

**TESTIMONY OF DANIEL W. LUCAS, INSPECTOR GENERAL
BEFORE THE
COUNCIL OF THE DISTRICT OF COLUMBIA
COMMITTEE ON GOVERNMENT OPERATIONS & FACILITIES**

**PUBLIC HEARING ON
OIG FISCAL YEAR 2022 PROCUREMENT RISK ASSESSMENT
AND ASSOCIATED REPORTS**

October 5, 2022

Good afternoon, Chairperson White and Members of the Committee. I am Daniel W. Lucas, Inspector General for the District of Columbia. I am pleased to appear virtually at today's hearing to discuss our Fiscal Year (FY) 22 Procurement Risk Assessment process and associated reports.

Joining me today is Mr. Fekede Gindaba, Assistant Inspector General for Audits. Mr. Gindaba and his team led the FYs 17 and 22 Risk Assessment engagements, administers the Annual Comprehensive Financial Report (ACFR) Audit, and has conducted several additional engagements covering the District's emergency procurements and supply chain management. Both the ACFR audit, KPMG Risk Assessments, and OIG engagements will provide the Committee and public – particularly as it relates to emergency procurements – with additional insights from three independent perspectives.

OIG Procurement Risk Assessments

D.C. Code requires the OIG to “[a]nnually conduct an operational audit of all procurement activities [...]”¹ We have opted to satisfy this requirement by conducting risk assessments on a triennial basis and then conduct follow-on OIG engagements to examine significant risks. We opted on this triennial process as a matter of economy, practicality, and to provide District agencies with adequate time to implement recommendations based on the triennial risk assessment and subsequent OIG work.

The OIG issued our first [Procurement Practices Risk Assessment](#) (FY 17 Risk Assessment) on July 11, 2017. The FY 17 Risk Assessment, conducted on behalf of the OIG by KPMG, identified high-risk systemic issues, practices, and incongruent rules and regulations. Since the release of the FY 17 Risk Assessment, the OIG conducted several follow-on audits and evaluations to delve deeper into the risk areas, in an effort to provide the District with recommendations to improve the procurement process. Attached to my testimony is a table of OIG engagements conducted as a result of or FY 17 Risk Assessment (*see* [Table 1](#)).

Following the practice instituted in FY 17, on August 30, 2021, the OIG announced the next iteration of our Procurement Risk Assessment (FY 22 Risk Assessment). In addition to following up on the status of high-risk areas identified in the FY 17 Risk Assessment, we asked KPMG to focus the FY 22 Risk Assessment on three areas: (1) goods and services procured during the COVID-19 Public Emergency using emergency procurement authorities; (2) large-

¹ D.C. Code § 1-301.115a(a)(3)(E).

scale Information Technology system procurements; and (3) non-emergency goods and services procured using applicable laws, regulations, and policies.

Our FY 22 Risk Assessment engagement resulted in three reports:

- The [COVID-19 Emergency Procurement Risk Assessment Report](#) issued May 23, 2022;
- The [Fiscal Year 2022 Information Technology Capital Projects Procurement Risk Assessment Report](#) issued June 23, 2022; and
- [Fiscal Year 2022 Procurement Risk Assessment Report](#) issued August 1, 2022.

The District's Procurement System

Before I discuss our FY 22 Risk Assessment results, I want to set the stage. As you are aware, the District's procurement system does not function solely under the direction of the Office of Contracting and Procurement (OCP). Rather, OCP is an integral part of the District's procurement system and relies on inter- and intra-District activities. It is helpful to see this system as a value-chain, whereby the District's procurement system includes "separate subsystems, each with inputs, transformation processes, and outputs."²

Figure 1 presents the District's procurement system's value-chain. At the top of the value-chain are primary activities, which are essential to procuring goods and services at a fair and reasonable price. These activities are separated by pre-award, award, and post-award stages.

Note that activities in the post-award phase are stratified by activities related to either goods or services. At the bottom of the District's procurement system value-chain are supporting

² CAMBRIDGE UNIVERSITY INSTITUTE FOR MANUFACTURING, DECISION SUPPORT TOOLS: PORTER'S VALUE CHAIN, <https://www.ifm.eng.cam.ac.uk/research/dstools/value-chain/> (last visited Sept. 30, 2022).

activities. The interrelationship of these primary and supporting activities drives the value provided to the District through its procurement system.

