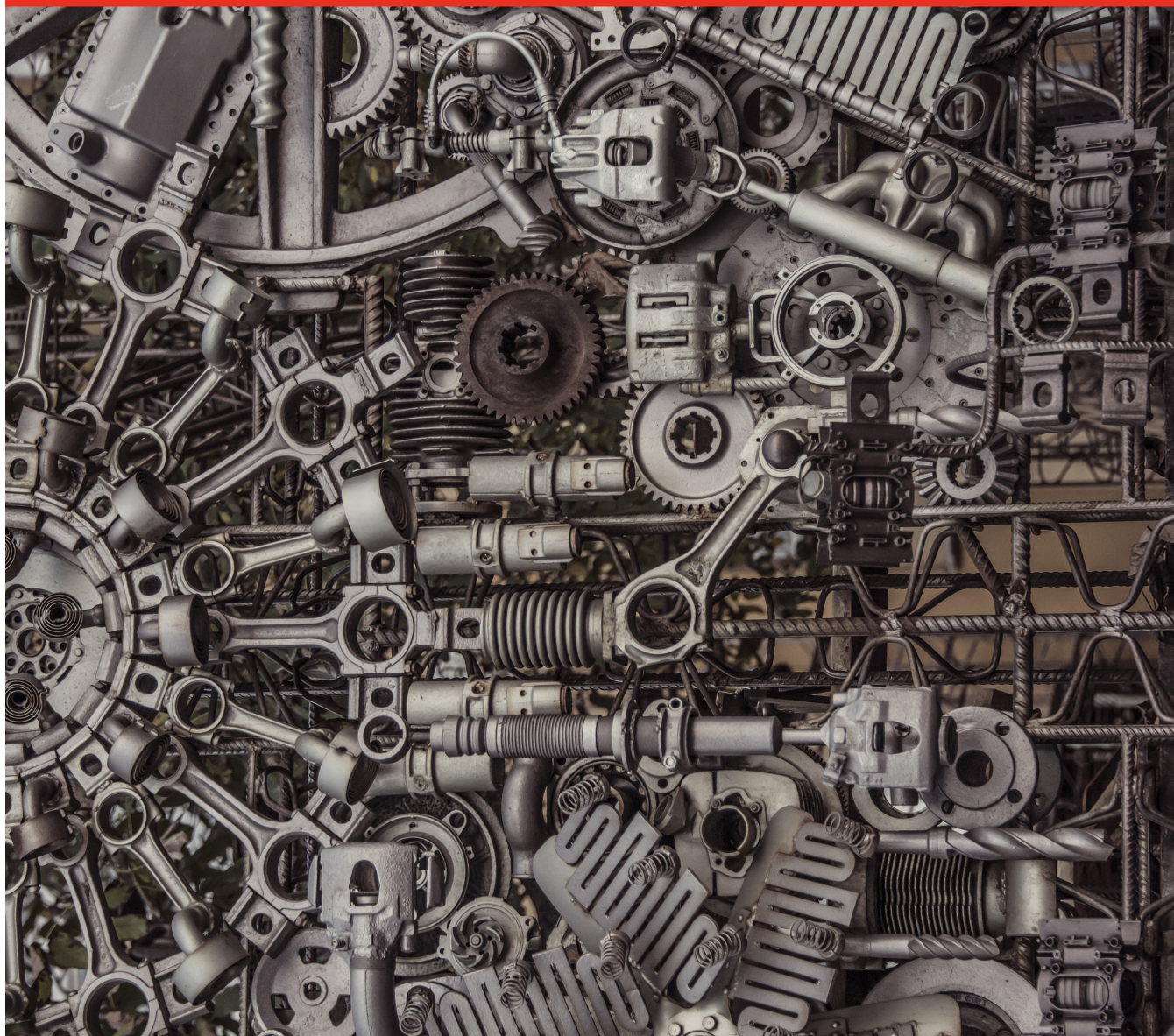

The Case for District-Wide Internal Control Standards

January 8, 2019

A white paper by the Office of the District of Columbia Auditor



Contents

Foreword	1
Background	3
Making the Case	5
Internal Controls	9
Earlier District Efforts.....	16
The Expectation/Reality Gap	18
Recommendations for Further Discussion	23
Agency Comments	25
ODCA's Response to Agency Comments.....	36
Appendix A:	37

Foreword

When I joined the Office of the District of Columbia Auditor (ODCA) as an audit supervisor several years ago, one of my first projects was an audit of the Metropolitan Police Department (MPD) looking at whether the MPD was complying with District laws governing investigations of First Amendment activities. In this case, ODCA had already issued an initial report on the MPD's compliance with the law. I was stunned by the MPD's response to the initial report issued in 2012, which included the following:

"...MPD believes that it acted in good faith in order to meet the requirements of the law and has satisfied those standards. However, it appears that MPD may not have done so to the satisfaction of the standards utilized by the D.C. Auditor. Had we known of the auditing standards and expectations back in 2005 when the Act went into effect, or in any of the intervening six years during which time no audit was performed, these issues would have been addressed earlier."

Prior to joining ODCA I audited financial statements for both public and private sector organizations. We reviewed income statements, balance sheets, and cash flow statements before rendering an opinion on their accuracy. These audits were substantially different from the performance audits conducted by ODCA and the MPD response helps explain why.

In my previous role, everyone was on the same page when I walked into an organization for an audit of their financial statements. As auditors, our professional responsibilities were clearly articulated to us by the firm we worked for, as well as by our trade associations, and government regulators. For example, if I was auditing a corporation like Apple, I would look to the Public Company Accounting Oversight Board (PCAOB) and my firm's audit methodology to tell me how to do my job, including:

- Specifying how many sales contracts I needed to review so that the firm could verify the sales revenue line item on Apple's income statement.
- Designing a methodology for me to use as I worked with a specialist to test the company's network security.
- Setting standards for evidence that may be used in my work product. For example, whether to inquire of the CEO about excessive expenses they submitted for reimbursement.

On their side, Apple's accountants would look to the Financial Accounting Standards Board (FASB) and other government agencies for instructions on how to do their job. For example, FASB clearly lays out acceptable standards for financial accounting and reporting at Apple, including:

- Calculating sales revenue for the current year when a customer signs a five-year contract to buy computers.
- Deciding if research and development costs should be expensed as they are incurred.
- Instructing them on how to assess and disclose the financial impact of any pending litigation against Apple.

These standards weren't merely suggestions or best practices. They were requirements. Both sides of the audit were required to undergo a significant amount of training and preparation so that Apple's shareholders would receive a comprehensive, productive evaluation.

The differences between these highly-regulated financial audits and the performance audits I now conduct for the District of Columbia are significant:

- Many of the District services and programs that ODCA audits, operate in the absence of verifiable policies, procedures, or structured processes. As evidence of this, one can take a look at the audit reports ODCA issues each year as well as our annual recommendation compliance report. ODCA's January 2018 compliance report reviewed recommendations from 35 earlier reports. Of those, 24 cited a lack of basic policies, procedures, or structured processes that ODCA could verify and 6 of them were actually directed at the District's Advisory Neighborhood Commissions.

In the overwhelming majority of our audits we either identified problems with the processes that the District was using to administer its programs, or we were unable to verify how the programs were administered because the agency lacked basic documentation for us to review.

To be sure, of those processes where documentation was not available to verify how the program was run, it is possible that District government employees did in fact administer the program properly. However, without the documentation necessary to verify what happened as the District's employees did their job day to day, a substantial number of these programs lacked basic transparency and accountability.

- District agency managers and employees do not receive a comprehensive and consistent framework to guide them as they perform their jobs on a day-to-day basis.
- It is not surprising, then, that agency managers and employees are often not prepared for audits when we conduct them, and that they lack verifiable processes and basic documentation for our teams to review.

Initially I was baffled by the MPD response that officials had no playbook for managing operations relevant to our audit. Why would anybody expect their operations to comply with a set of standards and performance metrics if the MPD was never informed of, and trained to implement those standards and performance metrics?

Now, several years later, I have a clearer understanding of the MPD's response. I also agree with their assessment and appreciate their candor. Any D.C. organization that we audit should have a clear understanding of the rules at work—what performance was intended by policymakers and how they can expect to be evaluated. This report was drafted, reviewed, and approved in accordance with the standards outlined in ODCA's Policy and Procedure Manual.

Background

ODCA audits often find that District government agencies: 1) cannot clearly demonstrate that they are meeting the needs of all their stakeholders; and/or 2) employ ineffective processes.

The Office of the District of Columbia Auditor (ODCA) FY 2016 audit of the District’s school modernization program found many internal control failures, many of which were repeat findings from previous audits. When we examined the findings for this program over three years, we came to this difficult conclusion: The District does not have the organizational structures, laws, and standards necessary to guide its **employees and managers as they design and implement processes to achieve their mission**. Unfortunately, our conclusion is not limited to just this program.

In annual performance hearings and reports to the public, the executive branch of the D.C. government shares results of its own performance management processes—its key performance indicators, or KPIs. Each agency sets and reports on its metrics annually, but the strategic goals reflected in such reports do not consistently find their way to program operators or even program managers, according to recent audits. Goals and metrics are not consistently reflected in standard operating procedures. In addition, ODCA audits have found that agencies do not consistently store and transfer information on program operations when individual staff members or mayoral administrations change.

Every organization’s stakeholders want to see results.

Stakeholders want to know if an organization is achieving what it set out to do. And every organization should decide how it will do the following:

- Set objectives and measures of performance for each objective.
- Design processes to meet those objectives.
- Identify and address any impediments to achieving those objectives.
- Assess/report on the results of the organization’s efforts to its stakeholders.

ODCA uses Generally Accepted Government Auditing Standards (GAGAS) issued by the U.S. Government Accountability Office (GAO) to audit District operations. However, neither the Mayor nor the Council of the District of Columbia have designated a specific set of standards for each District agency to employ as they administer their policies and programs. Unlike Apple, the D.C. government doesn’t have a set of rules to guide its operations across agencies and across programs so that all its stakeholders get an opportunity to review timely, meaningful, results.

The District can improve its processes with an internal control framework.

The following review will:

- Illustrate the problems that arise when a framework is not used to design, implement and operate effective internal controls.
- Provide a clear definition of internal control, a term generally associated with work in the accounting/auditing profession.
- Compare the state of internal control development in the District with other government entities and private sector businesses.

These challenges did not suddenly materialize this year. They cannot be attributed to the failure of any individual employee, District law, or mayoral administration. They represent a longstanding structural deficiency in how many institutions, businesses, and governments—including the District—operate. And, just as these problems did not arise this year, they will not be corrected without the District expending a significant amount of time, effort, and expense. Addressing these challenges will require a coordinated effort among the District’s many stakeholders, including the Mayor and members of the Council of the District of Columbia (D.C. Council), who share a collective responsibility for ensuring that the District operates efficiently and effectively on behalf of its residents.

Making the Case

Adopting an internal control framework will help District employees prevent or remediate operational problems to help ensure each agency achieves its mission

What follows are examples of the types of operational failures that have been documented in audits conducted by ODCA, the D.C. Office of the Inspector General (OIG), federal agencies, outside auditors, and in reports from the news media. In each case, adopting an internal control framework would have substantially improved the chance that the District's employees and managers would prevent these problems from occurring by:

- Setting objectives and measures of performance for each objective.
- Designing verifiable processes to meet those objectives.
- Identifying and addressing any impediments to achieving those objectives.
- Assessing and reporting on the results of the organization's efforts.

For more detailed information about each of these process failures, see Appendix A.

There are sometimes inconsistencies between the D.C. Council's design of a District program and the way the executive branch runs the program.

- The Department of Housing and Community Development (DHCD) failed to provide each developer working with the Housing Production Trust Fund (HPTF) with clear, consistent guidance on how to verify each applicant's income to ensure affordable housing was only provided to low-income households. We found some tenants whose income exceeded the threshold for low-income housing. Where developers collected the necessary documentation to verify tenant income, they did not always perform a thorough review. We found several instances where a basic review of the tenant's documentation would have disqualified them from low-income affordable housing units.
- Out of 25 vacant and blighted buildings we sampled whose owners should have received a notice of infraction for failing to proactively register their vacant property, none of them received a notice from the **Department of Consumer and Regulatory Affairs (DCRA)** and the District failed to collect fines totaling \$50,000. DCRA gave property owners between 30 and 45 days to respond to a notice, instead of the 15 days specified by the D.C. Code. Of 15 property owners we sampled, who should have been referred to the **Office of the Attorney General (OAG)** for a \$1,000 penalty, none were referred for penalties totaling \$15,000. Of the 19 properties granted an exemption in our sample, nine of them did not meet the criteria for an exemption, as outlined in the D.C. Code.

