

# DISTRICT OF COLUMBIA OFFICE OF THE INSPECTOR GENERAL

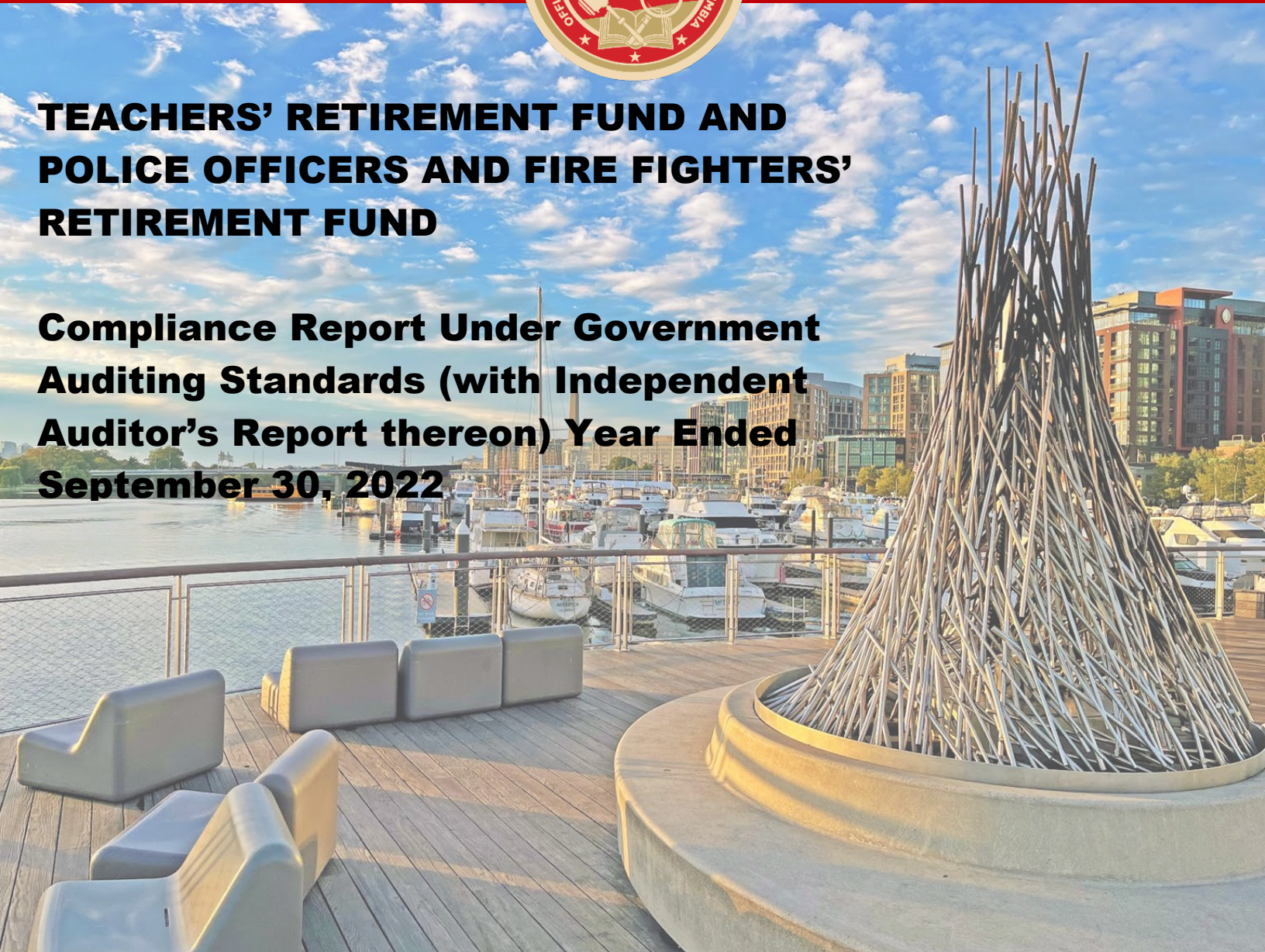
OIG Project No. 22-1-40MA(a)

January 2023



## **TEACHERS' RETIREMENT FUND AND POLICE OFFICERS AND FIRE FIGHTERS' RETIREMENT FUND**

**Compliance Report Under Government  
Auditing Standards (with Independent  
Auditor's Report thereon) Year Ended  
September 30, 2022**



### *GUIDING PRINCIPLES*

*ACCOUNTABILITY \* INTEGRITY \* PROFESSIONALISM  
TRANSPARENCY \* CONTINUOUS IMPROVEMENT \* EXCELLENCE*

## **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**

Accountability \* Integrity \* Professionalism  
Transparency \* Continuous Improvement \* Excellence



GOVERNMENT OF THE DISTRICT OF COLUMBIA  
Office of the Inspector General

Inspector General



January 31, 2023

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 *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, 2022* (OIG No. 22-1-40MA(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 2022. MJ is contractually required to review the work papers of BCA Watson Rice LLP (BCAWR), which 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 19, 2022, BCAWR issued its opinion and identified no material weaknesses in internal control over financial reporting. The report also includes BCAWR's summary of prior year management recommendations, which have been addressed by management.