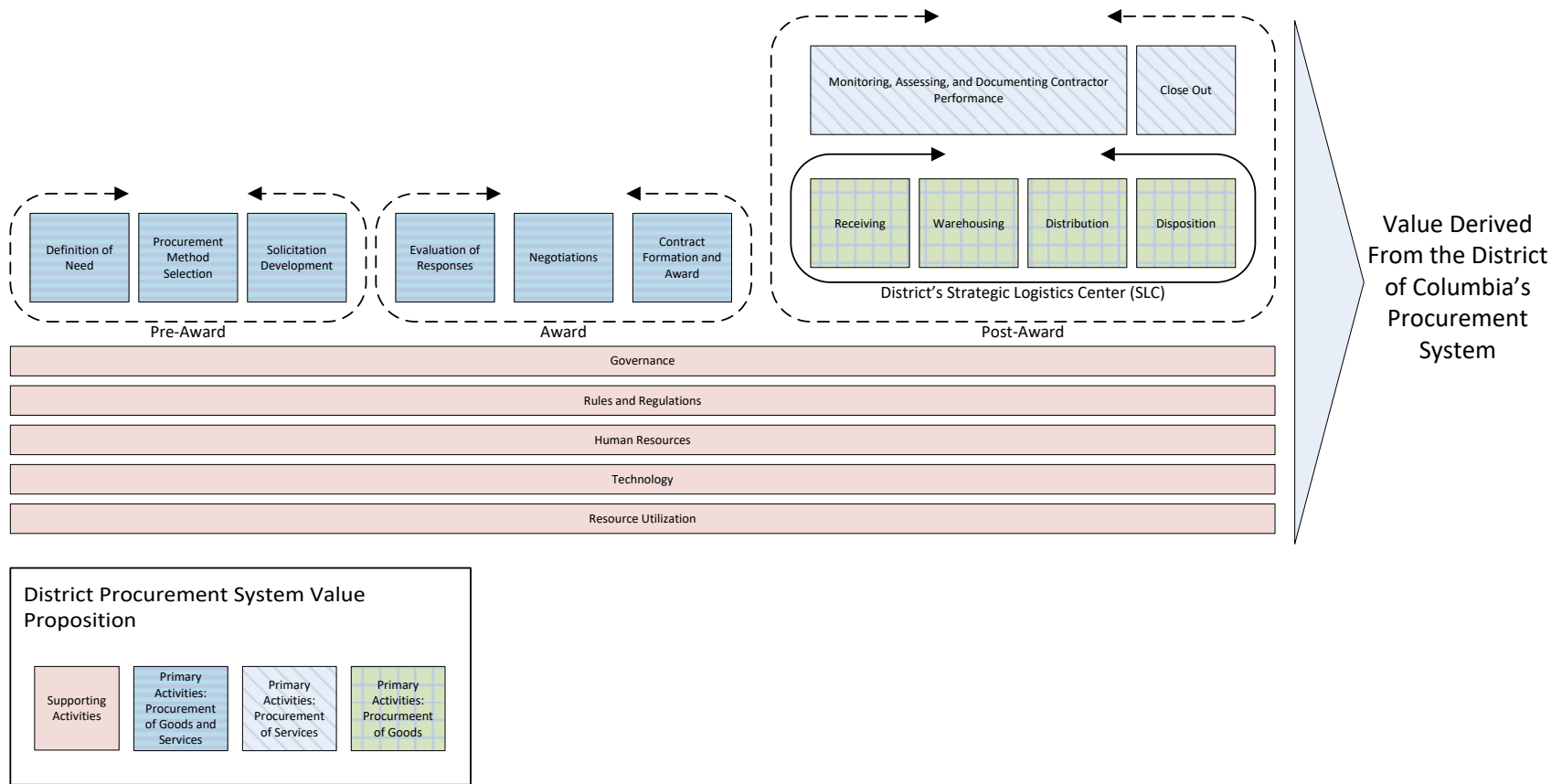


Figure 1: District of Columbia Procurement System (Source: OIG Analysis)

OIG Oversight of the District’s Procurement System

Our Risk Assessments leveraged the *United States Government Accountability Office (GAO) Standards for Internal Control in the Federal Government* (Green Book)³ to identify internal control activities that District leaders can strengthen within their respective activities. Because the Risk Assessments only identify risks – i.e., “the possibility that an event will occur and adversely affect the achievement of objectives,”⁴ it is important to bolster the Risk Observations with additional findings and observations from ACFR and OIG audits, inspections, and evaluations.

In the following sections, I would like to overlay the cumulative results of our oversight work related to the District’s procurement system to help identify specific opportunities for improvement.

COVID-19 Emergency Procurement Risk Assessment

Our first Risk Assessment report issued in FY 22, the [*COVID-19 Emergency Procurement Risk Assessment Report*](#) (May 23, 2022), identified three Risk Observations in the District’s procurement system related to emergency procurements:

1. There was a lack of sufficient procedures and internal controls to properly manage the District's emergency COVID-19 purchases;
2. There were relaxed internal control procedures over advance payments and flexible limits established with the emergency P-Card program; and

³ U.S. GOV’T ACCOUNTABILITY OFFICE, STANDARDS FOR INTERNAL CONTROL IN THE FEDERAL GOVERNMENT, GAO-14-704G, Sept. 2014), <https://www.gao.gov/products/GAO-14-704G> (last visited Sept. 30, 2022).

⁴ *Id.* at Glossary.

3. OCP did not establish inventory management procedures to track and safeguard items purchased with emergency COVID-19 funding.

