



Audit Report



OIG-21-014

FINANCIAL MANAGEMENT

Management Letter for the Audit of the Office of D.C. Pensions' Financial Statements for Fiscal Years 2020 and 2019

December 9, 2020

Office of Inspector General
Department of the Treasury

This Page Intentionally Left Blank



OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

December 9, 2020

**MEMORANDUM FOR NANCY OSTROWSKI, DIRECTOR
OFFICE OF D.C. PENSIONS**

FROM: James Hodge /s/
Director, Financial Audit

SUBJECT: Management Letter for the Audit of the Office of
D.C. Pensions' Financial Statements for Fiscal Years
2020 and 2019

I am pleased to transmit the attached subject management letter. Under a contract monitored by our office, KPMG LLP (KPMG), a certified independent public accounting firm, audited the Office of D.C. Pensions' consolidated balance sheets as of September 30, 2020 and 2019, and the consolidated statements of net cost, and changes in net position, and combined statement of budgetary resources for the years then ended. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards, Office of Management and Budget Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*, and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, *Financial Audit Manual*.

As part of its audit, KPMG issued the attached management letter dated December 9, 2020, that discusses a matter involving internal control over financial reporting that was identified during the audit. The matter relates to the review of new or required changes to financial statement disclosures.

In connection with the contract, we reviewed KPMG's management letter and related documentation and inquired of its representatives. KPMG is responsible for the letter and the conclusions expressed in the letter. Our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards.

If you wish to discuss this report, please contact me at (202) 927-0009, or a member of your staff may contact Catherine Yi, Manager, Financial Audit, at (202) 927-5591.

Attachment



KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

December 9, 2020

Deputy Inspector General
U.S. Department of the Treasury

Director
Office of D.C. Pensions

In planning and performing our audit of the financial statements of the Department of the Treasury's Office of D.C. Pensions (ODCP) as of September 30, 2020, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*, we considered the ODCP's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the ODCP's internal control. Accordingly, we do not express an opinion on the effectiveness of the ODCP's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and/or significant deficiencies and therefore, material weaknesses and/or significant deficiencies may exist that were not identified. In accordance with *Government Auditing Standards*, we issued our report dated December 9, 2020 on our consideration of the ODCP's internal control over financial reporting in which we communicated certain deficiencies in internal control that we consider to be a significant deficiency.

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. During our audit, we identified the deficiency in internal control included in Appendix A.

The ODCP's response to the finding identified in our audit is described in Appendix A. The ODCP's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

This purpose of this letter is solely to describe the deficiency in internal control identified during our audit. Accordingly, this letter is not suitable for any other purpose.

Very truly yours,

KPMG LLP

Control activities related to financial reporting

ODCP did not properly design controls related to the review of new or required changes to financial statement disclosures. ODCP did not clearly define the objectives or criteria for reviewing and approving new disclosures and evaluating the appropriateness of tailored templates provided by the Department to ensure reconciling items within Note 7, Reconciliation of Net Cost of Operations to Agency Outlays, Net are properly categorized in accordance with the accounting standards.

Factual misstatements in Note 7, Reconciliation of Net Cost of Operations to Agency Outlays, Net, resulted as follows:

1. A reconciling item related to 'Premiums and Amortization of Premiums/Discounts' of \$35.5M and (\$8.4M) in the current year draft financial statements and the prior year audited financial statements, respectively, was incorrectly included in 'Components of Net Cost of Operations Not Part of Outlays' rather than 'Components of the Outlays That Are Not Part of Net Cost of Operations'.
2. A reconciling item related to interest revenue titled 'Other' of \$3.6M and \$3.8M in the current year draft financial statements and the prior year audited financial statements, respectively, was incorrectly included in 'Components of the Outlays That Are Not Part of Net Cost of Operations' rather than 'Components of Net Cost of Operations Not Part of Outlays'.

ODCP corrected the current and prior year balances in the current year disclosure.

Recommendation

We recommend that ODCP management redesign its control activities related to the review of new financial statement disclosures to develop a checklist to supplement any Departmental guidance on new requirements and specifically for Note 7, to document management's assessment as to the appropriateness of the reconciling items and presentation within the respective categories as prescribed by SFFAS 53, *Budget and Accrual Reconciliation*, based on posting logic within the general ledger and the nature of ODCP's operations.

Management's response

The NFR attributes the root cause of the control deficiency to be the failure to define the objectives or criteria of reviewing a new disclosure in evaluating the appropriateness of a tailored template.

The Office of D.C. Pensions, the Office of the Deputy Chief Financial Officer (ODCFO), and ARC Accounting (RAB-2) worked collaboratively and extensively together in Fiscal Year 2019 to satisfy OMB Guidance, the correct presentation for ODCP based on the Treasury-issued templates, and compliance with Statement of Federal Financial Accounting Standard (SFFAS) 53 to confirm the proper presentation for Note 7. The results of that collaborative effort did not prevent this control deficiency.

The Office of D.C. Pensions will continue to work with all stakeholders to ensure proper disclosure and thorough management assessment and review related to any new financial statement disclosure requirements applicable to ODCP.



REPORT WASTE, FRAUD, AND ABUSE

Treasury OIG Hotline: 1-800-359-3898

Hotline@oig.treas.gov

Gulf Coast Restoration Hotline: 1-855-584.GULF (4853)

gulfcoastrestorationhotline@oig.treas.gov

Access Treasury OIG reports and other information online:

www.treasury.gov/about/organizational-structure/ig