

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

**DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND**

**Financial Statements, Management's
Discussion and Analysis, and
Independent Auditors' Report
Fiscal Year Ended September 30, 2006**



**CHARLES J. WILLOUGHBY
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



March 30, 2007

The Honorable Adrian M. Fenty
Mayor of the District of Columbia
Mayor's Correspondence Unit, Suite 221
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

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

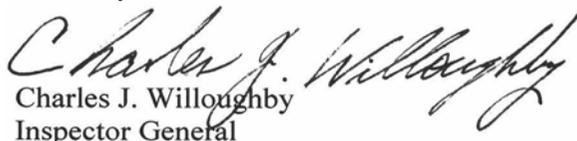
Dear Mayor Fenty and Chairman Gray:

As part of our contract for the audit of the District of Columbia's general purpose financial statements for fiscal year (FY) 2006, Thompson, Cobb, Bazilio & Associates, PC (TCBA) submitted the enclosed final report on the District of Columbia Unemployment Compensation Fund (Fund).

TCBA opined that the financial statements present fairly, in all material respects, the financial position of the Fund, for the year ended September 30, 2006, in conformity with accounting principles generally accepted in the United States of America. In accordance with *Government Accounting Standards*, TCBA has issued its report on consideration of the Fund's internal control over financial reporting and on TCBA's tests of the Fund's compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

If you have questions or need additional information, please contact William J. DiVello, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,


Charles J. Willoughby
Inspector General

Enclosure

CJW/ws

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FY 2006 Unemployment Compensation Fund
Financial Statements, Management's Discussion
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OIG No. 07-1-11BH – Final Report
March 30, 2007
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**GOVERNMENT OF THE
DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND**

**FINANCIAL STATEMENTS AND MANAGEMENT'S
DISCUSSION AND ANALYSIS
(WITH INDEPENDENT AUDITOR'S REPORT THEREON)**

**YEAR ENDED SEPTEMBER 30, 2006
(WITH COMPARATIVE TOTALS FOR 2005)**

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**GOVERNMENT OF THE
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UNEMPLOYMENT COMPENSATION FUND**

**FINANCIAL STATEMENTS AND MANAGEMENT'S
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**YEAR ENDED SEPTEMBER 30, 2006
(WITH COMPARATIVE TOTALS FOR 2005)**

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
 UNEMPLOYMENT COMPENSATION FUND
 FINANCIAL STATEMENTS AND MANAGEMENT’S DISCUSSION AND ANALYSIS
 (WITH INDEPENDENT AUDITOR’S REPORT THEREON)
 YEAR ENDED SEPTEMBER 30, 2006
 (WITH COMPARATIVE TOTALS FOR 2005)**

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Independent Auditor's Report

To the Mayor and Members of the Council of the
Government of the District of Columbia and
Inspector General of the Government of the District of Columbia

We have audited the accompanying statement of net assets of the District of Columbia Unemployment Compensation Fund (the Fund) as of September 30, 2006 and the related statements of revenues, expenses, and changes in net assets and cash flows 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 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 of America. 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.

As discussed in Note 1, these financial statements present only the financial activity of the Fund and are not intended to present the financial position and results of operations of the Government of the District of Columbia taken as a whole.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund, as of September 30, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2007 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. 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.

Washington, DC
January 19, 2007

Thompson, Cobb, Bagley & Associates, P.C.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND
Management's Discussion and Analysis
September 30, 2006 and 2005**

This section of the annual financial report of the District of Columbia Unemployment Compensation Fund ("the Fund") presents our discussion and analysis of the financial performance of the fund during the fiscal year ended September 30, 2006. This discussion has been prepared by management and should be read in conjunction with the financial statements and note disclosures. The financial statements, disclosures and discussion and analysis are the responsibility of management.

