

**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 2023 ANNUAL COMPREHENSIVE FINANCIAL**  
**REPORT”**

**FEBRUARY 1, 2024**

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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 at today’s hearing to discuss the District’s Fiscal Year (FY) 23 Annual Comprehensive Financial Report (ACFR) audit results.

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

**ACFR AUDIT CONTRACT ADMINISTRATION AND OVERSIGHT**

First, the OIG is responsible for entering into a 5-year 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

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<sup>1</sup> D.C. Code § 1-301.115a (a)(4) (2023).

opinions issued by seven third-party auditors hired by their respective District organizational units, funds, and programs.

We oversee the day-to-day ACFR audit contract administration to ensure it comports with applicable contractual requirements and budget. The FY23 ACFR audit process began in April 2023,<sup>2</sup> and continued through the OIG’s release of the FY 23 ACFR audit opinion yesterday.<sup>3</sup> During this time, the OIG chaired the ACFR Audit Oversight Committee (ACFR Committee), which met 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 and on schedule. The ACFR Committee also serves as the mechanism to adjudicate any issues impeding a successful ACFR audit.

Considerable time and resources into the District’s ACFR audit – not only from OIG, the independent auditors, and OCFO – but all District agencies who are asked to timely provide sufficient appropriate audit evidence to the District’s independent auditors. Last year, the University of Illinois Chicago’s Government Finance Research Center and the Merrit Research Services ranked the District first in the U.S. states and territories for audit timeliness (time

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<sup>2</sup> OIG Engagement Letter, Audit of the FY 2023 Annual Comprehensive Financial Report (Apr. 18, 2023), [https://oig.dc.gov/sites/default/files/Reports/FY23%20ACFR%20Engagement%20Letter%202023-1-05MA%204.18.23\\_0.pdf](https://oig.dc.gov/sites/default/files/Reports/FY23%20ACFR%20Engagement%20Letter%202023-1-05MA%204.18.23_0.pdf) (last visited Jan. 28, 2024).

<sup>3</sup> OIG Report No. 23-1-05MA, Government of the District of Columbia Annual Comprehensive Financial Report, Reports of Independent Public Accountants for the Fiscal Year Ended September 30, 2023 (Jan 2024), [https://www.oig.dc.gov/sites/default/files/Reports/OIG No. 23-1-05MA - District of Columbia Annual Comprehensive Financial Report%2C Reports of Independent Public Accountants FY 2023.pdf](https://www.oig.dc.gov/sites/default/files/Reports/OIG%20No.%2023-1-05MA%20-%20District%20of%20Columbia%20Annual%20Comprehensive%20Financial%20Report%20-%20Reports%20of%20Independent%20Public%20Accountants%20FY%202023.pdf) (last visited Jan. 31, 2024).

between end of fiscal year and date of the independent auditor’s report date) . As the study noted, “[t]imely audit reporting is essential for credit evaluation and proper pricing in the municipal bond market and is an important indicator of good governance and stewardship.”<sup>4</sup> On behalf of the OIG, I wish to extend my appreciation to all agencies and professionals who have played a role in ensuring an on-time ACFR audit.

### **FY 23 ACFR AUDIT RESULTS**

Next, I’d like to discuss the District FY 23 ACFR audit results. As reported, the District’s overall FY 23 ACFR audit received an unmodified, or “clean” audit opinion. MJ also issued 10 unmodified, or “clean” audit opinions for 10 organizational units, funds, and programs.

Additionally, seven third-party audits, which were all reviewed by MJ, received unmodified, or “clean” audit opinions.

In addition to the financial statement audit opinions, *Government Auditing Standards* require MJ to communicate to those charged with governance and management any deficiencies in internal control identified during the audit of the District’s financial statements. For FY 23, MJ identified a significant deficiency<sup>5</sup> at the District-wide ACFR level; and a third-party auditor

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<sup>4</sup> Deborah A. Carroll, Ph.D. & Richard A. Ciccarone, “Public vs. Private Auditors Big vs. Little Issuers: What’s Influencing the Timeliness of Municipal Bond Audits” (2023), <https://gfr.uic.edu/wp-content/uploads/sites/188/2023/05/P2302013-Municipal-Bonds-Audit-Report-FINAL.pdf> (last visited Jan. 28, 2024).

<sup>5</sup> A “significant deficiency” is “[a] deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness yet important enough to merit the attention by those charged with governance.” ASS’N OF INT’L CER’T PROF’L ACCOUNTANTS, COMMUNICATING INTERNAL CONTROL RELATED MATTERS IN AN AUDIT, AU-C § 265.05.07 (2021), <https://us.aicpa.org/content/dam/aicpa/research/standards/auditattest/downloadabledocuments/au-c-00265.pdf> (last visited Jan. 30, 2024).

identified a significant deficiency at the District’s 457(b) Deferred Compensation Plan. MJ also identified eleven (11) control deficiencies<sup>6</sup> at the District-wide ACFR level, and four (4) control deficiencies at the individual organizational unit, fund, and program level. These control deficiencies have been communicated in four (4) Management Recommendation Reports issued by the OIG. Mr. Kozlik will be able to discuss these FY 23 ACFR audit findings in greater detail during his presentation.

