

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

DISTRICT DEPARTMENT OF TRANSPORTATION

**REPORT ON THE EXAMINATION
OF THE DISTRICT OF COLUMBIA'S
HIGHWAY TRUST FUND
FORECAST STATEMENTS FOR
FISCAL YEARS 2006 - 2010 WITH ACTUAL
AUDITED FIGURES FOR FY 2005**



**CHARLES J. WILLOUGHBY
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



May 31, 2006

Michelle Pourciau
Acting Director
District Department of Transportation
2000 14th Street, N.W., 6th Floor
Washington, D.C. 20009

Natwar M. Gandhi
Chief Financial Officer
Office of the Chief Financial Officer
The John A. Wilson Building
1350 Pennsylvania Avenue, N.W., Room 209
Washington, D.C. 20004

Dear Ms. Pourciau and Dr. Gandhi:

The Office of the Inspector General has completed an examination of the District of Columbia Highway Trust Fund's 5-year forecast of expenditure conditions and operations. The District Department of Transportation and the Office of the Chief Financial Officer administer the Highway Trust Fund (Fund) for the District of Columbia government, and are responsible for preparing the forecast.

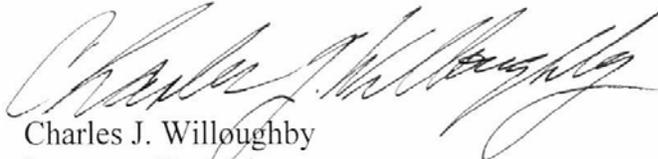
Our examination included a review of existing processes, policies, and controls for the purpose of expressing an opinion on the accompanying forecasted statements. Although we found no instances of noncompliance that would be reportable under generally accepted government auditing standards, the objective of our review was not to provide an opinion on overall compliance with such provisions.

In our opinion, the forecasted statements referred to above are presented in conformity with guidelines for presentation of forecasted information established by the American Institute of Certified Public Accountants. The underlying assumptions made and methodologies used to develop the statements provide a reasonable basis for the 5-year forecast.

Ms. Pourciau and Dr. Gandhi
Highway Trust Fund Forecast
May 31, 2006
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We appreciate the cooperation and courtesies extended to our staff during this audit. If you have questions, please call William J. DiVello, Assistant Inspector General for Audits, or me at (202) 727-2540.

Sincerely,



Charles J. Willoughby
Inspector General

CJW/js

Enclosure

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**REPORT ON THE EXAMINATION OF THE
DISTRICT OF COLUMBIA’S HIGHWAY TRUST FUND
FORECAST STATEMENTS FOR FISCAL YEARS 2006 – 2010
WITH ACTUAL AUDITED FIGURES FOR FY 2005**

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GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



Auditor's Report on Forecast Statements

To the Director, Department of Transportation, Government of the District of Columbia; and
Chief Financial Officer, Government of the District of Columbia:

In accordance with D. C. Code § 9-109.02(e), the Office of the Inspector General has completed an examination of the District of Columbia Highway Trust Fund's 5-year forecast of expenditure conditions and operations for the forecast period fiscal year 2006 through fiscal year 2010. The District Department of Transportation and the Office of the Chief Financial Officer are responsible for producing the forecast. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included examining, on a test basis, evidence supporting the Highway Trust Fund's 5-year forecast of expenditure conditions and operations (HTF forecast) and performing such other procedures as we considered necessary under the circumstances. We believe that our examination provides a reasonable basis for our opinion.

The HTF forecast projects deficits for fiscal years 2008 and 2009. However, should actual funding be insufficient during those years, the District Department of Transportation plans to push back or delay approved projects to avoid deficit spending.

In our opinion, the accompanying HTF forecast is presented in conformity with the guidelines for presentation of a forecast established by the American Institute of Certified Public Accountants, and the underlying assumptions provide a reasonable basis for management's forecast. However, there will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

A handwritten signature in black ink, appearing to read "Charles J. Willoughby", is written over the printed name and title.

Charles J. Willoughby
Inspector General

May 31, 2006

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(\$000s)

	D.C.			D.C.		
	Highway Trust Fund FY 2005	Federal Aid FY 2005	Total FY 2005	Highway Trust Fund FY 2006	Federal Aid FY 2006	Total FY 2006
ESTIMATED FUNDING						
Beginning Balance	\$ 20,634	\$ 358,785	\$ 379,419	\$ 20,731	\$ 414,120	\$ 434,851
Dedicated Revenues	25,912	0	25,912	27,817	0	27,817
Interest Income	526	0	526	619	0	619
Federal Aid Apportionment	0	145,177	145,177	0	150,060	150,060
Total Revenues	<u>47,072</u>	<u>503,962</u>	<u>551,034</u>	<u>49,167</u>	<u>564,180</u>	<u>613,347</u>
ESTIMATED USES						
Project Management	2,043	8,225	10,268	5,296	24,524	29,820
Non-Participating Cost	1,641	0	1,641	2,389	0	2,389
Design, Site, Construction and Equipment Cost	<u>22,657</u>	<u>81,617</u>	<u>104,274</u>	<u>32,126</u>	<u>155,500</u>	<u>187,626</u>
Total Expenditures	<u>26,341</u>	<u>89,842</u>	<u>116,183</u>	<u>39,811</u>	<u>180,024</u>	<u>219,835</u>
ENDING BALANCE	<u>\$ 20,731</u>	<u>\$ 414,120</u>	<u>\$ 434,851</u>	<u>\$ 9,356</u>	<u>\$ 384,156</u>	<u>\$ 393,512</u>

