

**TESTIMONY OF DANIEL W. LUCAS, INSPECTOR GENERAL**

**BEFORE THE  
COUNCIL OF THE DISTRICT OF COLUMBIA  
COMMITTEE OF THE WHOLE**

**PUBLIC OVERSIGHT HEARING ON THE  
“FISCAL YEAR 2022 ANNUAL COMPREHENSIVE FINANCIAL  
REPORT”**

**FEBRUARY 2, 2023**

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Good morning, Chairman Mendelson, and Members of the Committee of the Whole. I am Daniel W. Lucas, Inspector General for the District of Columbia. I am pleased to appear virtually before the Committee to discuss the District’s Fiscal Year (FY) 22 Annual Comprehensive Financial Report (ACFR) audit results.

Joining me are staff from the Office of the Inspector General (OIG) and Wayne McConnell, engagement partner and member of the McConnell & Jones LLP (MJ) integrated audit team, contracted by the OIG to independently audit the District’s financial statements.

**ACFR CONTRACT ADMINISTRATION AND OVERSIGHT**

Before discussing the ACFR audit results, it is essential to mention the hard work culminating in today’s hearing.

First, the OIG is responsible for entering into a contract with an independent auditor to audit the District’s financial statements annually.<sup>1</sup> Per the OIG’s contract, the independent auditors are responsible for issuing an audit opinion on the District’s overall ACFR; issuing audit opinions for ten (10) District organizational units, funds, and programs; and reviewing audit opinions issued by seven (7) third-party auditors hired by their respective District organizational units, funds, and programs.

Second, the OIG is responsible for day-to-day ACFR audit contract administration and oversight. A substantial amount of OIG resources is devoted throughout the FY to ensure the District’s ACFR audit is delivered on time and comports with applicable standards. One of the OIG’s main contract administration tools is the ACFR Audit Oversight Committee (ACFR Committee). The ACFR Committee meets periodically with the District’s independent auditors, the Executive Office of the Mayor, the D.C. Council, the Office of the Chief Financial Officer (OCFO), and other District management officials. The OIG’s ACFR Committee ensures the ACFR contract deliverables are within scope, schedule, and budget. The ACFR Committee also serves as the mechanism to adjudicate any issues impeding a successful ACFR audit.

### **FY 22 ACFR AUDIT RESULTS**

Next, I’d like to discuss the District FY 22 ACFR audit results. As reported, in FY 22 the District’s governmental and business-type activities received an unmodified or “clean” opinion.

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<sup>1</sup> D.C. Code § 1-301.115a (a)(4).

However, this year, MJ issued a *disclaimer of opinion*<sup>2</sup> on the District’s aggregate discretely presented component units.

As publicly reported, Events DC was the victim of a cyberattack last calendar year.<sup>3</sup> As Mr. McConnell will later testify, because of this cyberattack, MJ was unable to obtain sufficient appropriate evidence to provide a basis for an audit opinion on Events DC’s financial statements. Correspondingly, MJ issued the disclaimer of opinion, which is reflected in the District’s overall FY 22 ACFR. Once Events DC notifies my Office that it is ready to complete the FY 22 financial audit process, we will reengage with MJ.

### **DISTRICT’S INTERNAL CONTROL OVER FINANCIAL REPORTING**

Beyond the financial statement audit(s), Government Auditing Standards also require MJ to communicate in writing certain internal control deficiencies identified during the audit. For FY 22, five (5) of the reports issued by the OIG present control deficiency findings as reported by the independent auditors. Mr. McConnell will be able to discuss those deficiencies in greater detail during his presentation. A list of all FY 22 ACFR reports is included as an attachment to my testimony and all reports are available on the OIG’s website at [oig.dc.gov](https://oig.dc.gov).

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<sup>2</sup> A disclaimer of opinion may occur when an auditor is “unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.” ASS’N OF INT’L CER’T PROF’L ACCOUNTANTS, MODIFICATIONS TO THE OPINION IN THE INDEPENDENT AUDITOR’S REPORT, ILLUSTRATION, AU-C § 705.10 (Dec. 2021), <https://us.aicpa.org/content/dam/aicpa/research/standards/auditattest/downloadabledocuments/au-c-00705.pdf> (last visited Jan. 22, 2023).

<sup>3</sup> Events DC website, “Events DC Statement Regarding Recent Cyber Attack” (Oct. 28, 2022), <https://eventsdc.com/news/events-dc-statement-regarding-recent-cyberattack> (last visited Jan. 23, 2023).

