

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL**

**AUDIT OF THE DISTRICT OF COLUMBIA
HIGHWAY TRUST FUND**



Charles C. Maddox, Esq.
Inspector General

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



February 1, 2002

The Honorable Anthony A. Williams
Mayor
District of Columbia
John A. Wilson Building
1350 Pennsylvania Avenue, N.W., 6th Floor
Washington, D.C. 20004

Dear Mayor Williams:

The Office of the Inspector General has completed an audit of the comparative balance sheet of the District of Columbia Highway Trust Fund (Fund) as of September 30, 2001, and the related comparative statements of revenues, expenditures, and change in fund balance for the year then ended. As part of our review, we will also examine the Fund's 5-year forecast of expenditure conditions and operations. The results of this review will be reported separately on or before May 31, 2002. The Department of Public Works administers the Fund for the District of Columbia government.

Our audit included a review of existing internal controls for the purpose of expressing an opinion on financial accounting records and determining the extent of substantive testing required. The review was not intended to be an exhaustive study of the internal controls for making detailed recommendations, and would not have necessarily disclosed all weaknesses in the system. Additionally, we tested for compliance with the provisions of selected laws and regulations and found no instances of noncompliance that would be reportable under generally accepted government auditing standards. However, the objective of our audit was not to provide an opinion on overall compliance with such provisions.

Unqualified Opinion on Financial Statements

In our opinion, the financial statements present fairly, in all material respects, in conformity with generally accepted accounting principles, the Fund's assets and liabilities as of September 30, 2001, and its revenues, expenditures, and changes in fund balance for the year then ended. However, misstatements may occur in other financial information reported by the Fund as a result of the internal control weaknesses described in the following section.

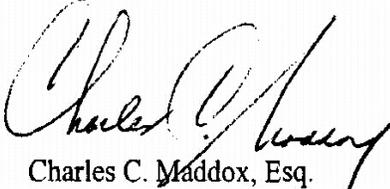
Qualified Opinion on Internal Control

The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*. Additionally, we noted two matters involving the internal control structure and its operations that we consider material weaknesses as defined above. In our opinion, because of the effect of the material weaknesses relating to controls over the Fund's collection of revenues and information system controls, the District did not maintain effective internal controls related to the Fund as of September 30, 2001. These issues are described in detail in Exhibits I and II of the enclosed report.

Management responses (Exhibit III) to a draft of this report satisfy the intent of the recommendations. We considered these responses and adjusted the final report, as appropriate. In addition, we evaluated the request to remove the qualified opinion on the internal control structure. Based on the fact that little progress has been made to correct many of the information system deficiencies identified in prior audits, we believe it appropriate to retain our qualified opinion on the internal control structure.

We appreciate the cooperation and courtesies extended to our staff during this audit. If you have questions please call me or William J. DiVello, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,

A handwritten signature in black ink, appearing to read "Charles C. Maddox". The signature is fluid and cursive, with the first name "Charles" being the most prominent.

Charles C. Maddox, Esq.
Inspector General

CCM/je

Enclosure

cc: See attached distribution list.

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AUDIT OF THE
DISTRICT OF COLUMBIA
HIGHWAY TRUST FUND FOR THE
FY ENDED SEPTEMBER 30, 2001

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**AUDIT OF THE
DISTRICT OF COLUMBIA
HIGHWAY TRUST FUND FOR THE
FY ENDED SEPTEMBER 30, 2001**

Introduction and Purpose

Pursuant to D.C. Code § 9-109.02(e) (2001), the Office of the Inspector General (OIG) has audited the financial statements of the District of Columbia's Highway Trust Fund (Fund). As part of our review, we will also examine the Fund's 5-year forecast of expenditure conditions and operations. We will issue a separate report on the Fund's 5-year forecast by May 1, 2002.

The District of Columbia Emergency Highway Relief Act (Act), Pub. L. No. 104-21, § 2109 Stat. 257 (1995), codified at D.C. Code §§ 9-109.01 - 9-109.03 (2001), authorized the Federal government to increase its share of eligible project costs to fund the District of Columbia's (District) share of highway project costs under Title 23, United States Code, for fiscal years 1995 and 1996. The Act also required the District to establish a Highway Trust Fund and revolving fund account to finance and pay for highway projects. *Id.* at § 3.

Consistent with the Act's requirements, the District established a dedicated Highway Trust Fund separate from the District's General Fund. The Highway Trust Fund is comprised of amounts equivalent to all motor vehicle fuel tax receipts, fees, civil fines, and penalties collected by the District pursuant to D.C. Code § 9-111.01(c) (2001). The receipts are required to be deposited in the fund by the Mayor on a monthly basis. The amounts in the fund are to be sufficient to repay the Department of Transportation's Federal Highway Administration (FHWA) for the increased federal share of project costs during fiscal years 1995 and 1996, and to pay the District's cost-sharing requirements for eligible federal-aid highway projects under Title 23 of the United States Code, beginning with fiscal year 1997. *See* D.C. Code § 9-111.01(d) (2001).

Also consistent with the Act's requirements, the District established a Revolving Fund account separate from the Capital Operating Fund of the Department of Public Works (DPW) and reserved for the prompt payment of contractors completing federal-aid highway projects in the District. *See* D.C. Code § 9-111.01(b) (2001).

Title 24 DCMR, Chapter 33, was amended to revise application procedures and rental rates relative to public rights-of-way or those seeking to obtain public space permits. Accordingly, effective April 1, 2000, persons occupying the public right-of-way or those seeking to obtain public space permits must request a permit from DPW. As such, prospective permit holders submit an application to DPW describing occupancy and location details in terms of existing or proposed stand-alone conduit, pipe, aerial wire, or surface structures housing transmission facilities.

