

# DISTRICT OF COLUMBIA OFFICE OF THE INSPECTOR GENERAL

OIG Project No. 22-1-19MA(a)

January 2022



## 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)  
Year Ended September 30, 2021



### *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**



January 31, 2022

The Honorable Muriel Bowser  
Mayor of the District of Columbia Mayor's  
Correspondence Unit  
John A. Wilson Building  
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 Fire Fighters' Retirement Fund Compliance Report Under Government Auditing Standards (with Independent Auditors' Report thereon) Year Ended September 30, 2021* (OIG No. 21-1-19MA(a)). McConnell Jones, LLP (MJ) submitted this report as part of our overall contract for the audit of the District of Columbia's general-purpose financial statements for fiscal year 2021. MJ is contractually required to review the work papers of BCA Watson Rice LLP (BCAWR) who audited the financial statements of the District of Columbia Teachers' Retirement Fund and District of Columbia Police Officers and Fire Fighters' Retirement Fund (the Funds) to independently determine whether the financial statements are fairly presented.

On December 17, 2021, BCAWR issued its opinion and continues to report one significant deficiency in internal control over the Funds' financial reporting initially identified in fiscal year 2019. BCAWR's comments and recommendations are intended to improve the effectiveness of internal controls over the Funds' operations and programs. When addressed, these improvements can increase assurances that the Funds run their operations efficiently and effectively, report reliable information about their operations, and comply with applicable laws and regulations. The report also includes BCAWR's summary of prior year management recommendations and the corresponding implementation status.

If you have questions about this report, please contact me or Fekede Gindaba, 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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## 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)  
Year Ended September 30, 2021

DISTRICT OF COLUMBIA  
TEACHERS' RETIREMENT FUND AND POLICE OFFICERS AND  
FIRE FIGHTERS' RETIREMENT FUND  
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**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, 2021, 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 December 17, 2021.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the 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 opinions on the Funds financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 Funds' 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 first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses summarized as item number 2021-01 that we considered to be a significant deficiency.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Funds' basic financial statements are free of 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 instances of noncompliance or other matters that are 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 the 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.

This report is intended solely for the information and use of the Trustees and management and is not intended to be and should not be used by anyone other than these specified parties.

Washington, D.C.  
December 17, 2021

*BCA Watson Rre LLP*

**DISTRICT OF COLUMBIA  
TEACHERS' RETIREMENT FUND AND POLICE OFFICERS AND  
FIRE FIGHTERS' RETIREMENT FUND**

**SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED SEPTEMBER 30, 2021**

**SECTION 1**

**SUMMARY OF AUDITOR'S RESULTS**

***Financial Statements***

- |    |  |            |
|----|--|------------|
| 1. | Type of auditor's opinion issued:                        | Unmodified |
| 2. | Internal control over financial reporting:               |            |
|    | a) Material weaknesses identified                        | No         |
|    | b) Significant deficiencies identified                   | Yes        |
|    | c) Noncompliance material to financial statements noted? | No         |

**DISTRICT OF COLUMBIA  
TEACHERS' RETIREMENT FUND AND POLICE OFFICERS AND  
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**SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED SEPTEMBER 30, 2021**

**Current Year Findings:**

**Finding No. 2021-01: Prior Year Finding (Significant Deficiency)**

**Condition:** Management did not implement all elements of the fiscal year 2019 findings issued by the prior auditor during fiscal year 2021. Unresolved matters noted in the prior years include:

- 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.
- Management does not have a formal written, financial reporting process manual in place that documents the process for recording general ledger transactions or captures accounting policies used by Funds.
- Investment managers' fees are paid as invoiced and not recalculated to ensure that they comply with the terms of the respective investment management agreements.

During fiscal year 2021, DCRB was successful in taking steps to address the findings above, which includes a review of prior years' transactions and designing and producing new policies and procedures. The new policies and procedures include new guidelines surrounding investment management fees paid gross, as well as those paid net of fees. These policies and procedures are to be implemented in fiscal year 2022, including any additional analysis necessary to address individual fund net position balances.

**Criteria:** Effective internal controls over financial reporting include a 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.

**Cause:** DCRB engaged a consultant to assist in addressing the findings noted in prior years; however, based on the date of completion and timing of their reports, certain elements of prior years' findings have not been implemented.

**Effect or Potential Effect:** Deficiencies in internal control over financial reporting could result in a material misstatement of the Funds' financial statements or omission of required disclosures under 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. We recommend that management implements the new policies and procedures, including procedures to strengthen the control framework for investment managers' fees. Management should ensure that payment of investment fees in are accordance

**DISTRICT OF COLUMBIA  
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**SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED SEPTEMBER 30, 2021**

with the respective investment management agreements for those paid both gross as well as net of fees. Fees should be recalculated by the investment and accounting departments.