Figure 2 on the following page identifies the COVID-19 Emergency Procurement Risk Observations within the District's procurement system.

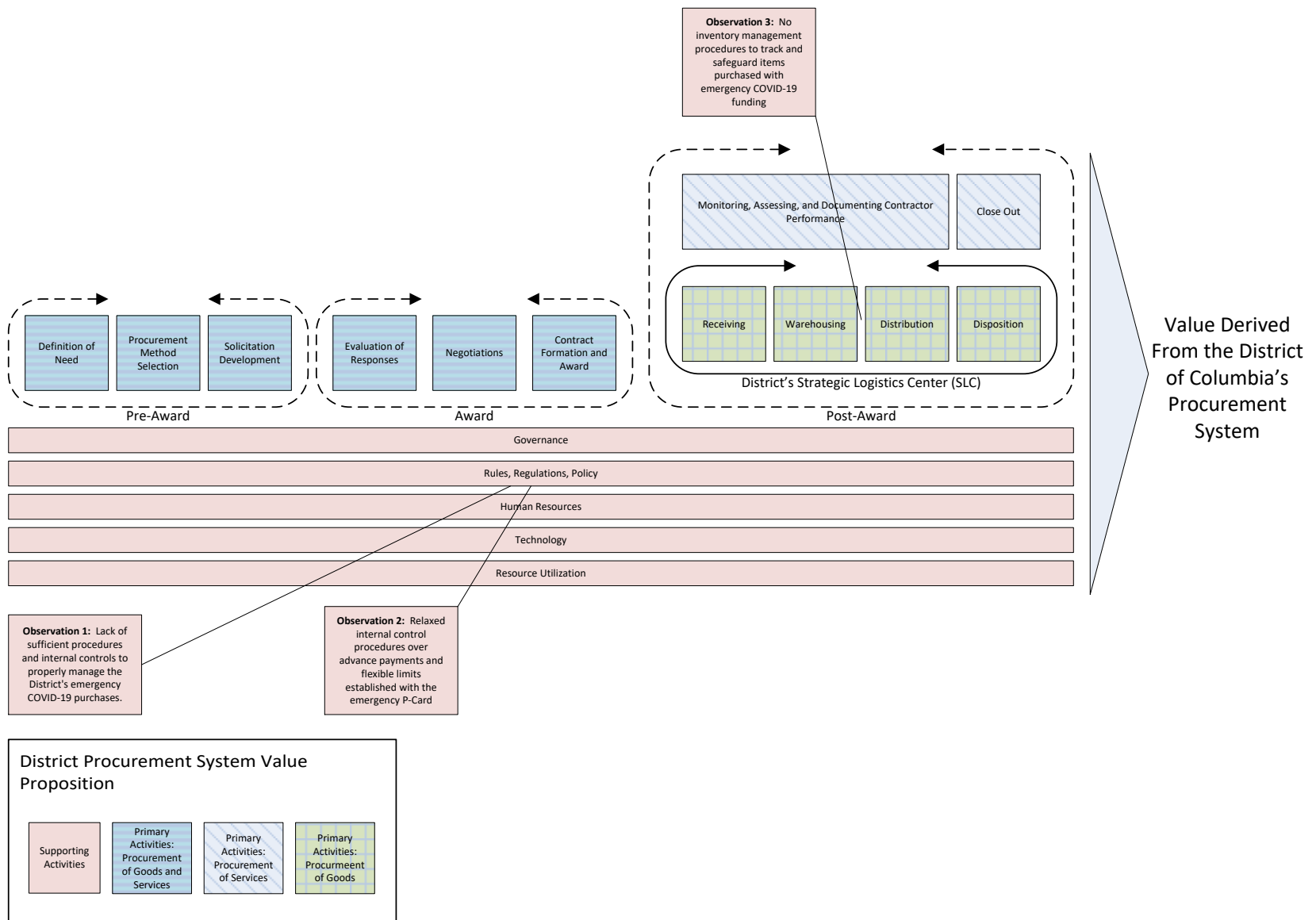


Figure 2: COVID-19 Emergency Procurement Risks within the District's Procurement System (Source: OIG Analysis)

Information Technology Capital Projects Procurement Risk Assessment

Our second Risk Assessment report issued in FY 22, the [*Fiscal Year 2022 Information Technology Capital Projects Procurement Risk Assessment Report*](#) (June 23, 2022) identified three Risk Observations related to the District's procurement of large-scale IT capital projects:

1. Inconsistent IT procurement policies and procedures across District agencies;
2. Lack of centralized, expert oversight of IT capital procurements; and
3. The District is not properly planning and spending IT funding.

Figure 3 on the following page identifies the IT Capital Procurement Risk Observations within the District's procurement system.

