



United States  
General Accounting Office  
Washington, D.C. 20548

Accounting and Information  
Management Division

B-278494

October 31, 1997

159509

The Honorable Charles H. Taylor  
Chairman, Subcommittee on the  
District of Columbia  
Committee on Appropriations  
House of Representatives

Subject: District of Columbia: Inspector General Independence as Compared to Federal Agencies and Acquisition of a New Financial Management System

Dear Mr. Chairman:

On October 14, 1997, you requested that we provide our views on two issues addressed by the District of Columbia Appropriations Bill for fiscal year 1998, as passed by the House of Representatives. These issues relate to the District's Inspector General (IG) and the acquisition of a new financial management system. Specifically, you asked us to provide information on (1) how independence is addressed in current law for federal IGs compared to the District of Columbia IG, as well as responsibilities for arranging for financial audits of the financial statements for their respective organizations and (2) whether the District's Chief Financial Officer and the District of Columbia Financial Responsibility and Management Assistance Authority (commonly referred to as the Control Board) have developed a concept of operations, a requirements definition, and an analysis of alternatives—the three fundamental building blocks of a successful systems acquisition—in determining the District's needs for a new financial management system.

INDEPENDENCE AND CONTRACTING  
RESPONSIBILITIES OF IGS

The Inspector General Act of 1978 (IG Act), Public Law 95-452 as amended, established Inspector General offices in federal departments and agencies to create independent and objective units responsible for (1) conducting and supervising audits and investigations, (2) providing leadership and coordination and recommending policies to promote economy, efficiency, and effectiveness, and (3) detecting and preventing fraud and abuse in their agencies' programs

159509

and operations. The IG Act identifies 26 federal establishments that are to have an IG appointed by the President with Senate confirmation and 30 designated federal entities that are to have an IG appointed by their agency heads.

### Independence

The federal IG Act contains various provisions that are intended to provide the IGs with the independence required to keep their agency heads, and the Congress informed about problems and deficiencies relating to the administration of programs. These provisions include the IG's authority to obtain access to records and information, to require by subpoena the production of documents, to have direct and prompt access to the agency head, and to select and appoint officers and employees as necessary.

Additional provisions authorize federal IGs to report violations of criminal law to the Attorney General without prior notice to any agency officials and prohibit the transfer of program duties to the IG. Also, while agency heads may provide general supervision of the IGs, they are not allowed to prevent or prohibit the IGs from initiating, carrying out, or completing any audit or investigation. In addition, the IGs are required to prepare semiannual reports summarizing their activities that are transmitted unaltered by their agency heads to congressional committees.

The IG Act appointment and removal provisions are crucial elements affecting the independence of the IGs. For the presidentially appointed IGs, the act states that the appointments are to be made without regard to political affiliation and solely on the basis of integrity and demonstrated ability in accounting, auditing, financial analysis, law, management analysis, public administration, or investigations. For the IGs appointed by the head of a designated federal entity, the IG Act states that the appointment shall be in accordance with the laws and regulations governing appointments in the entity. The IG Act does not specify a term or length of service for the IGs, and those who appoint the IGs are authorized to remove them. However, the reasons for removing an IG must be communicated to both houses of the Congress.

The District of Columbia IG was statutorily established by the District of Columbia Procurement Practices Act of 1985, as amended, which has provisions regarding IG independence that are similar to those in the IG Act for federal IGs. These include the District IG's authority to obtain access to records and information, to issue subpoenas, and to report violations of criminal law to the Attorney General. The District Act does not require a semiannual report, but rather the IG is required to make available to the public an annual report on the operational audit of procurement activities. Also, the IG is required to transmit to the District Council the reviews and investigations that are requested by the Control Board. Unlike the IG Act, the District Act does not have provisions

regarding the selection and appointment of officers and employees, general supervision, direct access to top officials, or a prohibition on the transfer of program duties to the IG.