Financial Highlights

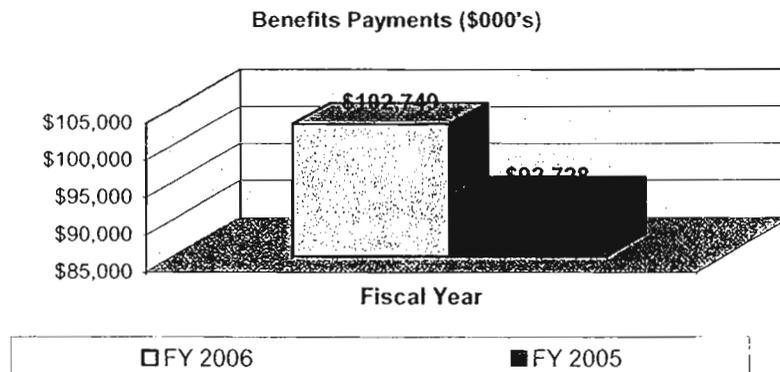
At September 30, 2006, the fund's net assets were \$347.9 million, an increase of \$25.0 million from September 30, 2005. See *Table 1: Overall Financial Position for the Years Ended September 30, 2006 and 2005*. In fiscal year (FY) 2006, the 7.8% increase in net assets is primarily as a result of an increase in cash compared to FY 2005. In FY 2006, the increase in cash is primarily from investment income. The cash balance in the fund is restricted for future unemployment payments.

Table 1: Overall Financial Position for the Years Ended September 30, 2006 and 2005

Overall Financial Position (in Millions)		
	<u>2006</u>	<u>2005</u>
Total Assets	389.0	369.5
Total Liabilities	41.1	46.6
Net Assets	<u>347.9</u>	<u>322.9</u>

In FY 2006, the Fund's total operating expenses increased by \$10 million compared to FY 2005. See *Figure 1: Total Operating Expenses for the Years Ended September 30, 2006 and 2005*. Due to a legislative change, the maximum weekly benefit amount was increased by 16% for benefit years beginning on or after April 12, 2005. The higher maximum benefit was applicable for the full year in FY 2006; therefore, the total operating expenses of the Fund increased in FY 2006.

Figure 1: Total Operating Expenses for the Years Ended September 30, 2006 and 2005



GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND
Management's Discussion and Analysis
September 30, 2006 and 2005

Using This Annual Financial Report

This annual financial report consists of a series of financial statements, prepared in accordance with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. One of the most important questions asked about the Fund's finances is whether or not the Fund has improved as a result of the year's activities. The key to understanding this core question is the Statement of Net Assets; the Statement of Revenues, Expenses and Change in Net Assets; and the Statement of Cash Flows. These statements present financial information in a form that is similar to that used by corporations.

The Fund's net assets (the difference between assets and liabilities) are one indicator of the improvement or erosion of the Fund's financial health. The Statement of Net Assets includes all assets and liabilities. It is prepared under the accrual basis of accounting, whereby assets are recognized when the employer taxes and contributions are due and liabilities are recognized when the liability to provide benefits to claimants has occurred.

The Statement of Revenues, Expenses and Change in Net Assets presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or non-operating.

Another important factor to consider when evaluating financial viability is the Fund's ability to meet financial obligations as they mature. The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, non-capital financing and investing activities.

Reporting Entity

The financial statements report information about the Fund as a whole using accounting methods similar to those used by private-sector companies.

Financial Analysis of the Fund as a Whole

At September 30, 2006, total Fund assets were approximately \$389.0 million. The Fund's largest asset is cash. Restricted cash totaling approximately \$380.2 million accounted for 97.7% of total assets. Restricted cash increased by \$20.4 million or 5.7%. The second largest asset held by the Fund is accounts receivable, which totaled \$8.8 million as of September 30, 2006, as compared to \$9.2 million at the close of fiscal year 2005. These receivables are comprised of payments due from employers in the District of Columbia and from other states.

Fund liabilities totaled \$41.1 million as of September 30, 2006, which consisted primarily of \$28.2 million for benefit payments due to unemployed residents of the District of Columbia, and \$12.9 million from a special Reed Act allocation to be transferred to the Department of Employment Services for unemployment systems modernization and other operation enhancements.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND
Management's Discussion and Analysis
September 30, 2006 and 2005**

The Fund's current assets of \$389.0 million were sufficient to cover current liabilities of \$41.1 million, a ratio of eight dollars in assets for every dollar in liabilities.

The Fund's sole operating expense is for unemployment compensation benefits to individuals separated from employment through no fault of their own. In FY 2006, operating expenses were \$102.7 million compared to \$92.7 million in FY 2005.