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(\$000s)

	D.C. Highway Trust Fund FY 2007	Federal Aid FY 2007	Total FY 2007	D.C. Highway Trust Fund FY 2008	Federal Aid FY 2008	Total FY 2008
ESTIMATED FUNDING						
Beginning Balance	\$ 9,356	\$ 384,156	\$ 393,512	\$ 1,261	\$ 296,672	\$ 297,933
Dedicated Revenues	41,560	0	41,560	41,690	0	41,690
Interest Income	212	0	212	0	0	0
Federal Aid Apportionment	<u>0</u>	<u>152,265</u>	<u>152,265</u>	<u>0</u>	<u>154,505</u>	<u>154,505</u>
Total Revenues	<u>51,128</u>	<u>536,421</u>	<u>587,549</u>	<u>42,951</u>	<u>451,177</u>	<u>494,128</u>
ESTIMATED USES						
Project Management	7,363	33,474	40,837	7,356	26,374	33,730
Non-Participating Cost	2,992	0	2,992	3,280	0	3,280
Design, Site, Construction and Equipment Cost	<u>39,512</u>	<u>206,275</u>	<u>245,787</u>	<u>44,035</u>	<u>212,389</u>	<u>256,424</u>
Total Expenditures	<u>49,867</u>	<u>239,749</u>	<u>289,616</u>	<u>54,671</u>	<u>238,763</u>	<u>293,434</u>
ENDING BALANCE	<u>\$ 1,261</u>	<u>\$ 296,672</u>	<u>\$ 297,933</u>	<u>\$ (11,720)</u>	<u>\$ 212,414</u>	<u>\$ 200,694</u>

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

**REPORT ON THE EXAMINATION OF THE
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(\$000s)

	D.C. Highway Trust Fund FY 2009	Federal Aid FY 2009	Total FY 2009	D.C. Highway Trust Fund FY 2010	Federal Aid FY 2010	Total FY 2010
ESTIMATED FUNDING						
Beginning Balance	\$ (11,720)	\$ 212,414	\$ 200,694	\$ (9,403)	\$ 195,697	\$ 186,294
Dedicated Revenues	41,823	0	41,823	41,956	0	41,956
Interest Income	0	0	0	0	0	0
Federal Aid Apportionment	0	156,779	156,779	0	158,347	158,347
Total Revenues	<u>30,103</u>	<u>369,193</u>	<u>399,296</u>	<u>32,553</u>	<u>354,044</u>	<u>386,597</u>
ESTIMATED USES						
Project Management	4,587	16,551	21,138	2,648	10,193	12,841
Non-Participating Cost	2,370	0	2,370	1,617	0	1,617
Design, Site, Construction and Equipment Cost	32,549	156,945	189,494	22,685	113,558	136,243
Total Expenditures	<u>39,506</u>	<u>173,496</u>	<u>213,002</u>	<u>26,950</u>	<u>123,751</u>	<u>150,701</u>
ENDING BALANCE	<u>\$ (9,403)</u>	<u>\$ 195,697</u>	<u>\$ 186,294</u>	<u>\$ 5,603</u>	<u>\$ 230,293</u>	<u>\$ 235,896</u>

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

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OVERVIEW

This report summarizes the Office of the Inspector General's (OIG) review of the District of Columbia Highway Trust Fund's (Fund) 5-year forecast of expenditures, conditions, and operations (HTF forecast). The objective of our review was to evaluate the underlying assumptions made and methodologies used to develop the statements. These statements are used to provide a reasonable basis for the HTF forecast of the District's ability to meet future local matching requirements under the Federal Highway Administration Program for capital improvements to the District's transportation structure. We conducted our examination in accordance with the American Institute of Certified Public Accountants standards and *Government Auditing Standards* for attestation engagements and included such tests as we considered necessary under the circumstances. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

BACKGROUND

D.C. Code § 9-109.02(e) (2001) requires the OIG to examine the statements of the Highway Trust Fund's expected conditions and operations for the next 5 years to determine the District's ability to meet future local matching requirements under the Federal Highway Administration Program for capital improvements to the District's transportation structure.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

Government 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 accounting classification with a self-balancing set of accounts.