The District Act does have appointment and removal provisions that address significant aspects of independence. As with the presidentially appointed IGs, the District IG's appointment is without regard to political affiliation and solely on the basis of integrity and demonstrated ability in accounting, auditing, financial management analysis, public administration, or investigations. The act states that the District IG is appointed to a 6-year term and can be removed only for cause. In a control year<sup>1</sup>, the IG is appointed by the Mayor with the approval of the Control Board, and can be removed by the Control Board or by the Mayor with the Control Board's approval. In a non-control year, the IG is appointed by the Mayor, with the advice and consent of the Council, and may be removed by the Mayor.

Section 154(b) of H.R. 2607 would amend the provision in the D.C. Code for removing the District IG. If enacted, section 154(b) would require that before removing the IG, the Control Board or the Mayor (whichever is applicable) consult with Congress, including at a minimum providing a written statement to specified congressional committees explaining the circumstances involved. Like the IG Act, section 154(b) would require that an official removing the District IG explain the reason for the removal to the Congress. Unlike the IG Act, section 154(b) would require that the explanation be provided to the Congress before, rather than after, the removal.

#### Arranging for Financial Audits

IGs in agencies subject to the Chief Financial Officers Act of 1990 (CFO Act), Public Law 101-576, are responsible for the audits of their agencies' financial statements. In fulfilling their audit requirements, the IGs have used work performed by their own staff and/or contracts they have entered into with other auditors. The IGs are authorized by the IG Act to (1) enter into contracts and other arrangements for audits, studies, analyses, and other services with public agencies and private persons and (2) make such payments as necessary. This activity, however, still relies upon agency contract specialists who are responsible for ensuring that solicitation documents, contracts, and contract modifications are prepared in accordance with federal acquisition regulations.

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<sup>1</sup>A "control year" is determined by the Control Board based on statutory criteria relating to the financial condition of the District, including for example, the need to borrow from the Treasury or the District's failure to make various types of required payments.

Current District law states that the District IG shall enter into a contract with an auditor who is not an officer or employee of the IG's office to (1) audit the District's financial statements and report on the activities of the District government and (2) audit the Control Board's certification regarding the District's financial plan and budget.<sup>2</sup> This is consistent with the option for IGs to enter into contracts for financial statement audits in the executive branch of the federal government, as stated above. Current District law, however, also provides that in a control year, the Control Board may require that District contracts be approved by the Control Board before they are effective.<sup>3</sup> The federal government does not have an entity similar to the Control Board which has broad and unique authorities with regard to the management of the District which stems from the District's financial crisis.

Section 154(a)(1) of the House-passed appropriation bill for the District would prohibit funds from being used for the financial statement audit unless the contract for the audit was entered into by the District IG.

#### ACQUISITION OF A NEW FINANCIAL MANAGEMENT SYSTEM

In July 1997, we reported<sup>4</sup> on the status of the District's progress in acquiring a new financial management system. We concluded that the District needed to systematically identify and evaluate its organizational needs and lay out a disciplined acquisition process to reduce the risk associated with a new financial management system. We reported that a structured "building block" approach is fundamental to systems acquisition. Three building blocks, done early in the project, are especially important: a concept of operations, a requirements definition, and an analysis of alternatives to meet the defined requirements. These must be done well for the acquisition to succeed in meeting the organization's needs. In addition, we reported that the District was aware of the need to do more detailed work in these three areas and planned to hire a contractor to assist in this effort.

As you requested, we have begun work to determine whether the District has a disciplined process in place for acquiring a new financial management system that addresses the concerns we raised in our July 1997 report. On October 16, 1997, 4 weeks from our initial request for documents, the District made available detailed records, including procurement documents. We are reviewing

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<sup>2</sup>D.C. Code Ann. Section 1-1182.8 (a) (4).

<sup>3</sup>Section 203 of Public Law 104-8, District of Columbia Financial Responsibility and Management Assistance Act of 1995.

