

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 2020 COMPREHENSIVE ANNUAL
FINANCIAL REPORT (CAFR)”**

FEBRUARY 3, 2021

Good afternoon 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) 20 Comprehensive Annual Financial Report (CAFR) audit results. Accompanying me are staff from the Office of the Inspector General (OIG), and Jack Reagan, engagement partner and member of the McConnell & Jones LLP (MJ) integrated audit team, contracted by the OIG to audit the District’s financial statements.

CAFR CONTRACT ADMINISTRATION AND OVERSIGHT

The OIG is statutorily responsible for contracting with an independent “auditor who is not an officer or employee of the [OIG]”¹ to “audit the complete financial statement and report on the activities of the District government for [each] fiscal year....”² In awarding this contract, the OIG must ensure that the same independent auditor is not used for more than five (5) consecutive

¹ D.C. Code § 1-301.115a(a)(4).

² *Id.* § 1-301.115a(a)(3)(H).

fiscal years.³ On March 17, 2020, the OIG awarded MJ the CAFR contract, effective April 1, 2020, under which MJ is to audit the District’s financial statements and produce a comprehensive report. The term of the contract is for 1 year with four, 1-year option periods.

In addition to the award, the OIG is responsible for the day-to-day CAFR audit contract administration and oversight. The CAFR Audit Oversight Committee (CAFR Committee) is one of the tools the OIG use to ensure the CAFR contract is within scope, schedule, and budget. The OIG convenes the CAFR Committee regularly to discuss CAFR audit progress among the 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. Matters that may impact the CAFR audit are brought to the Committee, which in turn works to remediate any impediments. FY20 was the first year for MJ in conducting the CAFR audit, where the CAFR Committee’s guidance was paramount as onboarding a new independent auditor is no easy task under normal circumstances, let alone during a global pandemic.

FY20 CAFR AUDIT RESULTS

As reported, this year marks the 24th consecutive year the District has received a “clean” opinion from its independent auditors. Also, this is the sixth consecutive year with no material weaknesses⁴ or significant deficiencies⁵ in internal control over the District-wide financial reporting and compliance. In addition to delivering a “clean” opinion on the District’s overall

³ *Id.* § 1-301.115a(a)(4)(A).

⁴ A “material weakness” is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

⁵ 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.

FY20 CAFR, we released 17 additional “clean” audit opinions on the finances of the District’s various component units, funds, and programs.

In addition to the 18 audit opinions, the independent auditors are also required to communicate to management and those charged with governance any other matters related to the District’s internal control. For FY20, the independent auditors issued five *Management Recommendation Report(s)*⁶ on internal control over financial reporting and on compliance and other matters. The OIG transmitted these *Management Recommendation Report(s)* on February 1st. In the past, these Reports were issued *after* the CAFR hearing, which limited the utility of these reports.

The *Management Recommendation Reports* include findings and recommendations designed to improve internal control, operation, and compliance within the overall District and its component units. Management’s attention to these findings is imperative to ensure they do not become larger problems that affect the District’s financial reporting.

I want to note that although not material or significant to the District’s overall CAFR opinion, the independent auditors 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. Specifically, the independent auditors considered these findings to be a significant deficiency.

⁶The purpose of the reports, which are an integral part of the CAFR audit, is to describe, for management and those charged with governance, auditors’ observations and recommendations to improve the District’s internal controls, operations, and compliance.

My Office, along with the OCA and OCFO, are focused on conducting additional oversight activities to ensure the successful remediation of these findings.

CONCLUSION

Before I ask Mr. Reagan to provide an overview of the FY20 CAFR audit results, I would like to take this opportunity to thank the CAFR Committee members for their dedication in monitoring the CAFR audit over the last several months, keeping management and others abreast of the status of ongoing work, and assisting the independent auditors in completing the audit within scope, schedule, and budget. Further, I must also acknowledge the cooperation and support District agencies provided to complete the FY20 CAFR audit in a restricted environment.

Finally, I would specifically like to recognize the leadership of Fekede Gindaba, the OIG CAFR Committee Chair, representatives from the Office of Chief Financial Officer (OCFO), and representatives from the Office of the City Administrator (OCA) for their leadership during the FY20 CAFR audit.

With that, I will turn it over to Mr. Reagan to provide an overview of the FY20 CAFR audit results.