Persons obtaining permits are required to submit advance payments of rents due for the amount of public space occupied. The quarterly payments are due the first business day in January, and on April 1, July 1, and October 1. Late payments incur interest beginning 5 days after the date due at the rate of ten percent per annum, compounded daily. In FY 2001, permit holders were required to submit quarterly payments for right-of-way fees to OPSM. Payments are accompanied by a certified statement from an authorized officer or a duly authorized representative stating that the amount of the payment is true and correct. In addition, at the time of each quarterly payment, each permit holder submits an inventory report (certified inventory) to inform DPW of its on-going activities related to the occupancy of public rights-of-way.

As part of their obligation as an occupant of public space, each permit holder needs to demonstrate financial responsibility, or provide evidence of indemnification insurance and performance bonds. In this regard, DPW requires that an applicant submit and maintain either a bond, a cash deposit in the amount of \$25,000, or other acceptable security which guarantees the faithful performance of the obligations of the permit holder. In addition, DPW requires that each permit holder furnish evidence satisfactory to the District that it has an insurance policy containing minimum per person/occurrence limits of \$500,000/\$1,000,000 for bodily injury and occurrence/aggregate limits of \$150,000/\$300,000 for property damage.

The first \$30 million of annual revenue derived from right-of-way user fees shall be dedicated to DPW for expenditures related to street and alley repairs and maintenance that would otherwise be paid out of the general fund. Any revenues in excess of \$30 million are dedicated to the Fund. In fiscal year 2002 and beyond, all right-of-way fees will be deposited directly into the fund.

In fiscal year 2001, the processes for collection and subsequent depositing of right-of-way fees at DPW were divided between the Office of Public Space Management (OPSM) and the Cost Accounting Unit (CAU).¹ Collections were initially processed by OPSM and then transmitted to CAU, which had responsibility for coordinating the deposits with the Office of Finance and Treasury. Since right-of-way fees represented large-dollar transactions, DPW management recognized their importance and requested DPW internal auditors to review the collection and deposit processes. The review evolved largely as an effort to assess the timeliness of deposits regarding right-of-way fees.

¹ While the CAU operated as a functional unit at DPW, it is organizationally assigned to the Office of the Chief Financial Officer. This type of organizational arrangement (the provision of CFO support services) is common among most District agencies.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



February 1, 2002

Auditor's Report on Financial Statements

The Honorable Anthony A. Williams
Mayor
District of Columbia
John A. Wilson Building
1350 Pennsylvania Avenue, N.W., 6th Floor
Washington, D.C. 20004

Dear Mayor Williams:

The Office of the Inspector General has completed an audit of the comparative balance sheets of the District of Columbia Highway Trust Fund, which is administered by the Department of Public Works, as of September 30, 2001, and the related comparative statement of revenues, expenditures, and change in fund balance for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted government auditing standards promulgated in "Government Auditing Standards," issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit included a review of existing internal controls for the purpose of expressing an opinion on financial accounting records and determining the extent of substantive testing. The review was not intended to be an exhaustive study of the internal controls for making detailed recommendations, and would not have necessarily disclosed all weaknesses in the system. Additionally, we tested for compliance with the provisions of selected laws and regulations. Although we found no instances of noncompliance that would be reportable under generally accepted government auditing standards, please note that the objective of our audit was not to provide an opinion on overall compliance with such provisions.

The Honorable Anthony A. Williams, Mayor
February 1, 2002
Page 2 of 2

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District of Columbia Highway Trust Fund as of September 30, 2001, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Charles C. Maddox". The signature is written in a cursive, flowing style.

Charles C. Maddox, Esq.
Inspector General

CCM/je

**AUDIT OF THE
DISTRICT OF COLUMBIA
HIGHWAY TRUST FUND FOR THE
FY ENDED SEPTEMBER 30, 2001**

COMPARATIVE BALANCE SHEETS

ASSETS	<u>2001</u>	<u>2000</u>
Current Assets:		
Cash and Investments	\$ 61,870,600	\$ 73,963,087
Receivables-Motor fuel tax revenues	4,096,351	2,617,243
Receivables-Right-of-way rental fees	6,558,883	-
Pooled Cash	<u>2,692,747</u>	<u>3,869,413</u>
Total Assets	<u>\$ 75,218,581</u>	<u>\$ 80,449,743</u>
 LIABILITIES & FUND BALANCE		
Current Liabilities:		
Payables:		
Refunds	56,074	90,228
Deferred Revenue	1,479,731	-
Capital Operating Fund	<u>12,696,663</u>	<u>8,516,794</u>
Total Current Liabilities	<u>\$ 14,232,468</u>	<u>\$ 8,607,022</u>
 Long-Term Liabilities		
Payables:		
Retainage	1,542,103	880,057
Capital Operating Account	<u>5,000,000</u>	<u>5,000,000</u>
	6,542,103	5,880,057
Total Liabilities	<u>\$ 20,774,571</u>	<u>\$ 14,487,079</u>
 Fund Balance:		
Restricted	54,444,010	65,962,664
Total Liabilities & Fund Balance	<u>\$ 75,218,581</u>	<u>\$ 80,449,743</u>

The accompanying notes are an integral part of these financial statements.