<sup>4</sup>District's Financial Management System (GAO/AIMD-97-101R, July 9, 1997).

and analyzing this information as part of our analysis of the District's approach to acquiring a new financial management system, and we will report to you when our review is completed.

The following sections discuss our preliminary observations on the status of the three fundamental building blocks in the District's effort to acquire a new financial management system.

### Concept of Operations

The concept of operations provided to us on October 16, 1997, does not show how the various components of the District's financial management systems will interact, the information flows, or the operations that must be performed and how these operations will be carried out. For example, the District has key underlying feeder systems that provide the core system with accounting, program, and performance information on various operational units' activities. The concept of operations does not clearly describe the functional information needed for each of these feeder systems nor is this information defined in the documents we have received to date. The District identified 11 major feeder systems that will be incorporated into the new financial management system. However, according to the District's Project Management Plan, the feeder systems and the information that will be provided by these feeder systems will not be defined until December 1997. In addition, the automated interfaces for these feeder systems are scheduled for completion and related testing by July 1, 1998, and full system implementation is scheduled for September 30, 1998.

### Requirements Definition

A requirements definition builds on the concept of operations. According to the project plan, provided to us on October 16, 1997, requirements have been developed and will be confirmed for the new financial management system between September 1997 and December 1997. We have not yet completed the work necessary to assess the process used by the District in defining its requirements. Therefore, we are as yet unable to determine whether the District's requirements are complete enough to enable the District to fulfill its financial management and reporting needs. However, if the District has adequately defined its requirements, as called for in our July letter, it will reduce the risks associated with this acquisition effort.

### Alternatives Analysis

On September 4, 1997, the District awarded a contract to acquire a new financial management system without developing an adequate alternatives analysis. As noted earlier, requirements cannot be properly defined without first having a sound concept of operations. Likewise, alternatives cannot be

assessed without a clear definition of the requirements that the new system is supposed to satisfy. Since the District has not fully developed a concept of operations and its requirements definition is incomplete, the District is unable to determine whether its current approach is the best method to meet its financial management system needs or whether other approaches, such as upgrading its current financial management system or internally developing a new system, would have been better.

#### PROJECT TIME FRAMES

According to a District official, the District expects the new system to be fully operational by October 1998. This time frame appears to be ambitious because (1) the District's financial management structure is very complex and may require a longer period of time to successfully implement the new system in each of the major components and agencies and (2) the requirements for several key functions, such as the feeder systems, have yet to be identified and confirmed. As we discussed in our July 1997 letter, the District runs the risk of being driven by its ambitious acquisition schedule and not allowing time to develop the kind of quality analysis that it must have in order to manage this important project, which is critical to improving the District's financial management.

#### OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives were to (1) provide information on the District IG's independence and contracting responsibilities compared to federal IGs and (2) determine whether the District has implemented a disciplined process to acquire a new financial management system. We reviewed and analyzed provisions of the Inspector General Act of 1978 (IG Act), Public Law 95-452, as amended, the District of Columbia Financial Responsibility and Management Assistance Act of 1995, the District of Columbia Procurement Practices Act of 1985, as amended, and the District of Columbia Appropriations Bill for fiscal year 1998. In addition, we analyzed information, such as the District's concept of operations and project plans, provided on the District's financial management system acquisition process. We interviewed District officials responsible for the acquisition of the new financial management system. We conducted our work in October 1997 in accordance with generally accepted government auditing standards.

#### DISTRICT'S COMMENTS AND OUR EVALUATION

We requested comments on a draft of this letter from the Chairman, District of Columbia Financial Responsibility and Management Assistance Authority, the District's Chief Financial Officer, and the District's Interim Inspector General.

They provided us with comments that are reprinted in enclosures I, II, and III, respectively.