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

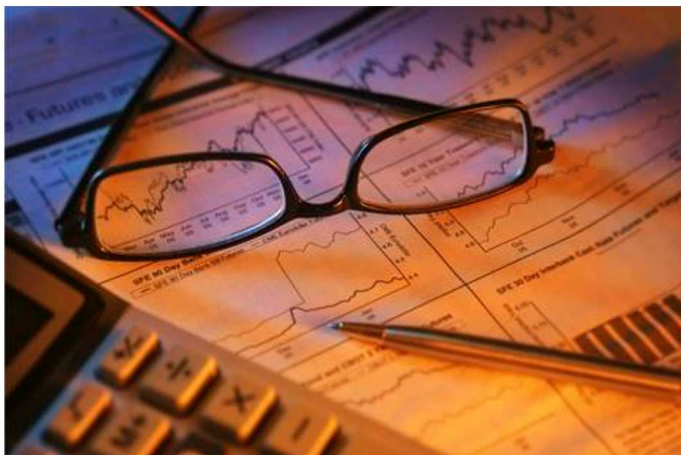
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Enclosure

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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 Auditor's Report thereon)  
Year Ended September 30, 2022

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, 2022, 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 19, 2022.

**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.

## **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*.

## **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. *Watson Rice LLP*  
December 19, 2022



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

**SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED SEPTEMBER 30, 2022**

**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?                  | No         |
|    | c) Noncompliance material to financial statements noted? | No         |

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

**SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED SEPTEMBER 30, 2022**

**Current Year Findings:**

None identified

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

**SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED SEPTEMBER 30, 2022**

**Status of Prior Years' Findings:**

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

At the end of fiscal year 2021, the recommendations were considered 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.

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

**SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED SEPTEMBER 30, 2022**

- 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.

**Status of Finding 2021-01:**

For fiscal year 2022, the recommendations have been addressed by DCRB, as follows:

- **Due To/From Accounts:** Management completed its analysis of the specific journal entry number 18890 dated September 28, 2018, who indicated that the entry was appropriate. We were presented with a copy of the journal inquiry report and the input support used to create the journal. The journal was entered by a current member of staff and approved by the prior Chief Financial Officer (CFO). The journal narration was to correct certain balance sheet accounts, which included (1) correcting the beginning net position because the administrative fund should have a zero net position at year end and (2) adjusting the accrued manager fee balance to agree to the updated investment fee PBC schedule prepared at year end.

The use of due to/due from account number 29003, was incorrect because this account was discontinued when the new GL was implemented and instead transfers to/transfers from administrative fund account series 71xxx and 72xxx were to be used. The impact of the journal entry 18890 on account number 29003, was \$788,528. This was corrected by management on September 20, 2021.

- **Formal Policies and Procedures:** DCRB's existing policies and procedures were drafted, presented and formalized with an effective date of October 1, 2021. We have documented our understanding of these policies and procedures and, based on our audit approach, tested the key controls of certain components such as investment and administrative fees.
- **Investment Management Fees:** The accounting department recalculated investment management fees for public managers, which represent an estimated 80% of total investments. Overall, public managers fees range from 0.01% to 0.65% (an estimated average of 0.15%) of net asset position. Managers provide an invoice showing the net asset position and rates used in determining the fees. These rates and net asset positions are checked by DCRB. We selected a sample of these public manager fees, recalculated the billed amounts and verified through the journal inquiry report the appropriate segregation of duties and the key control of the CFO's approval.

Private managers earn fees on capital calls and performance, which based on Meketa's 2021 report range from 0.55% to 2.5%. Capital calls are supported by invoices typically showing the gross capital call (all investors) and DCRB's portion of the call including the management fees on these calls with clear reference to the limited partnership agreement. These capital calls are relatively checked based on DCRB's percentage investment in the limited partnership or fund, which we have also verified. Other fees such as performance fees are supported by audited statements of the various partnerships and funds, for which manager reporting lags by an average of three to six months.

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

**SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED SEPTEMBER 30, 2022**

The investment department contributes to the validation of fees in contracting CEM to do an annual benchmarking of fees for which the results are presented to various DCRB's committees. Annually, Meketa prepared an analysis of all fees (public and private), which has been presented to those charged with governance. Additionally, DCRB has contracted Colmore to review the investment management fees for three years to determine whether amounts charged by managers are reasonable.

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