**AUDIT OF THE
DISTRICT OF COLUMBIA
HIGHWAY TRUST FUND FOR THE
FY ENDED SEPTEMBER 30, 2001**

OIG No. 02-1-1KA(b)

**COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGE IN FUND BALANCE**

Revenues	<u>2001</u>	<u>2000</u>
Motor Fuel Tax ¹	\$ 28,483,801	\$ 31,829,159
Right-of-Way Rental	8,825,936	
Interest Income	3,791,284	3,615,314
Prior Year Cost Recovery (Note 1)	<u>4,997</u>	
Total Revenue	<u>\$ 41,106,018</u>	<u>\$ 35,444,473</u>
 Expenditures		
Capital Appropriated Expenditures:		
Design, Site, Construction, and Equipment Costs	\$ 36,190,879	\$ 21,800,574
Project Mgmt Costs	6,468,644	2,759,309
Non-Participating Costs	<u>9,965,148</u>	<u>(547,490)</u>
		24,012,393
		(7,339)²
Total Net Expenditures	<u>\$ 52,624,671</u>	<u>\$ 24,005,054</u>
Excess of Revenues over Expenses	(11,518,653)	11,439,419
Fund Balance at October 1, 2000	65,962,663	56,365,993
Prior Period Adjustment		<u>(1,842,749)³</u>
Fund Balance at September 30, 2001	<u>\$ 54,444,010</u>	<u>\$ 65,962,663</u>

The accompanying notes are an integral part of these financial st

¹ Motor Fuel Tax Revenues are recorded as an interfund transfer in from the General Fund on the District of Columbia Comprehensive Annual Financial Report, issued January 28, 2002.

² Adjusting entry made to reduce expenses for FY 2000, totaling \$7,339, that was corrected in FY 2001.

³ The adjustment of \$1.8 million corrected the overstatement of expenditures for FY 1999 and corrected the Fund Balance in line with the audited Financial Statements as reported in the FY 2000 Comprehensive Annual Financial Report.

**AUDIT OF THE
DISTRICT OF COLUMBIA
HIGHWAY TRUST FUND FOR THE
FY ENDED SEPTEMBER 30, 2001**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The District uses the Highway Trust Fund to report on the Fund's financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain District functions or activities. A fund is a separate entity with a self-balancing set of accounts.

The Highway Trust Fund is an Agency Fund, which is used to account for the monies held in escrow with the District as an agent for the motor vehicle fuel taxes and right-of-way rental fees collected to pay the District's share of federal-aid highway projects. Funds from the Highway Trust Fund are transferred on a reimbursement basis into the Capital Projects Fund to cover the District's share of highway projects.

BASIS OF ACCOUNTING

The modified accrual basis of accounting is used for the Highway Trust Fund. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon thereafter to be used to pay liabilities of the current period.

Those revenues susceptible to accrual are sales use taxes, rental and other fees, and interests. Sales and use taxes are recognized as revenue when the sale and use take place. Interest and fees are recognized as revenue through the passage of time.

CASH AND INVESTMENTS

Highway Trust Fund cash is deposited in accounts with Bank of America and Allfirst Trust Company. The Highway Trust Fund cash is invested in obligations of the United States or its agencies through repurchase agreements. Such investments are considered the equivalents of cash because they are low-risk, short-term (90 days or less) investments.

**AUDIT OF THE
DISTRICT OF COLUMBIA
HIGHWAY TRUST FUND FOR THE
FY ENDED SEPTEMBER 30, 2001**

RECEIVABLES AND PAYABLES

Taxes receivable are taxes levied by the District and interest penalties on delinquent taxes that have not been collected, canceled, or abated, less the portion of the receivables estimated not to be collectible. Accounts receivable/payable are amounts owed by/to customers or vendors for goods and services sold or purchased. Interfund receivables/payables or transfers in/out are amounts owed or conveyed between funds. Amounts due within 1 year are classified as current receivables/payables in the balance sheet.

RESTRICTED ASSETS AND LIABILITIES

All assets are restricted as to use by legal or contractual agreements. The Highway Trust Fund includes certain assets and liabilities arising from dedicated taxes that are legally restricted for certain highway projects.

ESTIMATES

The preparation of financial statements and 7-year forecasted statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CURRENT ASSETS

Cash and Investments - As required by law, the bank balance was entirely insured or collateralized with securities held by the bank's agent in the District's name. The carrying amount and bank balances of deposits as of September 30 are listed below:

	2001	2000
Highway Trust Fund Account	\$ 2,254,583	\$ 63,238,215
Revolving Fund Account	7,219,837	10,724,871
Intermediate Investment Account	52,396,180	-
Total	\$ 61,870,600	\$ 73,963,086

Receivables – Motor fuel tax revenue – represent motor fuel taxes recognized at September 30, which were subsequently collected.

Receivables – Right-of-way revenue – represent rental fees, recognized at September 30, from utility companies that use public right of way space, but not received.

**AUDIT OF THE
DISTRICT OF COLUMBIA
HIGHWAY TRUST FUND FOR THE
FY ENDED SEPTEMBER 30, 2001**

Pooled Cash – The Highway Trust Fund (Fund 320) participates in the pooled cash process, which is maintained by the Office of Finance and Treasury. Although the accounting is maintained separately by fund, certain treasury-controlled accounts are used for some of the transactions. At year-end, the pooled cash balance includes cash received and recognized for motor fuel and right-of-way rental fees as revenue/deferred revenue but not yet transferred to the Highway Trust Fund bank account.

CURRENT LIABILITIES

Refunds – represent refunds due to Greyhound Bus Company and other owners of out-of-town buses who pay the motor fuel tax but are due a rebate on the amount of fuel used outside of the District.

Deferred Revenues – Deferred revenues represent right-of-way rental fees collected in advance but applicable as revenue for the first quarter of FY 2002.

Capital Operating Fund – represents fiscal year expenditures paid from the operating fund which are reimbursable from the Highway Trust Fund.

LONG TERM LIABILITIES

Certain payables that the District does not expect to pay within 1 year are classified as long-term liabilities:

Retainage – In accordance with Federal Highway Administration construction contracts, the District withholds a percentage of costs incurred by contractors until the completion of certain segments of work.