The District does not collect all the money it is owed and, in one instance, it is estimated that the District lost out on \$38 million.

- In 2014, revenue from the District's traffic enforcement cameras was \$38 million less than initially forecast after the **Metropolitan Police Department (MPD)** assumed management responsibilities for the program. The Washington Post reported that according to the MPD, this shortfall was due in part to problems maintaining some of the equipment. The MPD explained that "During periods of extreme cold and snow last winter, there were instances when we could not change the batteries because they were not accessible, or the temperature affected the charge."

District government officials have stolen taxpayer money.

- Former **Councilmember** Harry L. Thomas Jr. took some of the money that the Council set aside for art and youth recreation programs, and used it to buy himself cars, clothes and vacations.
- A District employee leveraged her job with the **Office of Tax and Revenue (OTR)** to assist her clients at a private tax preparation service. Where her clients were facing audits, she provided them with documentation for fraudulent deductions, costing the District \$300,000.
- A District employee with the **Department of Consumer and Regulatory Affairs (DCRA)** used her official position to extort money from customers seeking business licenses and construction contracts.
- A **Department of Human Resources (DCHR)** employee accessed her own profile in the District's employee payroll system to increase her own hourly pay rate. She was ordered to pay restitution in the amount of \$11,385.
- The associate director at the **Department of Employment Services (DOES)** entered fraudulent information into their computer system on behalf of her daughter, and the daughter's boyfriend, to qualify them both for unemployment insurance compensation. The associate director was ordered to pay restitution in the amount of \$19,027.
- The supervisor for the permit office at **DC Water** ran his own consulting business providing "permit expediting" services. He charged his customers more than \$140,000 over a five-year period.

Monitoring the money that the District spends with contractors, nonprofits and other external organizations is particularly problematic, raising a risk of waste, abuse, or theft.

- In 2016 the Washington Post noted that the **Children and Youth Investment Trust Corporation (CYITC)** was bankrupt, lacking the money it needed to run its own operations, and pay millions in promised grants. This was caused by exorbitant spending by staff, including the misuse of CYITC credit cards for personal expenses, and what one consultant stated was an unusually large amount of money going to administrative expenses. In fact, upon discovering CYITC's bankruptcy, the Mayor and D.C. Council discovered that more than \$2 million of the \$5 million allocated to the Trust in the prior year, was spent on rent, six-figure salaries, and travel for the Trust's executives.
- The District contractor in charge of modernizing the District's schools did not fulfill the requirements of its contract with the **Department of General Services (DGS)**. For the three projects we selected for review, the contractor failed to provide compliant monthly reports for all three projects and did not document why it spent money out of the project's contingency fund for two of the three schools.
- The monthly progress reports that the **Department of Youth Rehabilitation Services (DYRS)** was supposed to receive would have provided DYRS managers with a summary level snapshot of the facility's operations including:
 - » The number of youth admitted, discharged or arrested.
 - » Daily notations taken in each youth's case file.
 - » A record of any curfew violations.
 - » Data on any unusual incidents that youth might be involved in.

We found that two of the four facilities we tested did not produce any monthly progress reports. The other two produced some of the required information in their contract.

- Several process failures over the **University of the District of Columbia's (UDC)** operations including:
 - » Management was unable to clearly identify the location of one of the grants that the federal government provided to it.
 - » UDC could not demonstrate that its endowments were invested in accordance with UDC's own spending and investment policy.
 - » UDC did not meet the objectives of its Vision 2020 strategic plan. It does not offer all the majors it planned on offering. It has not created an entirely online course of study and workforce development and lifelong learning programs did not meet performance expectations.

District residents do not receive all the benefits they are entitled to from the federal government.

- Between 2012 and 2017 the District was labeled a "high risk" partner for job training and employment programs by the **U.S. Department of Labor (DOL)**. DOL cited low enrollments, a lack of expenditures in the program and overall poor performance in its criticism of the District. They also withheld a small amount of money in 2015 and 2016 (\$40,000), with the District being the only jurisdiction in the nation to have a "high risk" designation in 2015. The District conceded that many contractors stopped running job training and employment programs for the District because they were not paid on time.
- In 2016 the District began using a new computer system to administer its **Supplemental Nutrition Assistance Program (SNAP)**. Before the new computer system went live, the **U.S. Department of Agriculture (USDA)** warned the District that the system was not ready to administer SNAP benefits. They recommended more testing to avoid the types of backlogs and delays that occur when new systems are rolled out before they are ready. Within a few months the federal government reported a series of errors, including inaccurate or missing benefits and a failure to send required notices to recipients about changes in their benefits. By August of 2017 the District was being sued by several individuals because of delays in application processing, or because the District eliminated people's benefits without warning.
- KPMG conducted an audit of the **University of the District of Columbia's (UDC)** student loan program in 2014. The audit found that UDC had awarded student loan amounts above the federal limit, failed to obtain high school transcripts, and verify each student's proof of residency. As a result, the **U.S. Department of Education (DOE)** restricted the university from adding or making changes to its academic programs, one of five goals the university set in its 2020 strategic plan.

District agencies cannot consistently prove that workers are paid all the money they are owed on the District government's construction projects; in one instance we noted \$193,365 in damages.

- We noted deficiencies in the processes **DGS** and **DOES** used to prevent and/or detect and correct violations of the Davis-Bacon Act. To comply with the law, the District is supposed to collect and verify payroll records that show contractors are paid the money that they are owed. In 2015, however, 32 of 71 records we looked at were missing these certified payroll records. Furthermore, when construction workers made complaints, they were referred to DOES and then later to DOL. Neither DGS nor DOES could provide ODCA with any information on the status of these cases or the scope of the problem in the District (i.e. number of cases, dollar values associated with complaints, etc.).

As part of our review we also examined some of the court cases associated with these complaints. In one case, the U.S. District Court for the District of Columbia entered a default judgement against one contractor in the amount of \$193,365, including unpaid wages.

District agencies struggle with every facet of the District’s procurement and contracting process, from soliciting proposals, to monitoring contractors

- In 2015 the Council had to retroactively approve more than 40 contracts for bike-share equipment, road salt for winter storms, and more than \$1 billion in health-care services.
- A 2017 KPMG review of the District’s contracting and procurement process conducted for the OIG noted:
 - » Inconsistent document management practices resulting in an inability to validate decisions, including sole source, emergency awards, and change orders.
 - » Too many procurement governance structures which increased the risk of noncompliance and operation inefficiencies for the District.
 - » A lack of meaningful contractor oversight as KPMG noted that “Several agencies that we interviewed indicated a lack of procurement awareness among key personnel related to responsibilities for vendor oversight.”

The executive branch does not always provide the Council with accurate, consistent information.

- In January of 2013 **DGS** received two preliminary design estimates for a project at the Duke Ellington School of the Arts for \$90 million and \$106 million, which were \$9 million and \$24 million more than, respectively, the amount included in the Capital Improvements Plan (CIP) that was presented to the D.C. Council in the District’s FY 2014 budget. In the following year, the estimate was \$7.6 million more than the amount included in the CIP for D.C. Council approval.
- In a recent audit of the **Department of Housing and Community Development (DHCD)** which has been tasked with providing and creating affordable housing for District residents, we noted that the information provided to the D.C. Council and to ODCA was different, including the number of units, number of projects, and award amounts, and that these numbers continued to change throughout the audit.
- In its FY 2015 performance hearing, the **Department of Consumer and Regulatory Affairs (DCRA)** reported that it had 2,294 vacant and blighted properties listed in its database but reported 8,400 properties in its Performance and Accountability Report and provided ODCA with data suggesting the amount was 3,278 properties.

Internal Controls

Internal controls: critical for ensuring and demonstrating program success

While the term internal control is most frequently associated with financial statements, internal controls aren't just used to manage the process by which financial statements are created. They represent a framework for managing the achievement of any objective. When auditors use the term internal control, one can generally replace the term with the word "process" or "procedures" – the "how" of completing a task. But, an internal control framework doesn't just describe how to set up a process. It also ensures that the organization has designed and implemented the right processes that also include monitoring by the organization's management.

Both the federal government and our nation's private sector businesses have developed and adopted a set of standards to set objectives, identify, and address any impediments to the achievement of their objectives, and subsequently, to hold themselves accountable for the results of their efforts.

Private sector businesses generally employ a framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The federal government has adopted a framework issued by the Government Accountability Office (GAO) commonly referred to as the "Green Book." Though they are two different frameworks, the GAO's Green Book borrows heavily from COSO and even includes direct citations to its framework.

Both frameworks describe the following process:

- **Control environment.** The first thing an organization needs to do is establish a structure, assign responsibility, and delegate authority to achieve the entity's objectives. Furthermore, management must establish the overall tone for the organization's culture by demonstrating the importance of integrity and ethical values throughout their directives, attitudes and behavior.
- **Risk assessment.** Management should clearly define specific objectives for the organization that are both easy to understand and measurable. Once objectives have been defined and measures of performance have been set, management should identify any risks that could prevent it from achieving those objectives.
- **Control activities.** These are the actual processes that an organization designs and implements to both achieve objectives and mitigate any risks associated with achieving those objectives.
- **Monitoring.** Management must monitor the organization's processes to ensure that it achieves its objectives. By monitoring the organization's processes, managers can both assess the quality of performance over time and resolve any findings identified as part of their reviews.

As the organization designs and implements these processes, making all necessary considerations along the way, including how often the process will occur, what kind of technology it will employ, how precise it will be and how to segregate various portions of the process among multiple people, its processes can be separated into four broad categories:

Financial reporting. Production of basic financial statements, which usually include an income statement, balance sheet and cash flow statement (naming conventions vary between public/private and federal/local).

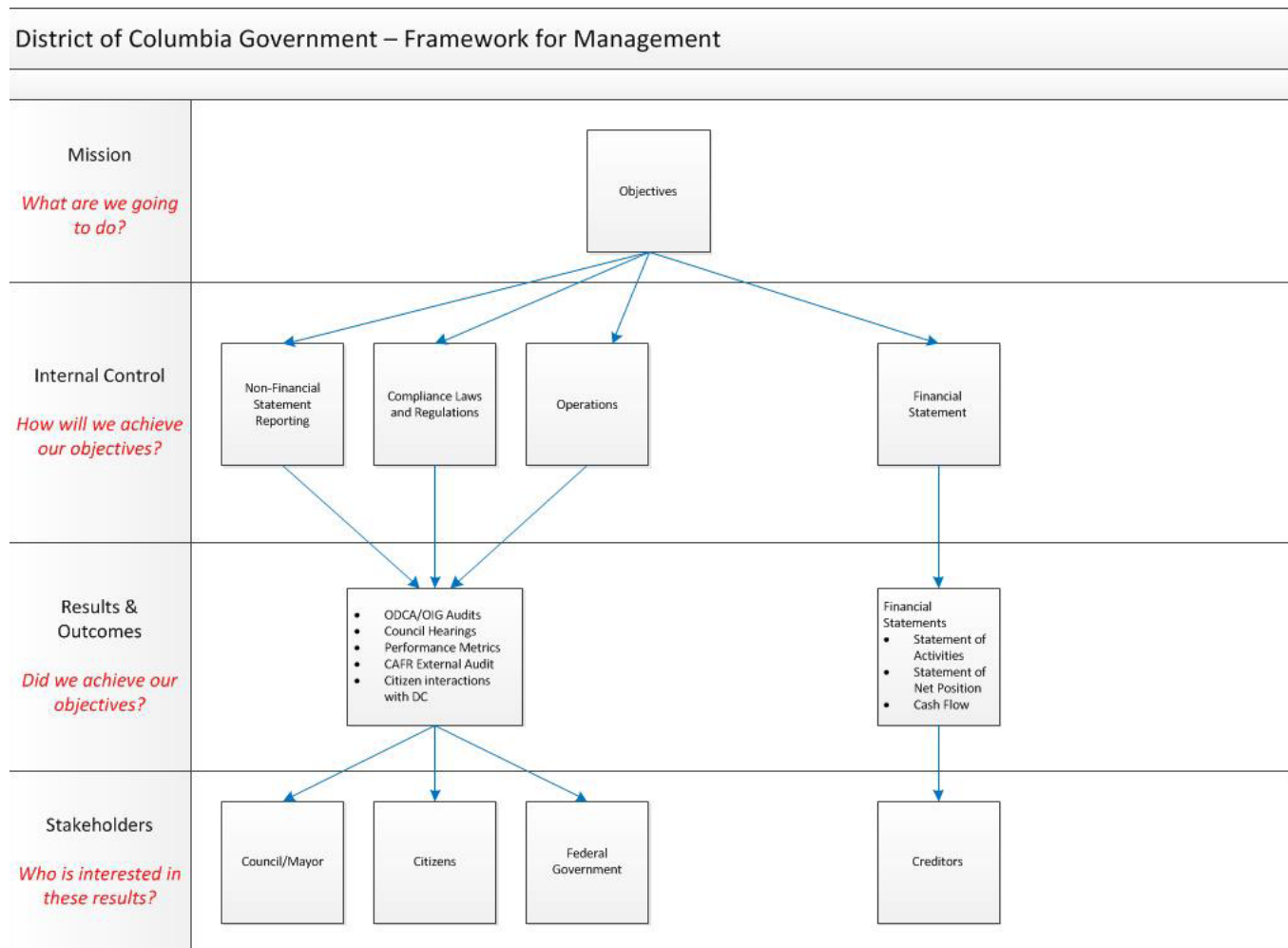
Non-financial reporting. Any other reporting that an organization might produce. Some examples in the District include the annual budget that each agency submits to the D.C. Council, and the written information each agency provides in advance of their annual performance hearings.

