GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL

AUDIT OF THE LOCAL ROADS CONSTRUCTION AND MAINTENANCE FUND

CHARLES J. WILLOUGHBY
INSPECTOR GENERAL

OIG No. 06-2-09KA **July 2, 2007**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General

July 2, 2007

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District of Columbia Department of Transportation
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Washington, D.C. 20005

Natwar M. Gandhi, PhD
Chief Financial Officer
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Washington, D.C. 20004

Dear Mr. Moneme and Dr. Gandhi:

Enclosed is our final report summarizing the results of the Office of the Inspector General's (OIG) Audit of the Local Roads Construction and Maintenance Fund (OIG No. 06-2-09KA).

As a result of our audit, we directed 10 recommendations for necessary actions to correct the described deficiencies. We received a response to the draft audit report from management on May 2, 2007, and held an exit conference in June 2007 to further discuss the findings in the report. In general, management's response meets the intent of the recommendations. However, we ask that management provide additional information regarding recommendations 1 and 2 within 60 days of the date of this report. The full text of the response received is included at Exhibit B.

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

Sincerely,

Charles J. Willoughby
Inspector General

CW/lp

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AUDIT OF THE LOCAL ROADS CONSTRUCTION AND MAINTENANCE FUND

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EXECUTIVE DIGEST

OVERVIEW

This report summarizes the results of the Office of the Inspector General's (OIG) Audit of the Local Roads Construction and Maintenance Fund (LRCMF) administered by the District Department of Transportation (DDOT). This audit was requested by Councilmember Carol Schwartz, former Chair, Committee on Public Works and the Environment. The Office of the Chief Financial Officer (OCFO) provides accounting and budgeting services for the LRCMF.

The audit objectives were to determine whether: (1) DDOT complied with applicable laws and regulations in administering the LRCMF; (2) LRCMF revenues were properly assessed, collected, and accounted for; (3) LRCMF expenditures were proper; and (4) internal controls over program administration, revenue collection, and expenditures were adequate.

CONCLUSIONS

DDOT/OCFO did not always charge proper expenditures to the LRCMF. In fiscal year 2006, DDOT/OCFO improperly charged $1.48 million in non-LRCMF expenditures to the LRCMF. In addition, in fiscal year 2005, DDOT/OCFO charged $377,000 to the LRCMF, which should have been charged to another fund, the Highway Trust Fund.

Also, DDOT/OCFO did not have in place adequate internal controls over LRCMF revenues. There were no written policies and procedures, insufficient separation of duties over billings and receipts, and no reconciliation of billings to receipts and accounts receivable.

We directed 10 recommendations to DDOT and the OCFO. The recommendations center on ensuring that: charges to the LRCMF are proper; adequate internal controls over LRCMF receipts and billings exist; and funds are encumbered and necessary approvals obtained before contract actions are executed. Management responses to and actions taken on the recommendations met the intent of the recommendations. However, we request that management provide additional information concerning Recommendations 1 and 2, particularly the procedures for addressing improper charges and routine accounting code changes.

A summary of potential benefits resulting from this audit is included at Exhibit A.

INTRODUCTION

BACKGROUND

On October 3, 2001, as part of the Fiscal Year 2002 Budget Support Act of 2001 (D.C. Law 14-28), the D.C. Council enacted the Highway Trust Fund Amendment Act (codified in part at D.C. Code § 9-111.01a (2001)) to establish the Local Roads Construction and Maintenance Fund (LRCMF). The LRCMF was established for the renovation, repair, and maintenance of the local transportation infrastructure - including streets, alleys, sidewalks, curbs, gutters, and streetlights - that are not eligible for federal aid. D.C. Code § 9-111.01a(1) provides that the LRCMF shall be separate from the General Fund. DDOT administers the LRCMF.

The audit was requested by Councilmember Schwartz who was concerned that the LRCMF was being used to "supplant" rather than supplement local appropriated funding for local roads, in violation of D.C. Code § 9-111.01a(c)(1) (LEXIS through Act 15-257 enacted Dec. 26, 2003). However, the subsection of the D.C. Code that provided that the LRCMF must only supplement local appropriated spending was repealed on October 20, 2005.

Unspent fees deposited into the LRCMF do not revert to the General Fund at the end of the fiscal year (FY). Fees accruing to the LRCMF include: (1) rights-of-way (ROW) user fees,[1] charges, and penalties; (2) sales and use taxes from parking and storing vehicles; and (3) bus shelter advertisements.