Capital Operating Account – The District's Capital Project Fund advanced \$5 million in 1996 to establish the Highway Trust Fund revolving bank account. Repayment of this amount is not expected prior to fiscal year 2004.

FUND BALANCE

The Fund Balance is restricted to use by the Department of Public Works Highway Trust Fund for repayment to the Department of Transportation's Federal Highway Administration and for the District's cost-sharing requirements for eligible federal-aid highway projects.

**AUDIT OF THE
DISTRICT OF COLUMBIA
HIGHWAY TRUST FUND FOR THE
FY ENDED SEPTEMBER 30, 2001**

REVENUES

The Highway Trust Fund revenue from October 1 through September 30, consists of:

- use taxes earned on motor fuel sold in the District, at the wholesale level,
- right-of-way rental fees from companies occupying public space, and
- interest and investment income earned from short-term (overnight) investments and in obligations of the United States or its agencies through repurchase agreements.

Note 1: PRIOR YEAR COST RECOVERY

Prior Year Cost Recovery – represents a liability erroneously recorded in fiscal year 1998 for refunds that were not applicable to the Highway Trust Fund. The liability was corrected and reclassified in FY 2001 as recovered motor fuel revenue.

EXPENDITURES

The total represents capital appropriated expenditures for the period October 1 through September 30, for each FY. These expenditures that are payable from the Highway Trust Fund include the following:

- payment of the District's share of federal-aid highway project costs,
- in-house capital outlay labor costs (DPW personnel), and
- a specific portion of the locally funded capital projects during FY 2001.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



February 1, 2002

**Auditor's Report on Compliance and on Internal Control Over Financial Reporting
Based on an Audit of Financial Statements Performed in Accordance With
Government Auditing Standards**

The Honorable Anthony A. Williams
Mayor
District of Columbia
John A. Wilson Building
1350 Pennsylvania Avenue, N.W., 6th Floor
Washington, D.C. 20004

Dear Mayor Williams:

We have audited the comparative balance sheet of the District of Columbia Highway Trust Fund as of September 30, 2001, and the related comparative statements of revenues, expenditures, and change in fund balance for the year then ended.

We conducted our audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

Compliance

Compliance with laws and regulations applicable to the Fund is the responsibility of the Fund's management at the Department of Public Works (DPW). As part of obtaining reasonable assurance whether the financial statements are free of material misstatement, we performed tests of the Fund's compliance with certain provisions of laws and regulations, the noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, our objective was not to provide an opinion on overall compliance with such provisions, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and are described in Exhibit 1.

Internal Control Over Financial Reporting

DPW is also responsible for establishing and maintaining an internal control structure for the Fund. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

In planning and performing our audit, we considered the Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters that come to our attention and relate to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment could affect the Fund's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projections of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the effectiveness of the design and operation of policies and procedures may deteriorate. Nevertheless, the results of our tests disclosed conditions that are required to be reported under *Government Auditing Standards* and are described in Exhibit I.

Our review of the internal control structure would not necessarily disclose all matters that might be material weaknesses under standards established the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Accordingly, we noted two matters involving the internal control structure and its operations that we consider material weaknesses as defined above, which is the basis for our qualified opinion on the District's internal control structure. In our opinion, because

The Honorable Anthony A. Williams, Mayor
February 1, 2002
Page 3 of 3

of the effect of the material weaknesses relating to controls over the Fund's collection of revenues and information system controls, the District did not maintain an effective internal control structure related to the Fund as of September 30, 2001. The identified material weaknesses are described in Exhibit II of this report.

Sincerely,

A handwritten signature in cursive script, appearing to read "Charles C. Maddox".

Charles C. Maddox, Esq
Inspector General

CCM/je

EXHIBIT I
REPORTABLE CONDITIONS
COMPLIANCE WITH LAWS AND REGULATIONS

**AUDIT OF THE
DISTRICT OF COLUMBIA
HIGHWAY TRUST FUND FOR THE
FY ENDED SEPTEMBER 30, 2001**

**1. COMPLIANCE WITH BOND AND INDEMNIFICATION INSURANCE
REQUIREMENTS**

From a universe of 22 occupancy permittees,¹ we judgmentally reviewed the related files of 9 permit holders to verify whether they met bond and indemnification insurance requirements. Permit holders are required to obtain a \$25,000 performance bond or maintain a \$25,000 cash deposit with the District to guard against vendors failing to complete excavation and installation of proposed lines. Further, permit holders are required to demonstrate financial responsibility or provide evidence of indemnification insurance in the amount of \$1 million.

Our review found that DPW did not maintain adequate documentation for one of the nine permit holders to provide evidence of performance bonds. Additionally, DPW could not provide any documentation to verify that the nine permit holders had indemnification insurance. As a result, DPW management did not ensure that these required documents were on record before issuing occupancy permits. Noncompliance with bonding and insurance requirements could result in the District incurring liabilities in the event of a permit holder's failure to perform and in instances when personal injury or property damage occurs.

RECOMMENDATION 1:

DPW ensure that vendors requesting occupancy permits are in compliance with all required laws before the issuance of a permit.

DPW/OFFICE OF TAX AND REVENUE (OTR) RESPONSE

During exit conferences to discuss these issues, representatives from DPW and OTR concurred with the finding. Their written responses describe actions taken or planned to correct the noted conditions and are included in Exhibit III.

OIG COMMENT

The actions taken or planned by DPW/OTR should correct the conditions noted.

¹ Occupancy permittees are vendors who obtain permits to occupy public right-of-way below ground with stand-alone conduits or pipes, above ground with aerial lines, or on the surface with any structure housing transmission facilities (other than public telephones).