In commenting on a draft of this report, the Executive Director of the District of Columbia Financial Responsibility and Management Assistance Authority discussed the role of the contractor hired to assist the District in managing the acquisition of a new financial management system. He agreed that the project timeframes are ambitious but said they are achievable. Regarding matters dealing with the District Inspector General, he cited committee report language expressing strong intent that the authority function and operate in an independent oversight capacity. In this context, the Executive Director offered some observations regarding provisions of the proposed bill relating to the District's IG (H.R. 2607).

The District's CFO provided similar observations regarding the financial management system. In addition to the project management contractor referred to by the Executive Director, the CFO pointed out that a second contractor, from whom the commercial off-the-shelf package was purchased, will work to implement the package which has been previously implemented in over 160 state, local, and county governments.

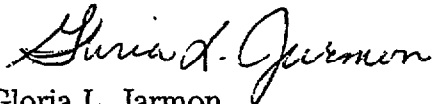
Both the Executive Director and CFO pointed out that we participated in meetings to discuss issues relating to the financial management system project. We attended these meetings at the request of the House Appropriations Committee staff, at which time we provided our views on the District's efforts to acquire a new financial management system. Those views are reflected in our July 1997 report and form the basis for our continuing concerns expressed in this letter. Based on information recently provided to us, we are currently reviewing and analyzing the District's acquisition process for acquiring a new financial management system. As this work unfolds, we will be in a position to assess whether the District has adequately achieved the objectives of the three building blocks cited in this report and whether the District has a disciplined acquisition process. Although the District has brought on contractual support, it is incumbent on the District to ensure that its financial management and reporting needs are met in a cost-effective and timely manner.

In commenting on a draft of this report, the Interim Inspector General said that our findings with respect to the District's financial management system were consistent with those of a March 1997 OIG report and that the unresolved system development and acquisition weaknesses should be resolved before moving forward. Further, the Interim IG offered some observations regarding the independence of the IG's office.

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We are sending copies of this letter to the Ranking Minority Member of your subcommittee and the Chairmen and Ranking Minority Members of the Subcommittee on Oversight of Government Management, Restructuring and the District of Columbia, the Senate Committee on Governmental Affairs, and the Subcommittee on the District of Columbia, House Committee on Government Reform and Oversight. We are also sending copies to the Chairman of the District of Columbia Financial Responsibility and Management Assistance Authority, the District's Chief Financial Officer, and the District's Interim Inspector General. If you need further information, please contact me at (202) 512-4476.

Sincerely yours,



Gloria L. Jarmon  
Director, Civil Audits

Enclosures - 3



COMMENTS FROM THE DISTRICT OF COLUMBIA  
FINANCIAL RESPONSIBILITY AND  
MANAGEMENT ASSISTANCE AUTHORITY

District of Columbia Financial Responsibility  
and Management Assistance Authority  
Washington, D.C.

October 30, 1997

Mr. Gene L. Dodaro  
Assistant Comptroller General  
Accounting and Information Division  
U.S. General Accounting Office  
Washington, D.C. 20548

Dear Mr. Dodaro:

The District of Columbia Financial Responsibility and Management Assistance Authority ("Authority") has reviewed the draft report entitled, "District of Columbia: Inspector General Independence as Compared to Federal Agencies and Acquisition of a New Financial Management System" (GAO/AIMD-98-XX, October 28, 1997). We have several concerns about this draft report, pertaining to the issues of the independence of the Inspector General for the District, the contracting authority of the Inspector General for the District, and the acquisition of a new Financial Management System ("FMS").

The draft report compares the Inspector General for the District with Inspectors General in federal departments and agencies. In establishing the Authority, Congress created an independent entity. Report 104-96 of the House Committee on Government Reform and Oversight states, "it is the Committee's strong intent that the Authority shall function and operate in an independent oversight capacity." Congress requires the Authority to approve the appointment and removal of the Inspector General for the District. H.R. 2607 would amend the D.C. Code, to require that before removing the Inspector General, the Authority, or the Mayor must consult with Congress. This consultation would include a written statement to congressional committees explaining the reasons for removal. By in large, Congress is advised of the removal of federal Inspectors General after the action for removal has been taken.