As of September 30, 2006, over $245.5 million in revenue had been collected since the inception of the program. Table 1 lists a summary of revenue collected from the inception of the program.

Table 1. Summary of Revenue from FYs 2002-2006

Sources	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	Grand Total
Rights-of-way Fees	$19,385,358	$36,646,650	$42,479,471	$34,908,706	$36,904,836	$170,325,021
Parking & Storing Vehicles	-	-	-	-	$30,000,000	$30,000,000
Interest Income	$366,135	$289,673	$425,439	$638,793	$938,897	$2,658,937
Bus Shelter Advertising	-	-	-	-	$23,381,560	$23,381,560
PAY GO Capital	$11,000,000	-	-	-	$8,183,000	$19,183,000
Total	**$30,751,493**	**$36,936,323**	**$42,904,910**[2]	**$35,547,499**	**$99,408,293**	**$245,548,518**

[1] ROW fees are paid by utilities and telephone companies for use of public rights-of-way on and under the District's roadways.

[2] ROW fees were higher in FY 2004 due to adjustments made to recognize ROW fees from a prior year which were initially included in another field.

INTRODUCTION

Expenditures from the LRCMF fall into five program areas:

1) Infrastructure Project Management Administration (IPMA) – responsible for managing capital projects related to the design engineering and construction of the District's streets.

2) Transportation Policy and Planning Administration (TPPA) - responsible for developing transportation plans and policies.

3) Traffic Services Administration (TSA) – responsible for planning, operating, and maintaining the District's traffic signals and streetlights.

4) Urban Forestry Administration (UFA) – responsible for the care and maintenance of District trees.

5) Great Streets (Six Major Corridors) – responsible, along with program partners, for public space improvements such as streets, sidewalks, transit services, lighting, and trees in six targeted neighborhoods/corridors.

There was a total of $179.2 million in expenditures from the inception of the program to 2006. The IPMA program expended $104.6 million, which accounts for 58 percent of total expenditures. TSA expenditures totaled $40.7 million. DDOT expended $27.3 million for the Urban Forestry Administration during the period. TPPA expended $5.1 million, and the Great Streets program $40.8 thousand.

Table 2. Summary of Expenditures from FYs 2002-2006

Program	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	TOTAL ROW EXP
IPMA	$2,423,178	$6,987,286	$31,207,622	$25,542,425	$38,535,062	$104,695,573
TSA	$1,832,495	$2,186,417	$10,472,430	$11,832,396	$14,431,172	$40,754,910
UFA	-0-	$2,001,857	$5,866,579	$11,490,118	$8,007,892	$27,366,446
TPPA	$337,174	$917,682	$810,336	$1,176,345	$1,896,627	$5,138,164
Great Streets	-0-	-0-	-0-	-0-	$40,807	$40,807
FY 01 & FY 02 Overruns					$1,270,244	$1,270,244
TOTAL	$4,592,847	$12,093,242	$48,356,967	$50,041,284	$64,181,804	$179,266,144

INTRODUCTION

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives were to determine whether: (1) DDOT complied with applicable laws and regulations in administering the LRCMF; (2) LRCMF revenues were properly assessed, collected, and accounted for; (3) LRCMF expenditures were proper; and (4) internal controls over program administration, revenue collection, and expenditures were adequate.

Our audit focused on LRCMF expenditures for FYs 2005 and 2006. In FY 2005, the LRCMF incurred approximately $50 million in expenditures. Of this amount, we judgmentally sampled and tested 45 vendor payments, totaling $10 million or 20 percent of the LRCMF expenditures. In FY 2006, the LRCMF incurred approximately $64 million in expenditures. Of this amount, we judgmentally sampled 28 vendor payments, totaling $4.4 million, as part of our survey of internal controls.

Our methodology included:

- Evaluating internal controls to ensure that LRCMF revenues and expenditures are properly accounted for.

- Reviewing applicable criteria and obtaining reasonable assurance that contracts awarded by DDOT for the LRCMF are in compliance with the District government procurement regulations.

- Obtaining and sampling vouchers, noting vendor name, project number, descriptions, and propriety of charge to LRCMF.

- Verifying whether the invoice has the proper authorization signatures from the program manager, area engineer, branch chief, administrator, and contractor.

