GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL

DEPARTMENT OF CONSUMER AND REGULATORY AFFAIRS

PROFESSIONAL ENGINEERS' FUND
FINANCIAL STATEMENTS

For the Six Months Ended March 31, 2001
and the Year Ended September 30, 2000

and

INDEPENDENT AUDITOR'S REPORT THEREON

CHARLES C. MADDOX, ESQ.
Inspector General

Audit Report No. OIG-01-1-28CR(b) **February 11, 2002**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General

February 11, 2002

David Clark
Director
Department of Consumer and Regulatory Affairs
941 North Capitol Street, N.E.
Suite 9500
Washington, D.C. 20002

Dear Mr. Clark:

Enclosed are the final reports summarizing the results of the Office of the Inspector General's (OIG) audits of the Professional Engineers' Fund (Fund) for the period ended September 30, 2000; the six month period ended March 31, 2001; and the Independent Auditor's Reports thereon. These audits were conducted by contract under the purview of the OIG.

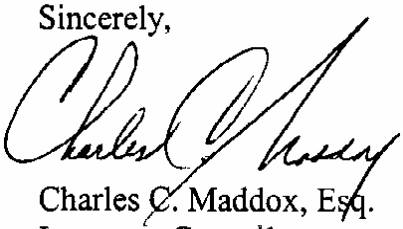
The audits disclosed that the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of March 31, 2001, and September 30, 2000, and the results of its operations and cash flows for the six months ended March 31, 2001, and the year ended September 30, 2000, in conformity with generally accepted accounting principles except as discussed below.

Due to inadequacies in the Fund accounting records, the auditors were unable to verify the opening balances in the financial statements as of September 30, 2000, and were therefore unable to form an opinion regarding the accuracy of the amount of service revenue in the accompanying statement of revenues, expenses, and changes in retained earnings by means of other auditing procedures. Specifically, the Fund's revenue, expenses and related assets and liabilities were not accounted for in a separate fund. Instead, revenue collections of the Fund were deposited in the District of Columbia General Fund without an auditable trail.

DCRA management agreed with the findings and provided details of actions taken or planned to address the recommendations. These responses are incorporated as appropriate in the report.

Should you have any questions concerning this report, please call me or William J. DiVello, Assistant Inspector General for Audits, on (202) 727-2540.

Sincerely,



Charles C. Maddox, Esq.
Inspector General

CCM/cj

Enclosures (2)

cc: See attached page.

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PROFESSIONAL ENGINEERS' FUND
FINANCIAL STATEMENTS

For the Six Months Ended March 31, 2001 and the Year Ended September 30, 2000

TABLE OF CONTENTS

PAGE

Independent Auditor's Report……..….……1

Financial Statements:

Balance Sheets…….…….3

Statements of Revenues, Expenses and
Changes in Retained Earnings…….…….4

Statements of Cash Flows…….……...5

Notes to the Financial Statements…….…...6

Independent 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*…….……..…….. 9

Exhibit I

Compliance Findings ……..11

Exhibit II

Material Weakness ……...……..14

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Management Consultants and Certified Public Accountants
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INDEPENDENT AUDITOR'S REPORT

The Inspector General of the
Government of the District of Columbia,
Office of the Inspector General,
717 14th Street, N.W.,
Washington, DC 20005.

We have audited the accompanying financial statements of the Professional Engineers' Fund (PEF or the Fund) of the Government of the District of Columbia Department of Consumer and Regulatory Affairs as of March 31, 2001 and September 30, 2000 and for the six months ended March 31, 2001 and the year ended September 30, 2000, as listed in the table of contents. These financial statements are the responsibility of PEF's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, we conducted our audits 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. 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 audits provide a reasonable basis for our opinion.

We were unable to form an opinion on the fiscal year (FY) 2000 financial statements because of inadequacies in PEF's accounting records. We were unable to satisfy ourselves about the opening balances in the financial statements as of September 30, 2000 or form an opinion regarding the accuracy of the amount of service revenue in the accompanying statement of revenues, expenses and changes in retained earnings by means of other auditing procedures.

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In our opinion, except for the effects on the FY 2000 financial statements of such adjustments, if any, as might have been determined to be necessary if we had been able to satisfy ourselves about the opening balances in the financial statements as of September 30, 2000 or form an opinion regarding the amount of service revenue in the accompanying statement of revenues, expenses and changes in retained earnings by means of other auditing procedures as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of PEF as of March 31, 2001 and September 30, 2000, and the results of its operations and cash flows for the six months ended March 31, 2001 and the year ended September 30, 2000 in conformity with accounting principles generally accepted in the United States of America. In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2001 on our consideration of PEF's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

October 26, 2001.