In addition, H. R. 2607 proposes that funds can only be used for the financial statement audit, if the contract for the audit is entered into by the Inspector General for the District. The Authority is responsible for reviewing the District's contracts. Imposing unique restrictions on the financial statement audit contract would be inconsistent with the role of the Authority, and contrary to the intent of Congress.

The draft report discusses the process used to acquire a new FMS. This is a matter that was reviewed by the Steering Committee. The members of the Steering Committee are the General Accounting Office, the Authority, the Chief Financial Officer for the District, Congressional staff members, representatives of the Office of Management and Budget, and the Inspector General for the District. Specifically, the report expresses concern over the concept of operations provided by the District. The concept of operations is based on the assumption that in a new Financial Management System, the financial functions will be available in the central system, eliminating

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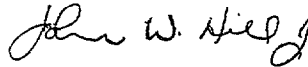
similar operations in the current feeder systems. The integration of these systems continues to be refined throughout the implementation of the new FMS.

The Steering Committee agreed to enter a contract for project management team assistance. The contractor assisted in the definition of the requirements and will continue to provide assistance throughout the development and implementation of the new FMS. While the Arthur Anderson market study of available applications addressed alternatives available for a system solution, the request for proposals was structured to include the possibility of outsourcing, implementing a new system, or upgrading the existing system. After an extensive analysis of the proposals, the current contract was awarded for a system solution. It is interesting to note, that the contractor responsible for implementing the current FMS, did not submit a proposal.

The timeframes for this project are ambitious, but achievable. Considering the year 2000 computer problem facing the District, the Authority must aggressively implement a solution. We will continue to monitor this project to be certain that the District will have the quality financial data that is essential to the effective management of the District's operations.

We hope that these comments will be of assistance in the preparation of the final report.

Sincerely,



John W. Hill, Jr.  
Executive Director

COMMENTS FROM THE DISTRICT OF COLUMBIA'S  
CHIEF FINANCIAL OFFICER

GOVERNMENT OF THE DISTRICT OF COLUMBIA  
Chief Financial Officer



Anthony A. Williams

October 30, 1997

Mr. Gene Dodaro, Assistant Comptroller General  
U.S. General Accounting Office  
441 G Street, N.W.  
Washington, D.C. 20548

Dear Mr. Dodaro:

Thank you for the opportunity to comment on your draft report, District of Columbia: Inspector General Independence as Compared to Federal Agencies and Acquisition of a New Financial Management System.

As you know, the District has worked with the Financial Authority, staff from your office, the Office of Management and Budget, numerous private companies and the staff of the House Appropriations Committee to make recommendations for how the District should assess the need for a new Financial Management System (FMS). The primary decisions of that committee included the need to consider not only replacing or improving the old system, but also to work toward a systems solution that includes a range of outsourcing alternatives. The participants agreed that both a short-term and long-term commercial off-the-shelf solution proposed have cost, resource and timing ramifications. The public and private sector participants have praised the disciplined approach we have taken to the acquisition process.

Based on the recommendations of that committee, we sought solicitations to acquire a system that addresses all of the concerns of the committee. This solicitation allowed the market to offer the option to enhance the functionality and usability of the existing FMS. Neither AMS, the vendor for the current system or any other contractor submitted a proposal for this option. It is not technically feasible to "update" the system to anything resembling current state-of-the-art technology. In order to achieve state-of-the-art technology, the existing system must be completely replaced. This is supported by the study conducted for the Office of the Chief Financial Officer, Chief Financial Officer by Arthur Andersen in October 1996.

The FMS project team is using the James Martin & Co. (JM & Co.) family of enterprise engineering for project planning and quality assurance of the FMS acquisition. It is our understanding that your staff has been trained in many of these methods. The JM & Co. processes specify the following steps, which we have used:

- High level strategy planning;
- Early demonstration whether to upgrade, develop from scratch, or implement a package;
- High level requirements analysis prior to implementing the package;
- Application package selection, and;
- Application package implementation.

