

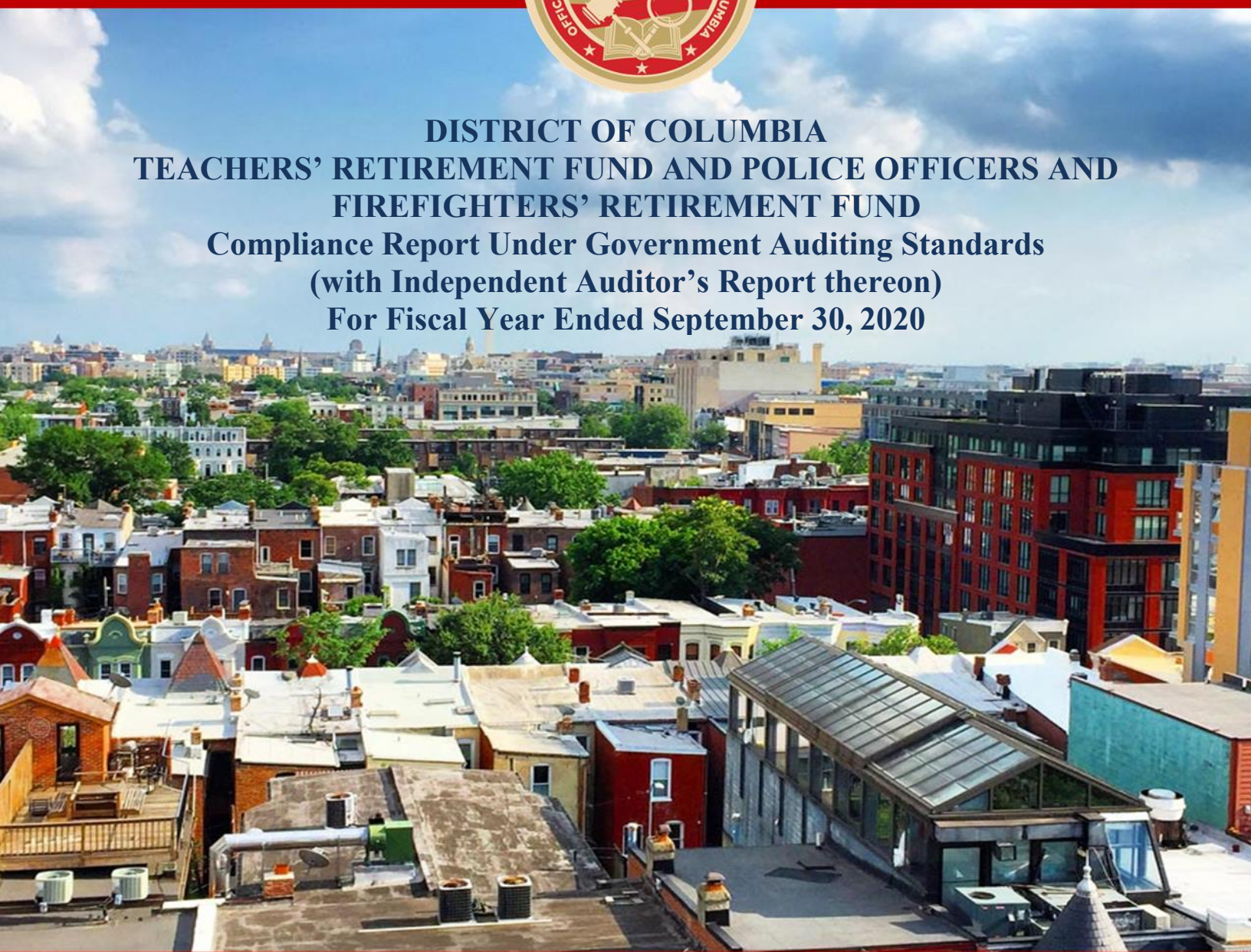
DISTRICT OF COLUMBIA OFFICE OF THE INSPECTOR GENERAL

OIG Project No. 21-1-11MA(a)

