

February 1, 2024

The Hon. Phil Mendelson, Chairman
D.C. Councilmembers
The John A. Wilson Building
1350 Pennsylvania Avenue, N.W.
Washington, DC 20004

Dear Chairman Mendelson and Councilmembers:

I write concerning this afternoon's Committee of the Whole hearing on the District's fiscal year 2023 Annual Comprehensive Financial Report (ACFR) with suggested questions arising from the January 4, 2024, Management Alert Report (MAR), [*The District's FY2022 Annual Comprehensive Financial Report Mischaracterized the Relationship Between the District and the D.C. Housing Authority*](#). As noted in an earlier message, the Office of the D.C. Auditor issues a management alert when we discover an issue of significance that we believe an agency would want to remedy at the earliest possible time. We concluded that the relationship between the District and the D.C. Housing Authority (DCHA) was mischaracterized in the FY22 Annual Comprehensive Financial Report and recommended that the FY23 ACFR refrain from mischaracterizing DCHA, a recommendation that was rejected by the Chief Financial Officer, as noted in the report itself.

Each year's ACFR should have included DCHA in the District's "financial reporting entity" because it is a legally separate organization, the District appointed a voting majority of the DCHA board, and the District provided subsidies as financial support to DCHA. In accounting terms, DCHA should be a "component unit."

The District's operating subsidies included funding to maintain public housing properties and support the DCHA police department. The District also provided DCHA with capital subsidies by funding capital improvements to DCHA properties. ODCA's report contradicted the OCFO's position statements, which did not mention the subsidies in their analysis of the relevant accounting standard. In its comments on the report, the OCFO dismissed ODCA's recommendations but did not dispute ODCA's findings or any part of ODCA's analysis.

The OCFO position statements and OCFO's comments are included in the ODCA report. The FY 2023 ACFR was expected to be released today before the afternoon hearing. At the time of submitting this letter to the Council, ODCA has not received or reviewed the ACFR. Our request for a pre-release embargoed copy was denied by the CFO. The following questions assume that the FY23 ACFR, like the FY22 ACFR, excludes DCHA from the District's financial reporting entity. [*The online witness list*](#) includes a representative from McConnell Jones LLP, the independent Certified Public Accountant firm, as well as the District's CFO, Inspector General, and City Administrator and questions for these witnesses follow.

Questions for Chuck Kozlik, Audit Partner, McConnell Jones, LLP

- Please describe the significance of the District's ACFR being conducted consistent with standards promulgated by the Governmental Accounting Standards Board (GASB).
- Do the District's financial statements disclose its subsidies to DCHA in the note that describes transactions between the District and parties with which it has a significant relationship?
- What audit procedures did your firm follow to determine whether the ACFR correctly describes the financial reporting entity?
- Did your firm evaluate the OCFO's position statements determining that the District has no financial accountability for DCHA?
- At the time of your review, were you aware that the District provided operating and capital subsidies to DHCA totaling in excess of \$200 million in FY22?
- Knowing what you know now, do you think OCFO's position statements adequately considered all the facts that are relevant to DCHA's status?
- Did you review the D.C. Auditor's Management Alert Report on the characterization of the D.C. Housing Authority in the FY22 ACFR provided to you in early January?
- If so, does your opinion on the ACFR take into account the information in the D.C. Auditor's report?
- Did you independently determine whether the District is financially accountable for the D.C. Housing Authority?
- Did you determine whether the omission of DCHA from the financial reporting entity would be material to the financial statements? If so, how did you make that determination?

Questions for Daniel Lucas, D.C. Inspector General

- Please describe the DCOIG's role in auditing the District's financial statements and whether that includes roles beyond contracting for the independent auditor's services and chairing the ACFR Oversight Committee? Did you and your team review and edit the audit firm's report before publication?
- Before ODCA issued its report, had you considered whether DCHA might be a component unit of the District?
- Did you and your audit team review the D.C. Auditor's Management Alert Report? Do you concur with its findings?
- If yes, how do you intend to proceed in meeting the OIG statutory responsibility to contract for and oversee the ACFR? If no, please explain your view of the District's ongoing operating and capital subsidies provided to DCHA.

Questions for Glen Lee, Chief Financial Officer

- While it has been clear that the OCFO disagrees with ODCA's conclusions and recommendations, it has not been made clear *why*. During FY22 and FY23, did the District provide operating and capital subsidies to DCHA?
- In the OCFO's two position statements—in 2019 and 2023—why did the OCFO not consider whether the subsidies constitute financial support?
- Will the OCFO reexamine the status of DCHA under GASB accounting standards?
- ODCA recommended that the FY23 ACFR include DCHA in the District's financial reporting entity but acknowledged that this might not be possible. As an alternative, ODCA recommended including in the ACFR a statement to avoid misrepresenting the District's adherence to GASB accounting standards. Why did the OCFO reject this recommendation?

- What makes DCHA different from other organizations, including the University of the District of Columbia and Events DC, that receive subsidies from the District and are recognized by the OCFO as part of the District's financial reporting entity?
- In 2007, it was discovered that Harriette Walters, a former employee of the Office of Tax and Revenue, had embezzled \$49 million over a 20-year period. The District's independent auditors did not detect this embezzlement and the firms issued a series of clean opinions on the District's financial statements. Does an independent auditor's clean opinion mean that the District's financial statements are actually error-free?

Questions for Kevin Donahue, City Administrator

- According to a [quarterly report](#) issued by OCFO, the Office of the City Administrator drew approximately \$1.3 million from the District's Contingency Cash Reserve Fund in December 2022. The purpose of this draw was "to support work related to corrective actions from the Department of Housing and Urban Development (HUD) condition assessment."
- Did your office perform this work as a service to DCHA? If so, did you charge DCHA for your services?

Thank you for your consideration of these recommended questions. Please let me or Assistant Deputy Auditor for Finance Will Singer know if you have questions about these issues. My email is kathy.patterson@dc.gov and Mr. Singer's is will.singer@dc.gov.

Sincerely yours,



Kathleen Patterson
District of Columbia Auditor

cc: Kevin Donahue, City Administrator
Glen Lee, Chief Financial Officer
Daniel Lucas, Inspector General
Chuck Kozlik, Audit Partner, McConnell & Jones LLP