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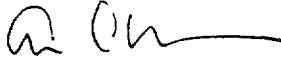
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Letter to Gene Dodaro  
October 30, 1997  
Page Two

With regard to upgrading the system, the request for proposal (RFP) issued in June listed enhancing the functionality and usability of the existing FMS as a bid alternative. Of the 43 vendors who received an RFP, including the original provider of the currently existing FMS, none of them chose to bid on this alternative.

We are confident that the solution bid awarded for FMS will be successful. The vendor has implemented their commercial off-the-shelf (COTS) package at over 160 state, local, and county governments. The task structure is consistent with JM & Co.'s processes for implementation. We hope this information helps to clarify your understanding of the process for reviewing FMS and we look forward to continuing to work with you as we address the financial system infrastructure of the District.

Sincerely,



Anthony A. Williams  
Chief Financial Officer

AAW/cs

COMMENTS FROM THE DISTRICT OF COLUMBIA'S  
OFFICE OF INSPECTOR GENERAL

GOVERNMENT OF THE DISTRICT OF COLUMBIA

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OFFICE OF THE INSPECTOR GENERAL

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October 29, 1997

Mr. Gene L. Dodaro, Assistant Comptroller General  
U.S. General Accounting Office  
Room 5061  
441 G Street, N.W.  
Washington, D.C. 20548

Re: Comments on the GAO Draft Report, District of Columbia: Inspector General  
Independence as Compared to Federal Agencies and Acquisition of a New Financial  
Management System

Dear Mr. Dodaro:

I have reviewed the entire subject report and appreciate the opportunity to provide comments. It is imperative that the Office of the Inspector General (OIG) be independent in order to carry out its responsibility.

We fully support the proposed changes relating to the District of Columbia Office of the Inspector General (DCOIG) in H.R. 2607. Recent interaction with the Authority has indicated the need for clarification regarding the independence of this office in discharging its statutory duties. Three areas in which independence should be addressed and clarified are:

- The National Capitol Revitalization and Self-Government Improvement Act of 1997 provides that the supervision and control of nine major D.C. executive agencies is the sole responsibility of the Authority, and that the heads of those agencies report only to the Authority. The question arises as to what degree the Authority can prevent, prohibit, or impede any OIG audit, review or investigation relating to those agencies; this question is also applicable to other agencies, as the Authority's view appears to be that they have oversight over all District government entities, including OIG;
- Given the Authority's responsibility to review and approve District government contracts during a control year, including contracts entered into by the OIG, clarification is needed as to whether the Authority may rightfully disapprove contracts submitted by OIG. This is particularly critical as it relates to contracting for the city's annual audit and certification audits relating to short-term borrowing from the U.S. Treasury, as well as audits of other District agencies and operations under the Authority's control.

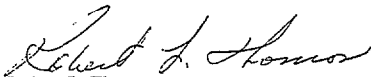
Mr. Gene Dodaro  
October 29, 1997  
Page 2

- While current law prevents the Mayor or D.C. Council from actually effecting changes in the OIG's budget, the Authority has no such restrictions. It is our belief that a check and balance system is needed to prevent the arbitrary reduction of OIG's budget request/authorizations by the Authority.

We agree that the apparent unresolved deficiencies noted in your report pertaining to the Financial Management System (FMS) should be satisfied before moving forward. This is consistent with the OIG report, Review of Capabilities Assessment of The Financial Management System issued March 18, 1997. Also, we agree that the project timeframes appear to be ambitious for such a large magnitude of effort.

Should you have any questions regarding these comments or need additional information, please contact me or the Deputy Inspector General, Thomas Brown at the number above.

Respectfully yours,

  
Robert L. Thomas  
Interim Inspector General

(916242)

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