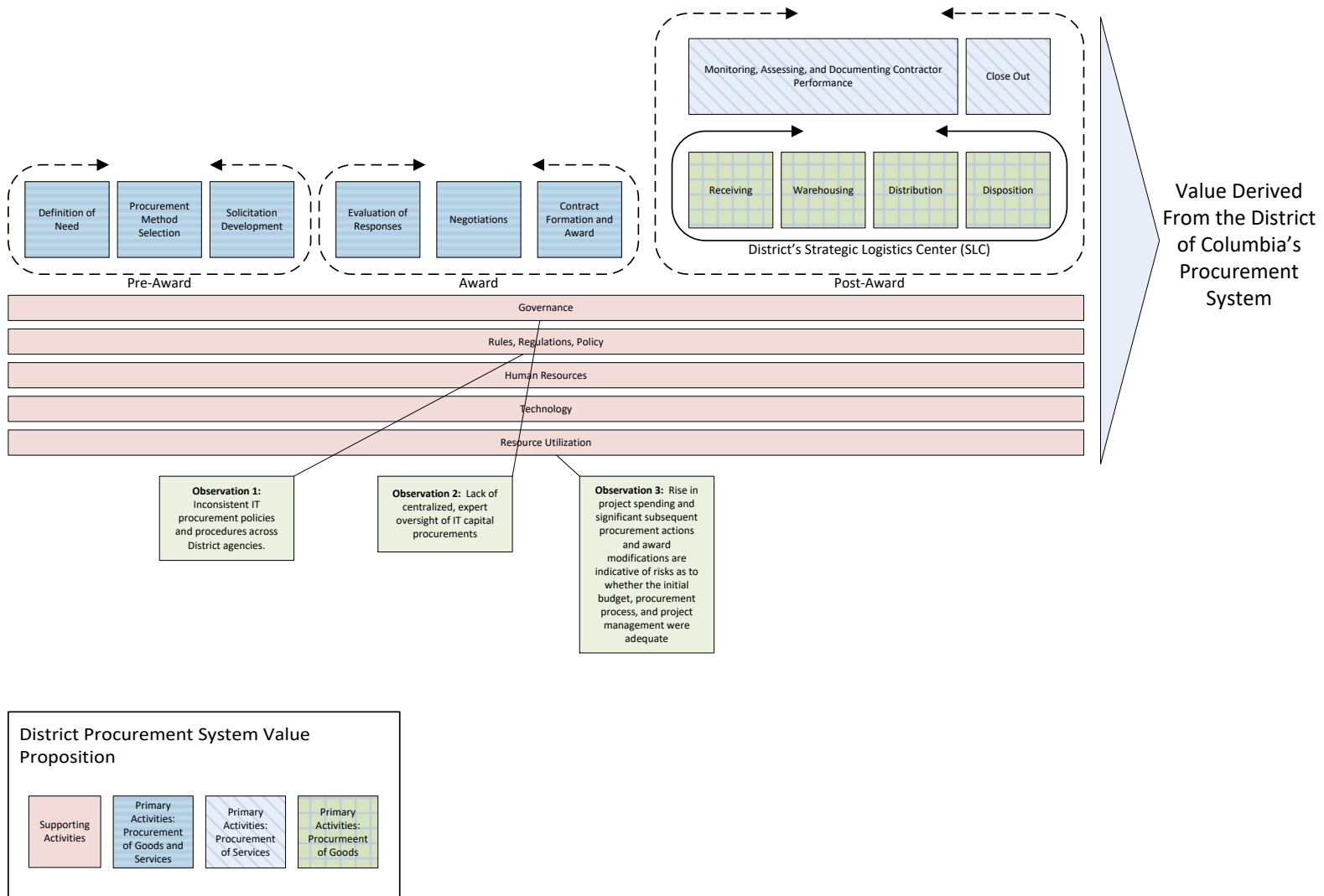


Figure 3: IT Capital Project Procurement Risks within the District's Procurement System (Source: OIG Analysis)

Fiscal Year 2022 Procurement Risk Assessment

Our capstone Risk Assessment report released this year, the [*Fiscal Year 2022 Procurement Risk Assessment Report*](#) (August 1, 2022), assessed the entirety of the District's procurement system.

The capstone report included nine Risk Observations related to the District's overall procurement system:

1. District agencies' lacked knowledge regarding the District's processes for prevention, detection, and reporting potential fraud;
2. Fiscal management policies and practices may have contributed to the increases in fiscal year-end spending;
3. Lack of uniformity for what should be uploaded and retained in automated workflow;
4. Incomplete procurement procedures manual coverage of the procurement process;
5. Lack of procurement planning and coordination across the District agencies;
6. Misalignment between organization and functions;
7. Inadequate monitoring of the receipt and quality of goods and services provided to the District;
8. Misalignment between systems' data fields; and
9. Variability in District agency use of the District's surplus property program.

In addition, the report found that Risk Observations initially identified in FY 17, and followed up through subsequent OIG audits and inspections, had not been addressed or mitigated. Figure 4 on the following page captures Risk Observations identified in the FYs 17 and 22 Procurement Risk Assessments.