Operations. The organization’s core processes (i.e. what they do).

Compliance with laws and regulations. Processes designed to adhere to all applicable laws and regulations, including federal laws and regulations that impact the District.

Whether an organization is attempting to produce financial statements, run its operations in compliance with laws and regulations, or to calculate performance metrics that allow managers to evaluate their performance, the organization must establish robust processes. In Figure 1 below we have laid out how those processes would fit into the District’s operations.

Figure 1: District of Columbia Government Framework for Management



Internal controls aren't just for financial statements

The external auditors that the District hires to audit the District's Comprehensive Annual Financial Report (CAFR) will examine the processes the District uses to produce its financial statements as part of its audit. One can also examine the nature of the District's statutes identifying responsibilities for the CFO at D.C. Code § 1-204.24d, and Mayor, at D.C. Code § 1-204.48(a), which focus almost exclusively on processes that relate to the District's need to produce financial statements. These types of processes will assist the District in producing financial statements, which is a critical prerequisite for the District's ability to raise capital for infrastructure projects and public service needs. And, as of FY 2017, the District's CAFR has received an unqualified opinion for 21 years in a row, a commendable record.

However, important though they are, the District's financial statements may not represent a measure of performance for most of the District's stakeholders. The District is not a for-profit entity and the needs of its stakeholders are very different from the needs of private sector stakeholders.

For example, if a review of a District program noted that the program was allocated \$10 million but only spent \$8 million, does that mean they did a good job? Or is it possible that they did not serve all the program's intended beneficiaries? Likewise, if a review of a District program noted that the program was allocated \$10 million, but that the District agency running the program had to request an additional \$1 million from the Council, spending a total of \$11 million, does that mean they did a bad job? Or is it possible that the program had to serve a far greater number of residents than was initially anticipated?

For a government entity like the District, producing financial statements is only step one in a review of its accomplishments, and not the ultimate performance metric that financial statements represent in the private sector. In assessing a government's performance, they are essential but not sufficient.

Internal controls beyond the District

How do the District's peers manage the development of their internal controls?

Private Sector Corporations

The rules cited at the outset that govern the financial audit at Apple did not develop overnight. The Sarbanes-Oxley Act (SOX) of 2002¹ was passed by the U.S. Congress in response to the high-profile frauds discovered at Enron and WorldCom, as well as the demise of their auditor, Arthur Andersen. SOX created additional legal protections for investors and whistleblowers, created a new government agency to oversee the auditing industry, and enhanced disclosure and audit requirements for each corporation's financial statements. The biggest changes to corporate accounting and auditing were codified in Sections 302 and 404 of the act.

Section 302 of SOX requires a corporation's principal executive and financial officers to certify the following about their financial statements:

- The report does not contain any untrue statements of a material fact or omit to state a material fact.
- Management accepts responsibility for establishing and maintaining effective financial reporting processes.
- Management has performed an evaluation of the corporation's financial reporting processes and presented their conclusions on the effectiveness of those processes in the report.

Section 404 of SOX requires management to establish and maintain an adequate internal control structure and to perform an annual assessment of their internal controls.

The example below from Walmart's 2017 annual report notes that their management has accepted responsibility for establishing and maintaining adequate processes over financial reporting. The report also clearly identifies the COSO framework as the standard, or tool that is used to evaluate Walmart's financial reporting processes.

Likewise, their auditor identified the Public Company Accounting Oversight Board (PCAOB) as the standard-setting body for their work and issued their opinion on the effectiveness of Walmart's financial reporting processes.

1. Public Law 107-204 (July 30, 2002).

Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

The Board of Directors and Shareholders of Wal-Mart Stores, Inc.

We have audited Wal-Mart Stores, Inc.'s internal control over financial reporting as of January 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Wal-Mart Stores, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Wal-Mart Stores, Inc. maintained, in all material respects, effective internal control over financial reporting as of January 31, 2017, based on the COSO criteria.

As indicated in the accompanying Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Jet.com, which is included in the fiscal year 2017 consolidated financial statements of Wal-Mart Stores, Inc. and represented 1.3% and 0.1% of the Company's consolidated total assets and consolidated net sales, respectively, as of and for the year ended January 31, 2017. Our audit of internal control over financial reporting of Wal-Mart Stores, Inc. also did not include an evaluation of the internal control over financial reporting of Jet.com.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Wal-Mart Stores, Inc. as of January 31, 2017 and 2016, and related consolidated statements of income, comprehensive income, shareholders' equity and redeemable noncontrolling interest, and cash flows for each of the three years in the period ended January 31, 2017 and our report dated March 31, 2017 expressed an unqualified opinion thereon.

Ernst & Young LLP

Rogers, Arkansas
March 31, 2017

Management confirms responsibility for maintaining effective processes. Also identifies COSO framework as guide.

Auditor opinion on processes

Auditor identifies PCAOB as the guide for their work.

Both the auditor and management at Walmart have identified the criteria and standard setting bodies that guide them as they perform their jobs. Just to be clear, this is a description of Walmart's financial reporting processes, not their actual financial statements. The auditors will render a separate opinion on the financial statements.

Again, for this analysis, there are four types of processes that each organization can have:

- Financial reporting.
- Non-financial reporting.
- Operations.
- Compliance with laws and regulations.

In this case, Walmart receives an evaluation of their financial reporting processes, which is appropriate since the primary stakeholder for each corporation is the shareholder who invests funds to run the operations. For these individuals and organizations, the primary objective is making money, so a review of the financial statements and the processes that created those financial statements meets their needs to monitor and evaluate their investment.

Does the average shareholder care about an evaluation of non-financial reporting information that might be reflected in, for example, an audit of Walmart's impact on the environment? Would the average shareholder care about evaluating Walmart's operations? For example, do they care about what process Walmart uses to stock their shelves? Does the average shareholder care about evaluating Walmart's compliance with laws and regulations that aren't related to the financial statements? What about their compliance with local noise ordinances where they have built warehouses?

While some shareholders would obviously place value in these issues, their principal stake is in the corporation's ability to make money. SOX added an additional level of scrutiny because financial statements are so important to a review of the corporation's financial success. SOX also requires each corporation to obtain an audit of the processes they employ to produce their financial statements, in addition to an audit of their financial statements.

Standard setting bodies are clearly identified for both the auditor and the corporation, including the criteria that each will employ as they do their job. They work from essentially the same playbook and this helps yield a successful evaluation that meets the needs of the corporation's stakeholders.

The Federal Government

Since 1982 the federal government has been developing its accountability and monitoring mechanisms with OMB Circular No. A-123 at its core. Authorized in the Federal Managers' Financial Integrity Act of 1982², A-123 provides guidance to federal managers on how to improve the accountability and effectiveness of operations for federal programs. Managers must identify and manage risks by establishing requirements to assess, correct, and report on the effectiveness of their agency's processes.

A-123 also identified a framework for federal financial managers to use as they establish processes for their operations, reporting (financial and non-financial) and to ensure compliance with applicable laws and regulations.

Historically, A-123 has focused on processes over financial reporting with federal agencies obtaining audits of their financial statements.

But again, as noted, financial statements are not a complete measure of performance for a government entity. They provide an initial starting point and some of the data elements that are needed to perform such an analysis, but they can't be used to say the agency met their organizational goals and objectives. Financial statements should not be the primary tool used to evaluate an entity that does not have a profit motive at the core of its operations.

2. Public Law 97-255 (September 8, 1982).

Based on some of the recent updates they have made to A-123, some officials in the federal government appear to have come to the same conclusions outlined in this section, by moving their process development away from its current focus on financial reporting, to be inclusive of its entire mission (i.e. operations, compliance with laws/regulations and non-financial reporting). According to a former senior official with the Office of Management and Budget (OMB), “moving risk management from a focus on financial management and reporting to the enterprise and mission” was “long overdue.”³

State Government: New York and Tennessee

Some state governments have adopted standards for effective internal controls along with a framework for accomplishing the task. For example, in 1987 the state of New York adopted a standard for both developing processes and monitoring them.

Each department head must certify that their agency complies with the state’s process standard on an annual basis and they must submit their certification for review. They are also required to obtain an audit of their processes once every three years. New York continues to update the standard, and they have created their own framework for developing processes which incorporate the COSO standard.

While New York appears to be ahead of other jurisdictions in structuring its operations for proper monitoring and evaluation, they do not appear to have been wholly successful. The Center for Public Integrity is an investigative news organization that seeks to reveal abuses of power and corruption by public and private institutions. They rank states according to the effectiveness of their governance and anti-corruption mechanisms in many categories. New York was ranked #1 in the internal auditing category, as they have structured their operations for proper monitoring and evaluation. But closer analysis suggests that New York state lacks an effective accountability mechanism to address problems when they have been identified through the monitoring process. As a result, New York state received an overall ranking of 31st for the effectiveness of their governance and anti-corruption mechanism, despite its exemplary internal auditing function.

Despite the state’s best effort to structure their operations for proper monitoring and evaluation, if they do not design and implement a mechanism to hold agencies accountable when they fail, there is little chance of improving the integrity of their operations.

The Tennessee Code includes the Financial Integrity Act of 1983 which requires the establishment and maintenance of internal controls, and annual risk assessments by each agency that provides assurance of “accountability for meeting program objectives” and “promoting operational efficiency and effectiveness.” The law also requires that each state agency director report annually on both the maintenance of internal controls and completion of a management risk assessment.

The District’s Current Guidance

A search for standards in the District’s code identified the following responsibilities for the Mayor and Chief Financial Officer (CFO):

- Full disclosure of the financial results of the District government’s activities.
- Adequate financial information needed by the District government for management purposes.
- Effective control over and accountability for all funds, property, and other assets.
- Reliable accounting results to serve as the basis for preparing and supporting agency budget requests and controlling the execution of the budget.⁴

This guidance is problematic for a number of reasons, including that it does not identify a framework for establishing an effective system of internal controls.

3. Robert Shea, Principal with Grant Thornton and former associate director for administration and government performance at the U.S. Office of Management and Budget.

4. CFO responsibilities included at D.C. Code § 1-204.24d(7) and Mayor’s responsibilities included at D.C. Code § 1-204.48.

Earlier District Efforts

The District has developed tools to help agencies achieve their missions but they don't provide employees with consistent guidance on how to implement processes that demonstrate and ensure success.

Performance-Based Budgeting

Historically, the District has used a number of tools to manage each agency's operations so that they achieve their mission. For example, there have been efforts in the District government to promote an ongoing system of agency standards and metrics, embodied in the Government Managers Accountability Amendment Act of 1995⁵ (GMAA) and the Performance-Based Budgeting (PBB) initiative that began in 2001, though neither has been successful when compared with the original intent. The GMAA was the District's response to the "reinventing government" movement, exemplified by the federal Government Performance and Results Act.

The law required each agency to submit to the Council a performance plan looking forward, and a performance report accounting for accomplishments the previous year. The law's requirements reside today with the Office of the City Administrator's Office of Budget and Performance Management and most agencies produce a performance plan and describe their key performance indicators (KPIs) in oversight documents shared each year with the Council. Since the law took effect in 1995, though, each administration has altered the planning process and the KPIs.