2. COMPLIANCE WITH CERTIFIED VENDOR INVENTORIES

At the onset of work, a permit holder presents a plan of right-of-way space usage via a self-certification of the space to be utilized. As work is completed, space usage, as identified in the original plan, may change. As such, vendors are required to submit certified inventory amounts quarterly to DPW for use in determining right-of-way fee amounts due. Right-of-way fees are calculated based on an assigned rate multiplied by the total space used by the vendor.

From the original universe of 22 occupancy permittees, we reviewed the related files to determine whether vendors had submitted certified inventories relating to right-of-way space usage. Our review found that DPW did not maintain documentation regarding certified inventories for 6 of the 22 vendors. Additionally, documentation of certified inventories for another 5 of the 22 vendors was incomplete. DPW officials informed us that a vendor is not required to submit a certified inventory when they do not have facilities (physical structures, to include pipes, wires, etc.) in the right-of-way. We could not ascertain whether payments were due for these six vendors referred to above. We did identify right-of-way fees for two of the vendors that had not submitted certified inventories. However, we did not identify right-of-way fees for the remaining four vendors.

The following table identifies the permit holder tested, whether they had certified inventories on hand, our analysis of the inventories, and any related payment received based on the report on file.

Permit Holder	Properly Certified Inventories	FY 2001 Right-of-Way Fees
1	Submitted	\$ 5,439,987
2	Submitted	1,931
3	Submitted	129,024
4	Submitted	336,377
5	Submitted	8,061,419
6	Submitted	3,777
7	Incomplete	18,178,939
8	Incomplete	26,875
9	Incomplete	9,814
10	Incomplete	86,619
11	Incomplete	547
12	None Submitted	114,403
13	None Submitted	6,510,000
14	None Submitted	0
15	None Submitted	0
16	None Submitted	0
17	None Submitted	0
18	None Required	N/A
19	None Required	N/A
20	None Required	N/A
21	None Required	N/A
22	None Required	N/A
	Total	\$38,899,712

The absence of documentation to support certified inventories may cause revenue to be understated. Additionally, without the certifications from the six permit holders, we could not determine whether right-of-way fees were due to the District, i.e., additional revenues due to the District.

RECOMMENDATION 2:

DPW ensure that permit holders submit certified inventories with applications and quarterly payments of right-of-way fees.

DPW/OTR RESPONSE

During exit conferences to discuss these issues, representatives from DPW and OTR concurred with the finding. Their written responses describe actions taken or planned to correct the noted conditions and are included in Exhibit III.

OIG COMMENT

The actions taken or planned by DPW/OTR should correct the conditions noted.

EXHIBIT II
REPORTABLE CONDITIONS
INTERNAL CONTROL STRUCTURE

**AUDIT OF THE
DISTRICT OF COLUMBIA
HIGHWAY TRUST FUND FOR THE
FY ENDED SEPTEMBER 30, 2001**

1. CASH MANAGEMENT

The District uses a pooled cash arrangement to manage cash collected by the Office of Tax and Revenue and other District agencies. In order to ensure that all bank accounts were properly reconciled and related adjustments were posted to the general ledger, the Office of Financial Operations and Systems (OFOS) established a Cash Management Reconciliation Unit. The responsibility of this unit was to reconcile pooled cash bank accounts. However, in spite of these efforts, reconciliations of the pooled cash accounts were not always completed timely.

An internal DPW audit of over \$27 million in deposits found that considerable interest was forfeited because of deposit delays. Delays occurred primarily because checks were misplaced and because the office that collected fees often waited to accumulate several checks before transmitting them for deposit. To correct the deficiencies, DPW's internal auditors made recommendations to review, periodically, the process of transmitting checks timely to the CAU, to provide a year-end report to the DPW Controller detailing fees due from utility and communications companies, and for the CAU to assume control of receiving and depositing fees as soon as practical. Our review of collections also identified right-of-way fees that were not deposited timely.

Our review of collections identified that six of the nine payments for right-of-way fees were not deposited timely in accordance with District financial policies and procedures. Accordingly, DPW should have been depositing on a daily basis. Moreover, DPW did not have controls in place to ensure that fees were collected in a timely manner, such as maintaining a log that provides for recording the date payment was received and processed by OPSM.

We also noted that although vendor payments (checks) were dated before the due date, OPSM did not submit the checks to the CAU for processing (and depositing) timely. Thus, in the absence of a control log identifying the date payment was received in OPSM, we could not determine if late fees should have been assessed. Title 24 DCMR § 3302.13 allows for the assessment of interest of ten percent per annum, compounded daily, for all payments received 5 days after the due dates.

During our audit, we identified reconciling items that were not identified by District officials or that were not resolved timely. Specifically, we noted adjustments that were necessary in the following accounts: 1) Motor Fuel Revenues, 2) Deferred Revenues, and 3) Interest/Investment Revenues. Additionally, we noted that DPW was not timely recording right-of way collection fee revenues. We proposed adjustments to DPW and OFOS to correctly reflect balances of the Highway Trust Fund. All proposed adjustments were made. In our opinion, the financial statements present fairly, in all material respects and in conformity with generally accepted

accounting principles, the Fund's assets and liabilities as of September 30, 2001, and its revenues, expenditures, and changes in fund balance for the years then ended. The following are the details of our observations.

Motor Fuel Revenues

Motor fuel revenue receipts totaling \$5.35 million collected and reported during fiscal years 1999 and 2000 were not transferred timely for deposit into the Highway Trust Fund bank account. The receipts were wired from the Office of Finance and Treasury to the Fund account in January 2001, a delay of up to 15 months. As a result, the Fund lost the use of these funds and interest income in excess of \$200,000.