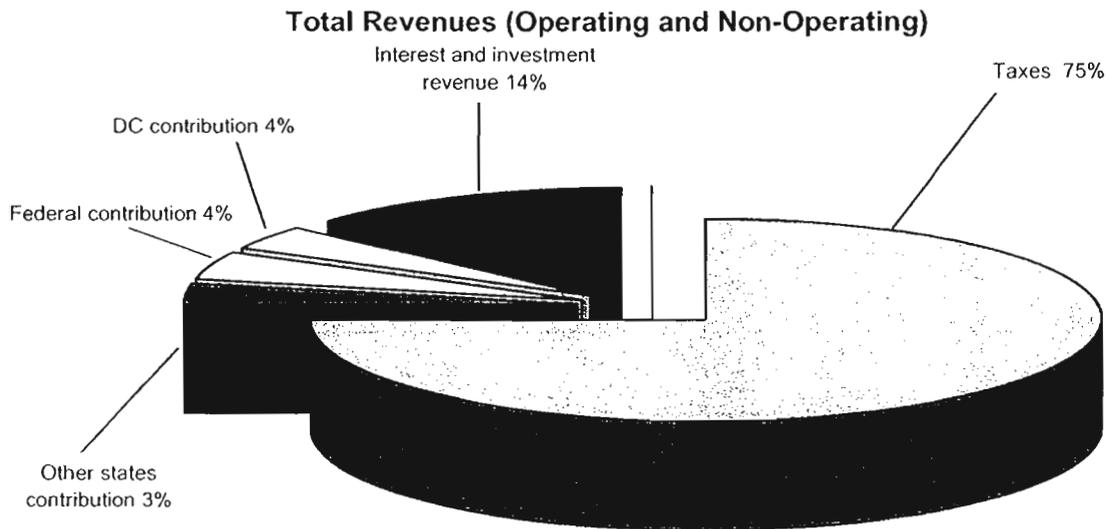
In FY 2006, operating revenues totaled \$110.7 million compared to \$109.7 million in FY 2005. Operating revenues increased slightly by less than 1%. Operating revenues come primarily from employer taxes. In FY 2006, employer tax rates ranged from 1.6% to 7.0%.

Revenues from all sources (operating and non-operating) totaled \$127.8 million in FY 2006 compared to \$127.4 million in FY 2005. The sources of operating revenues for the Fund in FY 2006 include:

- \$95.9 million from taxes,
- \$4.3 million from other states' contributions,
- \$5.5 million from the Federal government (contribution), and
- \$5.1 million due from the District government. The District government reimburses the Fund for unemployment compensation payments made to former District of Columbia Government employees.

The Fund's only sources of non-operating revenue are interest income. Total non-operating income for FY 2006 was \$17.1 million compared to \$17.7 million in FY 2005.

Figure 4: Total Revenues (Operating and Non-Operating) for the year ended September 30, 2006



GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND
Management's Discussion and Analysis
September 30, 2006 and 2005

Statement of Cash Flows

Another way to assess the financial health of an institution is to review the Statement of Cash Flows. Its primary purpose is to provide relevant information about the cash receipts and cash payments of an entity during a period. The Statement of Cash Flows is also used to assess:

- An organization's ability to generate future net cash flows,
- Its ability to meet its obligations as they become due, and
- The entity's needs for external financing.

Contact Information

This financial report is designed to provide a general overview of the Fund's finances. Questions concerning any information provided in this report, or requests for additional financial information, should be addressed to the Office of the Chief Financial Officer, Government of the District of Columbia, 1350 Pennsylvania Avenue NW, Washington, DC, 20004.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND
STATEMENT OF NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2006
(WITH COMPARATIVE TOTALS FOR 2005)
(Dollar Amounts in Thousands)

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets:		
Restricted cash	\$ 380,248	\$ 359,844
Cash in transit	-	13
Accounts receivable, net	8,765	9,236
Due from federal government	-	385
Total assets	389,013	369,478
LIABILITIES		
Current liabilities:		
Benefit payments due	28,213	23,617
Due to District of Columbia	12,862	22,962
Other current liabilities	-	6
Total liabilities	41,075	46,585
NET ASSETS		
Restricted for unemployment compensation benefits	\$ 347,938	322,893

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

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2006
(WITH COMPARATIVE TOTALS FOR 2005)
(Dollar Amounts in Thousands)**

