

DISTRICT OF COLUMBIA OFFICE OF THE INSPECTOR GENERAL

OIG Project No. 20-1-15MA(a)

February 2020



DISTRICT OF COLUMBIA TEACHERS' RETIREMENT FUND AND POLICE OFFICERS AND FIREFIGHTERS' RETIREMENT FUND Compliance Report Under Government Auditing Standards (with Independent Auditors' Report thereon) For Fiscal Year Ended September 30, 2019

Guiding Principles

*Workforce Engagement * Stakeholders Engagement * Process-oriented * Innovation
* Accountability * Professionalism * Objectivity and Independence * Communication * Collaboration
* Diversity * Measurement * Continuous Improvement*

Mission

Our mission is to independently audit, inspect, and investigate matters pertaining to the District of Columbia government in order to:

- prevent and detect corruption, mismanagement, waste, fraud, and abuse;
- promote economy, efficiency, effectiveness, and accountability;
- inform stakeholders about issues relating to District programs and operations; and
- recommend and track the implementation of corrective actions.

Vision

Our vision is to be a world-class Office of the Inspector General that is customer-focused, and sets the standard for oversight excellence!

Core Values

Excellence * Integrity * Respect * Creativity * Ownership
* Transparency * Empowerment * Courage * Passion
* Leadership



GOVERNMENT OF THE DISTRICT OF COLUMBIA

Office of the Inspector General

Inspector General



February 12, 2020

The Honorable Muriel Bowser
Mayor of the District of Columbia
Mayor's Correspondence Unit
1350 Pennsylvania Avenue, N.W., Suite 316
Washington, D.C. 20004

The Honorable Phil Mendelson
Chairman
Council of the District of Columbia
John A. Wilson Building
1350 Pennsylvania Avenue, N.W., Suite 504
Washington, D.C. 20004

Dear Mayor Bowser and Chairman Mendelson:

Enclosed is the final report entitled *District of Columbia Teachers' Retirement Fund and Police Officers and Firefighters' Retirement Fund Compliance Report Under Government Auditing Standards for the Fiscal Year Ended September 30, 2019* (OIG No. 20-1-15MA(a)). McConnell & Jones LLP (McConnell & Jones) conducted the audit and submitted this component report as part of our overall contract for the audit of the District of Columbia's general-purpose financial statements for fiscal year (FY) 2019.

On January 16, 2020, McConnell & Jones issued its opinion and identified one significant deficiency in internal control over financial reporting.

If you have questions about this report, please contact me or Benjamin Huddle, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,


Daniel W. Lucas
Inspector General

DWL/ws

Enclosure

cc: See Distribution List

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Mr. Graylin (Gray) Smith, Partner, SB and Company, LLC (via email)

District of Columbia Teachers' Retirement Fund and Police Officers and Fire Fighters' Retirement Fund

Compliance Report Under
Government Auditing Standards
(with Independent Auditors' Report thereon)
For the Year Ended September 30, 2019



**DISTRICT OF COLUMBIA
TEACHERS' RETIREMENT FUND AND POLICE OFFICERS AND
FIRE FIGHTERS' RETIREMENT FUND
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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees, District of Columbia Retirement Board for
District of Columbia Teachers' Retirement Fund, and
District of Columbia Police Officers and Fire Fighters' Retirement Fund

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combining financial statements of District of Columbia Teachers' Retirement Fund and District of Columbia Police Officers and Fire Fighters' Retirement Fund (the Funds), Pension Trust Funds of the Government of the District of Columbia, which comprise the Combining Statement of Fiduciary Net Position as of September 30, 2019, and the related Combining Statement of Changes in Fiduciary Net Position for the year then ended, and the related notes to the Funds combining financial statements, which collectively comprise the Funds' basic financial statements, and have issued our report thereon dated January 16, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the Funds' basic financial statements, we considered the Funds' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Funds' financial statements, but not for the purpose of expressing an opinion on the effectiveness of Funds' internal control. Accordingly, we do not express an opinion on the effectiveness of the Funds' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and



responses summarized as item number 2019-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Funds’ basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*.