This final report contains certain revisions to the draft report that the OIG circulated for comment on April 13, 2007. Specifically, the OIG deleted a recommendation originally made to DDOT to obtain federal approval for federal projects before contracts are awarded for those projects. DDOT provided additional documentation and clarification indicating that proper approval had been obtained and that the initial explanations provided to us were in error.

We conducted the audit in accordance with generally accepted government auditing standards, and included such tests as we considered necessary under the circumstances. We did not review the underlying structures and processes of the computer information systems that generated and maintained the databases under audit nor did we assess the reliability of such data. However, we did examine source and supporting documents, and analyzed and compared accounts to verify the reliability of the data.

FINDINGS AND RECOMMENDATIONS

FINDING 1. PROPRIETY OF EXPENDITURES CHARGED TO LRCMF

SYNOPSIS

The DDOT/OCFO did not always charge proper expenditures to the LRCMF. For example, in FY 2006, there was $1.48 million in federal highway project expenditures improperly charged to the LRCMF. In addition, in FY 2005, there was $377,000 charged to the LRCMF, which should have been charged to another fund, the Highway Trust Fund. The improper charges occurred due to: (1) contractors' demands for payment for services rendered; (2) insufficient appropriation in the proper fund for the charges; (3) inadequate communication between budget and accounting personnel; and, (4) the activation of previously unused financial management system edit procedures. As a result, in FYs 2005 and 2006, expenditures in the LRCMF were at times overstated and procurement regulations were violated.

CRITERIA

The LRCMF was established by the D.C. Council as a result of deteriorating local road conditions in the District of Columbia's eight wards. In testing expenditures for propriety, we determined whether DDOT/OCFO complied with D.C. Code § 9-111.01a(b) (2001), which states that LRCMF fees "shall be continually available exclusively for the renovation, repair, and maintenance of local transportation infrastructure including streets, alleys, sidewalks, curbs, gutters and streetlights that are not eligible for federal aid."

DISCUSSION

Fiscal Year 2006

In FY 2006, DDOT/OCFO expended approximately $64 million from the LRCMF. Of this amount, the OIG judgmentally selected for sample 28 contractor payments totaling $4.4 million. Of the $4.4 million tested:

- $1.48 million was improperly charged to LRCMF capital projects, instead of Federal Highway Trust Fund capital projects.
- $96,000 was incorrectly charged to the LRCMF instead of general obligation bonds.

The OIG sought to determine the reason for the improper charges to the LRCMF. Subsequent to the issuance of our draft report and the receipt of DDOT/OCFO's first response, DDOT/OCFO met with the audit team again and informed the OIG that the

FINDINGS AND RECOMMENDATIONS

initial explanation which they gave as to the cause of these improper charges was not accurate, though unintentionally so. Further research by DDOT/OCFO indicated the following:

With regard to the $1.48 million in improper charges, DDOT/OCFO accounting personnel stated that contracts actions, i.e. contracts/contract modifications, were issued to a contractor for several federal highway projects. The contractor performed the work specified in the contract actions and demanded payment. However, unbudgeted payroll expenses had been placed against the federal appropriations against which the contracts had been encumbered. Therefore, contract expenditures that had been incurred in connection with the contract actions could not be paid.

Moreover, DDOT accounting personnel informed us that in October 2005 an edit check in the District's System of Accounting and Reporting (SOAR), which had not previously been used against capital projects, was activated. This edit check prevents expenditures in excess of available budget authority for a capital project from being disbursed. Because the unbudgeted expenses had been charged against the federal appropriation first, the $1.48 million in contract modifications could not be expended from the federal project fund. Therefore, DDOT budget personnel charged the expenditures against the LRCMF. The original purchase orders, invoice numbers, and related accounting codes and indexes for several federal capital highway projects were changed to accounting codes of a LRCMF street paving project.

DDOT accounting personnel stated that they were not aware of the accounting code changes and impropriety of the charges to the LRCMF until being informed by an OIG auditor. The OIG auditor recommended that the $1.48 million be reclassified to the proper accounts. Accounting personnel agreed that the charges were improper against the LRCMF and made adjusting entries during the accounting closing period for FY 2006.