The Performance-Based Budget (PBB) initiative was a more robust endeavor introduced in 2001 and, as described in the FY 2003 financial plan, "lets the budget be used as a management tool." The initiative required each District government agency to follow an organizational structure that identified a three-level framework for every District program—program, activities, and services. This framework was captured in an agency's strategic business plan, and both performance measures and annual funding allocated according to the framework. As explained in the FY 2003 financial plan:

PBB will shift the focus from budgeting for a specific budget development period to a continuous process of planning, budgeting and evaluating programs. By integrating planning activities in advance of the budget process and program performance after budget adoption, the planning, financial management, and performance evaluation functions become an integral part of program management.

Today the PBB framework remains the framework used in annual budgets, but does not remain closely integrated with performance planning, nor with ongoing program evaluation. That means the basic building block of PBB as a management tool—requiring an agency to define its business and its strategy for achieving its goals—is no longer enforced.

Tools Employed by the Current Administration

The current administration also employs a number of tools and strategies for managing each mayoral agency's operations, including:

- Quarterly meetings that the Office of Budget & Performance Management (OBPM) facilitates between the City Administrator, Deputy Mayor and the District's Agency Directors to regularly check in on their performance and allow the City Administrator to monitor their operations.

5. D.C. Law 11-16 (March 10, 1995).

- A data driven performance management tool, CapSTAT, designed to generate solutions to the District's most pressing challenges by combining data on timely policy issues with the combined expertise of multiple District agencies.
- A research and analysis entity funded in part by private resources, The Lab, which conducts high quality evaluations and rapid, iterative experiments to design policies and programs for the District.

However, as robust as these tools may be at designing, assessing or monitoring District government programs, they do not guide employees as they create and implement processes day-to-day to ensure all District government agencies achieve their objectives. Further, without robust processes, it is less likely that District government programs will achieve the transparency and accountability to which stakeholders are entitled.

The Expectations/Reality Gap

The examples included below illustrate, in a variety of ways, the gulf that exists between what stakeholders should be able to expect from their government and what occurs, a gulf that could conceivably be addressed if policymakers designed and implemented procedures necessary to monitor each program's operations and effectiveness. The following chart outlines the gap between expectations and what occurs, including the likely reason for the difference.

Figure 2: Gaps Between Expectations and Outcomes, and Likely Reason for Gaps

Stakeholder Expectations	What We Know	Cause of Gap in Expectation
Each District agency has a clearly defined set of objectives and a detailed plan for achieving those objectives.	District agencies do not always identify and then respond to the risks that could prevent them from achieving their objectives. For example, ODCA recently performed an audit of a District program designed to provide housing to low-income individuals. The first finding noted that the program did not actually ensure that projects were providing housing to low-income individuals. This occurred for a variety of reasons including processes that were not applied consistently, insufficient monitoring and complaints from some developers of a lack of guidance. These are all basic processes that the agency should have designed and implemented when the program was established. Even if these processes were not properly designed and implemented when the program was established, the agency should have noted these problems at the beginning of the fiscal year as it set objectives for itself and its employees.	Agencies lack a clearly defined standard to perform risk assessments.

Stakeholder Expectations	What We Know	Cause of Gap in Expectation
Each District agency has a clear understanding of how to comply with the laws and regulations it has been tasked with implementing, and can demonstrate their compliance to stakeholders. Each District agency has a clear understanding of how it will be evaluated.	District agencies do not always have a thorough understanding of how to comply with the laws and regulations they have been tasked with implementing, particularly in relation to demonstrating their compliance. For example, in response to a finding we issued in 2012, an agency director said, “Had we known of the auditing standards and expectations back in 2005 when the Act went into effect...these issues would have been addressed earlier.”	Neither the Mayor nor the Council has expressly informed District agencies of how programs will be evaluated. The District does not have a clearly defined standard to implement laws and regulations, and allocate responsibility for those laws and regulations between different District agencies. There is no clearly defined standard that establishes how management will monitor District employees, establish targets for each objective and evaluate results year to year.
Each District agency retains the documentation necessary for District agency managers and their stakeholders to monitor processes and perform evaluations.	District agencies often fail to retain the documentation that managers need to monitor operations day-to-day. This documentation is also necessary for an evaluation of the agency’s operations by any of the District’s stakeholders including its residents, the Mayor and the Council. For example, in 2016 ODCA issued an audit report on the District’s efforts to house and rehabilitate court-involved youths. As part of that effort the District contracts with various organizations to house the youths, arrange for counseling services, and provide recreational activities for them. Each organization was required to submit a monthly report to the District. This report was intended to provide a snapshot of the facility’s operations, including the number of new youths that the facility has taken on, the number of youths discharged, and the number of youths re-arrested. Of the four facilities we examined, two could not produce any reports and the other two produced some reports, which did not meet all of the requirements of their contract. This means that ODCA could not evaluate the efficiency and effectiveness of any of these organizations. It also means that this District agency’s managers could not monitor this program properly, as they lacked the necessary information to do so.	The District’s employees have not been trained on how to employ a standard to design processes and retain the sufficient, appropriate documentation needed to establish the “who, what, when, where, and why” of the agency’s operations. After all, someone that may be an excellent social worker, architect or teacher may not understand how to design processes or retain documentation for an evaluation of a program. If the “who, what, where, when and why” of the agency’s operations are not available, the agency’s managers cannot monitor their operations. There is no set of standards to design processes so that documentation is retained and readily available.

Audits have identified District operations that are not prepared for comprehensive evaluations on behalf of residents/stakeholders.

District employees attempting to answer ODCA questions may feel like audits are efforts at nitpicking and fault-finding. But in fact, an audit is intended to gather sufficient, appropriate evidence that can be used to evaluate an organization **against a specific set of standards**. These standards should have been clearly established and identified in law, regulation, or operating procedures, and managers in each District agency should be trained on how to establish an effective internal control environment that will comply with those standards to assure that programs and services proceed as intended. But often we find no standards against which to evaluate performance, and in many cases, we end up with a substantial number of recommendations directing the agency to develop policies and procedures that guide employees as they do their jobs.

Likewise, the individual or organization performing the evaluation should also have a clear understanding of what standards will be used to perform the evaluation. These are basic prerequisites for a successful evaluation of any kind. They answer basic, common-sense questions for both the entity being audited, and the auditor.

Figure 3 below illustrates how important it is to set standards for both the auditor and the District agency being audited by describing the types of inquiries that a set of standards will address for both the evaluator and the District agency concerned with operational effectiveness.

Figure 3: Standards and Questions for Agencies and Evaluators For a Successful Evaluation

Example: ODCA has been tasked with auditing a District agency that provides drug and alcohol rehabilitation services to court-involved youths.

Standard	Sample questions a District government agency must answer to successfully manage a program	Sample questions an auditor must answer to successfully evaluate a program
Risk assessment	As we seek to provide the District's youth with drug and alcohol rehabilitation services, what could go wrong?	What kinds of problems could have prevented the agency from successfully rehabilitating the District's court-involved youth?
Document retention	What kind of documentation should we retain to establish the "who, what, when, where, and why" of our drug and alcohol rehabilitation services? Where we have hired contractors to provide services, what documentation will they need to retain and where will it be stored?	What types of evidence do we need to gather so that we can verify that services were in fact provided to court-involved youth? How much evidence do we need?
Monitoring	How will the director of the agency monitor this program to ensure that it operates as intended? How often will the director perform this monitoring?	How do we evaluate the risk of fraud in the program? Do employees have the capability to do whatever they want? For example, if a group of employees are running an identity theft scheme using information stolen from the participants in their drug and alcohol rehabilitation program, how would management catch it?
Program Evaluation	How will we evaluate the success or failure of this program?	Where the agency asserts that they have succeeded in rehabilitating a court involved youth, what criteria will we use and how will we verify their assertion?

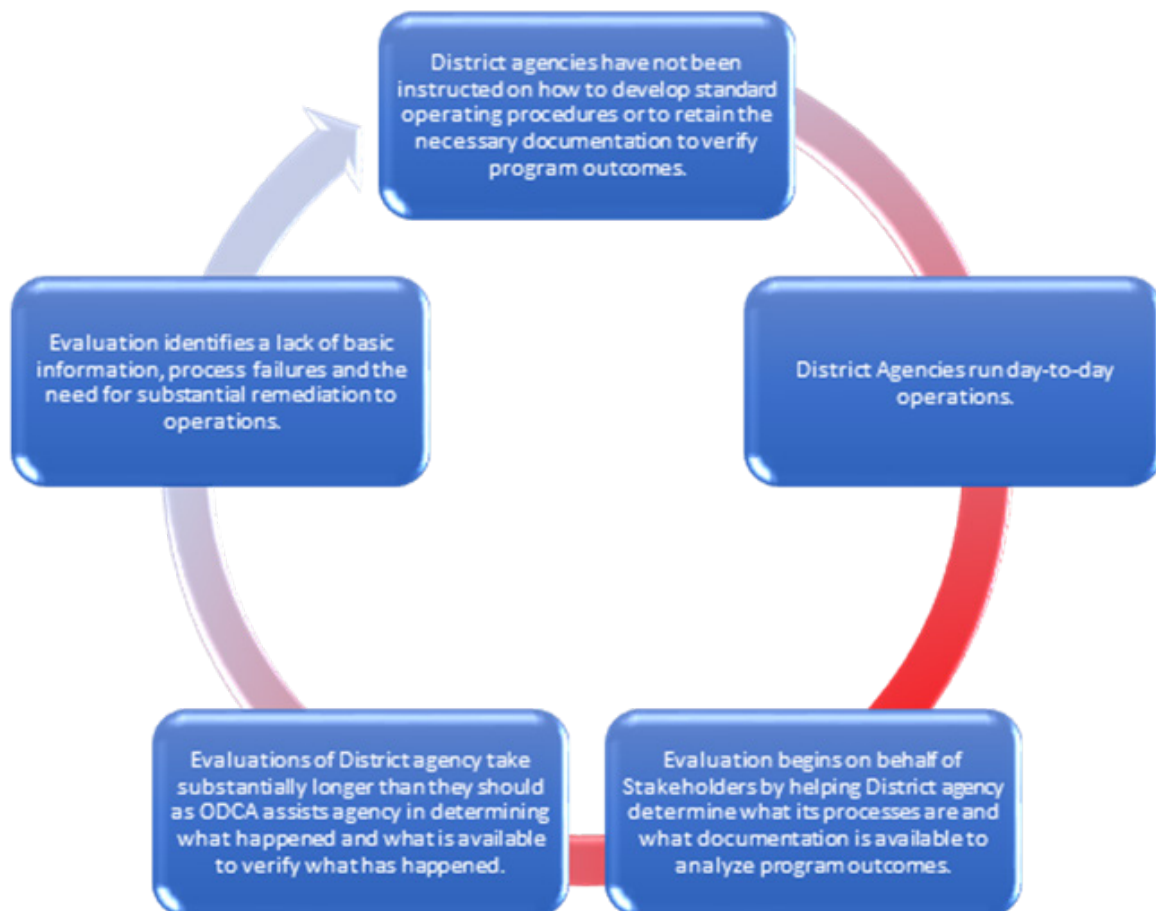
Robust processes are necessary for efficient and effective evaluations of District government operations

Setting standards beforehand and ensuring that an organization has a clear understanding of how it will be evaluated is a prerequisite for each type of evaluation that the District performs, including:

- Audits that ODCA and the Office of the Inspector General (OIG) perform.
- Performance metrics which each District agency defines, calculates, and reports on annually.
- Council hearings to discuss budgeting and performance.
- The annual financial statement audit of the District's Comprehensive Annual Financial Report.

For the District to meet the expectations of its stakeholders, it needs to ensure that each District agency is prepared to be evaluated. Without this kind of preparation, it will be difficult for the District government to demonstrate that it has been administered efficiently and effectively. Because the District has not adopted an internal control framework and trained its employees on how to use it to ensure that they meet their objectives (and can demonstrate so), program objectives may not be met and our audits are not nearly as valuable as they could be. Figure 4 shows how current processes would benefit from the District adopting internal control standards.

Figure 4: Current Processes Without an Internal Control Framework



For example, as part of our audit of the District School Modernization program in FY 2016, we attempted to evaluate the closeout process that the Department of General Service (DGS) employs to ensure that each construction project is completed properly. As part of this process DGS will attempt to verify many facts about the state of the project, including:

- The school has obtained all required certificates and permits for elevators, boilers and health inspections.
- All maintenance agreements and warranties have been collected and stored for future use.

