

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

**DISTRICT DEPARTMENT OF  
TRANSPORTATION  
HIGHWAY TRUST FUND  
MANAGEMENT LETTER  
FOR FISCAL YEAR ENDED  
SEPTEMBER 30, 2002**



**CHARLES C. MADDOX,  
ESQ.  
INSPECTOR GENERAL**

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**Office of the Inspector General**

**Inspector General**



July 16, 2003

Natwar Gandhi  
Chief Financial Officer  
Office of the Chief Financial Officer  
1350 Pennsylvania Avenue, N.W., Room 209  
Washington, D.C. 20004

Daniel Tangherlini  
Director  
District Department of Transportation  
2000 14<sup>th</sup> Street, N.W., 6<sup>th</sup> Floor  
Washington, D.C. 20009

Dear Dr. Gandhi and Mr. Tangherlini:

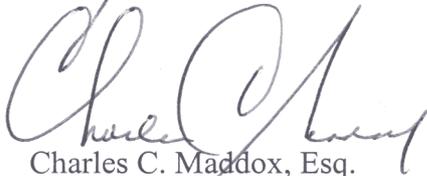
Enclosed is our final management letter for the Highway Trust Fund (HTF) for the fiscal year ended September 30, 2002, (OIG No. 02-1-18KA(a)). The District Department of Transportation (DDOT) administers the HTF. This management letter does not modify our opinion as expressed in the auditor's report dated January 31, 2003, on the HTF's financial statements as of September 30, 2002.

We directed five recommendations to the Office of the Chief Financial Officer (OCFO) and to DDOT that we believe will improve the financial management of the HTF. The OCFO coordinated management's response. In the response, management stated that a separate agency fund will be established in which to record accounting activity for the Local Roads and Construction Maintenance Fund, journal entries will be made to correct improperly recorded accounting events, and bank reconciliations will be performed to improve internal controls. Management stated that it is working to resolve issues related to the receipt of rights-of-way fees. The complete text of management's response is included at Exhibit B.

Dr. Gandhi and Mr. Tangherlini  
District of Columbia Highway Trust fund  
July 16, 2003  
Page 2 of 3

We appreciate the cooperation and courtesies extended to our staff during the audit. If you have questions, please contact 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/js

Enclosure

cc: See attached page for distribution list

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**DISTRICT DEPARTMENT OF TRANSPORTATION  
HIGHWAY TRUST FUND MANAGEMENT LETTER  
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2002**

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## INTRODUCTION AND OVERVIEW

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### INTRODUCTION

Pursuant to D.C. Code § 9-109.02(e) (2001), the Office of the Inspector General (OIG) audited the financial statements of the District of Columbia's Highway Trust Fund (Fund) for the period ended September 30, 2002. The report, "Audit of the District of Columbia Highway Trust Fund" (OIG No. 02-1-18KA), was issued January 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 United States 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 § 9-111.01(b) (2001).

In October 2001, the Local Roads Construction and Maintenance Fund (LRCMF) was established by D.C. Code § 9-111.01a for the deposit of all revenue derived from the collection of public rights-of-way user fees, etc. In the prior year, rights-of-way fees were deposited in the Highway Trust Fund. During the fiscal year ended September 30, 2002, 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.

## **INTRODUCTION AND OVERVIEW**

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### **OVERVIEW**

In accordance with generally accepted government auditing standards, we performed a review of existing internal controls for the purpose of providing a basis for the reliance on accounting and administrative 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 weakness in the system. Also, we performed some compliance testing to ascertain if the HTF was administered in accordance with applicable laws and regulations.

This management letter includes recommendations for improving the financial reporting and accounting process of the HTF related to separating Local Roads and Construction Maintenance Fund (LRCMF) transactions from the HTF, properly recording accounting events, reconciling the HTF investment account, and collecting overdue accounts receivable for public rights-of-way fees.

The Office of the Chief Financial Officer (OCFO) and the District Department of Transportation have taken or plan to take action to separate LRCMF transactions from HTF. Management's response, coordinated by OCFO, also said that adjusting journal entries would be made to properly record accounting events, and necessary monthly bank reconciliations would be performed. In regards to collection of overdue receivables, however, management responded that actual collection of the receivables would take place when the relevant memorandum of understanding was executed. Management further stated that collection of the receivables might not take place during the current fiscal year. The OIG notes in response to management's comments regarding overdue receivables that in a governmental fund, revenues should be recorded when they are measurable and available and collection is probable. OCFO/DDOT should give consideration to measurability, availability and anticipated collection date when recognizing revenue in the future.

