

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

DISTRICT DEPARTMENT OF TRANSPORTATION

**HIGHWAY TRUST FUND
FINANCIAL STATEMENT AUDIT
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2004**



**AUSTIN A. ANDERSEN
INTERIM INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



January 28, 2005

Daniel M. Tangherlini,
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
John A. Wilson Building
1350 Pennsylvania Avenue, N.W., Room 209
Washington, D.C. 20004

Dear Mr. Tangherlini and Dr. Gandhi:

The Office of the Inspector General has completed an audit (OIG No. 04-1-22KA) of the comparative balance sheet of the District of Columbia Highway Trust Fund (Fund) as of September 30, 2004, 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, 2005. 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.

Mr. Tangherlini and Dr. Gandhi
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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, 2004, 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 or reportable conditions during our fiscal year 2004 audit.

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,

A handwritten signature in cursive script that reads "Austin A. Andersen". The signature is written in dark ink and is positioned above the printed name and title.

Austin A. Andersen
Interim Inspector General

AAA/js

Enclosure

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**DISTRICT DEPARTMENT OF TRANSPORTATION
HIGHWAY TRUST FUND
FINANCIAL STATEMENT AUDIT
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**DISTRICT DEPARTMENT OF TRANSPORTATION
HIGHWAY TRUST FUND
FINANCIAL STATEMENT AUDIT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004**

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, 2005.

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 bank account, now called the D.C. Highway Trust Fund account, separate from the Capital Operating Fund of the District Department of Transportation 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).

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



Independent Auditor's Report

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

We have audited the accompanying financial statements of the Highway Trust Fund, which is administered by the District of Columbia Department of Transportation as of and for the year ended September 30, 2004. These financial statements are the responsibility of the Highway Trust Fund's management and the Office of the Chief Financial Officer. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

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, 2004, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Independent Auditor's Report
Highway Trust Fund

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2005, on our consideration of the District of Columbia Highway Trust Fund's internal controls 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.

A handwritten signature in cursive script that reads "Austin A. Andersen". The signature is written in black ink and is positioned above the printed name and title.

Austin A. Andersen
Interim Inspector General

January 28, 2005

**DISTRICT DEPARTMENT OF TRANSPORTATION
HIGHWAY TRUST FUND
FINANCIAL STATEMENT AUDIT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004**

COMPARATIVE BALANCE SHEETS

ASSETS	<u>2004</u>	<u>2003</u>
Current Assets:		
Cash & Investments	\$ 27,299,948	\$ 30,307,444
Motor-Fuel Tax Transfer Receivable	3,185,762	3,113,464
Other Receivables	<u>707,353</u>	<u>-</u>
Total Assets	<u><u>31,193,063</u></u>	<u><u>33,420,908</u></u>
 LIABILITIES & FUND BALANCE		
Current Liabilities:		
Accounts Payable	8,249,982	90,465
Due to Other Funds	-	6,742,478
Deferred Revenue	<u>1,814,964</u>	<u>-</u>
Total Current Liabilities	<u>10,064,946</u>	<u>6,832,943</u>
 Long-Term Liabilities		
Retainage	<u>494,588</u>	<u>1,464,110</u>
Total Liabilities	<u>10,559,534</u>	<u>8,297,053</u>
 Fund Balance:		
Restricted	<u>20,633,529</u>	<u>25,123,855</u>
Total Liabilities & Fund Balance	<u><u>\$ 31,193,063</u></u>	<u><u>\$ 33,420,908</u></u>

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

**DISTRICT DEPARTMENT OF TRANSPORTATION
HIGHWAY TRUST FUND
FINANCIAL STATEMENT AUDIT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004**