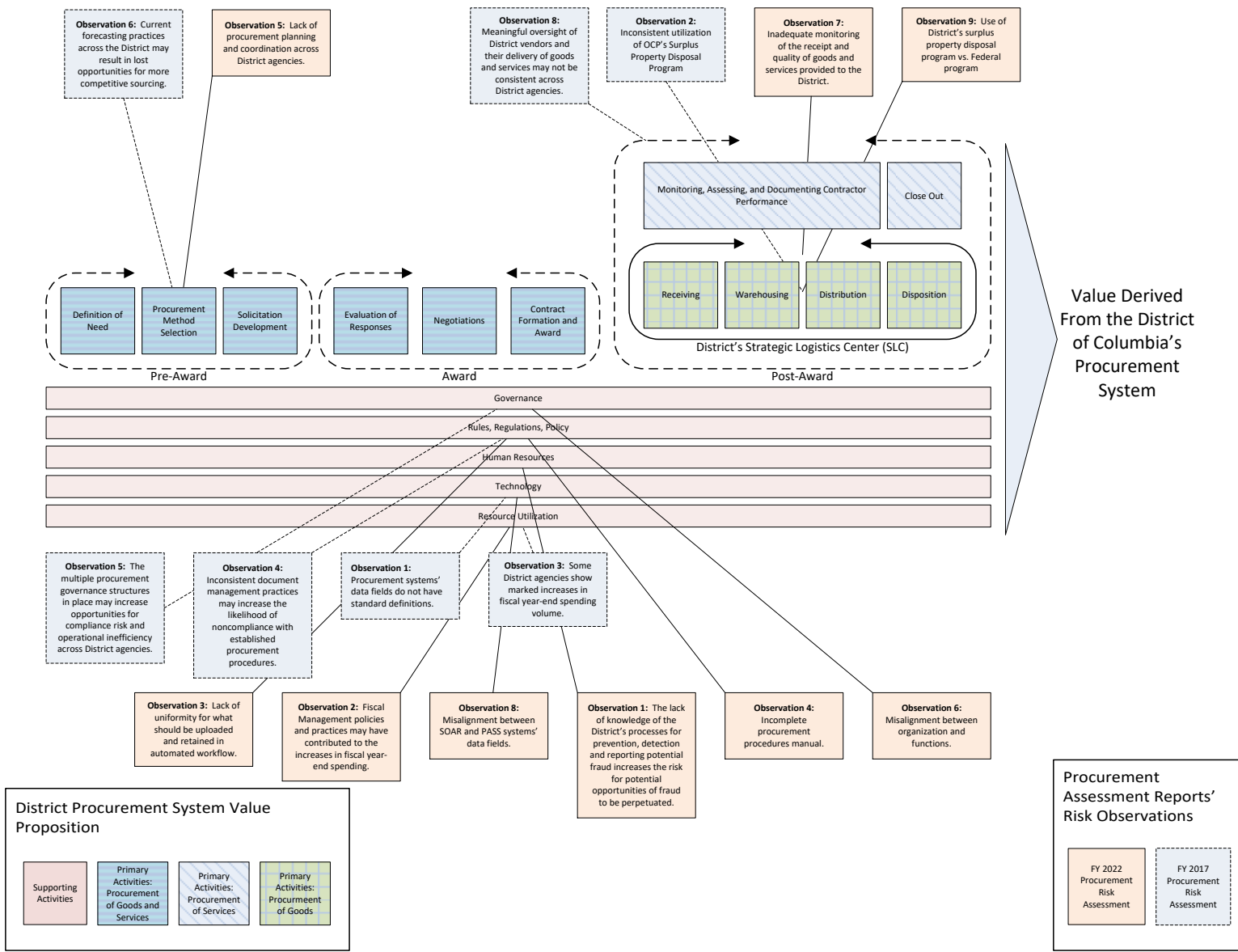


Figure 4: FYs 2017 and 2022 Procurement Risk Observations within the District's Procurement System (Source: OIG Analysis)

Other OIG Oversight Work Germane to the District's Emergency Procurements

As previously mentioned, the Risk Observations identified in each of our FY 22 Risk assessment reports can benefit from findings identified from ACFR and OIG audits. The ACFR and OIG audits offer an independent look at the District's procurement system.

ACFR Audits. Our independent auditors – McConnell and Jones LLP (MJ) – issued a finding related to the District's procurements in the [*FY 2020 District of Columbia Management Recommendations Report*](#) (FY 20 ACFR Management Recommendations) (January 29, 2021).

MJ identified five specific conditions:

1. Two samples of regular procurement transactions in excess of \$100,000 did not have definitized contracts;
2. For 18 emergency procurement samples, MJ did not receive documentation of receipt and acceptance of goods and/or services;
3. For 18 emergency procurement samples, MJ received Bills of Lading (BOL) which could not be used to verify receipt and acceptance of goods and/or services procured;
4. For 1 emergency procurement sample, MJ did not receive a Voucher Approval, which is required to release a payment to the vendor; and
5. For 2 emergency procurement samples, MJ identified the required notice to Council within 7 days after the execution of a contract procured using emergency procurement methods was not made.