Motor Fuel Tax revenues are deposited into the District's custodial account (Bank Identification Number 200).¹ The custodial account is maintained by the Office of Finance and Treasury and reconciled monthly by the Office of Financial Operations and Systems (OFOS). Based upon a monthly review and analysis of motor fuel tax collations, OTR initiates a request to the Office of Finance and Treasury to transfer the funds attributed to motor fuel revenues from the custodial account to the Fund. Upon completion of the monthly reconciliation by OFOS, a journal entry is made to transfer the funds attributed to motor fuel revenues from the custodial account to the Fund. Copies of the reconciling documents and wire transfer request(s) actually transferring the funds are sent to DPW.

During our review of motor fuel tax revenues received during FY 2001, we noted that a transfer of \$5.3 million was made on January 22, 2001, into the Highway Trust Fund. We questioned officials from DPW, OFOS, and OTR as to the source of these monies transferred to the Fund. It was determined that the revenues were attributed to amounts earned for the months of August and October of 1999.

During our FY 2000 audit of the Highway Trust Fund, our review of wire transfers made from the custodial account to the Fund identified two wire requests that were not transferred to the Fund. When this matter was brought to the attention of DPW, OFOS, and OTR officials, they performed an analysis of the events surrounding the recognition and transfer of the funds for these months.

From the analysis performed, it was determined that OFOS had performed reconciliations of the custodial account, a request for wire transfer had been made to transmit these funds to the Highway Trust Fund, and a journal entry had been made to the custodial account to reflect the transfer. However, inadvertently, the actual wire transfer had not occurred. At the end of FY 2000, during the District's closing process, OFOS identified the journal entry on its books for the 2 months of motor fuel tax revenues and subsequently reversed it in order to report properly the balances in the custodial account. When we identified the missing revenues during our FY 2000 audit of the Highway Trust Fund, the original journal entry to transfer the \$5.3 million was re-posted, and the funds were properly transferred on January 22, 2001.

¹ The custodial account is comprised of a variety of tax revenues, in addition to motor fuel taxes, which include excise taxes and public utility taxes.

Deferred Revenues

We identified that \$1.3 million of FY 2002 right-of-way revenues were improperly recorded as FY 2001 revenues. When this matter was brought to DPW's attention, an entry was made to properly record revenues in the year earned.

Interest/Investment Income

DPW management did not ensure that interest revenue recorded in the general ledger was reconciled to bank statements. As a result, interest was overstated by \$949,000 primarily due to the duplicate posting of interest payments. Management corrected these errors during our review, and subsequently avoided a material effect on the financial statements. However, DPW could have averted these errors by reconciling the general ledger accounts to the bank statements.

Right-of Way Collections

DPW was not timely depositing right-of-way collections. Vendors are required to submit quarterly payments for right-of-way fees to the OPSM. Our review of collections identified that six of the nine 4th-quarter payments for right-of-way fees were not deposited timely in accordance with District financial policies and procedures. Accordingly, DPW should have been depositing on a daily basis. Moreover, DPW did not have controls in place to ensure that fees were collected in a timely manner, such as maintaining a log recording the date payment was received and processed by OPSM. This issue was previously identified by DPW's internal audit group during an analysis of deposits and controls over cash collections.

Right-of-way collection fees are received by the OPSM. Once received, payments are recalculated, based on certified inventories on file. Once the payment is verified as correct, the amount paid is logged onto a spreadsheet and the original check is sent to the CAU for processing and deposit. OPSM will contact the vendor to discuss billing arrangements relating to any discrepancies in the amounts due or paid. Once the check is received at DPW, it is recorded as cash revenue and deposited to the DPW General Fund. However, amounts in excess of the first \$30 million are transferred to the Highway Trust Fund.

Our review of this process identified that DPW was not timely depositing right-of-way payments received. In addition, we noted that controls were not in place to ensure that vendors made payments when due. Specifically, DPW did not record the date payment was received and the post-marked envelopes of payments were not retained. Accordingly, we could not determine whether payments were made by the required due dates.

The table that follows includes examples of collections reviewed for right-of-way fees due on July 1, 2001. We estimated that the Fund lost revenue of \$35,000, representing interest accruals, due to delays in depositing. Our estimate was based on the U.S. Treasury interest rate of 0459 per annum.

Check No.	Check Amount	Check Date	Date Deposited	Potential Days Lost Interest
8011363	\$1, 355,389	06-28-01	09-27-01	80
942159	\$ 28,673	06-15-01	07-24-01	15
1002705533	\$ 85,530	06-23-01	07-17-01	8
300727	\$ 4,579,754	07-02-01	07-24-01	15
013630	\$ 2,015,471	06-27-01	07-24-01	15
005434	\$ 23,526	06-28-01	07-17-01	8

We also noted that although vendor payments (checks) were dated before the due date, OPSM did not submit the checks to the CAU for timely processing and depositing to the Office of Finance and Treasury. Thus, in the absence of a control log identifying the date payment was received in OPSM, we could not determine if late fees should have been assessed. Title 24 DCMR § 3302.13 allows for the assessment of interest of ten per cent per annum, compounded daily, for all payments received past the due dates. Accordingly, DPW may be able to assess late fees for payments received after the due dates, in the examples cited in the above table.

RECOMMENDATION 3:

DPW establish controls to ensure that right-of-way collections are recorded and processed accurately, deposited timely, and that vendors are assessed late fees.

DPW/OTR RESPONSE

During exit conferences to discuss these issues, representatives from DPW and OTR concurred with the finding. Their written responses describe actions taken or planned to correct the noted conditions and are included in Exhibit III.

OIG COMMENT

The actions taken or planned by DPW/OTR should correct the conditions noted.