	<u>2006</u>	<u>2005</u>
Operating revenues		
Taxes	\$ 95,888	\$ 92,986
Other states' contributions	4,285	4,937
Federal contribution	5,484	6,560
DC contribution	<u>5,056</u>	<u>5,198</u>
Total operating revenues	<u>110,713</u>	<u>109,681</u>
Operating expenses		
Unemployment benefits	<u>102,749</u>	<u>92,728</u>
Total operating expenses	<u>102,749</u>	<u>92,728</u>
Operating income	7,964	16,953
Non-operating revenues		
Investment income	17,081	17,705
Federal extended benefit contribution	<u>-</u>	<u>12</u>
Total non-operating revenues	<u>17,081</u>	<u>17,717</u>
Change in net assets	25,045	34,670
Total net assets - beginning	<u>322,893</u>	<u>288,224</u>
Total net assets - ending	<u>\$ 347,938</u>	<u>\$ 322,893</u>

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

GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2006
(WITH COMPARATIVE TOTALS FOR 2005)
(Dollar Amounts in Thousands)

	<u>2006</u>	<u>2005</u>
OPERATING ACTIVITIES:		
Cash receipts from customers/contributions	\$ 111,569	\$ 119,077
Cash payments to employees/claimants	<u>(108,259)</u>	<u>(98,634)</u>
Net cash provided	<u>3,310</u>	<u>20,443</u>
INVESTING ACTIVITIES:		
Interest and dividends received	<u>17,081</u>	<u>17,705</u>
NONCAPITAL FINANCING:		
Federal extended benefit contribution	<u>-</u>	<u>12</u>
Net increase in cash	20,391	38,160
Restricted cash, beginning	<u>359,857</u>	<u>321,697</u>
Restricted cash, ending	<u>\$ 380,248</u>	<u>\$ 359,857</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 7,964	\$ 16,953
Decrease (increase) in assets:		
Receivables	856	9,396
Increase (decrease) in liabilities:		
Payables	(5,504)	(5,897)
Other current liabilities	<u>(6)</u>	<u>(9)</u>
Net cash provided by operating activities	<u>\$ 3,310</u>	<u>\$ 20,443</u>

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

GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006
(Dollar Amounts in Thousands)

NOTE 1: ORGANIZATION AND PURPOSE

Pursuant to federal law, the Government of the District of Columbia (the District) maintains an unemployment compensation program that is accounted for in the Unemployment Compensation Fund (the Fund). The Fund pays up to 26 weeks of statutory benefits to eligible unemployed former employees of the District or federal government, and private employers of the District. In March 2002, the federal government passed legislation, the Temporary Extended Unemployment Compensation (TEUC), which extended the maximum amount of time that an individual could receive unemployment compensation from 26 weeks to 39 weeks. Such legislation expired on December 31, 2003. Some payments were made during fiscal year 2006 based on successful appeals of claims. Based on cooperative agreements with other jurisdictions (i.e., various states and territories), the Fund also pays unemployment benefits on behalf of other jurisdictions. The Fund receives full reimbursement for these payments.

The Fund is administered by the Director of the District's Department of Employment Services. Substantially all administrative costs of the program are paid by a federal grant which is recorded in the District's General Fund. The Fund is included as a proprietary fund in the District's financial statements. These financial statements present only the revenues, benefits expense, and related assets, liabilities and net assets of the Fund and are not intended to present the financial position and results of operations of the Government of the District of Columbia taken as a whole.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Measurement Focus and Basis of Accounting

The Fund uses the economic resources measurement focus and the accrual basis of accounting, whereby revenues and assets are recognized when taxes and contributions are due, and expenses and liabilities are recognized when an obligation to provide benefits has occurred, regardless of when cash is exchanged.

The Fund has elected, as allowed in paragraph 7 of Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, not to follow Financial Accounting Standard Board (FASB) pronouncements issued subsequent to November 30, 1989. Therefore, the Fund follows all GASB pronouncements; and FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006
(Dollar Amounts in Thousands)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Restricted Cash

The cash balance is restricted for future benefit payments. The funds are held at the U.S. Department of Treasury in a trust fund in the District's name. Pursuant to the Social Security Act, the funds held at the U.S. Department of Treasury earn interest quarterly based on the interest rates of U.S. Department of Treasury's Certificates of Indebtedness. The quarterly interest rates ranged from 4.63% to 4.75% for the year ended September 30, 2006.