DDOT/OCFO described the events in FY 2006 as extraordinary transactions and events that should not be recurring. However, a lack of communication exists if accounting personnel are unaware of accounting code changes made by budget personnel. Also, there was an apparent violation of procurement regulations, though isolated. For example, contract actions should not be awarded before funds are encumbered in the proper accounts to cover the costs of those actions. Title 27 DCMR § 3240.6 states: "Before execution of a contract, the contracting officer shall ensure that the appropriate amount of allocated budget authority is encumbered to cover the cost of the contract." Similarly, Title 27, DCMR § 3600.4 states: "The contracting officer shall not execute a contract modification, including a change order, that causes or will cause an increase in the funding level of the contract without having first obtained a certification of the availability of funds ...." DDOT/OCFO should have ensured that available budget

FINDINGS AND RECOMMENDATIONS

authority existed in the proper fund and was encumbered before awarding the contract actions.

Table 3 summarizes the five projects that were improperly charged in FY 2006 to the LRCMF.

Table 3. Summary of Improper Highway Trust Fund Expenditures Charged to the LRCMF During Fiscal Year 2006

Date	Federal Capital Project #	Local Roads Capital Project #	Original PO[3] for Federal Highway	Change to PO #	Amount	Description
12/22/05	STP-1103(28)	6SR01C	PO178569	P6FTMYR2	$160,817	Landscaping of 16th St., NW
12/22/05	DPU-0010(011)	6SR01C	PO156927	P6FTMYR	$315,245	Reconstruction of Eastern Ave., NE Riggs Rd. - NH Ave.
12/22/05	DPU-STP 0010(010)	6SR01C	PO157849	P6FMTMYER	$565,326	Reconstruction of Eastern Ave., NW from North Capitol St. to Carroll St.
12/22/05	STP-1401(007)	6SR01C	PO137718	P6FTMYER	$251,721	Refigure Thomas Circle
12/22/05	STP-4000(78)	6SR01C	PO146178	P6FMTMYER	$190,768	Reconstruction of F Street, NW, 17th Street to 23rd Street
	TOTALS				**$1,483,877**	

In FY 2006, DDOT/OCFO also improperly charged $96,000 in general obligation (GO) bond charges to the LRCMF. These payments included $80,000 for roof replacement at a DPW salt dome, $7,000 for utility expenses, and $9,000 for office furniture for mass transit. DDOT accounting personnel did not agree that these charges were improper. According to DDOT accounting personnel, an error was made in setting up the index codes, but because the appropriation number was classified as GO bonds on the reimbursements spreadsheet, no LRCMF dollars were actually used to fund the project expenditures. However, the $96,000 was included in the $64 million universe of LRCMF expenditures for FY 2006 that DDOT provided to us. Table 4 summarizes the three GO bond expenditures improperly charged to the LRCMF.

[3] Purchase Order

FINDINGS AND RECOMMENDATIONS

Table 4. Summary of GO Bond Expenditures Charged to LRCMF in FY 2006

Date	GO Project #	Invoice #	PO #	Amount	Description
11/7/05	RL101C	VO160298	PO161035	$ 7,000	Utility expenses
12/6/05	RL101C	VO165256	PO153426	80,000	Roof replacement at Potomac Ave. salt dome
12/14/05	RL101C	VO166777	PO161257	9,000	Office furniture for Mass Transit
	TOTAL			**$96,000**	

Fiscal Year 2005

In FY 2005, the LRCMF incurred approximately $50 million in expenditures. Of this amount, we sampled and tested 45 vendor payments, totaling $10 million or 20 percent of the total expenditures. Our review found the following conditions:

- $377,000 was improperly charged to the LRCMF instead of the Federal Highway Trust Fund.
- $161,965 in GO bond expenditures was incorrectly charged to the LRCMF.

According to DDOT/OCFO budget personnel, a payment of $83,767 from LRCMF was made for a federally funded project because no funds were available in the federally funded project. Also, a $192,461 payment from the LRCMF was improperly made for a federally funded project, Highway Project No. STP-8888(114), the 18th Street Adams Morgan Transportation and Parking Study. In addition, a $100,572 payment from LRCMF was incorrectly made for federally funded project, No. BH-8888(13), to fund preventive maintenance and emergency repairs for federal highway structures.

Table 5 lists a summary of these three expenditures charged to the LRCMF.