As part of the ACFR audit process, MJ followed up on the status of the [FY 2020 District of Columbia Management Recommendations Report](#). In the FY 2021 [District of Columbia Management Recommendations Report](#) (FY 21 ACFR Management Recommendations) (January 31, 2022), MJ found that although the District paid for the 18 emergency procurement transactions in advance of receipt of goods, OCP did not maintain proof of receipts. In FY 21, OCP provided MJ with additional supporting documentation related to the 1 of the 18 emergency procurement transactions valued at \$422,125. For the remaining 17 transactions valued at \$28,247,607, OCP was unable to provide proof of receipts.

Currently, the FY 22 ACFR audit is ongoing, and MJ is continuing to follow-up on the finding initially identified in the FY 20 ACFR Management Recommendations report. Notwithstanding OCP's concerns regarding the initial FY 20 finding, MJ will continue to follow up on this finding and subsequent FY emergency procurements. MJ will summarize this work in the forthcoming ACFR audit report(s) due no later than February 1, 2023.

OIG Oversight Work. Complementary to the ACFR and Procurement Risk Assessments, the OIG has initiated several projects related to the District's emergency procurements. On September 16, 2020, we announced our [Audit of the District's Procurement During the COVID-19 Public Emergency](#). Unfortunately, we could not complete our audit work and issued a [Close Out Letter](#) on May 12, 2021, which presented our observations and opportunities for OCP to improve its emergency procurement processes. I discussed the difficulties in obtaining sufficient, appropriate documentation and information to address the audit's objectives during

this Committee’s Public Oversight Hearing on “Emergency Procurements during the Public Health Emergency” on July 14, 2021.⁵ Following this Public Oversight Hearing, the OIG announced its [Audit of Procurement and Warehouse Operations in Support of COVID-19 Public Emergency](#) on July 27, 2021. This audit is ongoing, and we plan to discuss with OCP the audit’s findings later this month.

Figure 5 on the following page captures the ACFR findings and OIG observations identified through these separate independent engagements.

⁵ PERFORMANCE OVERSIGHT HEARING: BEFORE THE D.C. COUNCIL COMM. ON GOV’T OPERATIONS AND FACILITIES (July 14, 2021) (Testimony of Daniel W. Lucas, Inspector General), https://oig.dc.gov/sites/default/files/replaced_Testimony%20of%20Daniel%20W.%20Lucas%20before%20the%20Committee%20on%20Government%20Operations%20and%20Facilities%20--%20Public%20Oversight%20Roundtable%20on%20Emergency%20Procurements.pdf (last visited Oct. 2, 2022)

