



Audit Report



OIG-19-028

FINANCIAL MANAGEMENT

Management Letter for the Audit of the Office of
D.C. Pensions' Financial Statements for Fiscal Years
2018 and 2017

December 18, 2018

Office of Inspector General
Department of the Treasury

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OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

December 18, 2018

**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
2018 and 2017

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, 2018 and 2017, 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. 19-01, *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 17, 2018, that discusses matters involving internal control over financial reporting that were identified during the audit. These matters relate to (1) control weakness within the review of reinvestment activities and (2) control gap within financial reporting.

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.

Should you have any questions, 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

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

December 17, 2018

Inspector General, U.S. Department of the Treasury, and
Director, Office of D.C. Pensions

Ladies and Gentlemen:

In planning and performing our audits of the financial statements of the U.S. Department of the Treasury's Office of D.C. Pensions (ODCP), which comprise the consolidated balance sheets as of September 30, 2018, and September 30, 2017, and the consolidated statements of net cost, and changes in net position, and combined statements of budgetary resources for the years then ended, in accordance with auditing standards generally accepted in the United States of America, and 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's Bulletin 19-01. We considered 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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 combined report dated December 17, 2018 on our consideration of the ODCP's internal control over financial reporting.

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 audits, we noted matters involving internal controls that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operational efficiencies and are summarized in Exhibit I to this report.

ODCP's responses to our comments and recommendations, identified in our audit, are described in Exhibit I. ODCP's response was not subjected to auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response. Exhibit II presents the status of one prior year comment and recommendation.

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

Very truly yours,

KPMG LLP

**U.S. Department of the Treasury
Office of D.C. Pensions
FY 2018 Management Letter**

1. Control Weakness within the Review of Reinvestment Activities

Not all amounts from the annual appropriation warrants, received by ODCP in September 2018, were properly invested into government securities, pursuant to the annual investment guidance, dated September 21, 2018. Specifically, on September 24, 2018, of the \$483.3 million in appropriation warrants received, only \$397 million were invested in long-term securities by the Bureau of Fiscal Service Administrative Resource Center (ARC), on behalf of ODCP. The remaining \$86.3 million (\$81.3 million from the D.C. Federal Pension Fund and \$5 million of the D.C. Judges Retirement Fund) should have been invested in overnight securities, except for amounts necessary to pay disbursements (and a small balance on the last day of the month to cover late day withdrawals), but were instead left for 7 days in the Fund Balance with Treasury account.

The Government and Accountability Office (GAO) *Standards for Internal Control in the Federal Government* (the Green Book), Section 4 Service Organizations states:

OV4.01 paragraph 2:

Management needs to understand the controls each service organization has designed, has implemented, and operates for the assigned operational process and how the service organization's internal control system impacts the entity's internal control system.

OV4.02:

If controls performed by the service organization are necessary for the entity to achieve its objectives and address risks related to the assigned operational process, the entity's internal controls may include complementary user entity controls identified by the service organization or its auditors that are necessary to achieve the service organization's control objectives.

The Investment Guidance, dated September 21, 2019, sent by Ms. Ostrowski, ODCP Director, to David Lebryk, Fiscal Assistant Secretary, and Kimberly McCoy, Commissioner, Bureau of Fiscal Service, states:

“...Invest the remaining receipts in one-day certificates, except for amounts necessary to pay disbursements. If funds become inadequate to meet operating needs, request authorization from ODCP to move funds from long-term investments to one-day certificates. On the last day of each month, hold \$100,000 uninvested”.

In the Audit Report on the Bureau of the Fiscal Service Federal Investments and Borrowings Branch's (FIBB) Description of its Investments/Redemption Services and the Suitability of the Design and Operating Effectiveness of its Controls for the Period August 1, 2017 to July 31, 2018, the Complementary Program User Agency Controls sections of Control Objectives 8 and 9 state that Program Agencies should establish controls to:

- (End user control under Control Objective 8 – Item Processing Security – page 41):
 - Ensure that investment/redemption transactions processed by FIBB on behalf of the Program Agency agree with applicable Warrants processed by Fiscal Service Government-Wide Accounting (GWA).
- (End user control under Control Objective 9 – Item Capture – page 46):
 - Ensure that the submission of investment/redemption requests in FedInvest is accurate and completed prior to 3:00 pm ET (11:00 am ET for Zero-Coupon Bonds).
 - Notify FIBB if the investment/redemption requests have been processed incorrectly so that correcting transactions may be processed before 3:00pm ET.

**U.S. Department of the Treasury
Office of D.C. Pensions
FY 2018 Management Letter**

- Review investment/redemption/maturity/interest confirmations and Monthly Statement of Accounts to ensure that each request was processed accurately, timely, and in accordance with Program Agency instructions.
- Review detailed case management transactions and case information to ensure that each request was processed accurately, timely, and in accordance with Program Agency instructions.

ARC overlooked the amounts that should have been (but were not) invested in the overnight securities on September 24, 2018.

ODCP management has not incorporated sufficient complementary end-user internal controls to ensure that all funds to be invested are appropriately invested in overnight securities.

Due to the lack of ODCP's investment in overnight securities, ODCP did not earn interest in the amount of approximately \$33,000.

RECOMMENDATION:

1. We recommend that ODCP management implement policies and procedures to incorporate complementary program agency end user internal controls, similar to the ones stated in FIBB SSAE 18, which would include, but not be limited to, management:
 - a. Conducting reviews, to ensure remaining funds were invested in overnight securities, except for amounts necessary to pay disbursements, as per Investment Guidance; and
 - b. Ensuring that all funds are invested accurately and in a timely manner for both long-term and short term activities, by reviewing all transaction confirmations to determine that they are accurate and complete.

MANAGEMENT RESPONSE:

ODCP concurs with the auditor's recommendation.

**U.S. Department of the Treasury
Office of D.C. Pensions
FY 2018 Management Letter**

2. Control Gap within Financial Reporting

In ODCP's preparation of its financial statements and note disclosures, ODCP did not include a note disclosure on Apportionment Categories of New Obligations and Upward Adjustments: Direct vs. Reimbursable Obligations.

Office of Management and Budget (OMB) Circular A-136, par. II.3.9.29 states:

Disclose the amount of direct and reimbursable new obligations and upward adjustments against amounts apportioned under Category A, B, AB, and Exempt from apportionment. This disclosure must agree with total new obligations and upward adjustments as reported on the SBR (line 2190 in OMB Circular A-11, Appendix F). Apportionment categories shall be determined in accordance with the guidance provided in Circular A-11. (Note that Category AB is reported as Category B in GTAS.)

ODCP's analysis on note disclosures focuses on changes of the most recent OMB Circular A-136 as opposed to a thorough analysis of the entire OMB Circular A-136.

By not reviewing all components of OMB Circular A-136 as part of ODCP's financial statement preparation process, ODCP increases its risk of not disclosing relevant information in its financial statements to its stakeholders

RECOMMENDATION:

We recommend that ODCP management ensure that a full review of OMB Circular A-136 be performed as part of its financial statement preparation process, to ensure the necessary information is communicated to its stakeholders.

MANAGEMENT RESPONSE:

ODCP concurs with the auditor's recommendation.

**U.S. Department of the Treasury
Office of D.C. Pensions
FY 2018 Management Letter**

Status of Prior year Finding

<i>Fiscal Year 2017 Management Letter Comment</i>	<i>Fiscal Year 2018 Status</i>
Weakness in Review of Audit Data (Repeat Condition from Fiscal Year 2016)	Closed

KPMG noted that the above finding, documented in the fiscal year 2017 audit, was remediated during fiscal year 2018.



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