However, because we could not obtain documentation from DGS to verify that these tasks were completed, the findings in our report reflected a lack of supporting documentation for our review. The objective of our review, though, was to evaluate the closeout process to ensure that the District's students are attending school in a safe building that was built properly, not to inform the Council of a lack of documentation. Without a functioning internal control framework we are less likely to:

- Receive accurate, verifiable information about District programs.
- Perform an evaluation of any kind, much less one that yields actionable results.
- Hold District employees accountable for their work.
- Ensure positive outcomes for District residents.

Not only is this lack of a framework hampering ODCA's ability to assist the Council in ensuring that District government programs are run efficiently and effectively, it is also preventing other stakeholders from conducting their own reviews and depriving the District's employees of necessary guidance.

District agency managers should have a clear understanding of how the agency will be evaluated, including any audits their agency might encounter. This does not currently appear to be true for most District managers. District employees should expect to be given a basic level of preparation, training, guidance, and assistance to prepare for any type of evaluation on behalf of the District's stakeholders.

Recommendations for Further Discussion

The goal of this white paper is to identify and share a structural flaw in a relatively young government with other District government employees who bear a collective responsibility for addressing that flaw. We hope to generate a robust discussion among policy makers and other government officials that then leads to legislation or another means to address the structural gap.

At the outset, we provided a sample of the types of problems that the District will continue to encounter if it does not implement standards for designing and implementing internal controls including:

- There are sometimes inconsistencies between the D.C. Council's design of a District program and the way the executive branch runs the program.
- The District does not collect all the money it is owed and, in one instance, it is estimated that the District lost out on \$38 million.
- District government officials have stolen taxpayer money.
- Monitoring the money that the District spends with contractors, nonprofits and other external organizations is particularly problematic, raising a risk of waste, abuse, or theft.
- District residents do not receive all the benefits they are entitled to from the federal government.
- District agencies cannot consistently prove that workers are paid all the money they are owed on the District government's construction projects; in one instance we noted \$193,365 in damages.
- District agencies struggle with every facet of the District's procurement and contracting processes, from soliciting proposals to monitoring its contractors once it has selected the best bid to ensure compliance.
- The executive branch does not always provide the Council with accurate, consistent information.
- Without an effective accountability mechanism there is little chance of achieving meaningful improvements in District government operations.

This discussion leads us to the following preliminary recommendations that we hope can and will be broadly discussed.

1. The Council, looking to New York, Tennessee, and other potential models, could propose a statute to implement a standard for designing, implementing and monitoring internal controls in the District, to include the framework that must be used. This statute should be weighted toward operations, compliance with laws/regulations and non-financial reporting to complement financial statements that are adequately covered in law.

Elements of the statute that could be considered include requirements that each agency perform the following:

- Each year, the director of each agency must sign a statement confirming their adherence to the process standard and/or framework cited in the statute, or specifying where programs and systems do not adhere to the standard. This statement will confirm that management ***monitored and tested*** these processes to ensure that they were designed properly and operating effectively.

- Each agency should have a chief risk officer who is accountable for managing its processes according to the statute.
 - Where the District will use external consultants and nonprofits to achieve its objectives, the statute should specify how the process will be managed and monitored. It should also identify clear lines of authority and the location of any documents or data necessary to verify that the process is operating effectively.
 - Where a process will involve the Office of the Chief Financial Officer (OCFO) in addition to the District's program managers, the statute should specify how the process will be managed and monitored, and also identify clear lines of authority and the location of any documents or data necessary to verify that the process is operating effectively.
 - Where the District will need to build and/or enhance IT systems, the statute should specify OCTO's role in the development and clearly identify lines of authority.
2. The Council and Mayor should consider piloting a remediation program at one District agency before applying the program District-wide.
 3. Related to the issue of robust internal controls, it would likely be useful to undertake a comprehensive review of the D.C. Code to determine the extent to which our laws clearly identify measures of performance along with who will monitor them, between internal agency auditors, external auditors, the Office of the Inspector General (OIG) and the Office of the District of Columbia Auditor (ODCA).
 4. We noted that the District government today is failing to abide by the requirements of the performance-based budgeting process approved by the Mayor and Council more than a dozen years ago. We could cite additional examples of laws that have been enacted but are ignored. In the context of comprehensive internal controls, the D.C. Council should determine at the outset how agencies will be dealt with if and when they fail to design and implement processes in accordance with the statute. For example, the District could consider procuring the services of an independent consultant to redesign the processes and instruct staff on how to execute them. Then in the case of any District agency that fails to operate according to these revised processes, the District should create what would be tantamount to a receiver to take over the agency's affairs.
 5. Finally, we recommend that regarding any new statute or policy enacted, that District policymakers build in plans to procure the services of an independent consultant to evaluate the impact and value of proposals outlined in this white paper.

Agency Comments

On October 15, 2018, we sent a draft copy of this report to the Office of the City Administrator (OCA) for review and written comment. OCA responded with written comments on November 13, 2018. Agency comments are appended in full to this report followed by ODCA's response to specific comments on this audit report.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the City Administrator



November 13, 2018

Kathleen Patterson, District of Columbia Auditor
Office of the District of Columbia Auditor
717 14th Street, NW, Suite 900
Washington, DC 20005

Re: Office of the District of Columbia Auditor's draft white paper entitled "Making the Case for District-Wide Internal Control Standards: A White Paper"

Dear Ms. Patterson:

Thank you for the opportunity to provide comments on the draft, *Making the Case for District-Wide Internal Control Standards: A White Paper*. Management and oversight of District agencies is crucial; and that is why the Office of the City Administrator (OCA) has actively worked to develop and implement a framework for agencies to: develop objectives, set performance measures, develop processes to meet those objectives, monitor for performance and address issues, and report the results of our efforts to our stakeholders.

We want to thank you for some of the changes you have made to the tone of the audit report. Compared to the initial draft, which was more focused on making sweeping statements and driving headlines, rather than on creating a well-thought-out, comprehensively researched, and thoughtful analysis of the potential benefits of an increased focus on internal controls, the current draft has more balanced statements.

While we acknowledge the goal of the paper and several areas within it, we disagree with the recommendations for a one-size fits all approach to management of objectives and results. The District is a complex organization with more than 35,000 employees delivering the services of a state, city and county. In order to achieve results, we must employ a range of tools to drive performance and accountability. And we must be nimble enough to provide the right tool for the right problem.

Furthermore, two aspects about the development of the report raise questions about the validity of the recommendations:

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- The ODCA did not take any kind of reliable sample to justify the sweeping conclusions made in the report. Instead, ODCA chose to make their recommendation based on the review and rehash of a small number of audits on an even smaller number of programs within agencies, audits which in several cases covered timeframes before the current administration.
- The ODCA did not, to our knowledge, interview any agency Directors, managers or employees for this report specifically and only interviewed the Office of the City Administrator staff *after* the initial draft report had been written and an exit interview had been requested.

Lastly, the paper makes the claim that adoption of an internal controls framework would have prevented numerous program failures from occurring and directs our attention to places like New York, Tennessee and the federal government or companies including Walmart and Apple that have adopted internal control frameworks. Yet, each of these jurisdictions and organizations still experience program failures. This is one of the reasons why we are not supportive of a one-size-fits-all approach to organizational management of objectives and results. While we are always grateful to learn about excellent practices in other jurisdictions or in the private sector, the premise that we have no internal control framework or practices is simply wrong.

Our response below highlights areas we agree on, the current tools we deploy for management of objectives and results, our response to the auditor's recommendations and a suggested area for joint work on next steps.

I. AREAS WE AGREE ON

DC government should always look to continuously improve service delivery to residents and there are areas for operational improvement. We acknowledge that in some specific programs, District agencies need to address shortfalls and establish detailed plans to improve. That is why we are continually adding tools to DC government to ensure programs and services are delivering intended results to DC residents, businesses and visitors. The more effectively and efficiently dollars are deployed, the more dollars that are available for programs prioritized by the Mayor and approved by the Council.

We agree that employee ability to commit fraud with government funds is a terrible risk, but we disagree that it is widespread. We agree agencies should take great precautions to make sure that fraud of any kind cannot and does not occur. We are, and will continue to be, a strong partner to the Office of the Inspector General (OIG), Metropolitan Police Department (MPD), Board of Ethics and Government Accountability (BEGA) and others in reporting and detecting fraud and endeavoring to ensure that employees who illegally take from the government are not rehired or reassigned to another agency. We also robustly counsel District employees on ethics and BEGA has complimented us for our strong stances on ethics.

We agree that there are sometimes gaps between laws on the books and implementation, and we agree at a high level we should try to close any gaps between law and implementation. Gaps between law and practice can be due to several reasons – no or

inadequate funding, laws that are contradictory, laws that are un-administrable, and laws that are outdated but not repealed.

We agree that we should always strive to present consistent numbers; however, depending on how questions are worded, and when the various reports are run, numbers can differ dramatically. We never intentionally present erroneous or incomplete information. To take one example, if the question asks for “number of vacant and blighted properties” it is not clear whether that question is asking for Classification 3 (vacant) plus Classification 4 (vacant and blighted). And if it is asking for properties classified as such, that number is undoubtedly lower than the number that are vacant or vacant and blighted, but that have not been so classified in a system that also depends on self-reports, plus inspections, plus show cause notices and may involve hearings.

In addition, community affairs specialists may have a longer list of suspected vacant and/or blighted properties that frequently shift in the dynamic real estate market in the District. Depending on the interpretation of the person gathering the data, and how the question was phrased, vastly different numbers can result, without any intent to deceive and without indicating that we have a problem providing Council information.

We agree that the 21 consecutive clean audits we have enjoyed are not the only measure of our success. We also think about a variety of measures that help us determine success such as:

- Is our population rising? This indicates whether Washington, DC is serving its residents and is it a desirable place to live. Population has risen by more than 15 percent since 2010, as we continue to be a desirable jurisdiction.
- What is the total revenue coming into the District? Our revenues have continued to grow as the economy continues to grow in DC.
- What’s our unemployment rate – how well are we doing at providing jobs for all? That has fallen, most notable in some areas of DC that have had some of the highest unemployment rates.
- How does the market value our bonds? This measurement of confidence in our financial management and financial credibility continues to improve and is the envy of the country, as we now enjoy a Moody’s Aaa rating.

Additionally, agencies have specific program goals that we are making progress on, such as closing DC general and reducing family homelessness while increasing the number of affordable housing units funded through our Housing Production Trust Fund.

We agree retroactive contracts are undesirable and we’ve taken several actions to significantly reduce the problem down from 2015 to a negligible size. When Mayor Bowser first took office, she created the Procurement Accountability Review Board (PARB) which is chaired by the Mayor, City Administrator, and Chief Procurement Officer. This board meets to discuss retroactive contracts and understand the root causes to prevent future instances from occurring and to ensure accountability. As noted, through this process, we have significantly reduced the instances of retroactive contracts.

We agree that programs established for a class of beneficiaries should benefit those beneficiaries. We note, however, that in the case of supports for affordable housing mentioned in your report, the monitoring and policy questions are far more complex than your paper would suggest. Removing vulnerable residents as soon as their incomes cross a beneficiary threshold, or a fraction of AMI, may plunge them back into poverty or homelessness as their incomes are often variable.

We agree that collection of money owed to the District should be a priority. We note, however, that collection responsibilities largely or often rest with the Office of the Chief Financial Officer and/or the Office of the Attorney General.

We agree that transparency is a critical value and important for performance management and financial accountability. We agree that contract records should be readily available, and the Mayor Bowser has posted a wealth of budget and contract information on line, going beyond the proactive provisions of the District's Freedom of Information law. By posting the Green Book, our guide to help small business enterprises navigate the local government process, and budget documents on line, and through the identification and posting of data sets mandated by Mayor's Order 2017-115, the Bowser Administration demonstrates its commitment to transparency. A comprehensive suite of actions and policies enable robust, informed public engagement on how billions of dollars are spent each year, and boost the ability of local businesses to earn a fair share of the government's contracts.

II. CURRENT TOOLS DEPLOYED FOR MANAGEMENT OF OBJECTIVES AND RESULTS

DC has developed a robust set of tools, processes and procedures to set agency program objectives and measure and track performance.

