

**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, 2006**



**CHARLES J. WILLOUGHBY
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



February 1, 2007

Emeka C. Moneme
Director
District Department of Transportation
2000 14th Street, N.W., 6th Floor
Washington, D.C. 20009

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

Dear Mr. Moneme and Dr. Gandhi:

The Office of the Inspector General has completed an audit (OIG No. 07-1-01KA) of the comparative balance sheet of the District of Columbia Highway Trust Fund (Fund) as of September 30, 2006, 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, 2007. 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. Moneme and Dr. Gandhi
Highway Trust Fund
February 1, 2007
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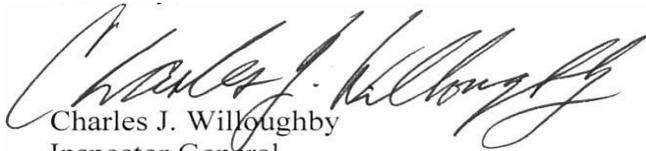
Unqualified Opinion on Financial Statements

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, 2006, 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 2006 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,



Charles J. Willoughby
Inspector General

CJW/js

Enclosure

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**DISTRICT DEPARTMENT OF TRANSPORTATION
HIGHWAY TRUST FUND
FINANCIAL STATEMENT AUDIT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006**

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**DISTRICT DEPARTMENT OF TRANSPORTATION
HIGHWAY TRUST FUND
FINANCIAL STATEMENT AUDIT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006**

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'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, 2007.

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's 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) (Supp. 2006). 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).

Introduction and Purpose
Highway Trust Fund

During fiscal year 2006, emergency legislation was enacted to provide new funding for the Fund. The legislation provided that as of July 1, 2006, all sales and use tax revenue in excess of \$30 million collected by the District for parking and storing vehicles was to be deposited into the Highway Trust Fund. The Fund also was to receive any incremental increase from the collection of public rights-of-way user fees, charges, and penalties as well as incremental revenue from public space rental fees for vaults. *See* Fiscal Year 2007 Budget Support Act of 2006, D.C. Act 16-477, § 6023; Highway Trust Fund and District Department of Transportation Second Congressional Review Emergency Amendment Act of 2006, D.C. Act 16-498, § 3.

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, Office of the 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, 2006. 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.

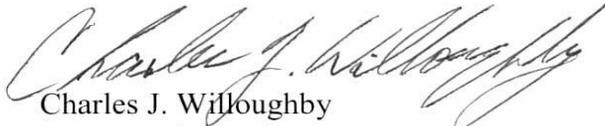
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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, 2006, 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 February 1, 2007, on our consideration of the District's 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.



Charles J. Willoughby
Inspector General

February 1, 2007

**DISTRICT DEPARTMENT OF TRANSPORTATION
HIGHWAY TRUST FUND
FINANCIAL STATEMENT AUDIT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006**

COMPARATIVE BALANCE SHEETS

ASSETS	<u>2006</u>	<u>2005</u>
Current Assets:		
Cash & Investments	\$ 6,173,496	\$ 21,314,679
Receivables	12,300,029	2,177,561
Other Current Assets	<u>126,592</u>	<u>122,996</u>
Total Assets	<u><u>18,600,117</u></u>	<u><u>23,615,236</u></u>
 LIABILITIES & FUND BALANCE		
Current Liabilities:		
Vouchers and Other Payables	7,091,204	1,842,734
Due To/From Other Funds	3,537,597	-
Deferred Revenue	<u>48,459</u>	<u>-</u>
Total Current Liabilities	<u>10,677,260</u>	<u>1,842,734</u>
 Long-Term Liabilities		
Retainage	<u>722,229</u>	<u>1,041,339</u>
Total Long-Term Liabilities	<u>722,229</u>	<u>1,041,339</u>
Total Liabilities	<u>11,399,489</u>	<u>2,884,073</u>
 Fund Balance:		
Restricted	<u>7,200,628</u>	<u>20,731,163</u>
Total Liabilities & Fund Balance	<u><u>\$ 18,600,117</u></u>	<u><u>\$ 23,615,236</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, 2006**

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

Revenues	2006	2005
Motor Fuel Tax	\$ 24,960,273	\$ 25,912,074
Sales Tax Parking/Storing Vehicles	3,585,602	-
Rights-of-Way Fees	1,670,286	-
Public Space Rental	918,199	-
Interest and Other Income	<u>855,554</u>	<u>526,061</u>
Total Revenue	<u>31,989,914</u>	<u>26,438,135</u>
Capital Appropriated Expenditures		
Design, Site, Construction, and Equipment Costs	16,755,167	22,657,076
Project Mgmt Costs	2,505,270	2,042,534
Non-Participating Costs	<u>26,260,012</u>	<u>1,640,891</u>
Total Expenditures	<u>45,520,449</u>	<u>26,340,501</u>
Excess (Deficit) of Revenues over Expenses	(13,530,535)	97,634
Fund Balance at October 1	<u>20,731,163</u>	<u>20,633,529</u>
Fund Balance at September 30	<u>\$ 7,200,628</u>	<u>\$ 20,731,163</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, 2006**