## FINDINGS AND RECOMMENDATIONS

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### **FINDING 1 - LOCAL ROADS CONSTRUCTION AND MAINTENANCE FUND**

Accounting activity for the newly created Local Roads Construction and Maintenance Fund (LRCMF) was improperly recorded in the accounting fund structure for the dedicated Highway Trust Fund (HTF). This occurred because the District's Office of the Chief Financial Officer (OCFO) did not establish a separate fund for the LRCMF. D.C. Code § 9-111.01(b)(2001) states "the monies in the [Highway Trust] Fund shall not be a part of, or lapse into, the General Fund of the District or any other fund of the District." *Id.* Finance officials at the District Department of Transportation (DDOT) agree with the need for a separate fund for the LRCMF.

We determined that the OCFO assigned a separate revenue source to account for LRCMF transactions in the HTF, however, this process did not establish a separate fund. As a result, financial management of the HTF was not efficient, and reported account balances for the HTF inappropriately included revenues of the LRCMF.

The LRCMF was created for the exclusive use of renovating, repairing, and maintaining certain components of the District's transportation infrastructure that are not eligible for federal aid. *See id.* §9-111.01a(b) (2002 Supp.). The LRCMF is funded by: 1) public rights-of-way user fees; 2) related penalties and charges; 3) other revenues authorized to be collected by the DDOT; and 4) excess monies from the HTF. *See id.* §9-111.01a(a)

In order to separate transactions for these two funds, DDOT accounting personnel prepared journal entries to prorate interest since cash for both funds was in the same account. Also, expenditures had to be analyzed to extract or separate LRCMF expenditures from HTF expenditures.

### **RECOMMENDATION 1**

We recommend that the District's Chief Financial Officer establish a separate account for the LRCMF and record/transfer account history transactions and monies currently in the HTF Trust bank account to the new LRCMF account.

### **Agency Response**

The DDOT has two bank accounts for the HTF. DDOT proposes transferring HTF monies from the motor fuel tax and rights-of-ways fees bank account to the HTF revolving fund bank account, which is used exclusively for HTF transactions. DDOT has established an agency fund to isolate transactions of the rights-of-way program and will post financial activity related to the rights-of-way program to the new agency fund.

## **FINDINGS AND RECOMMENDATIONS**

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### **OIG Comment**

We consider actions taken and planned by DDOT to be responsive to the recommendation.

**FINDINGS AND RECOMMENDATIONS**

**FINDING 2 - RECONCILIATION OF THE HIGHWAY TRUST FUND INVESTMENT ACCOUNT**

OCFO/DDOT do not reconcile Investment Account balances of the HTF, Fund 320, on a regular basis to the monthly ending balance in the District’s financial management system [System of Accounting and Reporting (SOAR)]. As a result, the HTF Investment Account book balance of \$25,055,268 was understated by \$171,484. During our bank reconciliation process, we identified that interest earnings had not been transferred out of the pooled cash account, into the investment account as required. Table 1 identifies the months in which the discrepancies occurred.

**TABLE 1**

<b>Fund 320 Investment Income for:</b>	<b>Primary Document Key</b>	<b>Recorded in GL 0070 (Pooled Cash) as of February 1, 2003</b>
March	JN030107	60,556.12
April	JN040111	62,868.52
August	JN080119	<u>48,059.83</u>
<b>Total</b>		<u>\$ 171,484.47</u>

Additionally, we found that HTF investment income for the months of November and December were erroneously recorded twice, which overstated revenues and pooled cash by \$210,114.

HTF personnel stated that they do not receive the monthly Investment Account statements and therefore are unable to reconcile the Investment Account statement balance to the HTF SOAR balance. The Office of Finance and Treasury (OFT) receives the monthly Investment Account statements and is responsible for preparing the journal entries to record investment activity on a monthly basis to SOAR for the HTF. The Office of Financial Operations and Systems (OFOS) is responsible for reconciling all District controlled accounts, however, OFOS staff do not reconcile the accounts to the individual fund level. Additionally, OFOS does not ensure that the journal entries made to record bank account transactions are accurately coded to the correct fund and general ledger SOAR accounts.

## FINDINGS AND RECOMMENDATIONS

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### RECOMMENDATIONS:

We recommend that the District's Chief Financial Officer:

2. Process the necessary journal entries to transfer the identified \$171,484.47 of HTF interest earnings recorded in the pooled cash account (GL 0070) to the HTF Investment Account (GL 0110).
3. Process the necessary journal entries to eliminate from the HTF the duplicate journal entries in the amount of \$210,114 of investment income improperly included in the September 30, 2002, HTF financial statements.
4. Reconcile the HTF Investment Account statement balance to the HTF SOAR balance on a monthly basis.