January 2021



DISTRICT OF COLUMBIA TEACHERS' RETIREMENT FUND AND POLICE OFFICERS AND FIREFIGHTERS' RETIREMENT FUND Compliance Report Under Government Auditing Standards (with Independent Auditor's Report thereon) For Fiscal Year Ended September 30, 2020



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 29, 2021

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 (with Independent Auditor's Report thereon) For Fiscal Year Ended September 30, 2020* (OIG No. 20 1-11MA(a)). BCA Watson Rice, LLP (BCAWR) 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) 2020.

On January 14, 2021, BCAWR issued its opinion and identified certain deficiencies in internal control over the District of Columbia Teachers' Retirement Fund and District of Columbia Police Officers and Fire Fighters' Retirement Fund financial reporting that BCAWR considered to be a significant deficiency.

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

DISTRIBUTION:

Mr. Kevin Donahue, City Administrator for the District of Columbia, Office of the City Administrator (via email)
Mr. Barry Kreiswirth, General Counsel, Office of the City Administrator, District of Columbia (via email)
Mr. Jay Melder, Assistant City Administrator, Office of the City Administrator, District of Columbia (via email)
Mr. Eugene Adams, Director, Mayor's Office of Legal Counsel (via email)
Mr. John Falcicchio, Deputy Mayor for Planning and Economic Development and Chief of Staff, Executive Office of the Mayor (via email)
The Honorable Robert C. White, Jr., Chairperson, Committee on Government Operations and Facilities (via email)
Ms. LaToya Foster, Director of Communications, Office of Communications, Executive Office of the Mayor (via email)
Ms. Jennifer Reed, Director, Office of Budget and Performance Management, Office of the City Administrator (via email)
Ms. Sheila Morgan-Johnson, Executive Director, District of Columbia, Retirement Board (via email)
Ms. Nyasha Smith, Secretary to the Council (via email)
The Honorable Karl Racine, Attorney General for the District of Columbia (via email)
Mr. Jeffrey DeWitt, Chief Financial Officer, Office of the Chief Financial Officer (via email)
Mr. Timothy Barry, Executive Director, Office of Integrity and Oversight, Office of the Chief Financial Officer (via email)
The Honorable Kathy Patterson, D.C. Auditor, Office of the D.C. Auditor, Attention: Cathy Patten (via email)
Mr. Jed Ross, Director and Chief Risk Officer, Office of Risk Management (via email)
Mr. Wayne McConnell, Managing Partner, McConnell & Jones LLP (via email)



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)
For The Year Ended September 30, 2020

DISTRICT OF COLUMBIA
TEACHERS' RETIREMENT FUND AND POLICE OFFICERS AND
FIRE FIGHTERS' RETIREMENT FUND
TABLE OF CONTENTS
YEAR ENDED SEPTEMBER 30, 2020

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.	1
SCHEDULES OF FINDINGS AND RESPONSES	3
SCHEDULES OF PRIOR YEAR FINDINGS AND RESPONSES.....	7

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, 2020, 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 14, 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 2020-01, 2020-02, and 2020-03 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 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.
January 14, 2021

BCA Watson Rze LLP

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

**SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

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 that are not considered to be material weaknesses?	Yes
	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
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

Current Year Findings:

Finding No. 2020-01: 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 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.

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.

Cause: Management initiated efforts to procure a consultant to investigate and fix the opening balance differences. However, the period of procuring and issuing a contract has been untimely and, therefore, to date a contract has not been issued. Management has also initiated the drafting of an accounting policy manual; however, the process has been slowed by less accounting staff and competing priorities.

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. Additionally, the delay in the implementation of this finding has contributed to the significant delay in the completion of the fiscal year 2020 audit and the delivery of the audited statements for inclusion in the District's CAFR.

Recommendation: We recommend that management act expeditiously to contract a consultant to investigate and make recommendation to correct the matters. Management should also implement policies and procedures that will ensure that all matters relating to this finding are addressed.