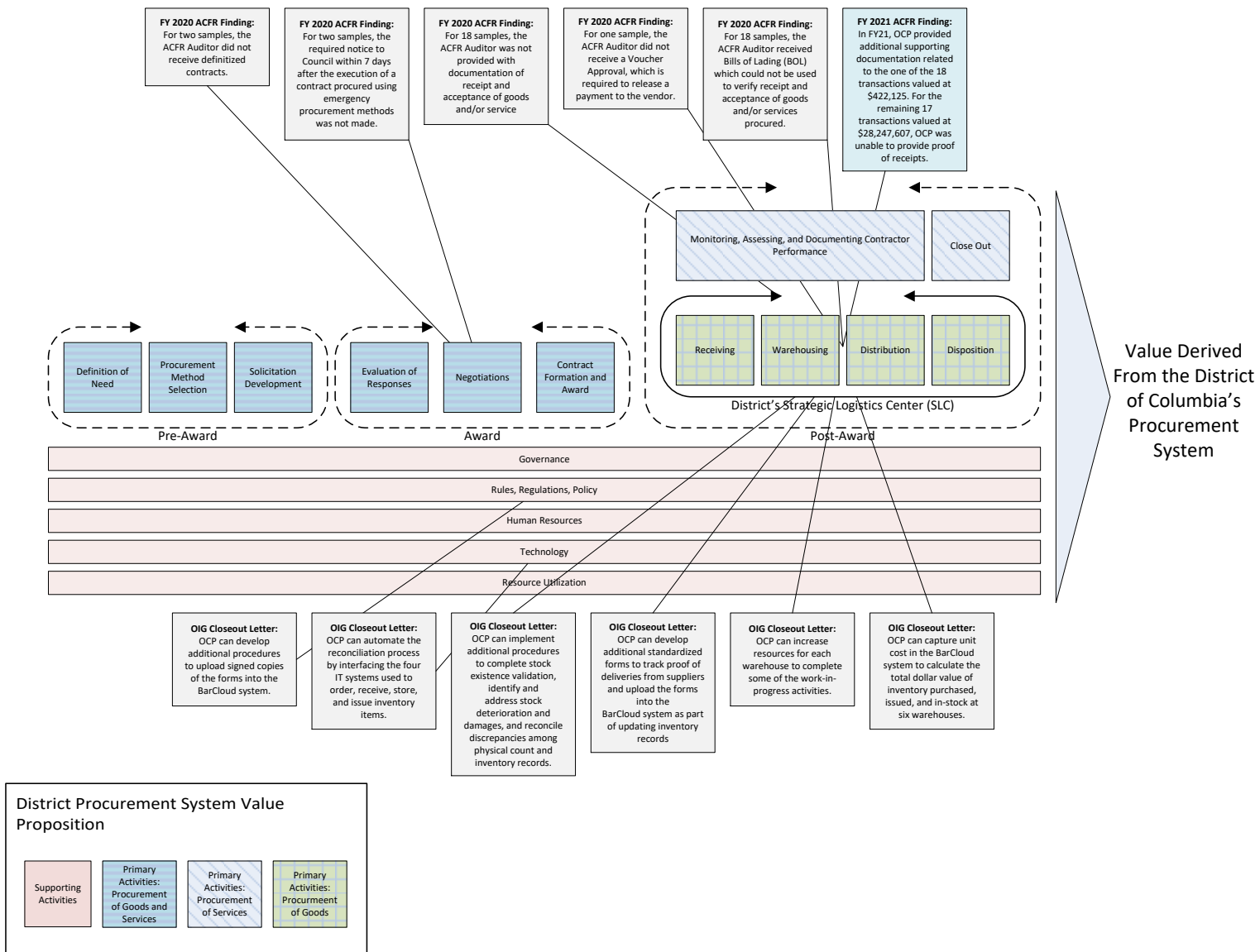


Figure 5: FYs 20 and 21 ACFR Findings and OIG Observations within the District's Procurement System (Source: OIG Analysis)

Conclusion and Future OIG Work

In conclusion Chairperson White and members of the Committee, as this testimony and supporting presentation demonstrate, there are risk areas within the District's procurement system that may:

- inadvertently provide opportunities for malfeasance to occur;
- create risks for overcharging, providing poor-quality goods or services, or even failing to deliver goods or services; and
- impact transparency and accountability, hinder management's ability to identify and mitigate risks, and limit meaningful external oversight work.

To assist the District in addressing these risk areas, the OIG has identified several engagements that will focus on the Risk Observations identified in our FY 22 Procurement Risk Assessment Reports, which are included in the OIG's [FY2023 Audit and Inspection Plan](#). Attached to my testimony is a table of planned FY 23 engagements and the corresponding Risk Observations (*see* [Table 2](#)).

This concludes my testimony, and I welcome any questions.

Table 1: FY 17 Procurement Risk Observations and Corresponding OIG Engagements

Report	Date Issued	FY 2017 Procurement Practices Risk Observations							
		Data Integrity	Surplus Property	Fiscal Management	Document Management	Procurement Governance	Sourcing Practices	Organizational Structure	Vendor Oversight
<u>Fiscal Year 2017 Procurement Practices Risk Assessment</u>	July 11, 2017	X	X	X	X	X	X	X	X
<u>Department of General Services: Management of the District's Real Property Assets and Leasing Processes Needs Significant Improvement, Which Could Lead to Substantial Cost Savings</u>	August 17, 2017	X		X	X		X		X
<u>Department of Human Services: Evaluation of Two Contracts for Hotel Accommodations for Homeless Families</u>	December 4, 2017				X				X
<u>Office of Contracting and Procurement: Evaluation of Selected DC Supply Schedule Temporary Support Services Contracts</u>	February 28, 2018	X		X	X				X
<u>Audit of the District of Columbia Fire and Emergency Medical Services Department and Office of Procurement: District Response Times to Basic Life Support Calls Have Improved, but Contract Award and Deficiencies Need to be Addressed</u>	July 10, 2018			X			X	X	X
<u>Department of Energy and Environment: Evaluation of the District of Columbia Sustainable Energy Utility Contract</u>	September 25, 2018				X	X			X
<u>District of Columbia Department of General Services (DGS): Evaluation of the Buzzard Point and St. Elizabeths Solicitations</u>	October 24, 2018			X	X	X	X		
<u>District of Columbia Agencies' Fund Reprogramming Practices: Opportunities Exist to Improve the District's Process to Track Fund Reprogramming Activities</u>	November 6, 2018			X					
<u>OCTO's Oversight of Information Technology Acquisitions Needs Improvement to Ensure the District Realizes Intended Benefits</u>	April 9, 2019	X		X	X				X
<u>District Department of Transportation: Contract Solicitation and Management Practices for Transportation Projects</u>	April 3, 2019				X		X		X