### Agency Response to Recommendation 2

The Office of Finance and Treasury has entered journal entries into SOAR to transfer the \$171,484.47 to HTF interest earnings recorded in the pooled cash account.

### OIG Comment

The OIG stated that the \$171,484.47 in HTF interest earnings in the pooled cash account should be transferred to the HTF Investment Account. The response from the OCFO seemed to indicate that journal entries were prepared to transfer the HTF interest earnings to pooled cash rather than from pooled cash. The OFT needs to review the journal entries to ensure that the proper transfer was made.

### Agency Response to Recommendation 3

The Office of Tax and Revenue has entered journal entries into SOAR to eliminate the duplicate journal entries totaling \$210,114.00 of investment income which had been recorded.

### OIG Comment

We consider action taken by OCFO to be responsive to the recommendation.

## **FINDINGS AND RECOMMENDATIONS**

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### **Agency Response to Recommendation 4**

The Office of Finance and Treasury's Investment Unit will ensure that entries at the fund level are made to the correct fund, the correct agency and in the correct amount. The Office of Financial Operations and Systems (OFOS) reconciles on a monthly basis the HTF investment Account statement balance to the HTF SOAR balance.

### **OIG Comment**

We consider actions planned by OFT to ensure that entries at the fund level are correct to be responsive to the recommendation. However, during the course of our audit, we were informed that OFOS does not reconcile investment statements at the agency fund level in SOAR. If OFOS is now reconciling at the agency fund level, the action taken is responsive to the recommendation.

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## FINDINGS AND RECOMMENDATIONS

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<b>FINDING 3 – OUTSTANDING ACCOUNTS RECEIVABLE BALANCES</b>
-------------------------------------------------------------

Accounts receivable balances due to the HTF from the District of Columbia Water and Sewer Authority (WASA) have remained uncollected for more than 2 years. In a review of the HTF outstanding account receivables for rights-of-way fees, we found that amounts of \$6.5 million and \$5.2 million were recorded for fiscal years 2001 and 2002, respectively. DDOT invoiced WASA quarterly for the use of public rights-of-way in accordance with a planned memorandum of understanding (MOU) among WASA, the District of Columbia, and the District's OCFO. WASA officials have acknowledged that these amounts are due, but believed that payment does not need to be made until the MOU has been signed by all three parties involved. We estimate that the District lost interest revenues in the amount of approximately \$200,000 related to these past due accounts receivable balances.

### **RECOMMENDATION:**

5. We recommend that the District's CFO, City Administrator, and WASA's General Manager consummate the MOU related to public rights-of-way fees. Once the MOU is consummated, the District's CFO should request payment of the outstanding fees from WASA.

### **Agency Response**

The District's CFO, City Administrator, and WASA's General Manager are working to resolve issues which have delayed payment of rights-of-way fees. Other issues of dispute between the District and WASA have delayed execution of the MOU. The payable is not in dispute, but the MOU may not be executed during the current fiscal year.

### **OIG Comment**

The outstanding accounts receivable are for rights-of-way fees. DDOT is planning to transfer those fees to the new agency fund for rights-of-way fees (the local roads construction and maintenance fund). Therefore, the rights-of-way-fees accounts receivable issue will be moot as far as the HTF is concerned. However, governmental generally accepted accounting principles state that revenue exchange transactions should be recognized when revenues are measurable and available, and collection is probable. Because the MOU had not been executed, the fees were not available nor collectible. Therefore, OCFO/DDOT should recognize future rights-of-way fees after the MOU is executed.

The agency's complete response is attached at Exhibit B.

**FINDINGS AND RECOMMENDATIONS**

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**EXHIBIT A**

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**SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT**

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<b>Recommendation</b>	<b>Description of Benefit</b>	<b>Amount and/or Type of Monetary Benefit</b>
1	Compliance and Internal Control. Will make the accounting structure compliant with the D.C. Code and improve internal controls in terms of recording accounting transactions and financial reporting.	Nonmonetary
2	Compliance and Internal Control. Will properly record accounting events and make financial reporting more accurate.	Nonmonetary
3	Compliance and Internal Control. Will properly record accounting events and make financial reporting more accurate.	Nonmonetary
4	Compliance and Internal Control. Will improve internal controls over accounting events and make financial reporting more accurate.	Nonmonetary
5	Economy and Efficiency. Will expedite receipt of revenue, improve probability of collection, and make resources available for use.	Monetary Approximately \$200,000

**EXHIBIT B**

**MANAGEMENT RESPONSE**

Government of the District of Columbia  
Office of the Chief Financial Officer

EXHIBIT B



Natwar M. Gandhi  
Chief Financial Officer

May 12, 2003



7/7/03 11:09:59

Charles C. Maddox, Esq.  
Inspector General  
Office of the Inspector General  
717- 14<sup>th</sup> Street, N.W.  
Washington, DC 20005

Dear Mr. Maddox:

This letter is in response to the issues raised in the draft audit of the Highway Trust Fund (HTF) Management Letter for the fiscal year ending September 30, 2002 (OIG No. 02-1-18KA(a)).