Table 5. Summary of Federal Highway Projects Charged to the LRCMF for FY 2005

Date	LRCMF Project #	Federal Project #	Invoice #	PO #	Amount	Description
6/20/05	ED303C	IBC-8888(114)	VO117164	PO143754	$192,461	18th St. Adams Morgan Study
6/23/05	SR307C	IBC-888(48)	VO118849	PO154939	$83,767	Resurfacing Barney Circle
8/3/05	ED305C	BH-8888-(13)	VO130008	PO142462	$100,572	Construct retaining wall panels in Anacostia Rd., SE IN 2004
	TOTAL				**$376,800**	

FINDINGS AND RECOMMENDATIONS

Table 6 summarizes the $161,965 of GO bond expenditures that were charged to LRCMF capital projects in FY 2005.

Table 6. Summary of GO Bonds Expenditures Charged to the LRCMF for FY 2005

Date	Project #	Invoice#	PO#	Amount	Description
1/7/05	RL101C	VO075800	PO132281	$4,000	Improvements to DDOT/PSMA facilities located at 1401 W St., NE
3/9/05	RL101C	VO090590	PO137789	$39,000	Repair of vandalized snow managers station @ 401 Farragut Street NW, new electric meter replace doors and frames
5/24/05	RL101C	VO110354	PO137100	$74,480	Roof replacement 4901 Shepard Parkway
6/23/05	RL101C	VO118904	PO137789	$5,793	Repair of snow managers station @ 401 Farragut Street, NW
9/7/05	RL101C	VO138271	PO157534	$2,247	Personnel services for Tameka Thomas for conversion from ADPICS to PASS
9/2/05	RL101C	VO139401	PO161659	$25,000	Settlement of lawsuit for IPMA moving to 64 New York Ave., NE
9/6/05	RL101C	VO139967	PO162123	$2,039	Lease and maintenance of portable toilets
9/30/05	RL101C	VO159141	PO158867	$260	Lease and maintenance of office trailer for inspection station
9/30/05	RL101C	YC161035	PO161035	$9,146	Utility payment for DPW inspection station
	TOTAL			**$161,965**	

These GO bond expenditures were incorrectly charged to the LRCMF, OIG opined. However, a DDOT official stated that the expenditures were charged to the LRCMF because some of the contracts covered both LRCMF and Highway Trust Fund projects and some of the modifications could have been charged to the LRCMF or federal fund. But classifying expenditures as local roads fund eligible or federal fund eligible appears inconsistent with the D.C. Code which states that the LRCMF should be for the repair, renovation and maintenance of local transportation infrastructure which is not eligible for federal aid.

RECOMMENDATIONS:

We recommended that the Director, DDOT and the Chief Financial Officer, OCFO ensure that:

1. Expenditures charged against the LRCMF are proper.

FINDINGS AND RECOMMENDATIONS

MANAGEMENT RESPONSE

Management agreed that expenditures had been improperly charged and made adjusting journal entries for the $1.48 million in FY 2006 for the Highway Trust Fund expenditures charged to LRCMF.

OIG COMMENT

Even though management agreed with the recommendation and made adjusting journal entries, management did not state the specific action to be taken to prevent the condition or minimize it from occurring again. Management stated, "contracts may be used for multiple projects in the capital program, which means a contract can be used for a federal project (HTF), a GO Bond fund project, and a LRCMF project at the same time." Given these circumstances, it is important that adequate controls exist to ensure that transactions are properly processed, classified, and summarized. We reiterate that action needs to be taken to develop procedures to ensure that expenditures are charged to the proper fund. We request that management provide additional information about the procedures to be developed to prevent improper charges.

2. Policies and procedures for communicating accounting code changes between budget and accounting personnel exist, are documented, and are consistently followed.

MANAGEMENT RESPONSE

Management agreed with the recommendation but stated that the cause of the condition was an extraordinary event and that policies and procedures to handle extraordinary events will be developed.

OIG COMMENT

Management's planned actions for communicating accounting code changes involving extraordinary events address existing deficiencies for processing such transactions. However, if routine accounting code changes exist, procedures for handling those changes should be documented also. Documented policies and procedures are part of internal control activities designed to ensure that management's directives are carried out and transactions are properly processed. Otherwise, staff may not process or communicate those changes accurately, timely, or in accordance with management's intent. We request that management provide additional information regarding plans for addressing routine accounting code changes.

3. Sufficient funds are encumbered in the District's accounting system, in accordance with procurement regulations, before contract actions, including modifications, are executed.