In order to achieve its mission of ensuring that legislative actions and policy decisions of the Mayor and Council are implemented, and to ensure that agencies are meeting the needs of District residents, the Office of the City Administrator (OCA) utilizes several tools and procedures to regularly track: program objectives, performance, and program course correction if efforts are off track. Here is how these tools are applied within the framework the DC Auditor laid out on page 4 of its report:

- 1) Set objectives and measure the performance of each objective
- 2) Design processes to meet those objectives
- 3) Identify and address any impediments to achieving those objectives
- 4) Assess/report on the results of the organizations efforts to its stakeholders

Major mechanisms include the following:

1) Set objectives and measure the performance of each objective

Agencies under Mayoral control develop and publish annual performance plans that set strategic objectives and key performance indicators (including targets for the upcoming year) for each

objective. These are made public at the start of each fiscal year and available on the OCA website: <https://oca.dc.gov/node/160662>.

2) Design processes to meet those objectives

Agencies design their programs and services to achieve those objectives, they also report strategic initiatives designed *to improve progress* on select objectives each year. These strategic initiatives are contained in the performance plans published by agencies each fiscal year and available on the OCA website: <https://oca.dc.gov/node/160662>.

3) Identify and address any impediments to achieving those objectives

The Bowser Administration, through the Office of the City Administrator, has several mechanisms to identify and address impediments to achieving objectives. These are:

- Quarterly, the Office of Budget and Performance Management (OBPM) hosts cluster meetings to facilitate the City Administrator's review of key performance and budget data to identify opportunities and challenges. Furthermore, the meetings allow agencies to voice barriers to successful project execution and explore solutions with key District leaders. The meetings consist of the City Administrator, Deputy Mayor, Agency Directors, Director of Budget and Performance Managers, Chief of Staff and other senior team members.
- The OCA uses CapSTAT, which provides the Mayor and City Administrator with data and information on timely policy issues and agency processes in a forum to spark thoughtful discussion and lead to actionable outcomes. The CapSTAT team works in coordination with agency partners to identify and recommend solutions to pressing challenges utilizing tool such as data analysis, mapping, business process reviews, and best practice research. You can view most CapSTAT meetings and the materials containing recommendations here: <https://oca.dc.gov/page/capstat>
- Based on our commitment to spending taxpayer dollars wisely, the OCA developed and launched The Lab @ DC. The Lab uses scientific insights and methods to test and improve policies and provide timely, relevant, and high-quality analysis to inform the District's most important decisions. The Lab @ DC helps DC government test policies and improves how programs and services are delivered to the community. You can read about the current projects the Lab is undertaking to improve DC government programs and services here: <https://osf.io/institutions/thelabatdc/>
- In addition, each executive director develops an annual personal performance plan that is reviewed and evaluated by the City Administrator and Deputy Mayor for that cluster. The Deputy Mayors and/or City Administrator have regular one-on-one meetings with agency directors to check in and discuss progress.

4) Assess/report on the results of the organizations efforts to its stakeholders

DC has several ways to assess and report on the results of the organizations' efforts to its stakeholders.

- Annually, we publish performance accountability reports that summarize each agency's progress toward meeting its objectives, KPI's and strategic initiatives in that given year. You can see those here: <https://oca.dc.gov/node/160662>
- Annually, Mayor Bowser releases her accountability report, providing updates to residents on progress the administration has made toward achieving goals laid out during her transition plan. The latest report can be found here: <https://mayor.dc.gov/accountability>
- Annually, Mayor Bowser releases her progress report, providing updates to residents on accomplishments made over the past year. These annual reports can be found here: <https://progressreport.dc.gov/>

In another section of the report, on page 10, ODCA lists four internal control processes that DC already has in place yet does not acknowledge examples of any of those in the report. These are:

- *Control environment. The first thing an organization needs to do is establish a structure, assign responsibility, and delegate authority to achieve the entity's objectives. Furthermore, management must establish the overall tone for the organization's culture by demonstrating the importance of integrity and ethical values throughout their directives, attitudes and behavior.[ODCA report, page 10]*

The District has a control environment in place through a clearly defined organizational chart which designates authority to specific agency directors to achieve objectives. The Mayor through the City Administrator assigns responsibilities. In addition, Mayor Bowser has laid out clear expectations of integrity and ethical values through directives such as mandatory ethics training, dissemination of core values and guiding principles as well as through her own behavior and those of her appointees.

- *Risk assessment. Management should first clearly define specific objectives for the organization that are both easy to understand and measurable. Once objectives have been defined and measures of performance have been set, management should identify any risks that could prevent it from achieving those objectives.[ODCA report, page 10]*

As stated previously, each agency identifies specific objectives that are written in plain language and measurable. These are reviewed annually along with measures of performance and key performance indicator targets. In addition, agencies set strategic initiatives to improve their achievement toward meeting a specific set of objectives each year. We often set objectives that are stretch goals, knowing that it will take continued progress over several years to make meaningful change. Examples of these types of goals include the objective to make homelessness rare, brief and non-recurring or cutting carbon emissions by 50 percent by 2032.

In addition, we have an agency, the Office of Risk Management (ORM) that oversees risk mitigation, risk management, and insuring or self-insuring against risk. ORM's work leads to

safer workplace environments, fairer and more equal resolution of claims, and better contracting practices to reduce the District's exposure.

- *Control activities. These are the actual processes that an organization designs and implements to both achieve objectives and mitigate any risks associated with achieving those objectives. [ODCA report, page 10]*

For new programs or services developed under the Bowser Administration, we frequently meet to discuss progress, and if progress is off track, what we might do to course correct.

- *Monitoring. Management must monitor the organization's processes to ensure that it achieves its objectives. By monitoring the organization's processes, managers can both assess the quality of performance over time and resolve any findings identified as part of their reviews. [ODCA report, page 10]*

We frequently monitor processes and performance through several tools; these include:

- a) Quarterly cluster meetings to review progress on objectives, key performance indicators, strategic initiatives and spending;
- b) CapSTATs which provide the Mayor and City Administrator data and information on timely policy issues and agency processes in a forum to spark thoughtful discussion and lead to actionable outcomes and;
- c) Use of scientific methods and tools through the Lab @ DC to test policies and improve how programs and services are delivered to the community.

III. RESPONSE TO RECOMMENDATIONS

The overall recommendation for District government is to develop an internal control framework. As stated previously, we disagree with this one-size-fits all approach for several reasons:

- The District is a complex organization with more than 35,000 employees delivering the services of a state, city and county. In order to achieve results, we must employ a range of tools and be nimble enough to provide the right tool for the right problem.
- The ODCA did not take any kind of reliable sample to justify the sweeping conclusions made in the report. Instead, ODCA chose to make their recommendation based on the review and rehash of a small number of audits on an even smaller number of programs within agencies, audits which in several cases covered timeframes before the current administration.
- The ODCA did not, to our knowledge, interview any agency Directors, managers or employees for this report specifically and only interviewed the Office of the City Administrator staff *after* the initial draft report had been written and an exit interview had been requested.

- The paper makes the claim that adoption of an internal controls framework would have prevented numerous program failures from occurring and directs our attention to places like New York, Tennessee and the federal government or companies including Walmart and Apple that have adopted internal control frameworks. Yet, each of these jurisdictions and organizations still experience program failures.

Our specific responses to the recommendations included in the report are below. We note in many cases that the ODCA recommendations are vague, and while we have provided a response, more specific recommendations would allow us to give a more complete and thorough response.

ODCA Recommendation #1: The Council, looking to New York, Tennessee, and other potential models, could propose a statute to implement a standard for designing, implementing and monitoring internal controls in the District, to include the framework that must be used. This statute should be weighted toward operations, compliance with laws/regulations and non-financial reporting to complement financial statements that are adequately covered in law. Elements of the statute that could be considered include requirements that each agency perform the following:

- Each year, the director of each agency must sign a statement confirming their adherence to the process standard and/or framework cited in the statute or specifying where programs and systems do not adhere to the standard. This statement will confirm that management monitored and tested these processes to ensure that they were designed properly and operating effectively.
- Each agency should have a chief risk officer who is accountable for managing its processes according to the statute.
- Where the District will use external consultants and nonprofits to achieve its objectives, the statute should specify how the process will be managed and monitored. It should also identify clear lines of authority and the location of any documents or data necessary to verify that the process is operating effectively.
- Where a process will involve the Office of the Chief Financial Officer (OCFO) in addition to the District's program managers, the statute should specify how the process will be managed and monitored, and also identify clear lines of authority and the location of any documents or data necessary to verify that the process is operating effectively.
- Where the District will need to build and/or enhance IT systems, the statute should specify OCTO's role in the development and clearly identify lines of authority.

Response to recommendation #1. We do not support this recommendation. Not only is management of an agency an executive function that should not be overly legislated, as stated previously, both New York and Tennessee have adopted an internal control framework yet still experience program failures. The District is a complex organization. To achieve results, we must employ a range of tools to drive performance and accountability, not a one-size-fits-all approach. And we must be nimble enough to provide the right tool for the right problem.

ODCA Recommendation #2. The Council and Mayor should consider piloting a remediation program at one District agency before applying the program District-wide.

Response to recommendation #2. Like the response to recommendation #1, we do not support a one-size fits all approach to managing for objectives and results. Therefore, this recommendation is not applicable.

ODCA Recommendation #3. Related to the issue of robust internal controls, it would likely be useful to undertake a comprehensive review of the D.C. Code to determine the extent to which our laws clearly identify measures of performance along with who will monitor them, between internal agency auditors, external auditors, the Office of the Inspector General (OIG) and the Office of the District of Columbia Auditor (ODCA).

Response to recommendation #3. This recommendation is unclear as it was not discussed in the paper. As a result, we suggest removing the recommendation from the paper.

Performance measures are developed on an annual basis through the agency performance planning process. We would caution against laying out specific performance measures in law as both tools and measures of performance improve throughout the course of a year, and measures should be flexible to respond to the ever-improving field of performance measurement. In addition, measures are first and foremost monitored by the agencies that have responsibility to execute toward them. All measures are made available to the public and Council.

ODCA Recommendation #4. We noted that the District government today is failing to abide by the requirements of the performance-based budgeting process approved by the Mayor and Council more than a dozen years ago. We could cite additional examples of laws that have been enacted but are ignored. In the context of comprehensive internal controls, the D.C. Council should determine at the outset how agencies will be dealt with if and when they fail to design and implement processes in accordance with the statute. The District could consider procuring the services of an independent consultant to redesign the processes and instruct staff on how to execute them. Then in the case of any District agency that fails to operate according to these revised processes, the District should create what would be tantamount to a receiver to take over the agency's affairs.

Response to recommendation #4. This recommendation is too vague for a complete response and we suggest that both this recommendation and section of the ODCA report about performance based-budgeting on page 19 be removed. The report states that DC government is not in compliance, but doesn't provide specifics about what we are not in compliance with. It also clearly identify how the performance-based budgeting system ties to the internal control framework being recommended discussed by ODCA.

We disagree with putting an agency in receivership if it is having trouble complying with a truly management issue. It is up to the Executive to address agency management issues and we would strongly discourage having outside consultants come in, or putting an agency in receivership. Already, by and large, Excepted and Executive Service appointees are "at will" employees and they can be separated whenever performance is not up to standards.

ODCA Recommendation #5. Finally, we recommend that regarding any new statute or policy enacted, that District policymakers build in plans to procure the services of an independent consultant to evaluate the impact and value of proposals outlined in this white paper.

Response to recommendation #5. Program evaluation is and will continue to be ongoing, in-house. Procuring the services of an outside consultant can sometimes be duplicative and is almost always costly. There are costs in getting the consultant educated about the District's programs, and a costly loss of expertise when the consultant moves on to other projects. The District government is dynamic with new programs and the Mayor appointed people who, she is confident, can thoughtfully and effectively manage programs, new and old. Engaging consultants should be on an as-needed, not routine, basis.

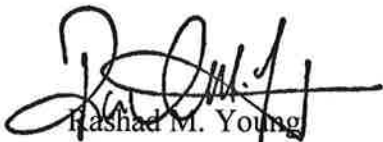
IV. AREA FOR COLLABORATION

One of the areas noted in the paper that presents frustration to the auditor is a lack of documentation of processes at the program level in agencies. These are sometimes referred to as standard operating procedures (SOPs). We believe that SOPs are important not only for evaluation, but to ensure agency staff and managers are clear on the steps in a process and that there is consistency and reliability, especially when staff turnover. When we encounter an agency or program without an SOP, we work to develop them, as appropriate.

We suggest working collaboratively with the auditor to develop a timeline and process to ensure that more functions of our largest and most standardized agencies have the necessary standard operating procedures in place. We believe that this is an important step in addressing some of the issues laid out in the paper, without a one-size-fits-all approach. We look forward to discussing this with you.