The Fund is a governmental fund used to account for the monies from motor vehicle fuel taxes and other fees that are held in escrow by the District for the District's share of federal-aid highway projects. The District accounts for the construction of federal-aid highway projects, which are primarily financed by the U. S. Department of Transportation's Federal Highway Administration (FHWA) grants, in the Capital Projects Fund. The Capital Projects Fund is reimbursed from monies in the Fund to cover the District's share of the federal-aid highway projects.

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BASIS OF ACCOUNTING

The modified accrual basis of accounting is used to account for the 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 monies are collectible within the current period, or soon thereafter, to be used to pay liabilities of the current period.

Those revenues susceptible to accrual include excise taxes and interest. Excise taxes are recognized when the sale and use take place. Interest is recognized as revenue through the passage of time.

MANAGEMENT ASSUMPTIONS

The District Department of Transportation (DDOT) annually prepares a 6-year forecast for the Highway Trust Fund (Fund), which is part of the Capital Improvement Plan of the District. Five years of this forecast are included in our examination. The current forecast reflects management’s judgment regarding the expected conditions, operations, and course of action for the Fund as of May 19, 2006. The assumptions disclosed herein are those that management believes are significant to the Fund forecast. There will usually be differences between the forecasted and actual results because events and circumstances frequently change due to the nature of the activities covered by the Fund (major design and construction), and those differences may be material.

The Fund forecasted statements are based on the following assumptions:

- The “D.C. Highway Trust Fund” columns represent estimated local revenue sources from motor vehicle fuel tax collections and interest earnings. Beginning in FY 2007, proposed legislation provides additional dedicated revenues to the Fund from increases on public rights of way user fees, the Cable Company, and on underground vault storage.
- The “Federal Aid” columns represent the federal aid commitment balances and projection of matching grants for known highway projects.
- The FY 2005 amounts are based on actual amounts included in the Fund’s audited financial statements prepared by the OIG and issued January 28, 2006. The amounts include the beginning Highway Trust Fund balances for the local share and federal aid.

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The local share equals the audited fund balance as of September 30, 2004 (beginning October 1, 2004 balance), plus the FY 2005 collections and receivables as of September 30, 2005, less the FY 2005 payments and audited outstanding liabilities (payables and accruals) as of September 30, 2005.

- Interest earnings are estimated using a 4.25 percent annual interest rate on the rolling monthly average Fund balance. Management used zero interest when the monthly rolling balance reported a cumulative negative interest earned for the year.
- The estimated uses for project management, non-participating costs, design, site construction, and equipment costs are based on the actual estimated completion date for the phase of each federal-aid highway project. The project management and design, site, construction, and equipment costs that are eligible for matching federal aid are allocated based on the federal and local share of each individual project. The non-participating costs are those costs that are not eligible for federal aid match and include overhead construction engineering costs, utility and sewer repair, and construction enhancements not covered by FHWA.

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NOTES TO FORECAST STATEMENTS

ESTIMATED FUNDING

Beginning Balance – The beginning balance consists of the actual fiscal year 2004 ending balances carried forward for FY 2005. In each subsequent fiscal year, the beginning balance is the ending balance brought forward from the prior fiscal year.

Interest Earnings – Interest earnings consist of the estimated annual earnings, calculated at a rate of 4.25 percent, on the beginning balance plus annual revenues minus expenditures.

Dedicated Revenues – Dedicated revenues are estimated excise tax earned on motor fuel sold in the District. For FY 2007, proposed legislation will provide additional revenue sources from increases on Public Rights of Way fees (incremental 20 percent), vault fees (incremental 20 percent), and revenue generated by charging cable companies 20 percent of the new Rights of Way fees.

Federal Aid Apportionment – Federal funding is provided to all states and the District of Columbia by legislation enacted by Congress and administered through the Federal Highway Administration (FHWA). Current legislation provides appropriations through FY 2009, with each remaining year of the forecast estimated at a one percent increase of the previous year's appropriation amount.

ESTIMATED USES

Project Management Costs – These costs are annual estimated costs for salaries of in-house employees and contracted construction management services.

Non-Participating Costs – These costs are annual estimated costs not eligible for matching federal aid, including overhead costs, utility and sewage repairs, and construction enhancements not covered by the FHWA.

Estimated Design, Site, Construction, and Equipment Costs – These costs are annual estimated eligible costs on current and proposed new projects.

ENDING BALANCE

The ending balance each year is determined by adding amount of HTF forecasted revenues, less the use of funds to the beginning balance. The ending balance is carried over to the following fiscal year as the beginning balance.

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FORECASTED DEFICIT

In fiscal years 2008 and 2009, deficit spending in the Fund is projected based on current revenue assumptions and expenditures for approved projects. Because expenditures cannot exceed appropriations, DDOT is working with the City Council to create legislation that would direct additional sources of revenue to the Highway Trust Fund. If no new funding sources are available, DDOT will modify the spending plan by postponing the start of projects.