FINDINGS AND RECOMMENDATIONS

MANAGEMENT RESPONSE

Management agreed with the recommendation and stated that the budget load process has been changed to prevent a repeat of FY 2006 payment difficulties.

OIG COMMENT

Management's action meets the intent of the recommendation.

4. Reclassify $377,000 in LRCMF capital expenditures to the Highway Trust Fund accounts.

MANAGEMENT RESPONSE

Management reclassified some of the expenditures and provided additional explanation of the propriety of the remaining expenditures.

OIG COMMENT

Management's action meets the intent of the recommendation.

5. Reclassify $161,965 and $96,000 of GO bond expenditures paid from LRCMF.

MANAGEMENT RESPONSE

Management stated that no funds from LRCMF were used for the specified expenditures and previous reclassification of the expenditures had occurred.

OIG COMMENT

Management's action meets the intent of the recommendation.

FINDINGS AND RECOMMENDATIONS

FINDING 2. INTERNAL CONTROLS OVER LRCMF REVENUES

SYNOPSIS

DDOT/OCFO did not have adequate internal controls over LRCMF revenues. There was insufficient separation of duties over cash, a cash receipts control log was not maintained, a reconciliation of billings to receipts and accounts receivable was not performed, and formalized billing procedures did not exist. As a result, the risk of material misstatement of revenue through intentional or unintentional errors was not minimized.

DISCUSSION

During the audit, we noted several internal control weaknesses in the handling of LRCMF revenue, principally rights-of-way (ROW) user fees. For example, the LRCMF fund manager was responsible for preparing billings for ROW fees, mailing statements to ROW users, processing the collection of ROW fees, and preparing journal entries for ROW fees. Good internal controls over cash receipts and cash require that certain duties be performed by more than one person. For example, one employee should prepare a control list of checks after opening the mail and stamp the checks with a restrictive endorsement. That employee should forward the remittance advice (billing/invoice copy), included with the payment, to a second employee for processing against accounts receivable. A third employee should prepare the checks for deposit into the D.C. Treasury.

Segregating the cash handling, recording, and depositing functions strengthens the system of internal controls over cash receipts. During our audit, we found that reconciliations of receipts with billings and accounts receivable were not performed. Reconciling receipts with billings and accounts receivable enhances the integrity of the billing process and the balance in accounts receivable. No receipts list or check log had been prepared. Such a list can be compared with the deposit slips as a check and balance to verify that all receipts were deposited. Finally, we found that no formalized, written policy for preparing billings existed. Such a policy could enhance the timeliness, accuracy, efficiency, and effectiveness of the billing process.

Prior to the completion of the audit, DDOT took steps to improve internal controls over LRCMF receipts. Written policies were developed regarding preparation of ROW billings to users. Some duties previously performed by the fund manager have been segregated. Another employee controls the receipt of checks by logging checks in a receipts log. A second employee prepares the checks for deposit with the D.C. Treasury.

FINDINGS AND RECOMMENDATIONS

RECOMMENDATIONS:

We recommended the Director, DDOT and the Chief Financial Officer, OCFO take action to:

6. Develop complete written policies for billing, handling, and recording ROW user fees.

MANAGEMENT RESPONSE

Management stated that written policies and procedures for the LRCMF have been developed and will be maintained by the capital fund manager.

OIG COMMENT

Management's action meets the intent of the recommendation.

7. Reconcile ROW monthly billings to the receipts and accounts receivable outstanding.

MANAGEMENT RESPONSE

Management stated that the capital fund manager enhanced the accounts receivable analysis process which details billings, payments and balances. Monthly reconciliation reports are prepared and the reports are sent to Public Space staff for verification.

OIG COMMENT

Management's action meets the intent of the recommendation.

8. Maintain a log book of ROW user fees collected to improve accountability for tracking receipts.

MANAGEMENT RESPONSE

Management stated that it already has put in place a system whereby checks received through the mail are recorded in a log book.

OIG COMMENT

Management's action meets the intent of the recommendation.

9. Stamp checks with restrictive endorsements when received.

FINDINGS AND RECOMMENDATIONS

MANAGEMENT RESPONSE

Management stated that checks are currently being stamped with restrictive endorsements.

OIG COMMENT

Management's action meets the intent of the recommendation.

10. Consistently maintain segregation of duties over cash, receipts, and billings.

MANAGEMENT RESPONSE

Management stated that the proper segregation of duties now exists. Management detailed in its comments the functions performed by staff.