Management’s Response to Findings

Management’s response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Management’s response was not subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Funds’ internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Funds’ internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McConnell & Jones LLP

Washington, D.C.
January 16, 2020

**DISTRICT OF COLUMBIA
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**SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

SECTION 1:

SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

- | | |
|---|------------|
| 1. Type of auditor's report issued: | Unmodified |
| 2. Internal control over financial reporting: | |
| a) Material weaknesses identified? | No |
| b) Significant deficiencies identified that are not considered to be material weaknesses? | Yes |
| c) Noncompliance material to financial statements noted? | No |

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**SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

FINDINGS – FINANCIAL STATEMENT AUDIT

Finding No. 2019–001: Significant Deficiency in Internal Control Over Financial Reporting

Condition: During the course of our audit, we considered the Funds' internal controls over financial reporting and noted weaknesses in internal controls when recording transactions in the general ledger which when taken together, are considered as a significant deficiency in internal control over financial reporting. Following matters were noted:

- (1) Management did not incorporate audit adjustments for fiscal year 2018 in the general ledger. The initial trial balance included balances that were not properly reconciled with the fiscal year 2018 audited financial statements. Although, we were able to reconcile opening balances to prior year audited financial statements without any material differences, the potential exists for errors within individual Funds that remain embedded in the Funds' net asset balances that originated in the past years.
- (2) Management does not have a formal written, financial reporting process manual in place that documents process for recording general ledger transactions or captures accounting policies used by Funds. It was also noted that DCRB does not have a capitalization policy to set a threshold, above which qualifying expenditures are recorded as fixed assets, nor is the policy set by the District of Columbia being followed consistently. We found there were no significant capital expenditures charged for the current fiscal year.
- (3) At present, investment managers fees are paid as invoiced and not recalculated to ensure that they comply with the terms of the respective investment management agreements.

Criteria: Effective internal controls over financial reporting include process and procedures for proper recording of transactions, timely reconciliation of general ledger account details to control accounts, proper cut-off procedures and effective supervision, review and approval processes to ensure preparation of financial statements in conformity with accounting principles generally accepted in the United States of America.

Effect or Potential Effect: Deficiencies in internal control over financial reporting could result in a material misstatement of Funds' financial statements or omission of required disclosures under U.S. GAAP. However, necessary adjustments have been made in the financial statements to correct identified misstatements.

Cause: Management has relied on practices carried forward from prior years with respect to the preparation of its annual financial statements and have not reviewed and evaluated these practices to ensure all aspects of recording financial transactions and presentation in the financial statements is in accordance with U.S. GAAP.

Recommendation: We recommend that the accounting staff complete its analysis related to allocation of investment income and expenses between Funds that were recorded through due to/from accounts within the general ledger to ensure that they were accurately recorded. Additionally, a thorough review of accounts payable and other liabilities is needed to determine

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**SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

whether these represent valid obligations that remain outstanding. Finally, a review process for investment manager fees should be implemented to ensure that fees are calculated in accordance with the agreement in place with investment manager.

It is also recommended that management establish a capitalization policy and record all capital assets in accordance with accounting principles generally accepted in the United States of America. Additionally, management should document its accounting policies, procedures and processes in writing, in the form of an accounting and financial reporting manual, to ensure consistent application and adherence to such policies and processes as well as provision for a means to monitor compliance with such policies and processes.

View of Responsible Official:

DCRB agrees with the finding. DCRB will create an Accounting and Financial Reporting Manual in fiscal year 2020 that will document our accounting policies, processes, and procedures. This document will include a Capital Expenditure Policy that will focus on fixed assets to ensure the Finance staff correctly account for and track fixed assets.

DCRB will evaluate companies and procure a consultant to validate the calculation of fees paid to private managers, and in accordance with the investment manager agreements. DCRB also is recruiting for an accountant that will help continue the analysis within the general ledger to ensure that allocations were accurately recorded and further address other aspects of this finding.

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**SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

Prior year Findings:

None noted.