2. FOLLOW-UP ON PREVIOUSLY REPORTED INFORMATION SYSTEM DEFICIENCIES

In January 2001, the GAO issued report GAO-01-155 “Information Security: Weak Controls Place DC Highway Trust Fund and Other Data at Risk.” The GAO report contained three major findings, in which they summarized 71 information systems control weakness as follows:

Sensitive Data and Programs were Vulnerable to Unauthorized Access

The District had not adequately limited access granted to authorized users, properly managed user Ids and passwords, effectively maintained system software controls, or sufficiently protected its networks and other computer systems from unauthorized users.

Other Information System Controls were not Sufficient

In addition to the access controls described above, GAO identified other important information system general controls that organizations should have in place to ensure the integrity and reliability of data. These controls include policies, procedures, and control techniques to physically protect sensitive computer resources and information, provide appropriate segregation of duties among computer personnel, prevent unauthorized changes to application programs, and ensure the continuation of computer processing operations in cases of unexpected interruptions. Weaknesses in each of these areas were found.

Computer Security Management Program was not Adequate

The computer security management program should address objectives for: (1) assessing risk to determine computer security needs, (2) developing and implementing policies and controls that meet these needs, (3) promoting awareness to ensure that risks and responsibilities are understood, and (4) instituting an ongoing program of tests and evaluations to ensure that policies and controls are appropriate and effective. The District had not adequately accomplished any of these objectives.

The OIG conducted a follow up of all of the findings identified by GAO, and we plan to address the status of these issues in a separate report to be released in February 2002. As of October 2001, we found that while the District had completed 15 corrective actions and had planned 50 corrective actions, no action had been taken or planned for 6 information system control weaknesses. The effect of not completing actions to address these recommendations includes lack of assurance that capital expenditure costs were properly allocated and that billings to the Fund were accurate and valid. Further, failure to correct access control weaknesses poses a risk that data in the system may be compromised.

With the publication of the OIG report on the Fund’s information systems, we will be recommending that DPW and OCTO complete the corrective actions for the 56 specific information system control weaknesses that are reported and detailed in the OIG report and notify the OIG quarterly on the progress in implementing the corrective action for each of the

specific information system control weaknesses. In addition, the OIG is repeating two specific GAO recommendations, i.e., that OCTO: (1) ensure that an effective entity-wide security management program be developed and implemented, and (2) institute an ongoing program of test and evaluation to ensure that policies and controls are appropriate and effective.

In summary, we believe that, given the amount and severity of the weaknesses identified and their vulnerability to be compromised, the District's ability to prevent and/or detect unauthorized changes to the Fund and other District financial information is at risk. DPW Fund managers need to review the OIG report in its entirety to determine the areas of susceptibility that have a direct affect on Fund operations, and take the corrective action in consultation with OCTO.

EXHIBIT III
MANAGEMENT RESPONSES

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Deputy Chief Financial Officer
Office of Tax and Revenue



Tax and Revenue

February 1, 2002

Mr. Charles C. Maddox, Esq.
Inspector General
Office of the Inspector General
717 14th Street, N.W.
Washington, D.C. 20005

Dear Mr. Maddox:

We have reviewed your draft report on the audit of the District of Columbia Highway Trust Fund as September 30, 2001. Thank you for this opportunity to review the draft report and provide the following comments.

Office of Tax and Revenue (OTR) concurs with the findings cited in Section 1, Cash Management, Motor Fuel Revenues of Exhibit II – Reportable Conditions Internal Control Structure.

In an effort to strengthen our internal control procedures in this area, OTR and Department of Public Works (DPW) have implemented the following procedures to ensure that motor fuel revenue transfers are completed timely and accurately.

- On a monthly basis, copies of OTR's motor fuel revenue transfer requests and motor fuel revenue analyses are provided to DPW.
- Bank transfer confirmation statements are requested by OTR from the Office of Finance and Treasury.
- On a quarterly basis, OTR and DPW, collectively, reconcile and verify transfers requested and received.

As a result, all transfers for fiscal years 2001 and 2002 reporting periods to date have been requested and completed within 60 days of the reporting period.

If you have any questions or comments, please contact my office at 202-442-6436.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael A. Covington".

Michael A. Covington
Director, Revenue Accounting Administration

cc: Herbert J. Huff, Deputy Chief Financial Officer, OTR
Sebastian Lorigo, Director, Internal Audit Internal Security, OCFO

GOVERNMENT OF THE DISTRICT OF COLUMBIA
DEPARTMENT OF PUBLIC WORKS

Chief Financial Officer

February 1, 2002

Charles C. Maddox, Sq.
Inspector General
717 14th Street, N.W.
Washington D.C. 20005

Dear Mr. Maddox:

This letter is in response to your draft audit of the Highway Trust Fund for fiscal year 2001. We have included comments on reportable conditions listed in both Exhibit I and II. We did not comment on Motor Fuel Revenue issues because that response is due from the Office of Tax and Revenue.

We would like to preface our response to specific deficiencies reported in the draft audit by making two comments about the Highway Trust Fund program. During fiscal year 2001 there were two significant changes to the program. First, Right-of-Way fee collections were only eligible for deposit into the fund during the last three months of the fiscal year. During this transition period procedural errors were identified by DPW and corrective action taken prior to this audit.

Secondly, a new trust fund manager was hired during the fiscal year. As a result of this transition, not all accounting reclassifications and other adjusting entries were made timely. However, as stated in your unqualified opinion, the financial statements fairly represented the financial status of the fund. Preparation of interim financial statements in the future will insure that financial issues are reported and dealt with timely.

Qualified Opinion of Internal Control

It was our understanding that material weaknesses related to information systems control would be addressed in the IT audit. It would appear to be redundant to report the same findings on two separate audit reports. It is our understanding that OCTO will be responding to most if not all of these issues. We strongly feel that this statement should be eliminated from this audit report, and included on the IT audit only.