D.C. DEPARTMENT OF CONSUMER AND REGULATORY AFFAIRS
PROFESSIONAL ENGINEERS' FUND
BALANCE SHEETS
As of March 31, 2001 and September 30, 2000

		March 31, 2001	September 30, 2000
ASSETS			
Current assets			
Cash		$ 224,932	$ 208,163
Advances	(Note 3)	10,188	9,703
Prepaid expenses	(Note 2)	115,025	195,840
Total current assets		350,145	413,706
TOTAL ASSETS		$ 350,145	$ 413,706
LIABILITIES AND OWNER'S EQUITY			
Liabilities			
Deferred revenue	(Note 2)	$ 162,515	$ 295,996
Unprocessed applications	(Note 3)	10,188	9,703
TOTAL LIABILITIES		172,703	305,699
Owner's Equity			
Retained earnings		177,442	108,007
TOTAL OWNER'S EQUITY		177,442	108,007
TOTAL LIABILITIES AND OWNER'S EQUITY		$ 350,145	$ 413,706

The accompanying notes are an integral part of these financial statements

D.C. DEPARTMENT OF CONSUMER AND REGULATORY AFFAIRS
PROFESSIONAL ENGINEERS' FUND
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
For the Six Months Ended March 31, 2001 and the Year Ended September 30, 2000

	March 31, 2001	September 30, 2000
Revenue		
Renewal of license	$ 162,515	$ 108,525
Other fees	29,561	9,960
Total revenue	192,076	118,485
Expenses		
ASI commissions	115,025	-
Meeting costs	1,000	1,200
Membership dues	5,000	5,000
Travel	1,616	4,278
Total expenses	122,641	10,478
Net operating income	69,435	108,007
Retained earnings - beginning of period (Note 2)	108,007	-
Retained earnings - end of period	$ 177,442	$ 108,007

The accompanying notes are an integral part of these financial statements

D.C. DEPARTMENT OF CONSUMER AND REGULATORY AFFAIRS
PROFESSIONAL ENGINEERS' FUND
STATEMENTS OF CASH FLOWS
For the Six Months Ended March 31, 2001 and the Year Ended September 30, 2000

	March 31, 2001	September 30, 2000
Cash flows from operating activities		
Net operating income	$ 69,435	$ 108,007
Adjustments to reconcile net income to net cash provided by operating activities:		
Decrease (increase) in accounts receivable	(485)	(9,703)
Decrease (increase) in prepaid expenses	80,815	(195,840)
Increase (decrease) in deferred revenue	(133,481)	295,996
Increase (decrease) in unprocessed applications	485	9,703
Net cash provided by operating activities	16,769	208,163
Net increase in cash	16,769	208,163
Cash, beginning of year	208,163	-
Cash, end of year	$ 224,932	$ 208,163

The accompanying notes are an integral part of these financial statements

D.C. DEPARTMENT OF CONSUMER AND REGULATORY AFFAIRS
PROFESSIONAL ENGINEERS' FUND
Notes to the Financial Statements
For the Six Months Ended March 31, 2001 and the Year Ended September 30, 2000

NOTE 1: ORGANIZATION

The District of Columbia Professional Engineers' Registration Act of 1950 established the Professional Engineers' Fund (PEF or the Fund) of the District of Columbia Department of Consumer and Regulatory Affairs (DCRA). The Fund was established to account for the collection of application, registration and related fees associated with professional engineers and engineers-in-training. This separate revenue fund is allocable towards those expenses, determined by the District of Columbia Board of Registration for Professional Engineers (the Board) to be necessary and proper.

The Mayor of the District of Columbia appoints the seven-member board. The Board has the responsibility of regulating the practice of engineering and land surveying; and provides for the licensure of qualified persons as Professional Engineers and Land Surveyors and for the certification of Engineering Interns and Land Surveyor Interns. It also has the additional responsibility of safeguarding life, health, and property and of promoting public welfare, the practice of engineering and the practice of land surveying in the District of Columbia. The Board is thereby subject to regulate in the public interest.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Fund is presented to assist in understanding its financial statements. The financial statements and notes are representations of the management of the Fund, who are responsible for their integrity and objectivity.

The Fund's accounts are maintained in accordance with the principles of fund accounting to ensure the observance of limitations and restrictions on the resources available. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities, fund equity or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

PEF operates under one proprietary fund category – the Enterprise Fund.

Enterprise Fund

This fund accounts for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The Fund applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Method of Accounting

The Enterprise Fund uses the accrual basis of accounting. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred without regard to receipt or payment of cash.