(c) Accounts Receivable

Accounts receivable represents amounts due from private employers for unremitted payroll taxes and from Federal and District governments for unemployment benefits paid. Receivables are stated net of estimated allowances for uncollectible amounts, which are based upon past collection experience and current economic conditions.

(d) Operating Revenues

Private employers are required to make quarterly contributions to the Fund, calculated as a percentage of payroll costs. This contribution percentage is adjusted for each private employer based on claims experience. However, the District and Federal governments reimburse the Fund only for actual benefits paid to their respective former employees. Nonprofit private employers also have the option of reimbursing the fund instead of making quarterly contributions. All other revenues, including federal funds received for TEUC, are considered non-operating revenues.

(e) Operating Expenses

This amount represents benefits paid and an estimate of amounts to be paid (based on average length of unemployment) to eligible unemployed former employees of the District or Federal government, other jurisdictions, and private employers of the District.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006
(Dollar Amounts in Thousands)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Accounts Payable

This amount represents three types of payables: (1) amounts due to other jurisdictions for claims paid to individuals by other states under the combined wage agreement among the states and U.S. territories. Individuals who earn wages in the District and another state or U.S. territory are eligible to file for, and receive unemployment benefits in either the District or other states or U.S. territories. When an individual chooses to file outside of the District, the District, through the Fund, reimburses the other state or U.S. territory for its pro rata share of the claim amount; (2) amounts due to the employers of the District who overpaid their tax contributions; and (3) amounts due to claimants for the remaining periods of eligibility on claims incurred prior to year-end, but not due and payable until the following fiscal year.

(g) Due to District of Columbia

This amount represents the following:

Refund of employer taxes paid by the District	\$ 1,283
Systems modernization and enhancements	12,345
Less: Benefits paid to former District employees	<u>(766)</u>
Due to District of Columbia, net	<u>\$ 12,862</u>

(h) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006
(Dollar Amounts in Thousands)

NOTE 3: ACCOUNTS RECEIVABLE

The accounts receivable and applicable allowance for uncollectible accounts receivable are as follow:

Accounts receivable	\$ 16,560
Less: Allowance for uncollectible accounts	<u>(7,795)</u>
Accounts receivable, net	<u>\$ 8,765</u>

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Independent Auditors' 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 Mayor and Members of the Council of the
Government of the District of Columbia and
Inspector General of the Government of the District of Columbia

We have audited the basic financial statements of the District of Columbia Unemployment Compensation Fund (the Fund) as of and for the year ended September 30, 2006, and have issued our report thereon dated January 19, 2007. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 that is required to be reported under *Government Auditing Standards*, which is described in Appendix A as 2006.1.

Internal Control over Financial Reporting

In planning and performing our 2006 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 basic financial statements and not to provide an opinion 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. 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 Fund's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements. The reportable conditions are described in greater detail in Appendix A.

A material weakness is a condition in which the design or operation of one or more 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 the 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. None of the reportable conditions described above are considered material weaknesses.

This report is intended solely for the information and use of the Mayor, Council and the Inspector General of the Government of the District of Columbia, and management of the Fund and is not intended to be and should not be used by anyone other than these specified parties.

Washington, DC
January 19, 2007

Thompson, Cobb, Baziles & Associates, P.C.

**REPORTABLE CONDITIONS ON INTERNAL CONTROL
OVER FINANCIAL REPORTING**

2006.1 Required Employer Payroll Audits Not Performed

The Tax Division within the Unemployment Compensation Program is responsible for collecting tax receipts from District employers for their respective payment of unemployment taxes. Private employers doing business within the District of Columbia must file the Employers' Quarterly Contribution and Wage Reports (Form UC-30) for payment of the taxes generally within 30 days after the end of the quarter. The information reported on the Form UC-30 must match the information maintained by the employer's payroll records and the information reported for federal tax purposes.

Department of Labor (DOL) Unemployment Insurance Program Letter No. 18-93 requires DOES to perform audits annually of 2% of its active contributor employer accounts. DOES did not perform the required number of audits of total active contributor employer accounts in 2006. Approximately 30 audits were performed compared to approximately 580 audits required to meet the 2% requirement. Historically, the 2% audit requirement has not been met, and this matter was also reported in the prior year audit. We recommend that DOES ensure that the required number of payroll audits are performed annually.

