

**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



January 31, 2003

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, 2002, 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, 2003. The District Department of Transportation 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.

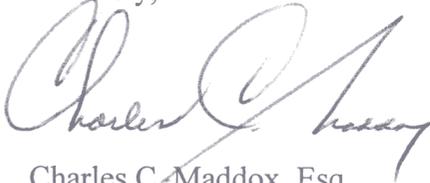
Unqualified Opinion on Financial Statements

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, 2002, and its revenues, expenditures, and changes in fund balance for the year then ended.

We have not found any major issues of internal control weaknesses or non-compliance with regulations that we consider material during our FY 02 audit.

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 cursive script, appearing to read "Charles C. Maddox".

Charles C. Maddox, Esq.
Inspector General

CCM/ws

Enclosure

cc: See Distribution List

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AUDIT OF THE
DISTRICT OF COLUMBIA
HIGHWAY TRUST FUND FOR THE
FISCAL YEAR ENDED SEPTEMBER 30, 2002

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**AUDIT OF THE
DISTRICT OF COLUMBIA
HIGHWAY TRUST FUND FOR THE
FY ENDED SEPTEMBER 30, 2002**

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 31, 2003.

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 District Department of Transportation (formerly a division within the Department of Public Works) and reserved for the prompt payment of contractors completing federal-aid highway projects in the District. *See* D.C. Code § 9-109.03(b)(2001).

In October 2001, the Local Roads Construction and Maintenance Fund (LRCMF) was established by the Highway Trust Fund Amendment Act of 2001, D.C. Law 14-28, § 1702(e), codified at D.C. Code § 9-111.01(a), for the deposit of, *inter alia*, all revenue derived from the collection of public rights-of-way user fees. In the prior year, rights-of-way fees were deposited in the Highway Trust Fund. DDOT recorded and accounted for LRCMF transactions in the same accounting fund in the District's System of Accounting and Reporting in which DDOT accounted for Highway Trust Fund transactions. This OIG audit does not cover LRCMF transactions for fiscal year 2002.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



January 31, 2003

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:

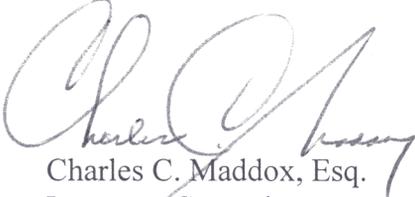
The Office of the Inspector General has completed an audit of the comparative balance sheets of the District of Columbia Highway Trust Fund, which is administered by the District Department of Transportation, as of September 30, 2002, and the related comparative statement of revenues, expenditures, and 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.

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, 2002, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles.

Sincerely,



Charles C. Maddox, Esq.
Inspector General

CCM/ws

**AUDIT OF THE
DISTRICT OF COLUMBIA
HIGHWAY TRUST FUND FOR THE
FISCAL YEAR ENDED SEPTEMBER 30, 2002**

COMPARATIVE BALANCE SHEETS

ASSETS	<u>2002</u>	<u>2001</u>
Current Assets:		
Cash and Investments	\$ 10,837,204	\$ 61,870,600
Investments (Intermediate Investments)	25,226,752	
Receivables-Motor fuel tax revenues	3,202,622	4,096,351
Receivables-Rights-of-way rental fees	6,510,000	6,558,883
Due from General Fund	<u>1,397,630</u>	<u>2,692,747</u>
Total Assets	<u>\$ 47,174,208</u>	<u>\$ 75,218,581</u>
 LIABILITIES & FUND BALANCE		
Current Liabilities:		
Payables:		
Refunds	91,640	56,074
Deferred Revenue	-	1,479,731
Capital Operating Fund	<u>4,111,552</u>	<u>12,696,663</u>
Total Current Liabilities	<u>\$ 4,203,192</u>	<u>\$ 14,232,468</u>
 Long-Term Liabilities		
Payables:		
Retainage	3,706,326	1,542,103
Capital Operating Account	<u>3,706,326</u>	<u>5,000,000</u>
	<u>3,706,326</u>	<u>6,542,103</u>
Total Liabilities	<u>\$ 7,909,518</u>	<u>\$ 20,774,571</u>
 Fund Balance:		
Restricted	<u>39,264,690</u>	<u>54,444,010</u>
Total Liabilities & Fund Balance	<u>\$ 47,174,208</u>	<u>\$ 75,218,581</u>

**AUDIT OF THE
DISTRICT OF COLUMBIA
HIGHWAY TRUST FUND FOR THE
FISCAL YEAR ENDED SEPTEMBER 30, 2002**

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

Revenues	<u>2002</u>	<u>2001</u>
Motor Fuel Tax ¹	\$ 27,347,524	\$ 28,483,801
Rights-of-Way Rental	-	8,825,936
Interest Income	1,466,766	3,791,284
Prior Year Cost Recovery	<u>-</u>	<u>4,997</u>
Total Revenue	<u>\$ 28,814,290</u>	<u>\$ 41,106,018</u>
 Expenditures		
Capital Appropriated Expenditures:		
Design, Site, Construction, and		
Equipment Costs	\$ 23,102,103	\$ 36,190,879
Project Mgmt Costs	6,077,763	6,468,644
Non-Participating Costs	<u>14,813,744</u>	<u>9,965,148</u>
Total Net Expenditures	<u>\$ 43,993,610</u>	<u>\$ 52,624,671</u>
Excess of Revenues over Expenses	(15,179,320)	(11,518,653)
Fund Balance at October 1, 2001	<u>54,444,010</u>	<u>65,962,663</u>
Fund Balance at September 30, 2002	<u>\$ 39,264,690</u>	<u>\$ 54,444,010</u>

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

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 29, 2003.