In addition, you mention material weakness in the "Fund's expenditures" Expenditures were not mentioned as reportable conditions in this audit report. DPW completed a "scrub" of capital expenditures to assure the correctness of these costs and their proper allocation to various projects. We would therefore request that reference to expenditure deficiencies be stricken from the report.

It is our understanding that "Revenue" will be substituted for "Expenditures" in this section. We feel that this does not merit a qualified opinion because of the issue of materiality. Interest income in the amount of \$200,000 was posted to the general fund because the cash was not transferred to the Highway Trust Fund in a timely manner. This income was not "lost" as stated on page 20 under Motor Fuel Revenues. DPW is in the process of requesting recovery of the \$200,000 interest income in the Highway Trust Fund. Also, the Right-of-Way program was linked to the Highway Trust Fund for only three months. Any loss of revenue due to delinquent deposit of checks should not be considered material. And corrective action was taken by DPW to resolve this issue prior to this audit.

Page 13, material weakness related to "Fund's expenditures" is repeated, and should be eliminated.

Response to Exhibit I "Reportable Conditions Compliance with Laws and Regulations"

1. Compliance With Bond and Indemnification Insurance Requirements

DPW Response:

DPW/DDOT/Office of Public Space (Office) obtained either cash deposits or bonds for every permit holder. The Office will update its files to reflect copies of all collections.

When DPW issued Occupancy Permits in March 2000 it did not require companies to submit the insurance indemnity or to demonstrate financial responsibility as required in the regulations. The Office has required all companies issued permits since August 2000 to submit this information before issuing an Occupancy Permit. The Office will obtain the required documents from the companies originally permitted in January 2000 by February 2002.

2. Compliance with Certified Vendor Inventories

DPW Response:

All permit holders were notified at the Utility Policy Meeting held January 23, 2002 that they would be contacted to provide missing inventory forms in the Office's effort to update its files. In addition, in the notice for payment due, sent January 8, 2002, the Office notified all permit holders that the inventory certification must be received for their companies to be recognized as being in compliance with regulations. If companies are found to be out of compliance because of missing inventory certification, the Office will not issue new excavation permits until obligations are met.

Response to Exhibit II "Reportable Conditions Internal Control Structure"

3. Cash Management

DPW Response:

As a result of the internal audit of cash collection procedures for the Right-of-Way fees, responsibility for processing the checks was transferred from OPSM to the Cost Accounting Unit (CAU). Permittees now submit their checks directly to the CAU. The CAU has maintained a payment receipt log that identifies, by vendor, the date of receipt and the date the checks are deposited.

All checks for Right-of-Way fees are currently mailed or delivered directly to the Cost Accounting Unit at the Reeves Center. Envelopes are now being retained to determine if penalty and interest should be assessed based upon the post mark date. DPW is developing procedures that address the assessment of interest and penalties whenever warranted. These procedures will be implemented in February 2002.

The Highway Trust Fund Manager will obtain all relevant financial documents from OTR and OPSM and subsequently prepare interim Financial Statements during fiscal year 2002. These procedures should prevent future reconciliation issues at year-end.

Detailed Observations

Motor Fuel Revenues

DPW response:

The interest income in the amount of \$200,000 is not "lost". DPW is the process of requesting transfer of interest income from the general fund to the Highway Trust Fund resulting from delays in transferring the funds in fiscal year 2001.

Response due from OTR

Deferred Revenues

Audit Finding:

Deferred revenues improperly recorded as revenue.

DPW Response:

Future payments received in advance of the October 1 due date will be recorded as deferred revenues.

Interest/Investment Income

Audit finding:

DPW management did not ensure that interest revenue recorded in the general ledger reconciled to the bank statements

DPW Response:

The temporary overstatement of interest was the result of a year-end adjustment to reclassify agency codes AT0 (OTR's agency code in the accounting system) to KA0 (DPW's agency code). This was therefore an adjustment to the general ledger, not a bank reconciliation issue. This issue related specifically to an intermediate term investment account managed by the Investment Officer at the Office of Tax and Revenue. The Department of Public Works (DPW) has requested copies of the monthly bank statement and related journal entries that record interest/investment income in order to verify proper recordation of income in the accounting system.

Right-of-Way Collections

Audit Finding:

Right-of-way collections were not deposited timely

DPW Response:

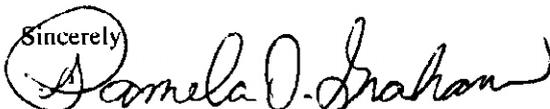
Right-of-Way fees represent a new source of funding for the Highway Trust Fund. They became eligible for deposit into the fund only in the fourth quarter of fiscal year 2001. It was during this transition period that the DPW, OCFO became aware of substantial delays in the deposit of these checks. As a result, the DPW, OCFO requested an internal audit of the disposition of checks received from permittees by the Office of Public Space Management (OPSM). This audit completed on September 30, 2001 recommended that all checks for Right-of-Way fees be submitted directly to the OCFO. These recommendations were adopted.

Deposit slips are now being prepared and submitted to the Office of the DC Treasurer within two days of receipt of the checks. Documentation noting the date of receipt will be retained with each deposit. Procedures have been established to ensure that permittees are notified by invoice 30 days in advance of the quarterly due dates and the amounts due based upon the certified vendor inventory.

2. Follow-Up On Previously Reported Information System Deficiencies

As mentioned previously it was our understanding that these findings will be reported on a separate audit report. It would appear to be redundant to report the same findings on two separate audit reports. It is our understanding that OCTO will be responding to most if not all of these issues. We strongly feel that this entire section should be eliminated from this audit.

Please let me know if you need and further assistance or clarification in this matter.

Sincerely

Pamela D. Graham
Chief Financial Officer