Management's Response

Management concurs with this finding. Auditor training has been conducted. A goal of at least 500 audits during fiscal year 2007 has been established. The supervisor of the Tax Enforcement Unit is accountable for achieving this goal, and it is a part of her performance plan. Monitoring to assure that the goal is met is the responsibility of the Acting Chief of Tax, and it is a part of his performance plan.

**REPORTABLE CONDITIONS ON INTERNAL CONTROL
OVER FINANCIAL REPORTING**

2006.2 Unemployment Compensation Claimant File Management

The District's Department of Employment Services (DOES) is responsible for the administration of the Unemployment Compensation Program. Claimants must meet certain eligibility requirements prior to the disbursement of unemployment insurance benefits. DOES has the responsibility of ensuring that these requirements have been met and there is sufficient evidence to support the determination of the claim.

DOES could not locate files for 4 of the 45 claimant files selected for testing. When a claim is filed, and there is an issue with the claim, a file must be maintained to determine the history of the case and to ensure adequate documentation made by the claims examiner. This may include the Separation Fact Finding Report, the initial application and a monetary determination form. Because of the lack of files, we could not determine whether the claimants were entitled to unemployment compensation benefits. We recommend that all evidence supporting a claimant's eligibility of benefits be maintained in either hard copy or electronically. Further, this information should be available for review for a minimum of three years.

Managements Response

Management concurs with this finding. Each of the four case files that could not be located had been purged from the active files by the time the audit was conducted. These purged files are kept in boxes for a year in a storage area before the records are shredded. Folders within the boxes however, are not arranged in social security order and the boxes are haphazardly labeled and stored. Corrective action instructions will be issued regarding the purging of the active files. These instructions will require that files be stored within boxes in social security order, that each box be prominently labeled with the range of social security numbers contained in said box, and that boxes be arranged in order within the storage room.

**REPORTABLE CONDITIONS ON INTERNAL CONTROL
OVER FINANCIAL REPORTING**

2006.3 Reconciliation between DUTAS and SOAR Not Properly Reviewed

DUTAS, the District's Unemployment Tax Assessment System, records all activity related to the amount of taxes, interests and penalties due and the amount paid by employers. This system, however, is not the District's system of record. On a periodic basis, information from DUTAS is recorded into SOAR, the District's financial reporting system, to produce financial reports and maintain current financial data.

During 2006, the reconciliations performed between DUTAS and the bank and the bank to SOAR were not properly reviewed and approved. In addition, the reconciling items identified were not timely resolved. Reconciliations are an important control that help to ensure the reporting of financial information regarding the Unemployment Insurance Program is consistent between DUTAS and SOAR. The reconciliations should be reviewed and approved, and reconciling items should be resolved timely. Without adequate reconciliations, there is the risk of improper reporting of assets.

Management's Response

Management concurs with this finding. Management has already taken steps to ensure the DUTAS reconciliation to SOAR is done on a monthly basis. This process will have continuous management supervision. The reconciliations will be reviewed monthly by a manager. All reconciling items will be sent to the Tax Division monthly to be resolved.

**REPORTABLE CONDITIONS ON INTERNAL CONTROL
OVER FINANCIAL REPORTING**

DC Unemployment Compensation Trust Fund Status of Prior Year Material Weaknesses, Reportable Conditions and Material Noncompliance with Laws and Regulations		
Finding Number/Nature of Comment	Type Of Comment in FY 2005	Current Year Status
2005.1/ Unemployment Compensation Claimant File Management	Material Non-Compliance and Material Weakness	Material Non-Compliance – See Finding 2006.2
2005.2/ Required Employer Payroll Audits Not Performed	Material Non-Compliance and Material Weakness	Material Non-Compliance – See Finding 2006.1
2005.3/ Accounts Receivable Balance Overstated by \$10.7 Million	Reportable Condition	Resolved
2005.4/ Reconciliation between DUTAS and SOAR Not Performed	Reportable Condition	Reportable Condition – See Finding 2006.3
2005.5/ Prior Period Adjustment for Due from Federal Government	Reportable Condition	Resolved