The DCRA provides accounting services to the Fund. Revenue collections for the Fund were not accounted for separately but were deposited in the District of Columbia General Fund. There were no codes that were utilized to track or identify the amounts of revenue of the Fund that were deposited in the General Fund until May 2001 when codes were established to track and identify the revenues of the Fund. DCRA hired the services of Assessment System Inc. (ASI) to collect revenue for the registration and licensing of engineers on behalf of the Fund in August 2000.

Revenue and Expense Recognition

The engineers renew their licenses every even year in August except for new registrations and licensing, and requests for duplicate licenses. The last two renewal dates were August 1998 and August 2000. These dates do not coincide with the beginning of the fiscal years for DCRA, which is October 1. For purposes of convenience, the renewal time is deemed to correspond with the beginning of the subsequent fiscal year.

Since the renewal of licenses is for two years, to the extent that the earnings process has not been completed, DCRA records the prorated second year's cash received from licensing fees as a liability (deferred/unearned revenue) on the Balance Sheet at the end of the first year. This is recognized as earned revenue in the second year of the subscription period.

The main categories of expenses of the Fund are ASI commissions, travel of Board members, membership dues and meeting costs. No administrative overheads are charged to the Fund by DCRA. In accordance with the matching principle which stipulates that efforts (expenses) be matched with accomplishment (revenue) whenever it is reasonable and practicable to do so, ASI commissions related to the unearned revenue are initially recorded as prepaid expenses and recognized as expenses when the related revenue is recognized in the financial accounts of the Fund.

Retained Earnings

No financial statements have ever been prepared for the Fund in the past, therefore it is assumed that the retained earnings as of October 1, 1999 was zero.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 3: ADVANCES FOR UNPROCESSED APPLICATIONS

Advances represent upfront fees collected by ASI from applicants whose applications could not be processed because they turned out to be incomplete. These applications are not processed until all the required information is received. A corresponding liability is reported which equals the asset amount. The amount reported as of March 31, 2001 and September 30, 2000 were $10,188 and $9,703, respectively.

ADDITIONAL REPORT
REQUIRED BY
GOVERNMENT AUDITING STANDARDS

Gardiner, Kamya & Associates, P.C.
Management Consultants and Certified Public Accountants
1717 K Street, N.W., Suite 601. Washington, D.C. 20036
Phone: 202 857-1777
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INDEPENDENT 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 Inspector General of the
Government of the District of Columbia
Office of the Inspector General,
717 14th Street, N.W.,
Washington, DC 20005

We have audited the financial statements of the Professional Engineers' Fund (PEF) of the Government of the District of Columbia Department of Consumer and Regulatory Affairs as of March 31, 2001 and September 30, 2000 and for the six months ended March 31, 2001and the year ended September 30, 2000, and have issued our report thereon dated October 26, 2001. We conducted our audits 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.

Compliance

As part of obtaining reasonable assurance about whether the PEF's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit 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 I**.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered PEF'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 coming to our attention

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relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment could affect PEF's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition with PEF's Management's responses is described in **Exhibit II** of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable condition described above we consider the item presented in **Exhibit II** to be a material weakness.

This report is intended for the information and use of the Inspector General of the Government of the District of Columbia and the Management of PEF, and is not intended to be and should not be used by anyone other than these specified parties.

Washington, D.C.
October 26, 2001

EXHIBIT I

COMPLIANCE FINDINGS

1. PEF DID NOT OPERATE AS A SEPARATE REVENUE FUND

CONDITION

PEF's revenue, expenses, and related assets and liabilities were not accounted for in a separate fund. Instead, revenue collections of the PEF were deposited in the District of Columbia General Fund without an auditable trail.

CRITERIA

The District of Columbia Professional Engineers' Registration Act of 1950 (the Act) established PEF to account for the collection of application, registration and related fees associated with professional engineers and engineers-in-training as a separate revenue fund, allocable towards those expenses determined by the District of Columbia Board of Registration for Professional Engineers (the Board) to be necessary and proper.

The Act § 2-2313 (d) also requires the Secretary-Treasurer of the Board to receive and account for all money derived from the provision of services and to keep such money in a separate fund to be known as "Professional Engineers' Fund," such Fund to be disbursed only by the Secretary-Treasurer, upon itemized vouchers approved by the Chairman and attested by the Secretary-Treasurer of the Board.

A Fund is an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities, fund equity or balances, and changes therein, which are segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

CAUSE

PEF operated as part of DCRA and its budget, revenue and expenses were commingled with those of other Boards. No separate fiscal and accounting responsibility was established for PEF. For instance, until May 2001, there were no codes that were utilized to track or identify the amounts of revenue of PEF that were deposited in the General fund.

EFFECT

This condition contravenes the dictates of the Act. Additionally, it could lead to inaccurate accounting of PEF's activities.

