHOWING A BALANCED BUDGET SO THAT CITY LEADERS WILL BE ABLE TO MAKE IMPORTANT FISCAL DECISIONS. WHILE PAST DELAYS CLEARLY DO NOT PREVENT US FROM INITIATING OUR WORK ON THE CAFR FOR 2000, WE ALL HAVE A STAKE IN FULLY GRASPING THE LESSONS LEARNED FROM OUR PAST

EXPERIENCE SO THAT WE CAN PROCEED WITH CONFIDENCE AND WITH FOCUS.

BACKGROUND

SECTION 303(b) OF PUBLIC LAW 104-8, 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 EACH 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 1ST 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 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 1ST OF EACH YEAR, BY LAW.

ROLE OF THE OIG

THE OIG FUNCTIONS IN A PROCUREMENT CAPACITY IN AWARDEDING THE CAFR CONTRACT. IN ORDER TO OVERSEE THE PROGRESS OF THE AUDIT, THE OIG ESTABLISHED AN AUDIT COMMITTEE COMPOSED OF REPRESENTATIVES FROM VARIOUS ENTITIES INCLUDING 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 AND, SINCE FEBRUARY OF THIS YEAR, REPRESENTATIVES FROM COUNCIL. 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, SUCH AS PREPARING FINANCIAL CLOSING PACKAGES FOR THEIR RESPECTIVE AGENCIES, IN ORDER THAT THE AUDIT WILL

PROCEED SMOOTHLY AND BE COMPLETED IN A TIMELY MANNER. 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. THE FIRM'S RESPONSIBILITIES INCLUDE PLANNING THE AUDIT, ASSESSING RISKS, EVALUATING INTERNAL AND MANAGEMENT CONTROLS, AND PERFORMING SUBSTANTIVE TESTS WHICH ENABLE THE FIRM TO RENDER AN OPINION.

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.

REVIEW EFFORTS

AS YOU MAY BE AWARE, THE CAFR AUDIT COMMITTEE HAS MET AND WILL BE MEETING AGAIN TO DISCUSS THE PROBLEMS ASSOCIATED WITH THE FY 1999 CAFR AND POSSIBLE SOLUTIONS THAT NEED TO BE IMPLEMENTED TO AVOID SUCH PROBLEMS IN THE FUTURE. IN THIS REGARD WE ARE CONDUCTING A MANAGEMENT REVIEW TO DETERMINE

CAUSES FOR DELAYS IN ISSUING THE CAFR AND TO IDENTIFY SOLUTIONS THAT CAN BE IMPLEMENTED TO HELP INSURE TIMELY FUTURE CAFRS. WE PLAN TO COMPLETE THIS REVIEW BY EARLY AUGUST, PRIOR TO THE "KICK-OFF" SESSION FOR THE FY 2000 CAFR. MOREOVER WE WILL ADVISE MANAGEMENT OF DEFICIENCIES AS THEY ARE IDENTIFIED SO THAT CORRECTIVE ACTIONS MAY BE INITIATED PRIOR TO COMPLETION OF OUR REVIEW. IF THE COMMITTEE DESIRES, WE WOULD BE PLEASED TO PROVIDE STATUS BRIEFINGS AS THE REVIEW PROGRESSES.

WE ARE ALSO CONDUCTING AN AUDIT OF SECURITY CONTROLS OVER ACCESS TO THE SYSTEM OF ACCOUNTING AND REPORTING (SOAR). THIS REVIEW WILL HELP ENSURE THE INTEGRITY OF DATA ENTERED INTO SOAR. NOW THAT THE CAFR MANAGEMENT LETTER HAS BEEN ISSUED, WE PLAN TO RE-CONVENE THE CAFR AUDIT COMMITTEE ON JUNE 13, 2000, TO HELP IDENTIFY PRIORITY AUDITS FOR INCLUSION IN NEXT YEAR'S OFFICE OF THE INSPECTOR GENERAL'S AUDIT PLAN. THIS PRIORITIZATION ALLOWS US TO CONDUCT AN IN-DEPTH PERFORMANCE REVIEW OF THE ISSUES GENERALLY IDENTIFIED IN THE CAFR. REGARDING THE MANAGEMENT LETTER, WE ARE MAKING PLANS TO FOLLOW-UP WITH DISTRICT MANAGERS CONCERNING THEIR PROGRESS ON IMPLEMENTING CORRECTIVE ACTIONS ON THE WEAKNESSES AND DEFICIENCIES OUTLINED IN THE CAFR AUDIT.

WE WILL CONTINUE TO MAKE EVERY EFFORT TO ENSURE THAT THE ACTIVITIES OF ALL PARTIES INVOLVED IN REVIEW OF THE CAFR PROCESS ARE COORDINATED SO THAT VITAL INFORMATION IS SHARED AND NEEDLESS DUPLICATION IS AVOIDED. IN PARTICULAR, WE WILL WORK WITH THE AUTHORITY AS IT REVIEWS THE SOAR IMPLEMENTATION PROCESS. ALSO, IN ADDITION TO THE REQUIREMENTS OF THE PROPOSED LEGISLATION (WHICH I WILL COMMENT ON MOMENTARILY) WE ARE IMPOSING OUR OWN INTERNAL REQUIREMENTS FOR MITCHELL & TITUS TO PROVIDE US WITH A WRITTEN STATUS REPORT EVERY TWO WEEKS. I BELIEVE THAT A COORDINATED APPROACH TO ALL CAFR REVIEW EFFORTS WILL BEST SERVE THE DISTRICT.

COMMENTS ON PROPOSED LEGISLATION

FIRST, I WOULD LIKE TO COMMEND COUNCILMEMBERS EVANS AND JARVIS FOR TAKING THE INITIATIVE TO INTRODUCE BILL 13-581, THE COMPREHENSIVE ANNUAL FINANCIAL REPORT SCHEDULING AND NOTICE REQUIREMENT ACT OF 2000. I BELIEVE THIS LEGISLATION WOULD IMPROVE COMMUNICATIONS AMONG ALL INVOLVED PARTIES, AND MORE IMPORTANTLY, HELP ENSURE THAT THERE IS ACCOUNTABILITY AND DISCIPLINE THROUGHOUT THE ENTIRE CAFR PROCESS. I ALSO BELIEVE, THAT LANGUAGE SHOULD BE INCLUDED IN THE BILL TO REQUIRE THAT ALL INFORMATION BE PROVIDED SIMULTANEOUSLY TO THE OIG. THIS ACTION WOULD ASSIST MY OFFICE IN ITS OVERSIGHT ROLE AS SET FORTH IN PUBLIC LAW 104-8.

CONCLUDING REMARKS

THANK YOU FOR ALLOWING ME THE OPPORTUNITY TO SHARE THIS TESTIMONY. I LOOK FORWARD TO WORKING WITH YOU AND OTHERS TO IDENTIFY WAYS TO IMPROVE THE CAFR PROCESS. I AM NOW PLEASED TO RESPOND TO YOUR QUESTIONS.