

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

**DISTRICT OF COLUMBIA**

**Independent Auditors' Report  
on Compliance and on Internal Control  
Over Financial Reporting**



**AUSTIN A. ANDERSEN  
INTERIM INSPECTOR GENERAL**

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

Inspector General



February 6, 2004

The Honorable Anthony A. Williams  
Mayor  
District of Columbia  
John A. Wilson Building, Suite 600  
1350 Pennsylvania Avenue, N.W.  
Washington, D.C. 20004

The Honorable Linda W. Cropp  
Chairman  
Council of the District of Columbia  
John A. Wilson Building, Suite 504  
1350 Pennsylvania Avenue, N.W.  
Washington, D.C. 20004

Dear Mayor Williams and Chairman Cropp:

In connection with the audit of the District of Columbia's general purpose financial statements for fiscal year (FY) 2003, KPMG LLP submitted the enclosed final Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting. This report details identified reportable conditions and material weaknesses based on the results of tests performed of compliance with certain provisions of laws, regulations, contracts, and grants, the noncompliance with which could have a direct and material effect on the determination of financial statement amounts. The two material weaknesses addressed in the report are: (1) Health Care Safety Net Administration Contract Management and (2) District Medicaid Provider Accounting and Financial Reporting. The report also indicates the extent to which the District corrected the conditions cited in the previous year.

KPMG set forth recommendations for correcting material weaknesses and other reportable conditions noted. While the Office of the Inspector General will continue to assess the District agencies' implementation of recommendations, it is the responsibility of District government management to ensure that agencies correct the deficiencies noted in audit reports. This Office will work with managers, as appropriate, to help them monitor the implementation of recommendations.

Issuance of FY 2003 Independent Auditors' Report  
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If you have questions or need additional information, please contact William J. DiVello,  
Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,

A handwritten signature in cursive script, appearing to read "Austin A. Andersen".

Austin A. Andersen  
Inspector General

Enclosure

AAA/ws

cc: See Distribution List

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KPMG LLP  
2001 M Street, NW  
Washington, DC 20036

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

To the Mayor and Council of the  
Government of the District of Columbia

Inspector General of the Government  
of the District of Columbia

We have audited the basic financial statements of the Government of the District of Columbia (District) as of and for the year ended September 30, 2003, and have issued our report thereon dated January 23, 2004, which referred to the adoption of new accounting principles. 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. The financial statements of the District of Columbia Tobacco Settlement Financing Corporation, the Police and Firefighters' Retirement Fund, the Teachers' Retirement Fund, the Section 529 College Savings Investment Plan Fund, the Water and Sewer Authority and the District of Columbia Housing Finance Agency were audited separately; accordingly, this report does not extend to those funds or entities.

**Compliance**

As part of obtaining reasonable assurance about whether the District's basic 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 an instance of noncompliance related to expenditures in excess of budgetary authorization that is required to be reported under *Government Auditing Standards* and is described in greater detail in Appendix A.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions, which are listed in the following table and described in greater detail in Appendix B. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment,





could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements.

- I. Health Care Safety Net Administration Contract Management
- II. District Medicaid Provider Accounting and Financial Reporting
- III. Human Resource/Payroll Process Management
- IV. Unemployment Compensation Claimant File Management

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 internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that items I and II, listed above, are material weaknesses.

We also noted other immaterial instances of noncompliance with laws, regulations, contracts and grants, and other matters involving internal control over financial reporting that are not considered to be reportable conditions, that we will report to District management in a separate letter. The status of prior year material noncompliance and reportable conditions are presented in Appendix C.

This report is intended solely for the information and use of the Mayor, Council, the Inspector General of the District, District management, the U.S. General Accounting Office and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

January 23, 2004

**MATERIAL NONCOMPLIANCE WITH LAWS  
AND REGULATIONS**

*Expenditures in Excess of Budgetary Authorization*

The Anti-Deficiency Act states, in part, the following:

An officer or employee of the United States Government or of the District of Columbia government may not (A) make or authorize an expenditure or obligation exceeding an amount available in an appropriation or fund for the expenditure or obligation.

The Home Rule Act states, in part, the following:

No amount may be obligated or expended by any officer or employee of the District of Columbia government unless such amount has been approved by Act of Congress, and then only according to such Act.

Section 101 of the DC Appropriations Act 2001, enacted November 22, 2000, states, in part, the following:

*Whenever in this Act, an amount is specified within an appropriation for particular purposes or objects of expenditure, such amount, unless otherwise specified, shall be considered as the maximum amount that may be expended for said purpose or object rather than an amount set apart exclusively therefore...*

The District's basic financial statements state in note 1, "Appropriated actual expenditures and uses may not legally exceed appropriated budget expenditures and uses at the function level. An unfavorable balance in the budgetary statement for an expenditure or other financing use is a violation of the Anti-Deficiency Act. Also, a violation of the Anti-Deficiency Act exists if there is an unfavorable expenditure variance for a particular purpose or object of expenditure within an appropriation." We have confirmed this interpretation with the District's Office of Corporation Counsel.

By allowing expenditures in excess of appropriations within the Human Support Services function, the District may have violated the Anti-Deficiency and Home Rule Acts.