## **OTHER MATTERS**

Before I conclude, I want to focus on the matters that impacted Events DC and its ability to withstand audit scrutiny during FY 22. The risks at Events DC are not unique to the District. As we continue to increase our reliance on IT to initiate, authorize, record, process, or report financial transactions, the District’s IT systems and internal control over financial reporting become more interrelated. Correspondingly, a robust IT internal control environment is imperative to identify and mitigate any potential risks that may impact the District’s financial system. Later this month, I will communicate with District agency leaders about this matter and the underlying risks. Further, as the OIG continues its oversight work during FY 2023, we will continue to pay particular attention to IT-related controls.

## **CONCLUSION**

In concluding my remarks, I would like to take this opportunity to thank the ACFR Committee members for their dedication in monitoring the ACFR audit over the last several months. I would like to recognize the leadership of the OIG ACFR Committee Chair, Fekede Gindaba, as well as representatives from OCFO and the Office of the City Administrator for their continuous support during the ACFR audit process. With that, I will turn it over to Mr. McConnell to provide an overview of the FY 22 ACFR audit results.

**Attachment -- FY 22 ACFR Audit Reports Issued by the OIG**

- 1) [OIG No. 22-1-26MA – Government of the District of Columbia FY 2022 ACFR Audit Opinion](#)
  - a. Identified six (6) material weaknesses of internal control over financial reporting related to Events DC.
- 2) [OIG No. 22-1-26MA\(a\) – Government of the District of Columbia FY 2022 ACFR Management Recommendations](#)
- 3) [OIG No. 22-1-30HW – Not-for-Profit Hospital Corporation/United Medical Center Financial Statements \(With Independent Auditor’s Report\) For Fiscal Years Ended 2022 and 2021](#)
- 4) [OIG No. 22-1-51HI – Health Benefit Exchange Authority Financial Statements \(With Independent Auditor’s Report\) for Fiscal Years 2022 and 2021](#)
- 5) [OIG No. 22-1-32DC – Office of Lottery and Gaming Financial Statements \(With Independent Auditor’s Report\) For Fiscal Years 2022 and 2021](#)
- 6) [OIG No. 22-1-33BH – Unemployment Compensation Fund Financial Statements \(With Independent Auditor’s Report\) For Fiscal Years 2022 and 2021](#)
- 7) [OIG No. 22-1-34MA – Other Post-Employment Benefits Fund Financial Statements \(With Independent Auditor’s Report\) For Fiscal Years 2022 and 2021](#)
- 8) [OIG No. 22-1-35DB – Home Purchase Assistance Program Fund 0602 Financial Statements \(With Independent Auditor’s Report\) For Fiscal Years 2022 and 2021](#)
- 9) [OIG No. 22-1-36UC – Emergency and Non-Emergency Number Telephone Calling Systems Fund Financial Statements \(With Independent Auditor’s Report\) For Fiscal Years 2022 and 2021](#)
- 10) [OIG No. 22-1-37KA – Highway Trust Fund Financial Statements \(With Independent Auditor’s Report\) For Fiscal Years 2022 and 2021](#)
- 11) [OIG No. 22-1-38HF – Housing Finance Agency Financial Statements \(With Independent Auditor’s Report\) For Fiscal Years 2022 and 2021](#)
- 12) [OIG No. 22-1-39TT – Tobacco Settlement Financing Corporation Financial Statements \(With Independent Auditor’s Report\) For Fiscal Years 2022 and 2021](#)

- 13) [OIG No. 22-1-40MA – Teachers’ Retirement Fund and Police Officers and Fire Fighters’ Retirement Fund Financial Statements \(With Independent Auditor’s Report\) For Fiscal Years 2022 and 2021](#)
- 14) [OIG No. 22-1-40MA\(a\) -- Teachers’ Retirement Fund and Police Officers and Fire Fighters’ Retirement Fund Compliance Report For Fiscal Year 2022](#)
- 15) [OIG No. 22-1-41AT – 529 College Savings Program Trust Participant and Administrative Fund Financial Statements and Management’s Discussion and Analysis for Fiscal Years 2022 and 2021](#)
- 16) [OIG No 22-1-42KB – Green Finance Authority Financial Statements \(With Reports of Independent Public Accountants\) For Fiscal Years 2022 and 2021](#)
- 17) [OIG No. 22-1-43AT – 401\(a\) Defined Contribution Plan Financial Statements \(With Independent Auditor’s Report\) For Fiscal Years 2022 and 2021](#)
  - a. Identified one significant deficiency in internal control over financial reporting.
- 18) [OIG No. 22-1-44AT – 457\(b\) Deferred Compensation Plan Financial Statements \(With Independent Auditor’s Report\) For Fiscal Years 2022 and 2021](#)
- 19) [OIG No. 22-1-45GG – University of the District of Columbia Basic Financial Statements \(With Independent Auditor’s Report\) For Fiscal Years 2022 and 2021](#)
- 20) [OIG No. 22-1-45GG\(a\) – University of the District of Columbia Management Recommendations for Fiscal Year 2022](#)