

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL**

DISTRICT OF COLUMBIA

**ANNUITANTS' HEALTH AND LIFE INSURANCE
EMPLOYER CONTRIBUTION TRUST FUND**

**Management Letter Report
Fiscal Years Ended September 30, 2012, and 2011**



**CHARLES J. WILLOUGHBY
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



April 5, 2013

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

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

Dear Mayor Gray and Chairman Mendelson:

As part of our contract for the audit of the District of Columbia's general purpose financial statements for fiscal year (FY) 2012, KPMG LLP (KPMG) submitted the enclosed final management letter report for the District of Columbia's Annuitants' Health and Life Insurance Employer Contribution Trust Fund (the Fund) for the years ended September 30, 2012, and 2011 (OIG No. 13-1-09MA(a)). This report sets forth KPMG's comments and recommendations to improve internal control and other operating efficiencies.

While the Office of the Inspector General will continue to assess the District of Columbia's implementation of recommendations, it is the responsibility of the District's management to ensure that it corrects the deficiencies noted. This Office will work with the District managers, as appropriate, to help them monitor the implementation of recommendations.

If you have questions or need additional information, please contact me or Ronald W. King, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,

A handwritten signature in black ink that reads "Charles J. Willoughby". The signature is written in a cursive, flowing style.

Charles J. Willoughby
Inspector General

CJW/ws

Enclosure

cc: See Distribution List

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The Honorable Nita Lowey, Ranking Member, House Committee on Appropriations,
Attention: Laura Hogshead (via email)
The Honorable Ander Crenshaw, Chairman, House Subcommittee on Financial Services and
General Government, Attention: Amy Cushing (via email)

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The Honorable José E. Serrano, Ranking Member, House Subcommittee on Financial Services and General Government, Attention: Laura Hogshead (via email)

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The Honorable Mike Johanns, Ranking Member, Senate Subcommittee on Financial Services and General Government, Attention: Dale Cabaniss (via email)

Mr. Paul Geraty, CPA, Public Sector Audit Division KPMG LLP (1 copy)



KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

February 14, 2013

Treasurer, the Office of Finance and Treasury in the Government of the District of Columbia
The Inspector General of the Government of the District of Columbia
The Government of the District of Columbia:

We have audited the financial statements of the plan net assets of the Government of the District of Columbia Annuitants' Health and Life Insurance Employer Contribution Trust Fund (the Fund) as of September 30, 2012 and 2011, and the statements of changes in plan net assets for the years then ended (hereinafter referred to as the basic financial statements) and have issued thereon dated February 14, 2013. In planning and performing our audit of the basic financial statements of the Fund, in accordance with auditing standards generally accepted in the United States of America, we considered the Fund's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and suggested recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized in Attachment A.

We would be pleased to discuss the attached comments and recommendations with you at any time.

This communication is intended solely for the information and use of the Fund's management and the Inspector General of the Government of the District of Columbia, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

Comment 1: Weaknesses in the Fund's Financial Reporting Process

Conditions:

During our walkthrough of the Fund's financial reporting process, we noted that management engages a third party to assist in preparing the fund's basic financial statements. Management also conducts their own review of the basic financial statements to ensure accuracy. During our tie out of the Fund's FY 2012 basic financial statements, we noted three omissions:

1. Foreign Exchange Receivables and Payables of \$42M each were not presented on the face of the basic financial statements in gross amounts.
2. The required Foreign Exchange Currency Exposure disclosure was not included in the footnotes to the basic financial statements.
3. Investment income in the Statement of Changes in Plan Net Assets and realized gains noted in the footnotes were overstated by \$911K.

Criteria:

Governmental Accounting Standards Board (GASB) Statement No. 1, *Objectives of Financial Reporting*, recognizes the basic characteristics of financial reporting objectives as understandability, reliability, relevance, timeliness, consistency, and comparability. While GASB does not identify specific control standards, state and local governments follow internal control guidance to meet those objectives. Two of the major sources of guidance for state and local governmental units on auditing and reporting on internal control are the Single Audit Act and Government Auditing Standards (GAS), also known as generally accepted government auditing standards (GAGAS), and popularly known as the Yellow Book. These standards are produced by the Government Accountability Office (GAO). GAO's Standards for Internal Control states that for an entity to run and control its operations, it must have relevant, reliable, and timely communications relating to internal as well as external events. Information is needed throughout an agency to achieve all of its objectives. These standard control activities help to ensure that all transactions are completely and accurately recorded.

Yellow Book, Appendix I, section A1.08 d., states that management at a State and Local government entity is responsible for "*establishing and maintaining effective internal control to help ensure that appropriate goals and objectives are met; following laws and regulations; and ensuring that management and financial information is reliable and properly reported.*"

Per the Committee of Sponsoring Organizations (COSO) Volume II Guidance on Monitoring Internal Control Systems, internal controls "*ensure that necessary actions are taken to address risks to achieving objectives. Control activities occur throughout the organization, at all levels, and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties.*"

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, paragraph 17 states "*if a government's deposits or investments are exposed to foreign currency risk, the government should disclose the U.S. dollar balances of such deposits or investments, organized by currency denomination and, if applicable, investment type.*"

Cause/Effect:

The above conditions resulted from ineffective management review of Management's Discussion and Analysis (MD&A), basic financial statements, and footnotes, which could result in information in the MD&A, basic financial statements, and footnotes to be misstated.

Recommendation:

We recommend that Fund management should implement a process to thoroughly review the information in the basic financial statements to ensure that the information compiled by the 3rd party is accurate and complete.

Management's Response:

Management concurred with the above finding. Management will focus on the noted recommendation and implement the additional oversight to ensure proper presentation of the financial statements.