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

**SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

Views of Responsible Officials:

We agree with this comment and acknowledge our responsibility to resolve this issue that was presented to us in the prior year and had a direct effect on the current year audit process and timing.

We have been working for several months with the District of Columbia Office of Contracting and Procurement to engage consulting resources critical to our Finance Department's ability to complete appropriate analysis of our historical records, identify the necessary adjustments to our general ledger, and move forward with both prior year and current year audit adjustments recorded properly.

We acknowledge our responsibility to ensure that the procedures in place are documented, that any additional guidance or policies are identified and developed, and that the documentation should be reviewed and maintained. As a demonstration of our commitment to improvement we note that our Investment and Finance Departments have increased their joint efforts to ensure that investment values and investment-related activity is evaluated and recorded properly, including investment management fees. DCRB is actively recruiting for a Chief Financial Officer who will be instrumental in this effort. The handling of management fee invoices and statements are included in the scope of those responsibilities both for Finance alone and in collaboration with the Investment Department.

We agree with the capitalization policy comment above as of September 30, 2020 and as a demonstration of our progress, our Capitalization Policy was developed during FY2020 and presented to the Board on December 17, 2020.

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.

Criteria: Effective controls in financial reporting are critical to ensure that financial information is adequate, accurate and reliable. Effective controls also include posting and reconciling accounting transactions monthly, and the presentation of such information to those charged with governance.

Cause: The absence of a Chief Financial Officer, competing tasks of the current management, and the learning curve required created these delays.

Effect or Potential Effect: The final trial balance and financial statements were untimely and critical deadlines including the deadline to submit financial statements for the District CAFR were not achieved.

Recommendation: We recommend that management review its current policy and procedures for recoding transactions monthly, and the preparation of a trial balance and financial statements. The accounting department should:

- Post and reconcile monthly transactions by the 15th of the following month.

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

**SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

- Prepare financial statements quarterly and presented the statements to senior management and those charged with governance for review.
- Hire a qualified Chief Financial Officer to manage the Accounting department.

Views of Responsible Officials:

We agree with this comment and acknowledge our responsibility to ensure that our accounting records are properly maintained and periodic reporting occurs throughout the fiscal year. We acknowledge the direct effect on the timing and execution of this year's audit and affirm our commitment to take appropriate steps as discussed in our response to Finding No. 2020-01: Prior Year Finding (Modified Significant Deficiency) Item, above.

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.

Criteria: The policy of DCRB as reflected in the financial statement is to report investments at fair value. Limited partnerships are reports at values communicated by the general partners.

Cause: A system of control to review and adjustment investment values to ensure that they reflect the correct values at year end does not exist. Management did not review the custodian reports and did not quantify the difference to determine whether an adjustment was required.

Effect or Potential Effect: Prior to this adjustment, the financial statements values were understated. Potentially, if management does not implement a system of control to review and adjust these values, the financial statements of future periods may be misstated.

Recommendation: We recommend that management review the investment values carried by the custodian (and in the ledger) for all private managers at year end. Management should assess this difference and make the appropriate entries in the ledger.

Views of Responsible Officials:

We agree with this comment and acknowledge our responsibility for review and recording of all financial transactions, including investment valuation as of the fiscal year end. We acknowledge that the unusual timing of the current year audit created additional questions to which we were not adequately prepared to respond in an efficient manner. We affirm our commitment to take appropriate steps as discussed in our response to Finding No. 2020-01: Prior Year Finding (Modified Significant Deficiency) Item, above.

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

**SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

Status of Prior Year Finding:

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.

Updated View of Responsible Official:

We agree with this comment and acknowledge that the circumstances described to us by our auditors had a direct effect on the management accounting and finance activities during the year and resulted in a direct effect on the timing and execution of this year's audit. We affirm our commitment to take appropriate steps as discussed in our response to Finding No. 2020-01: Prior Year Finding (Modified Significant Deficiency) Item, above.