

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 2021 ANNUAL COMPREHENSIVE FINANCIAL
REPORT”

FEBRUARY 3, 2022

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) 21 Annual Comprehensive Financial Report (ACFR) audit results.¹

To assist me in providing the Committee with an overview of the FY 21 ACFR audit results 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 FY 21 ACFR audit results, it is essential to mention the hard work culminating in today’s hearing. Specifically, to ensure an independent and objective financial statement audit of the District, the OIG is statutorily responsible for contracting with an

¹ In October 2021, the Governmental Accounting Standards Board (GASB) issued its [Statement No. 98](#), which established the term “Annual Comprehensive Financial Report (ACFR)” as a replacement for the term “Comprehensive Annual Financial Report.”

independent “auditor who is not an officer or employee of the [OIG]”² to “audit the complete financial statement and report on the activities of the District government for [each] fiscal year....”³ In awarding this contract, the OIG must ensure that the same independent auditor is not used for more than 5 consecutive fiscal years.⁴ FY 21 is the first option year of the OIG’s ACFR audit contract.

In addition to the contract award, the OIG is responsible for day-to-day ACFR audit contract administration and oversight. The OIG devotes substantial resources throughout the FY to ensure the District’s ACFR audit is delivered on time and comports with applicable standards.

Per the contract, the OIG’s independent auditors are responsible for issuing an opinion on the District’s overall ACFR; issuing opinions for 10 District organizational units, funds, and programs; and reviewing opinions issued by 7 third-party auditors hired by their respective District organizational units, funds, and programs.

One of the OIG’s main tools to administer the contract for the audit of District’s financial statements is the ACFR Audit Oversight Committee (ACFR Committee). The OIG’s ACFR Committee ensures the ACFR contract deliverables are within scope, schedule, and budget. 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. Matters that may impact the ACFR audit are brought to the

² D.C. Code § 1-301.115a(a)(4).

³ *Id.* § 1-301.115a(a)(3)(H).

⁴ *Id.* § 1-301.115a(a)(4)(A).

Committee, which in turn works to remediate any impediments. I want to thank the ACFR Committee members and their agencies for their cooperation and support in completing the ACFR audit on time in a remote environment.

FY 21 ACFR AUDIT RESULTS

As reported, this year marks the 25th consecutive year the District has received an unmodified or “clean” opinion from its independent auditors. Also, this is the 7th consecutive year with no material weaknesses⁵ or significant deficiencies⁶ in internal control over the District-wide ACFR. In addition to delivering an unmodified opinion on the District’s overall FY 21 ACFR, we released 17 additional unmodified audit opinions on the financial statements of the District’s various component units, funds, and programs.

The independent auditors are also required to communicate to management and those charged with governance and other matters related to the District’s internal control. For FY 21, the independent auditors issued 5 *Management Recommendation Report(s)*⁷ on internal control over financial reporting and on compliance and other matters. The OIG transmitted these *Management Recommendation Report(s)* on February 1st and they are available on our website at oig.dc.gov.

⁵ 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.

⁶ 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.

⁷ The purpose of the reports, which are an integral part of the ACFR 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.

District agencies must focus their attention on remediating these internal control deficiencies. It should be noted that several of the findings in the management letter were the subject of previous OIG audit findings. The Council needs to be aware of these issues when executing its oversight responsibilities and deliberating the next FY budget, because in some instances remediation of findings may require additional budget authority. Absent action by the responsible District entities, future District ACFRs could receive a modified audit opinion – which would have adverse consequences on the District’s credit ratings.

Although these findings do not currently have an adverse impact on the District’s overall ACFR opinion, District management’s attention to these findings is imperative to ensure they do not become larger problems that affect the District’s overall financial reporting.

CONCLUSION

Before I ask Mr. McConnell to provide an overview of the FY 21 ACFR audit results, 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, keeping management and others abreast of the status of ongoing work, and assisting the independent auditors in completing the audit on schedule.

Further, I must also again acknowledge the cooperation and support District agencies provided to complete the FY 21 ACFR audit in a restricted environment. Finally, I would specifically like to recognize the leadership of Fekede Gindaba, the OIG ACFR Committee Chair, representatives

from OCFO, and representatives from the Office of the City Administrator for their leadership during the FY 21 ACFR audit.

With that, I will turn it over to Mr. McConnell to provide an overview of the FY 21 ACFR audit results.