OIG COMMENT

Management's action meets the intent of the recommendation.

EXHIBIT A. SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT

Recommendation	Description of Benefit	Amount and Type of Benefit	Agency Reported Estimated Completion Date	Status[4]
1	**Compliance and Internal Controls.** Charges proper expenditures to the LRCMF.	Non-Monetary	TBD	Open
2	**Internal Controls**. Implements policies and procedures for communicating accounting code changes between accounting and budget.	Non-Monetary	TBD	Open
3	**Compliance and Internal Controls.** Encumbers sufficient funds before executing procurement actions.	Non-Monetary	May 2, 2007	Closed
4	**Compliance.** Reclassifies improper expenditures from the LRCMF to the proper fund.	Non-Monetary	May 2, 2007	Closed
5	**Compliance.** Reclassifies improper expenditures from the LRCMF to the proper fund.	Non-Monetary	May 2, 2007	Closed
6	**Internal Controls.** Develops complete written policies for billing, handling, and recording ROW user fees.	Non-Monetary	May 2, 2007	Closed

[4] This column provides the status of a recommendation as of the report date. For final reports, "**Open**" means management and the OIG are in agreement on the action to be taken, but action is not complete. "**Closed**" means management has advised that the action necessary to correct the condition is complete. "**Unresolved**" means that management has neither agreed to take the recommended action nor proposed satisfactory alternative actions to correct the condition.

EXHIBIT A. SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT

Recommendation	Description of Benefit	Amount and Type of Benefit	Agency Reported Estimated Completion Date	Status[4]
7	**Internal Controls.** Reconciles ROW monthly billings to receipts and accounts receivable.	Non-Monetary	May 2, 2007	Closed
8	**Internal Controls.** Maintains a log book of ROW user fees collected.	Non-Monetary	May 2, 2007	Closed
9	**Internal Controls.** Stamps checks with restrictive endorsements when received.	Non-Monetary	May 2, 2007	Closed
10	**Internal Controls.** Segregates cash, receipts, and billings functions consistently.	Non-Monetary	May 2, 2007	Closed

EXHIBIT B. MANAGEMENT RESPONSE

GOVERNMENT OF THE DISTRICT OF COLUMB
OFFICE OF THE CHIEF FINANCIAL OFFICER

RECEIVED 7234

Government Services Cluster

May 2, 2007

Charles J. Willoughby
Inspector General
Office of the Inspector General
717-14th Street, NW
Washington, DC 20005

Dear Mr. Willoughby:

This letter is in response to your draft report of the Office of the Inspector General's (OIG) Audit of the Local Roads Construction and Maintenance Fund (LRCMF) (OIG No. 06-2-09KA). Below you will find the agency's comments regarding the recommendations, and corrective actions that have been implemented, or will be implemented:

Response to Recommendations:

Recommendation #1:
We recommend that the Director, DDOT and the Chief Financial Officer, OCFO ensure that expenditures charged against the LRCMF are proper.

Response:
We agree with this recommendation and believe that expenditures have been improperly charged.

Recommendation #2:
We recommend that the Director, DDOT and the Chief Financial Officer, OCFO ensure that policies and procedures for communicating accounting code changes between budget and accounting personnel exist, are documented, and are consistently followed.

Response:
We agree with this recommendation, but will create and document policies and procedures only should future extraordinary events require accounting code changes. The situation in 2006 was an extraordinary one-time event and we have learned that thoroughly planning and executing all required steps to ensure timely (by year-end) completion of reclassification tasks is an absolute requirement. There cannot be policy or procedures for routine accounting code changes as this would circumvent all internal controls required for our programs and within the PASS and SOAR accounting systems.

2000 14th Street, N.W. • Washington, D.C. 20009 • (202) 671-2300
Servicing: Departments of Transportation, Public Works, Motor Vehicles and D.C. Energy Office

EXHIBIT B. MANAGEMENT RESPONSE

Recommendation #3:
We recommend that the Director, DDOT and the Chief Financial Officer, OCFO ensure that sufficient funds are encumbered in the District's accounting system, in accordance with procurement regulation, before contract actions, including modifications are executed.

Response:
We agree with this recommendation. The extraordinary events in 2006 discussed above were caused by system changes designed to ensure that internal controls in PASS and SOAR to automate this internal control process. We have changed our budget load process as a result to avoid a repeat of the payment difficulties encountered in 2006.