The following are the comments from the Office of Finance and Treasury (OFT) and the District Department of Transportation (DDOT) relative to the findings and recommendations:

*Finding #1 – Local Road Construction and Maintenance Fund:*

*Recommendation #1*

*We recommend that the District's Chief Financial Officer establish a separate account for the Local Roads Construction and Maintenance Fund (LRCMF) and record/transfer account history transactions and monies currently in the HTF Trust bank account to the new LRCMF account.*

**Comments:**

The District Department of Transportation (DDOT) currently has two bank accounts related to the HTF. The Revolving Fund bank account (#468) was established to record the deposit and subsequent transfer of cash from weekly Federal Highway Administration grant billings. It was also the repository for \$5 million "seed money" for the HTF. The \$5 million was transferred to the custodial bank account in fiscal year 2002. The second bank account (#467) consists of cash deposits for both rights-of-way fees and motor fuel tax receipts.

The DDOT is proposing that the cash balance pertaining to motor fuel tax receipts be transferred to the revolving fund bank account ID 468. Bank account ID 467 would only include Rights-of-Way fee and related interest income.

The DDOT has established an agency fund (fund # 0330) to isolate the rights-of-way program from the HTF in fiscal year 2003. All financial activity related to the rights-of-way program (except for detailed spending transactions-retained in the capital local fund 0300) will be posted to this fund.

*Finding # 2 – Reconciliation of the Highway Trust Fund Investment Account:*

*Recommendation # 2*

*We recommend that the District's Chief Financial Officer process the necessary journal entries to transfer the identified \$171,484.47 of HTF interest earnings recorded in the pooled cash account (GL 0070) to the HTF Investment Account (GL0110).*

**Comments:**

Journal entries have been entered into SOAR to transfer the identified \$171,484.47 to HTF interest earnings recorded in the pooled cash account by OFT.

*Recommendation # 3*

*Process the necessary journal entries to eliminate from the HTF the duplicate journal entries in the amount of \$210,114 of investment income improperly included in the September 30, 2002 HTF financial statements.*

**Comments:**

Journal entries in the amount of \$210,114.00 have been entered into SOAR by the Office of Tax and Revenue (OTR). The entries will eliminate the duplicate journal entries in the amount of \$210,114.00, which was improperly included in the September 30, 2002 HTF financial statement.

*Recommendation # 4*

*Reconcile the HTF Investment Account statement balance to the HTF SOAR balance on a monthly basis.*

**Comments:**

The Office of Finance and Treasury's (OFT) Investment Unit will ascertain and ensure that entries at the fund level are made to the correct fund and correct agency and for the correct amounts. The Office of Financial Operations and Systems (OFOS) reconciles the HTF investment Account statement balance to the HTF SOAR balance on a monthly basis.

Highway Trust Fund Management Letter  
May 12, 2003  
Page 3

Finding #3 – Outstanding Accounts Receivable Balances

Recommendation:

*We recommend that the District's CFO, City Administrator, and WASA's General Manager consummate the MOU related to public rights-of-way fees. Once the MOU is consummated, the District's CFO should request payment of the outstanding fees from WASA.*

**Comments:**

The District's CFO, City Administrator, and WASA's General Manager are working to resolve issues that have delayed WASA's payment of Right of Way fees. Execution of the MOU must be uncoupled from other items of dispute between the District and WASA. Although the payable is not in dispute, there is no assurance that the MOU will be executed in the current fiscal year.

We would like to thank you and your staff for the courtesies extended to our personnel during your audit and for the opportunity to comment on the draft report.

Should you have questions on the items discussed herein or need additional information, please do not hesitate to contact me, or Pamela Graham, Associate Chief Financial Officer, at (202) 671-2201 or N. Anthony Calhoun, Deputy Chief Financial Officer, at (202) 727-6055.

Sincerely,



Natwar M. Gandhi  
Chief Financial Officer

cc: Lucille Dickinson, Chief of Staff  
Pamela Graham, Associate CFO  
N. Anthony Calhoun, Deputy CFO, OFT  
Ben Lorigo, Executive Director, OIO