Thank you again for providing the opportunity to review and comment on the draft report. If you have any questions, please do not hesitate to contact me, or have your staff contact Jennifer Reed, Director of the Office of Budget and Performance Management, at 202- 478-9206.

Sincerely,



Rashad M. Young
City Administrator

cc: Lilai Gebreselassie, Audit Supervisor, Office of the District of Columbia Auditor

ODCA's Response to Agency Comments

ODCA appreciates the comprehensive comments provided by City Administrator Rashad Young and his team. While the Office of the City Administrator (OCA) did not concur with all our conclusions, they note areas for collaboration and we are pleased with this opportunity.

Because this is not an audit based on Generally Accepted Government Auditing Standards (GAGAS) we were admittedly not explicit in how we selected audits to use as examples in our overall argument in support of an internal controls framework. We used primarily but not exclusively audits that were undertaken by the principal author and other reports that were completed and issued over the last four years during the incumbency of the current D.C. Auditor. It is also the case, as the OCA comments note, that we write about situations and reports that were completed prior to the Bowser Administration. The Office of the D.C. Auditor was created in the Home Rule Charter in the 1970s and we have a responsibility to reflect on challenges facing the District government beyond any individual administration.

We maintain the view that the District would benefit from adopting an internal control framework. The District's peers in the federal government, throughout the private sector and, in some cases, at the local level, have already done so. We share the twin goals of performance and accountability expressed by City Administrator Young.

We welcome the recommendation of the OCA to collaborate with the Auditor on a timeline and process to develop standard operating procedures for the District's largest agencies. We are excited about this positive development for the District and we welcome the opportunity to work with the Bowser Administration going forward.

Appendix A

There are sometimes inconsistencies between the D.C. Council's design of a District program and the way the Executive Branch runs the program.

Agency	Department of Housing and Community Development (DHCD)
Source	Office of the District of Columbia Auditor (ODCA)
Background	DHCD administers the Housing Production Trust Fund (HPTF) which was established to provide loans and grants for the preservation and construction of affordable housing.
Years	2001-2016
What should have happened	- Those projects that received funds from the HPTF should have been reserved for low-income households. - Existing tenants should have had an annual review of their income to ensure that they did not exceed the threshold for low-income affordable housing.
What actually happened	DHCD failed to provide each developer working with the Housing Production Trust Fund (HPTF) with clear, consistent guidance on how to verify each applicant's income to ensure affordable housing was only provided to low-income households. We found some tenants whose income exceeded the threshold for low-income housing. Where developers collected the necessary documentation to verify tenant income, they did not always perform a thorough review. We found several instances where a basic review of the tenant's documentation would have disqualified them from low-income affordable housing units.
Impact on residents	Low-income households were denied affordable housing because ineligible, higher-income tenants were erroneously approved for low-income housing.
What does this mean for the Council?	Some of the funds that the Council set aside to provide affordable housing were not used to provide low-income tenants with housing. In many cases, the District did not even establish the processes necessary for the Council to perform its oversight duties. For example, only two of the 10 projects we reviewed even required tenants to submit bank statements. Without bank statements it is not possible to verify that tenants have disclosed all of their income by submitting their paystubs. Furthermore, while these process failures continue to divert funds away from the intended beneficiaries of the law, the Council may believe that it has remedied the problem.

The District does not collect all the money it is owed. In this instance, it is estimated that the District lost out on \$38 million.

Agency	Metropolitan Police Department (MPD)
Source	Office of the Chief Financial Officer (OCFO) Metropolitan Police Department (MPD) The Washington Post
Background	The MPD assumed responsibility for maintaining the District's traffic enforcement cameras in FY 2014. In prior years, this task was performed by a contractor.
Year	2014
What should have happened	The process for maintaining the District's traffic enforcement cameras should have been transferred from the contractor that was performing this task to the MPD. The MPD should have performed its own risk assessment as it designed and implemented its own process for overseeing the District's traffic enforcement cameras. It is likely that a risk assessment of the process would have alerted the MPD to the problems it encountered, before they cost the District \$38 million.
What actually happened	According to the OCFO, 2014 revenue from traffic enforcement cameras was \$38 million less than initially forecast. The Washington Post reported that according to the MPD, this shortfall was "due in part to problems maintaining some of the equipment." The MPD explained that "During periods of extreme cold and snow last winter, there were instances when we could not change the batteries because they were not accessible, or the temperature affected the charge, he said. "We have taken additional steps to enhance internal temperature controls since last winter, alleviating this problem."
Impact on residents	The District's citizens lost \$38 million in revenue that could have been used to meet their needs.
What does this mean for the Council?	The Council budgeted for the needs of District residents under the assumption that the District would generate an additional \$38 million in revenue from its traffic enforcement cameras.
What does this mean for the Executive Branch?	The Executive Branch does not require District agencies to perform risk assessments over its processes. As a result, the MPD assumed responsibility for the program without considering what could go wrong as it operated the District's traffic enforcement cameras.

The District does not collect all the money it is owed. In this instance, the District failed to collect thousands of dollars.

Agency	Department of Consumer and Regulatory Affairs (DCRA)
Source	Office of the District of Columbia Auditor (ODCA)
Background	D.C. Code § 42-3131-.05(5) defines a vacant residential building as real property with a building that 1) has not been continuously occupied; and 2) does not have a resident with intent to return and occupy the building. D.C. Code § 42-3131-.05(1)(A) defines a blighted vacant building as any building that is unsafe, unsanitary, or threatens the health, safety, or general welfare of the community. DCRA has been tasked with ensuring that these properties return to productive use.
Year	2015
What should have happened	• Property owners were to proactively register their properties within 30 days of it becoming vacant. • DCRA is supposed to give property owners 15 days to respond to a notice. • Where property owners do not respond to DCRA's notice, they are to be referred to the Office of the Attorney General (OAG) for a \$1,000 penalty. • Where properties have been deemed vacant, DCRA should have granted an exemption only if the owner met one of several criteria, including: – The owner has obtained a permit for construction; – The owner intends to sell the property; and – The owner has obtained a hardship exemption.
What actually happened	• Out of 25 buildings we sampled, whose owners should have received a notice of infraction for failing to proactively register their vacant property, none of them received a notice and the District failed to collect fines totaling \$50,000. • DCRA gave property owners between 30 and 45 days to respond to a notice, instead of the 15 days specified by the D.C. Code. • Of 15 property owners we sampled, who should have been referred to the OAG for a \$1,000 penalty, none were referred for penalties totaling \$15,000. • Of the 19 properties granted an exemption in our sample, nine of them did not meet the criteria for an exemption, as outlined in the D.C. Code.
Impact on residents	When vacant and blighted properties are not rehabilitated, District residents must contend with an increase in the risk of criminal activity; trash accumulation; rodent infestations; and stunted economic development.
What does this mean for the Council?	The program that the Council established to rehabilitate vacant and blighted properties was not implemented as the Council intended. The Council cannot effectively and efficiently monitor the program because in many cases the processes and documentation necessary to perform its oversight function do not exist. Furthermore, while these process failures continue to delay the rehabilitation of vacant and blighted properties, the Council may believe that it has already remedied the problem.

District government officials have stolen taxpayer money.

AgenciesEntity	Council of the District of Columbia (D.C. Council) Department of Consumer and Regulatory Affairs (DCRA) Department of Employment Services (DOES) D.C. Department of Human Resources (DCHR) D.C. Public Schools (DCPS) Office of Tax and Revenue (OTR)
Source	Federal Bureau of Investigation (FBI) Office of the Inspector General for the District of Columbia (OIG) Washington City Paper
Background	The District has suffered from a number of embarrassing process failures. District employees and officials have taken advantage of a lack of effective processes and monitoring to steal money.
Years	2012 – Council 2008-2009 – OTR 2016 – DCRA 2010-2011 – DCHR 2010-2011 – DOES 2007-2012 – DC Water
What should have happened	• When the Council sets money aside for a specific program, the executive branch should ensure that those funds are used as intended. • The District should restrict OTR employee access to the confidential tax filings and related financial information that OTR uses to process tax returns. OTR should monitor its staff to ensure they don't obtain external employment with any tax preparers where they could leverage OTR data to steal money. • Both citizens and businesses should be able to obtain business licenses and construction contracts without having to pay bribes to District employees. Each District agency should monitor its employees to ensure that they can't extort money for licenses or contracts. • Employees at DCHR should not be able to access the District's employee payroll system to change the rate of pay for their own accounts. • DOES employees responsible for determining who receives unemployment benefits, should not be able to perform this task for their relatives. • When an employee's official capacity at DC Water involves the approval of permits, they should not be able to run their own business speeding up that very same permitting process.

What actually happened	• Former Councilmember Harry L. Thomas Jr. took some of the money that the Council set aside for art and youth recreation programs and used it to buy himself cars, clothes, and vacations. • A District employee leveraged her job with OTR to assist her clients at a private tax preparation service. When her clients were facing audits according to District computers, she provided them with documentation for fraudulent deductions, costing the District \$300,000. • A District employee used her official position to extort money from customers seeking business licenses and construction contracts. • A DCHR employee accessed her own profile in the District's employee payroll system to increase her own hourly pay rate. She was ordered to pay restitution in the amount of \$11,385. • The associate director at DOES was able to enter fraudulent information into their computer system on behalf of her daughter, and daughter's boyfriend, to qualify them for unemployment insurance compensation. She was ordered to pay restitution in the amount of \$19,027. • The supervisor for the permit office at DC Water also ran his own consulting business providing "permit expediting" services, charging his customers some \$140,000 over a five-year period.
Impact on residents	The District's citizens don't just lose money when these types of frauds occur, there is also a loss of reputation associated with these types of crimes. In these cases: • The District's youths were cheated out of additional social/educational opportunities. • The District's residents were cheated out of funds that should have been used to provide them with services. • Business owners and individuals were forced to pay bribes to do business with the District. Where processes are not functioning properly, or do not exist, citizens will believe they are receiving a substandard level of programs and services.
What does this mean for the Council?	Some of the money that the Council set aside to provide youth enrichment programs, process tax returns, administer licenses for District businesses, and operate HR, was stolen. These types of process failures point to a lack in the basic set of processes and documentation that the Council needs to properly monitor and evaluate their operations.
What does this mean for the Executive Branch?	The executive branch did not design and implement the processes necessary to 1) adequately monitor and evaluate each program's operations; and 2) ensure that these programs were run efficiently and effectively. These process failures also create a negative impression of the District's ability to administer government operations ethically, legally and competently.

Monitoring the money that the District spends with contractors, nonprofits and other external organizations is particularly problematic, raising a risk of waste, abuse or theft.

Agencies/Entity	Children and Youth Investment Trust Corporation (CYITC) Department of General Services (DGS) Department of Youth Rehabilitation Services (DYRS) University of the District of Columbia (UDC)
Source	Office of the District of Columbia Auditor (ODCA) Office of the Inspector General for the District of Columbia (OIG)
Background	The District contracts with private sector organizations in a variety of industries to purchase goods and services. It also gives money to nonprofit organizations that run programs aligned with the District's public policy goals. However, we have found these processes to be particularly problematic for the District, as they often reduce transparency into the way money is spent. There also appears to be less oversight and an increased chance of fraud when money is sent outside the District government.
Years	2016 – CYITC 2015 – DGS 2016 – DYRS 2014-2017 – UDC
What should have happened	• The District wanted to funnel millions of dollars through CYITC for more than 70 after-school and gang violence prevention programs, believing that CYITC could deliver better services to the District's youth. These programs were targeted towards the District's at-risk youth. • The District used an outside contractor to modernize three District schools: Anacostia High School; Eastern High School; and Wilson High School. Each contractor was supposed to provide monthly reports and written requests for any money taken out of the project's contingency fund. • DYRS contracts with Community-Based Residential Facilities (CBRFs) to provide 24-hour supervision over court-involved youth as they attend school, receive counseling and engage in recreational activities. As part of their contract CBRFs should have provided DYRS with monthly progress reports. • The District spends millions of dollars funding operations and capital improvements for UDC. In 2016 alone, UDC spent \$71 million of the District's money funding operations and \$15 million for capital improvements. District residents expect that those funds will be spent efficiently and effectively, and that they will be spent in accordance with the District government's wishes.