A list of all FY 23 ACFR audit reports the OIG has released is included as an attachment to my testimony and are available on the OIG’s website at [oig.dc.gov](https://oig.dc.gov).

## **CONCLUSION**

Thank you to the ACFR Committee members for your dedication over the last several months. An on-time ACFR audit delivery could not occur without the OIG’s talented professionals, who are collectively responsible for interagency coordination and contract procurement, administration and oversight. I would also like to acknowledge representatives from the OCFO and the Office of the City Administrator for their continuous support during this year’s ACFR audit process. With that, I will turn it over to Mr. Kozlik to provide an overview of the FY 23 ACFR audit results.

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<sup>6</sup> *Id.* A “control deficiency” “in internal control over financial reporting 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.”

## **Attachment -- FY 23 ACFR Audit Reports Issued by the OIG**

### **FY 2023 ACFR Financial Audit Opinions:**

1. [Government of the District of Columbia Annual Comprehensive Financial Report, Reports of Independent Public Accountants for the Fiscal Year Ended September 30, 2023](#) (OIG No. 23-1-05MA)
  - One (1) significant deficiency reported.
2. [Washington Convention and Sports Authority Financial Statements \(Together with Report of Independent Public Accountants\) September 30, 2023, and 2022](#) (OIG No. 23-1-08ES)
3. [University of the District of Columbia Basic Financial Statements for the Fiscal Years Ended September 30, 2023 and 2022 \(with Independent Auditor’s Report Therein\)](#) (OIG No. 23-1-23GG)
4. [Not-for-Profit Hospital Corporation Financial Statements \(with Independent Auditor’s Report\) September 30, 2023 and 2022](#) (OIG No. 23-1-09HW)
5. [Health Benefit Exchange Authority Financial Statements \(with Independent Auditor’s Report\) September 30, 2023 and 2022](#) (OIG No. 23-1-10HI)
6. [Office of Lottery and Gaming Financial Statements \(with Independent Auditor’s Report\) September 30, 2023, and 2022](#) (OIG No. 23-1-11DC)
7. [Unemployment Compensation Fund Financial Statements for the Years Ended September 30, 2023, and 2022 \(Together with Reports of the Independent Auditors\)](#) (OIG No. 23-1-12BH)
8. [Other Post Employment Benefits Fund Financial Statements Together with Independent Auditor’s Reports\) Years Ended September 30, 2023, and 2022](#) (OIG No. 23-1-13MA)
9. [Home Purchase Assistance Program Fund 0602 Financial Statements for the Years Ended September 30, 2023, and 2022](#) (with Independent Auditor’s Report) (OIG No. 23-1-14MA)
10. [Emergency and Non-Emergency Number Telephone Calling Systems Fund Financial Statements Together with Reports of Independent Auditors for the Years Ended September 30, 2023 and 2022](#) (OIG No. 23-1-15UC)
11. [Highway Trust Fund Financial Statements Together with Reports of Independent Auditors for the Years Ended September 30, 2023 and 2022](#) (OIG No. 23-1-06KA)
12. [Housing Finance Agency Financial Statements for the Years Ended September 30, 2023 and 2022 with Independent Auditor’s Report](#) (OIG No. 23-1-16HF)

13. [Tobacco Settlement Financing Corporation Financial Statements and Independent Auditor’s Report for Fiscal Year Ended September 30, 2023](#) (OIG No. 23-1-17TT)
14. [Teachers’ Retirement and Police Officers and Fire Fighters’ Retirement Funds Financial Statements and Independent Auditor’s Report for Fiscal Years Ended September 30, 2023 and 2022](#) (OIG No. 23-1-18MA)
15. [529 College Savings Program Trust Participant and Administrative Funds Financial Statements and Independent Auditor’s Report for Fiscal Years Ended September 20, 2023 and 2022](#) (OIG No. 23-1-19AT)
16. [Green Finance Authority Financial Statements \(Together with Reports of Independent Public Accountants\) September 30, 2023 and 2022](#) (OIG No. 23-1-20KB)
17. [401\(a\) Defined Contribution Plan Financial Statements with Independent Auditor’s Report Years Ended September 30, 2023 and 2022](#) (OIG No. 23-1-21AT)
18. [457\(b\) Deferred Compensation Plan Financial Statements with Independent Auditor’s Report Years Ended September 30, 2023 and 2022](#) (OIG No. 23-1-22AT)
  - One (1) significant deficiency reported.

**FY 2023 ACFR Management Recommendation Reports:**

1. [Government of the District of Columbia Management Recommendations for the Year Ended September 30, 2023](#) (OIG No. 23-1-05MA(a))
  - Eleven (11) control deficiencies reported.
2. [Home Purchase Assistance Program Fund 0602 Management Recommendations for the Year Ended September 30, 2023](#) (OIG No. 23-1-14DB(a))
  - Two (2) control deficiencies reported.
3. [Health Benefit Exchange Authority Management Recommendations for the Year Ended September 30, 2023](#) (OIG No. 23-1-10HI(a))
  - One (1) control deficiency reported.
4. [University of the District of Columbia Management Recommendations for the Year Ended September 30, 2023](#) (OIG No. 23-1-23GG(a))
  - One (1) control deficiency reported.