**AUDIT OF THE
DISTRICT OF COLUMBIA
HIGHWAY TRUST FUND FOR THE
FISCAL YEAR ENDED SEPTEMBER 30, 2002**

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 rights-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.

In October 2001, the Local Roads Construction and Maintenance Fund (LRCMF) was established by the Highway Trust Fund Amendment Act of 2001, D.C. Law 14-28, § 1702(e), codified at D.C. Code § 9-111.01(a), for the deposit of, *inter alia*, all revenue derived from the collection of public rights-of-way user fees, etc. In the prior year, rights-of-way fees in excess of \$30 million were deposited and recognized in the Highway Trust Fund. DDOT recorded and accounted for LRCMF transactions in the same accounting fund in the District's System of Accounting and Reporting in which DDOT accounted for Highway Trust Fund transactions. This OIG audit does not cover rights-of-way fees received in fiscal year 2002 or other LRCMF transactions for fiscal year 2002.

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 excise taxes, rental and other fees, and interest. Excise taxes are recognized as revenue when the sale takes place. Interest and fees are recognized as revenue through the passage of time.

**AUDIT OF THE
DISTRICT OF COLUMBIA
HIGHWAY TRUST FUND FOR THE
FISCAL YEAR ENDED SEPTEMBER 30, 2002**

CASH AND INVESTMENTS

Highway Trust Fund cash is deposited in accounts with eligible financial institutions. 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.

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.

In fiscal year 2001, the DDOT recognized revenue and established a receivable for public rights-of-way fees assessed the Water and Sewer Authority (WASA) in accordance with a proposed Memorandum of Understanding (MOU) between DDOT, WASA, and the District's Chief Financial Officer. A receivable from WASA of \$6.5 million for rights-of-way user fees was recorded as of September 30, 2001. Because the MOU has not been executed yet, the receivable is still reported as a current asset. The receivable will be fully collectible once the MOU is consummated.

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, 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.

**AUDIT OF THE
DISTRICT OF COLUMBIA
HIGHWAY TRUST FUND FOR THE
FISCAL YEAR ENDED SEPTEMBER 30, 2002**

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 for the Highway Trust Fund as of September 30 are:

	2002	2001
Highway Trust Fund Account	\$ 8,486,060	\$ 2,254,583
Revolving Fund Account	2,351,144	7,219,837
Intermediate Investment Account	25,226,752	52,396,180
Total	\$ 36,063,956	\$ 61,870,600

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

Receivables – Rights-of-way revenue – represent rental fees, recognized at September 30, 2001, from WASA, but not received.

Due from General Fund – 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 revenue but not transferred to the Highway Trust Fund bank account.

CURRENT LIABILITIES

Refunds – represent refunds due to Interstate Bus Companies that pay motor fuel tax on their purchases within the District but are due rebates on the amount of fuel used outside of the District.

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.

**AUDIT OF THE
DISTRICT OF COLUMBIA
HIGHWAY TRUST FUND FOR THE
FISCAL YEAR ENDED SEPTEMBER 30, 2002**

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. This amount was paid off in fiscal year 2002.

FUND BALANCE

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

REVENUES

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

- excise taxes earned on motor fuel sold in the District, at the wholesale level, and
- interest and investment income earned from short-term (overnight) investments and in obligations of the United States or its agencies through repurchase agreements.

EXPENDITURES

The total represents capital appropriated expenditures for the period October 1 through September 30 for each fiscal year. 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, and
- in-house capital outlay labor costs (DDOT personnel).

CONTINGENT LIABILITIES

There are several court cases involving contract claims against the District of Columbia government that relate to the Highway Trust Fund. Of these claims, as of January 28, 2003, the Office of the Corporation Counsel identified five cases that may result in the District paying approximately \$1.2 million in probable settlements.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



January 31, 2003

Auditor's Report on Compliance and on Internal Control Over Financial Reporting

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, 2002, 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 Office of the Chief Financial Officer (OCFO) for the District Department of Transportation (DDOT). 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

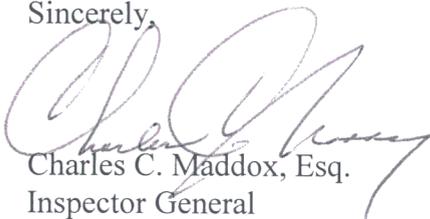
The OCFO is also responsible for establishing and maintaining an internal control structure for the Fund for the DDOT. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. 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.

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 are 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.

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. We noted no matters involving internal controls over financial reporting and its operation that we consider to be material weaknesses.

Sincerely,



Charles C. Maddox, Esq.
Inspector General

CCM/ws