What actually happened	• In 2016 it was determined that CYITC was bankrupt, lacking the money it needed to run its own operations and pay millions in promised grants. This was caused by exorbitant spending by staff, including the misuse of CYITC credit cards for personal expenses, and what one consultant stated was an unusually large amount of money going to administrative expenses. In fact, upon discovering CYITC's bankruptcy, the Mayor and Council discovered that more than \$2 million of the \$5 million allocated to the Trust in the prior year, was spent on rent, six-figure salaries, and travel for the Trust's executives. • The District contractor in charge of modernizing the District's schools did not fulfill the requirements of its contract. It failed to provide compliant monthly reports on all three projects that we reviewed and did not document why it spent money out of the project's contingency fund for two of the three schools we selected for review. • The monthly progress reports that DYRS was supposed to receive would have provided DYRS managers with a summary level snapshot of the facility's operations including: – The number of youths admitted, discharged or arrested. – Daily notations taken in each youth's case file. – A record of any curfew violations. – Data on any unusual incidents that youth might be involved in. We found that two of the four facilities we tested did not produce any monthly progress reports. The other two produced some of the required information in their contract. • We identified several process failures over UDC operations including: – Management was unable to clearly identify the location of one of the grants that the federal government provided. – UDC could not demonstrate that its endowments were invested in accordance with UDC's own spending and investment policy. – UDC did not meet the objectives of its Vision 2020 strategic plan. It does not offer all the majors it planned on offering. It has not created an entirely online course of study, and workforce development and lifelong learning programs did not meet performance expectations.
Impact on residents	When the District does not enforce the terms of the contracts that it signs with contractors and nonprofits, District residents are less likely to receive the services they are entitled to. When these contractors and nonprofits realize that the District does not enforce the terms of its contracts, they may also attempt to sidestep other contract provisions. Worse still, they may realize that monitoring is so ineffective that they can steal money and get away with it. In these cases: • The District's youth were cheated out of additional educational opportunities designed to help them reach their full potential. • Some of the money that the District set aside to reduce gang violence was used by a nonprofit to pay personal expenses for staff. • We will never know if District contractors cheated the District out of money as they modernized District schools because they were not properly monitored. • We will never know if the District's court-involved youths were mistreated or improperly supervised because the District did not properly monitor the contractors in charge of their care. • The District's public university appears to be struggling to ensure sound financial management, and its degree and course offerings do not appear to be optimized for District residents.

What does this mean for the Council?	Some of the money that the Council set aside was used ineffectively and may even have been stolen. These types of process failures suggest that these programs lack the basic processes and documentation that the Council needs to properly monitor and evaluate their operations.
What does this mean for the Executive Branch?	The executive branch did not design and implement the processes necessary to 1) adequately monitor and evaluate each program's operations; and 2) ensure that these programs were run efficiently and effectively. When the District is not properly monitoring the money that it disburses to contractors and nonprofits, there is an increased likelihood that it will be spent inefficiently/ineffectively or even stolen. Ultimately this means District residents are less likely to receive the services they are entitled to, services which have already been paid for with their tax dollars.

District residents do not receive all the benefits they are entitled to from the federal government.

Agencies/Entity	Department of Employment Services (DOES) Department of Human Services (DHS)
Source	United States Department of Agriculture (USDA) Department of Labor (DOL) Department of Education (DOE) KPMG The Washington Post
Background	The federal government runs many of its programs in conjunction with state governments around the country. The federal government will specify eligibility restrictions for these programs and monitor how well they are run, but day-to-day responsibility for their success will often fall to a local government agency or entity.
Years	2012-2017 – DOES 2016-2017 – DHS 2014-2017 – UDC
What should have happened	• The federal government provided the District with money to help unemployed youths get jobs. The District should have enrolled these youth in employment readiness classes. • The federal government funds our nation’s Supplemental Nutrition Assistance Program (SNAP), to help approximately 120,000 low-income D.C. residents buy groceries. Under federal law, eligible residents are supposed to 1) receive benefits within 30 days of filing an application; and 2) receive advance notice of any reduction in their benefits. • The federal government provides money to eligible college students to fund their educational expenses. Universities are required to obtain high school transcripts and verify each student’s proof of residency before they award them with any money. The university is not allowed to award funds above the federal limit.

What actually happened	• Between 2012 and 2017 the District was labeled a “high risk” partner for job training and employment programs by DOL. DOL cited low enrollment, a lack of expenditures in the program and overall poor performance in its criticism of the District. They also withheld a small amount of money in 2015 and 2016 (\$40K), with the District being the only jurisdiction in the nation to have a “high risk” designation in 2015. The District conceded that many contractors stopped running job training and employment programs for the District because they were not paid on time. • In 2016 the District began using a new computer system to administer its SNAP program. Before the new computer system went live, USDA warned the District that the system was not ready to administer SNAP benefits. They recommended more testing to avoid the types of backlogs and delays that occur when new systems are rolled out before they are ready. Within a few months the federal government reported a series of errors, including inaccurate or missing benefits and a failure to send required notices to recipients about changes in their benefits. By August of 2017 the District was being sued by several individuals because of delays in application processing, or because the District eliminated people’s benefits without warning. • KPMG conducted an audit of UDC’s student loan program in 2014. The audit found that UDC had awarded student loan amounts above the federal limit and failed to obtain high school transcripts and verify each student’s proof of residency. DOE then restricted the university from adding or making changes to its academic programs, one of five goals the university set in its 2020 strategic plan.
Impact on residents	The federal government provided the District with money, or access to money, that was supposed to be used to provide District residents with job training, food and educational opportunities. Instead job training programs were under-enrolled and ineffective, SNAP recipients were erroneously removed from the program or denied benefits, and students that attend UDC were being denied the course offering/degree programs that match their needs.
What does this mean for the Council?	When money provided by the federal government is wasted or improperly managed, the Council may have to set aside extra money for District residents.
What does this mean for the Executive Branch?	The executive branch did not design and implement the processes necessary to 1) adequately monitor and evaluate each program’s operations; and 2) ensure that these programs were run efficiently and effectively. Some of the money that the District could have used to provide opportunities for District residents, was squandered. District residents may have lost out on job opportunities, access to food or educational opportunities.

District agencies cannot consistently prove that workers are paid all the money they are owed on the District government’s construction projects; in one instance we noted \$193,365 in damages.

Agency/Entity	Department of General Services (DGS) Department of Employment Services (DOES)
Source	Office of the District of Columbia Auditor (ODCA) U.S. District Court for the District of Columbia
Background	The Davis-Bacon Act requires contractors to pay “prevailing wage rates” on all District construction projects above \$2,000. These rates, which are set at the federal level by the U.S. Department of Labor, stipulate wages by classification (i.e. carpenter, electrician, roofer, etc.).
Year	2017
What should have happened	When the District hires contractors to repair and/or construct buildings for the District government, they should ensure that those same contractors are paying their workers all the benefits they are entitled to in accordance with federal and District law.
What actually happened	We noted deficiencies in the processes DGS and DOES used to prevent and/or detect and correct violations of the Davis-Bacon Act. To comply with the law, the District is supposed to collect and verify that contractors are paid the money that they are owed. But in 2015, 32 of 71 records we looked at were missing these certified payroll records. Furthermore, where construction workers made complaints, they were referred to DOES and then later to the federal government’s DOL. Neither DGS nor DOES could provide ODCA with any information on the status of these cases or the scope of the problem in the District (i.e. number of cases, dollar values associated with complaints, etc.). As part of our review we also examined some of the court cases associated with these complaints. In one case, the U.S. District Court for the District of Columbia entered a default judgement against one contractor of \$193,365, including unpaid wages.
Impact on residents	Some District residents were not paid all the money that they were entitled to as they worked to construct or repair District government buildings.
What does this mean for the Council?	The Council may have to design and implement new laws to ensure construction workers are paid all the money they are entitled to, as the District struggles to enforce federal laws.
What does this mean for the Executive Branch?	If the executive branch cannot consistently ensure its workers are paid accurately, some workers and firms may decide not to work with the District. This could reduce the quality of services that District residents receive.

District agencies struggle with every facet of the District’s procurement and contracting processes, from soliciting proposals to monitoring its contractors once it has selected the best bid, to ensuring compliance.

Agency/Entity	Department of General Services (DGS) Office of Contracting and Procurement (OCP) various District agencies that issue contracts
Source	KPMG Office of the Attorney General (OAG) Office of the District of Columbia Auditor (ODCA) The Washington Post
Background	The District works with many contractors to administer the government. District procurement laws have strict specifications for soliciting bids, selecting contractors, and monitoring their performance.
Year	2015 – DGS 2015 – Various 2017 – OCP 2016 – DGS
What should have happened	• Contracts and related information should be readily available for review by DGS project managers and those charged with oversight of DGS, such as ODCA. • The executive branch is supposed to provide the Council with enough time to approve contracts before contractors begin delivering goods and services. • An efficient and effective contracting process includes consistent document management practices, clear lines of authority, and meaningful oversight.

What actually happened	• In 2015 as ODCA was conducting an audit of the District’s school modernization program, we requested copies of various contracts that DGS managed on behalf of the District. Although we were assured that these contract files were available for review on February 12, 2015, to get them we had to send DGS a letter in early March, informing them of our ability to subpoena contract files. • In 2015 the Council had to retroactively approve more than 40 contracts for bike-share equipment, road salt for winter storms, and more than \$1 billion in health-care services. A 2017 KPMG review of the District’s contracting and procurement process noted: • Inconsistent document management practices resulting in an inability to validate decisions, including sole source, emergency awards and change orders. • Too many procurement governance structures which increased the risk of noncompliance and operation inefficiencies for the District. • A lack of meaningful oversight with KPMG noting that “Several agencies that we interviewed indicated a lack of procurement awareness among key personnel related to responsibilities for vendor oversight.”
Impact on residents	When contracts are not properly sourced and managed, District residents are less likely to receive the goods and services for which they have paid.
What does this mean for the Council?	The Council is not able to exercise its oversight authority over the District’s contract approval process before contracts are signed. When the Council is required to approve contracts after a contractor has already started delivering goods and services, it may not even be practical for them to object to it.
What does this mean for the Executive Branch?	When the District does not properly administer its contracting source selection and approval processes, the District is more likely to suffer from fraud, waste, and abuse on those contracts. In addition, as we noted in this case, where processes have not been designed properly with appropriate checks and balances, the Mayor may not even be aware of what is going on in the agencies she is tasked with running.

The executive branch does not always provide the Council with accurate, consistent information.

Agency/Entity	Department of Consumer and Regulatory Affairs (DCRA) Department of General Services (DGS) Department of Housing and Community Development (DHCD)
Source	Office of the District of Columbia Auditor (ODCA)
Background	The Council has an important role overseeing District government operations. If they do not receive accurate information on which to base their decisions and evaluations, they cannot provide proper oversight.
Year	2014 - 2015 – DGS 2017 – DHCD 2015 – DCRA
What should have happened	- When the Council reviews the information included in the annual budget, as well as the District's Capital Improvement Plan (CIP), it should be accurate and up-to-date. - Whether the executive branch reports data in a report, provides it to the Council, or ODCA for review, it should be consistent.
What actually happened	- In January of 2013 DGS received two preliminary design estimates for a project at the Duke Ellington School of the Arts for \$90 million and \$106 million, which were \$9 million and \$24 million more, respectively, than the amount included in the Capital Improvements Plan (CIP) that was presented to the D.C. Council in the District's FY 2014 budget. In the following year, the estimate was \$7.6 million more than the amount included in the CIP for D.C. Council approval. - In a recent audit of DHCD which has been tasked with providing and creating affordable housing for District residents, we noted that the information provided to the Council and to ODCA was different, including the number of units, number of projects, and award amounts, and that these numbers continued to change throughout the audit. - In its FY 2015 performance hearing DCRA reported that it had 2,294 vacant and blighted properties listed in its database, but reported 8,400 properties in its Performance and Accountability Report and provided ODCA with data suggesting the amount was 3,278 properties.
Impact on residents	When District government programs are not properly monitored and administered, District residents are less likely to get access to the government resources they need.
What does this mean for the Council?	The Council cannot effectively monitor the executive branch when it receives factually incorrect information about District government programs and services.
What does this mean for the Executive Branch?	The Mayor may also be making decisions and evaluating District government programs based on factually incorrect information.

About ODCA

The mission of the Office of the District of Columbia Auditor (ODCA) is to support the Council of the District of Columbia by making sound recommendations that improve the effectiveness, efficiency, and accountability of the District government.

To fulfill our mission, we conduct performance audits, non-audit reviews, and revenue certifications. The residents of the District of Columbia are one of our primary customers and we strive to keep the residents of the District of Columbia informed on how their government is operating and how their tax money is being spent.

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Thank you.