Recommendation #4:
We recommend that the Director, DDOT and the Chief Financial Officer, OCFO ensure that necessary federal approval are obtained before contracts or contract actions, including modifications, requiring such approvals are modified.

Response:
We agree with this recommendation and have consistently applied it. We are and have been in compliance with procurement regulations.

Recommendation #5:
Reclassify $377,000 in LRCMF capital expenditures to the Highway Trust Fund accounts.

Response:
We have previously supplied the audit team with documentation on these expenditures and their appropriateness to the LRCMF. The Federal Highway Administration declined to participate, therefore $377K were charged to the LRCMF per the legislation creating the LRCMF.

Recommendation #6:
Reclassify $161,965 and $96,000 of GO bond expenditures paid from LRCMF.

Response:
There were no funds paid from the LRCMF for these expenditures. We previously re-classed the expenditures from detail fund 0330 to fund 0300.

Finding 2:
"Internal Controls over Revenues"

Response:
We concur with the findings and recommendations pertaining to the internal controls over the LRCMF revenues. We have hired a new funds manager that is responsible for the financial

EXHIBIT B. MANAGEMENT RESPONSE

management of this program. Procedures have been documented and policies have been adopted to improve internal controls. Below are our responses and recommendations concerning the management of revenue:

Recommendation #7:
Develop complete written policies for billing, handling, and recording ROW user fees:

Response:
Written policies and procedures for LRCMF revenues have been developed and will be maintained by the capital fund manager. Additionally, these policies and procedures were documented as part of the Revenue Cycle Memo for the Highway Trust Fund in FY2006.

Recommendation #8:
"Reconcile ROW monthly billings to the receipts and accounts receivable outstanding"

Response:
In December 2006, the capital fund manager enhanced the accounts receivable analysis which details revenues billed, payments made and balances outstanding by permit holder. Billings and payments received are posted as issued or received. At least monthly, the report is reconciled against deposits made. A copy of the report is also routinely forwarded to the Public Space staff responsible for issuing rights-of-way permits to verify completeness and to alert them to any delinquent accounts. Additionally, a review of all permit holder accounts was performed for fiscal years 2003 through 2006 to determine any outstanding receivable balances. As of the current billing period (3rd quarter) all accounts are current.

Recommendation #9:
"Maintain a log book of ROW user fees collected to improve accountability for tracking receipts:

Response:
As of January 2006 all checks received via mail delivery are forwarded to the payroll specialist who records each payment into a log, noting date received, check number and amount, and payor name.

Recommendation #10:
"Stamp checks with restrictive endorsements when received"

Response:
Currently, checks are stamped with a restrictive endorsement by the cost accounting specialist at the time the deposit is prepared for presentation to Finance and Treasury.

Recommendation #11:
"Consistently maintain segregation of duties over cash, receipts, and billings"

EXHIBIT B. MANAGEMENT RESPONSE

Response:
The proper segregation of duties now exists with regards to rights-of-way revenue and cash receipt functions. The capital fund manager issues invoices to all permit holders on record at least thirty days prior to the date the payment is due. Fees are paid quarterly and are due on the first day of the quarter being billed. Mail is opened by an accounting technician who forwards all checks received to the payroll technician for entry into the cash receipts log. The capital fund manager updates the accounts receivable listing and provides the proper SOAR attributes to the cost accounting technician to ensure that revenue is properly recorded. The cost accounting technician prepares the deposit and forwards the deposit to Finance and Treasury for actual deposit into the DC custodial account. The capital funds manager at least monthly, transfers the cash received from the custodial bank account to the LRCMF bank account, which is reconciled by the operating grants manager. These procedures, which are being consistently followed, ensure the proper segregation of duties.

The Office of the Chief Financial Officer, Government Services Cluster is requesting an additional meeting with your staff to discuss the details that have arisen subsequent to the exit conference meeting. I can be contacted at 671-2551 for discussion.

Sincerely,

for Mohamed Mohamed VEJ

Mohamed Mohamed
Acting Chief Financial Officer
Government Services Cluster

cc: Mr. Natwar M. Gandhi, Chief Financial Officer
Mr. Emeka C. Moneme, Director, District Department of Transportation
Mr. Daniel M. Tangherlini, City Administrator and Deputy Mayor
Mr. Sebastian Lorigo, Executive Director, Office of Integrity and Oversight