Report	Date Issued	FY 2017 Procurement Practices Risk Observations							
		Data Integrity	Surplus Property	Fiscal Management	Document Management	Procurement Governance	Sourcing Practices	Organizational Structure	Vendor Oversight
<u>Office of Contracting and Procurement: District-Wide Participation in the Surplus Property Program Could be Improved</u>	July 22, 2019		X						
<u>DC Streetcar Construction Program Audit</u>	November 27, 2019	X			X		X		
<u>Office of the Chief Technology Officer: Internal Controls for Pipeline Contract Management Need to be Improved</u>	January 10, 2020	X		X	X				X
<u>Evaluation of the Office of the Chief Financial Officer's Central Collections Unit</u>	March 17, 2020	X							
<u>Oversight of Contracts for District Facilities Modernization and New Construction Projects Needs Improvement</u>	May 15, 2020			X	X		X		
<u>Evaluation of the District of Columbia Retirement Board's Procurement Processes and Selected Contracts</u>	June 10, 2020			X	X	X	X	X	X
<u>Department of Human Services (DHS): Inadequate Internal Controls Within the Economic Security Administration May Have Contributed to the Loss of \$1.8 Million</u>	August 4, 2020	X			X		X	X	X
<u>Prime Contractor for the Streetcar Program Billed and Received \$5.2 Million in Improper Payments from the District</u>	September 23, 2020			X	X		X		X
<u>Update to the OIG's Final Report on the Audit of the Streetcar Program Prime Contractor</u>	November 5, 2020								
<u>District of Columbia Management Recommendations For Fiscal Year Ended September 30, 2020</u>	January 29, 2021				X		X		X
<u>Close Out Letter: Audit of District Procurement During the COVID-19 Public Health Emergency</u>	May 12, 2021	X			X				X
<u>DHCD Did Not Effectively and Efficiently Use the Housing Production Trust Fund to Produce Affordable Housing Units for Extremely Low-Income Households</u>	September 30, 2021								X

Report	Date Issued	FY 2017 Procurement Practices Risk Observations							
		Data Integrity	Surplus Property	Fiscal Management	Document Management	Procurement Governance	Sourcing Practices	Organizational Structure	Vendor Oversight
<u>District of Columbia FY 2021 Management Recommendations</u>	January 31, 2022				X				X

Table 2: FY 22 Procurement Risk Observations and Planned OIG Engagements

Report	Date Issued	COVID-19 Emergency Procurement Risk Observations			IT Capital Projects Procurement Risk Observations			Fiscal Year 22 Procurement Risk Assessment Observations								
		Procedures and internal controls to for emergency purchases.	Internal control procedures over advance payments with the emergency P-Card program	Inventory management procedures to track and safeguard items purchased.	Inconsistent IT procurement policies and procedures across District agencies.	Lack of centralized, expert oversight of IT capital procurements.	The District is not properly planning and spending IT funding.	Knowledge regarding the District's processes for prevention, detection, and reporting potential fraud.	Fiscal Management policies and practices	Lack of uniformity for what should be uploaded and retained in automated workflow;	Incomplete procurement procedures manual coverage of the procurement process	Procurement planning and coordination across District agencies	Misalignment between organization and functions	Monitoring of the receipt and quality of goods and services	Misalignment between systems' data fields	Variability in District Agencies use of the District's Surplus Property Program.
COVID-19 Emergency Procurement Risk Assessment	May 23, 2022	X	X	X												
FY 2022 IT Capital Projects Procurement Risk Assessment	January 23, 2022				X	X	X									
FY 2022 Procurement Risk Assessment	August 1, 2022							X	X	X	X	X	X	X	X	X
Engagement Letter: " Evaluation of the District of Columbia Department of Youth Rehabilitation Services' (DYRS) Contracting for and use of Community-Based Services and Programs "	Announced September 14, 2022													X		
Engagement Letter: " Audit of the District of Columbia's Integrated Financial System (DIFS) "	Announced August 18, 2022				X	X	X									

Report	Date Issued	COVID-19 Emergency Procurement Risk Observations			IT Capital Projects Procurement Risk Observations			Fiscal Year 22 Procurement Risk Assessment Observations							
		Procedures and internal controls to for emergency purchases.	Internal control procedures over advance payments with the emergency P-Card program	Inventory management procedures to track and safeguard items purchased.	Inconsistent IT procurement policies and procedures across District agencies.	Lack of centralized, expert oversight of IT capital procurements.	The District is not properly planning and spending IT funding.	Knowledge regarding the District's processes for prevention, detection, and reporting potential fraud.	Fiscal Management policies and practices	Lack of uniformity for what should be uploaded and retained in automated workflow;	Incomplete procurement procedures manual coverage of the procurement process	Procurement planning and coordination across District agencies	Misalignment between organization and functions	Monitoring of the receipt and quality of goods and services	Misalignment between systems' data fields
Engagement Letter: “Fiscal and Management Audit of the District of Columbia Housing Authority”	Announced November 9, 2021						X	X				X	X		
Engagement Letter: “Evaluation of the Department of Housing and Community Development Contracts Pertaining to Loan Servicing and Asset Management Services”	Announced November 5, 2021												X		
Engagement Letter: “Evaluation of the District of Columbia’s Use of Contracted Companies to Administer Large Scale Programs”	Announced November 4, 2021							X			X	X	X		
Engagement Letter: “Audit of Procurement and Warehouse Operations in Support of the COVID-19 Public Emergency”	Announced July 27, 2021	X		X											