

PUBLIC OVERSIGHT HEARING
ON
AUDIT OF FEDERAL AWARDS PROGRAMS

Before the
Committee on Public Services
Council of the District of Columbia
The Honorable David A. Catania, Chairman

November 17, 2003, 10:00 a.m.
Council Chamber



Testimony of
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Good morning, Chairman Catania and members of the Committee on Public Services. I am Ben Lorigo, executive director of the Office of Integrity and Oversight in the Office of the Chief Financial Officer (OCFO).

I am pleased to be here today to discuss the results of the audit of the District Government's compliance with the requirements applicable to its major federal awards programs for the year ending on September 30, 2002. This process is known as the Single Audit, since it addresses – in one comprehensive audit – compliance with federal auditing requirements throughout the D.C. Government. The audit is conducted by a contract auditor, KPMG, in coordination with my office and consistent with the requirements contained in Office of Management and Budget (OMB) Circular A-133.

As background, my office was assigned responsibility for this audit program in April 2000, at a time when Single Audits were not being completed timely and were still pending as far back as 1997. We are pleased that we were able to bring the District Government into compliance with these federal auditing requirements by the end of 2001, and that these important audits have been completed timely ever since.

The following is a brief summary of the Single Audit's principal findings, which are believed to be pervasive throughout the administration of the District's federal awards programs:

- **Strengthen Procedures and Documentation over Payroll Reporting.**

Employees working on federal programs complete a timesheet each pay period. However, the timesheets do not meet federal requirements, such as the amount of time expended on each specific federal award program. The audit provided options that the District may choose from to improve payroll time and effort reporting.

- **Improve Matching, Level of Effort, and Earmarking Monitoring.**

Many federal awards programs require the District to provide a certain amount of matching funding. Additionally, some programs may specify that a particular level of effort – minimum or maximum percentages of expenditures – be maintained. Finally, some awards programs involve earmarking, that is, specifying that a certain level of funding be spent in a specified area. The audit recommended that the District identify all federal awards with these requirements and mandate that program managers prepare the required calculations, at least quarterly, to ensure compliance.

- **Improve Controls over Subrecipient Monitoring.**

A significant amount of federal awards received by the District are passed through to subrecipients. Although the District does not expend these awards at the individual participant level, federal rules make the District responsible for monitoring its subrecipients to ensure that they are expending the federal awards in compliance with applicable laws and regulations. The audit recommended that the District consider centralizing the subrecipient monitoring process in one agency to focus specifically on monitoring, and that the District develop a procedures manual for performing subrecipient monitoring. The audit also recommended that the District's agreements with subrecipients include

language that ensures that the subrecipients are aware of federal auditing requirements.

- **Procurement, Suspension and Debarment Monitoring.** In brief, non-federal entities are prohibited from contracting to parties that are suspended or debarred. Contractors receiving awards for \$100,000 or more and all subrecipients must certify that the organization and its principals are not suspended or debarred. The non-federal entities may rely upon the certification unless it knows the certification to be erroneous. They may check for suspended and debarred parties on a federal General Services Administration listing, but they are not required to do so. The audit recommended that the District establish a policy clearly identifying that it is the responsibility of the procurement officer to document whether the vendor is suspended or debarred. The audit also recommended that the District require its vendors to certify that they are not suspended or debarred, and that agencies ensure that the contracting officers are maintaining the suspension and debarment information prior to approving the procurement.

Although not considered by the contract auditor to be reportable conditions and material weaknesses, like those just discussed, the Single Audit also noted other issues relating to internal control that, if implemented, would be financially advantageous to the District in terms of its participation in federal awards programs. These include obtaining reimbursement for eligible indirect costs chargeable to federal programs, and obtaining federal reimbursement of expended local funds more timely.

While the good news is that the auditing process is working and is providing the District Government with the basis for taking corrective action needed to maintain federal awards programs, the bad news is that we are seeing the same findings repeated in subsequent audits. The Single Audit for Fiscal Year 2001 contained substantially the same issues as those reported in the Fiscal Year 2002 Single Audit.

In conclusion, our sustained emphasis on developing the Single Audit process has produced a comprehensive review of the District's compliance with major federal awards programs. The emphasis now, I suggest, needs to be focused on the management of these programs to ensure that necessary corrective action is taken. A comprehensive approach is needed to confirm accountability over the expenditure of federal and District funds, and to demonstrate the commitment of the District to not only maintain these critical federal awards programs, but also to enhance their effectiveness. My office would be pleased to assist the Council and the City Administrator in developing strategies and specific actions to move this process to this next level.

Mr. Chairman, this concludes my testimony. I am prepared to answer any questions you may have.

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