RECOMMENDATION

A separate Fund must be established for PEF. This Fund must be self-balancing and account for all cash and other financial resources resulting from the existence of PEF.

MANAGEMENT RESPONSE

The Professional Engineer's Fund was requested for approval in August 2001. The PEF was established in SOAR as a self-balancing account on September 27, 2001. Expenditures for fiscal year 2001 will be transferred in the fiscal closing process by journalize entry.

2. THE BOARD DID NOT MAINTAIN A ROSTER OF ALL REGISTERED PROFESSIONAL ENGINEERS AND CERTIFIED ENGINEERS-IN-TRAINING.

CONDITION

The Board did not maintain a roster of all registered professional engineers and certified engineers-in-training, showing the registrant's name, place of business or employment, registration number, and the general field or fields of engineering in which the registrant is qualified to practice.

CRITERIA

The District of Columbia Professional Engineers Act § 2-2308 (11) requires the Board to prepare such rosters, together with other information deemed to be of interest to the engineering profession, to be published in booklet form on the first (1st) day of March of each even year. Additionally, on the 1st day of March of each odd year, the Board is required to publish a supplemental roster of all registered professional engineers and certified engineers-in-training. The Act requires copies of these rosters to be mailed or otherwise sent to each registered professional engineer and engineer-in-training and be furnished to other persons upon request.

CAUSE

Priorities of PEF to date have not included preparing a roster of all registered professional engineers and certified engineers-in-training. This information exists only in the database of PEF.

EFFECT

Without an up-to-date published roster, PEF's fundamental responsibility of safeguarding life, health, property and the promotion of public welfare, the practice of engineering and the practice of land surveying in the District of Columbia is hampered. The Act emphasizes the importance of this responsibility and goes further to state that such published rosters shall contain at the beginning thereof the words: "Each professional engineer receiving this roster is requested to report to the Board the names and addresses of any persons known to be engaged in the practice of engineering in the District of Columbia and whose names do not appear in this roster. The names of persons giving such information shall not be divulged."

RECOMMENDATION

We recommend that the Board prepares a roster of all registered professional engineers showing the registrant's name, place of business or employment, registration number, and the general field or fields of engineering in which the registrant is qualified to practice and a roster of certified engineers-in-training. These rosters, together with other information deemed to be of interest to the engineering profession, should be published in booklet form on the first (1st) day of March of each even year. Additionally, on the 1st day of March of each odd year, the Board should publish a supplemental roster of all registered professional engineers and certified engineers-in-training. Copies of these rosters should be mailed or otherwise sent to each registered professional engineer and certified engineer-in-training and be furnished to other persons upon request.

MANAGEMENT RESPONSE

The Board will prepare a bi-annual roster that will include name, registration number, place of business or employment, and field of engineering. This roster will be published in a booklet form on the first day of March (1st) of each even year and an additional supplemental booklet will be published on the first day of March (1st) of each odd year. These rosters will be sent out to all professional engineers and certified engineers-in-training.

EXHIBIT II

MATERIAL WEAKNESS

1. BALANCES AND TRANSACTIONS THAT COMPRISE THE FUND ARE NOT CAPTURED IN THE GENERAL LEDGER

CONDITION

The District of Columbia Government's Accounting Information System – System of Accounting Records (SOAR) processes, groups and summarizes transactions into account balances for the DCRA. SOAR is currently not used to track the balances and transactions that comprise the Fund, neither is this information captured by any other system.

CRITERIA

The Statement on Auditing Standards (SAS) No. 78 (AU 319.06) defines internal control as a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (i) reliability of financial reporting; (ii) effectiveness and efficiency of operations; and (iii) compliance with applicable laws and regulations. The COSO report requires pertinent information to be identified, captured, and communicated in a form and timeframe that enables people to carry out their responsibilities. The information system relevant to financial reporting objectives, which includes the accounting system, consists of the methods and records established to identify, assemble, classify, analyze, record, and report the entity's transactions, and to maintain accountability. To be effective, an information system should satisfy the internal control objectives of validity, completeness, classification, valuation, timing, presentation and disclosure.

CAUSE

No separate fiscal and accounting responsibility was established for PEF. For instance, until May 2001, there were no codes that were utilized to track or identify the amounts of revenue of PEF that were deposited in the General fund.

EFFECT

Financial statements cannot be produced using general ledger balances. The results of operation and net position are undeterminable. This could impair the Board's ability to make effective management decisions.

RECOMMENDATION

Fund codes must be established in SOAR to account for the Fund's transactions independently.

MANAGEMENT RESPONSE

The Chief Financial Officer already has in place fund codes in SOAR to account for the Fund's transactions independently.