**Views of Responsible Officials:**

DCRB engaged a consultant to perform a multi-year reconciliation between the general ledger detail, final trial balance, audited financial statements and custodian statements to ensure the appropriateness of the opening balances, and no variances were identified at an annual level for any of the years. A review was performed of the allocation methodology utilized by the Board to determine whether there were material variances to that of the custodian and none were identified. An analysis was performed of the due to/due from account and no financial impact was identified in the current year. An assessment of prior year entries will be performed in FY2022 to ensure that these have been properly cleared. The consultant also assisted in developing a formal comprehensive policies and procedures manual. The policies and procedures, and final report were not approved until after the end of the fiscal year. DCRB will fully implement all the policies and procedures during FY2022.

As it relates to the investment manager fees, a statement of work will be prepared for a vendor to validate the investment manager fee charges and the vendor will be responsible for ensuring that all manager fees are billed according to the terms of the fee schedule in each investment agreement. This contract is expected to be issued in the second quarter of FY2022.

**DISTRICT OF COLUMBIA  
TEACHERS' RETIREMENT FUND AND POLICE OFFICERS AND  
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**SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED SEPTEMBER 30, 2021**

**Status of Prior Years' Findings:**

**Finding No. 2020-01 (and 2019-001): Prior Year Finding (Modified Significant Deficiency):**

**Condition:** Management did not implement the fiscal year 2019 findings issued by the prior auditor. These findings, when taken together, were considered to be a significant deficiency in internal control over financial reporting. The matters noted in the prior year finding include:

- 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.
- 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.
- 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.

**Status of Finding 2020-01:**

The recommendations have been partially addressed by DCRB, as follows:

- Management's corrective action plan for fiscal year 2019 and 2020, indicated that a consultant would be procured to assist with the findings noted in prior years. DCRB procured the consultant who completed their report, which was issued dated September 17, 2021. The consultant report suggests that management should further review a specific journal entry impacting the due to/from accounts. While the report noted the entry has no financial statement impact, it should be reviewed for appropriateness. Management will complete its analysis of this entry in fiscal year 2022.
- Management reviewed transactions for several prior years to determine whether there were any material adjustments to the opening balances. The results of this investigation revealed that there were no material errors in the opening balances. We also reviewed the opening balances for the past five years and determined that there were no material errors in the rollforward of the balances. Differences between the funds were a function of the allocation of the master trust using the allocation percentages provided by the custodian throughout the fiscal year. These allocation differences were immaterial to the Funds.
- For findings 2 and 3 above, a comprehensive Policies and Procedures Manual was developed by DCRB. This includes a capitalization policy developed during fiscal year 2020 and presented to the Board on December 17, 2020. The new policies and procedures are to be implemented in fiscal year 2022.

**DISTRICT OF COLUMBIA  
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**SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED SEPTEMBER 30, 2021**

**Finding No. 2020-02: Untimely Preparation of Auditable Financial Statements (Significant Deficiency)**

**Condition:** The accounting department was unable to provide a proper trial balance to commence the fiscal year 2020 audit. The first draft trial balance provided for audit was significantly incomplete. It took several weeks and significant effort of management to provide a final trial balance. Also, management failed to produce timely financial statements, the accounting department did not have a Chief Financial Officer for approximately half of the fiscal year, and the posting of various transactions to the ledger was untimely.

**Status of Finding 2020-02:**

The recommendations were implemented by DCRB. Transactions are reconciled and posted on a monthly basis; financial statements prepared quarterly and presented to management and those charged with governance; and DCRB hired a qualified Chief Financial Officer.

**Finding No. 2020-03: Improper Valuation of Limited Partnership Investments (Significant Deficiency)**

**Condition:** DCRB investment portfolio includes limited partnership investment held by private managers of over \$900 million. We performed a reconciliation of the amounts confirmed by the fund managers, with the custodian and the amounts reported by DCRB. We noted that the valuation of limited partnership investments did not reflect the valuations as confirmed by the various investment managers. These investments were carried in the financial statements at the June 30, 2020 values adjusted for cash flows. We requested that management assess the difference for the entire population. Consequently, an adjustment of approximately \$67 million was made to increase the market value of these investments and the related investment income.

**Status of Finding No. 2020-03:**

The recommendations were implemented by DCRB. Management reviewed the investment values carried by the custodian against the values reported by the various private managers at year ended September 30, 2021. Management assessed the difference and made the appropriate adjustments to the fair value of the investments and the related investment income. The policy of DCRB is to review these values annually.



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