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

Revenues	<u>2004</u>	<u>2003</u>
Motor Fuel Tax Transfers	\$ 26,677,862	\$ 26,855,754
Interest Income	<u>272,479</u>	<u>395,978</u>
Total Revenue	<u>26,950,341</u>	<u>27,251,732</u>
Capital Appropriated Expenditures		
Design, Site, Construction, and Equipment Costs	17,992,608	32,114,948
Project Mgmt Costs	2,554,318	3,142,689
Non-Participating Costs	<u>10,893,741</u>	<u>6,134,930</u>
Total Net Expenditures	<u>31,440,667</u>	<u>41,392,567</u>
Deficit of Revenues over Expenses	(4,490,326)	(14,140,835)
Fund Balance at October 1	<u>25,123,855</u>	<u>39,264,690</u>
Fund Balance at September 30	<u>\$ 20,633,529</u>	<u>\$ 25,123,855</u>

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

**DISTRICT DEPARTMENT OF TRANSPORTATION
HIGHWAY TRUST FUND
FINANCIAL STATEMENT AUDIT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The financial statements of the Highway Trust Fund (Fund) 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 a governmental fund, which is used to account for the monies held in escrow with the District as an agent for the motor vehicle fuel taxes to pay the District's share of federal-aid highway projects.

BASIS OF ACCOUNTING

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

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

CASH AND INVESTMENTS

Highway Trust Fund cash is deposited in accounts with 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.

**DISTRICT DEPARTMENT OF TRANSPORTATION
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RECEIVABLES AND PAYABLES

Taxes receivable are motor fuel taxes levied by the District government 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. The District government transfers these taxes to the Fund. Accounts receivable/payable are amounts owed by/to customers or vendors for goods and services sold or purchased. "Due from Other Funds" represents monies due from the Capital Projects Fund for over-reimbursement of expenditures. Amounts due within 1 year are classified as current receivables/payables in the balance sheet.

RESTRICTED ASSETS AND LIABILITIES

All assets are restricted as to use by legal or contractual agreements. The 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.

**DISTRICT DEPARTMENT OF TRANSPORTATION
HIGHWAY TRUST FUND
FINANCIAL STATEMENT AUDIT
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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:

Account Name	Bank ID	FY 2004	FY 2003
Pooled Cash	200	\$ 1,675,486	\$ 2,049,458
Highway Trust Fund Account	468	4,425,773	7,278,789
Investment Account	330	21,198,689	20,979,197
Total Cash & Investments		\$ 27,299,948	\$ 30,307,444

Pooled Cash – represents the collection and deposit of dedicated motor fuel tax revenue to the general fund that has not been transferred to the Highway Trust Fund.

Highway Trust Fund Account – dedicated bank account used to receive motor fuel tax receipts transferred from the District for the payment of the District's share of federal highway projects and for the receipts of Federal Highway Administration's payment of federal highway projects.

Investment Account – Excess Highway Trust Fund monies are invested in accordance with the District's investment policies.

Taxes Receivable – dedicated motor fuel taxes earned in FY 2004 and received in FY 2005.

Other Receivables – Amount owed the HTF for overpayment of project reimbursement to the capital account.

CURRENT LIABILITIES

Accounts Payable consist of: 1) "Other Vouchers Payable" which represent refunds owed to interstate bus companies at fiscal year end; and, 2) "Vouchers Payable" which represent amounts owed to contractors for various highway projects at fiscal year end.

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Deferred Revenues – Contracts for Highway Trust Fund projects sometimes include work performed for the D.C. Water and Sewer Authority (WASA). DDOT bills WASA for WASA’s share of costs. Deferred revenues represent monies remitted to DDOT by WASA in FY 2004 in advance of services which will be rendered in FY 2005.

LONG TERM LIABILITIES

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

Retainage – In accordance with Federal Highway Administration construction contracts, the District withholds a percentage of costs incurred by contractors until the completion of certain segments of work. Projects are financed under multi-year contractual obligations.

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).

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



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

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

We have audited the financial statements of the District of Columbia Highway Trust Fund (Fund) as of and for the year ended September 30, 2004, and have issued our report thereon dated January 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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 an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses.

A material weakness is a reportable 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 caused by error or fraud 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. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, the 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Austin A. Andersen
Interim Inspector General

January 28, 2005