NOTE 1: 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 Fund is a governmental fund, which is used to account for the dedicated revenues generated from motor vehicle fuel taxes, as well as the following revenue sources (as of July 1, 2006): 1) a portion of vehicle parking and storage sales and use taxes; 2) the incremental increase in public rights-of-way user fees, charges, and penalties; and 3) incremental revenue from public space rental fees for vaults. The monies are held by the District to pay the District's share of federal-aid highway projects.

Basis of Accounting

The modified accrual basis of accounting is used for the Fund. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means 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, sales, and use taxes; rentals and other fees; and interest. Taxes are recognized as revenue when the sale and use take place. Interest, rentals, and other fees are recognized as revenue through the passage of time.

Cash and Investments

Highway Trust Fund cash and investments are deposited in accounts with eligible financial institutions. The Highway Trust Fund bank account is an interest bearing checking account, while the investment account is invested in obligations of the United States or its agencies securities, with the implicit guarantee of the federal government. Such investments are considered the equivalents of cash.

**DISTRICT DEPARTMENT OF TRANSPORTATION
 HIGHWAY TRUST FUND
 FINANCIAL STATEMENT AUDIT
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006**

Receivables and Payables

Taxes receivable include motor fuel, parking, and vehicle storage sales and use taxes levied by the District (including interest and penalties on delinquent taxes that have not been collected, canceled, or abated) less the portion of the receivables estimated not to be collectible. Account receivables are amounts owed by customers for goods and services sold. "Due from Other Funds" represents monies due from the Capital Projects Fund or other District agencies for amounts owed to the Fund.

Accounts payable are amounts owed to vendors for goods or services purchased and received. "Due to Other Funds" represents amounts owed to other government agencies. Amounts due within 1 year are classified as current 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 and fees that are legally restricted for certain federal 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.

NOTE 2: 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	Fiscal Year 2006	Fiscal Year 2005
Highway Trust Fund Account	4,154,747	6,497,196
Investment Account	6,173,496	14,580,738
Primary Government Accounts	(4,154,747)	236,745
Total Cash & Investments	\$ 6,173,496	\$ 21,314,679

**DISTRICT DEPARTMENT OF TRANSPORTATION
 HIGHWAY TRUST FUND
 FINANCIAL STATEMENT AUDIT
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006**

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 – primarily money market funds and/or obligations backed by the United States government securities and agencies in accordance with the District’s investment policies.

Primary Government Accounts – dedicated accounts used to record revenues for motor fuel taxes; parking and storage sales and use taxes; and public space rental and rights-of-way user fees prior to transfer from the District and to record expenditures for capital program costs including vendor payments, payroll, and intra-district transfers.

Accounts Receivable

Accounts receivable consists of dedicated taxes and rental fees earned in the current fiscal year but not yet received, as well as amounts due from other District agencies. As of September 30, 2006, the following receivables established were:

Account Name	Fiscal Year 2006	Fiscal Year 2005
Motor Fuel Taxes	2,875,811	2,177,561
Parking & Storage	2,893,687	-
Public Space Rental	918,200	-
Right-of-Way Rental	1,670,286	-
Due from Other Fund	3,942,045	-
Total	\$ 12,300,029	\$ 2,177,561

Other Current Assets

Other current assets are advances made to other District agencies for work performed on capital projects under an intra-District agreement.

NOTE 3: CURRENT LIABILITIES

Accounts Payable

Vouchers Payable – refunds and overpayments owed to interstate bus companies at fiscal year end, and amounts owed to contractors for various highway projects at fiscal year end.

**DISTRICT DEPARTMENT OF TRANSPORTATION
HIGHWAY TRUST FUND
FINANCIAL STATEMENT AUDIT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006**

Deferred Revenues – motor fuel tax overpayments made by motor fuel tax wholesalers that have overpaid in error and are owed a refund from the District.

Due to Other Agency Fund – amount owed to the District Department of Transportation’s (DDOT) capital account for Fund projects not yet reimbursed.

NOTE 4: 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 DDOT’s 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.

NOTE 5: FUND BALANCE

The Fund Balance is restricted to use by the DDOT’s Highway Trust Fund for repayments 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.

NOTE 6: REVENUES

The Highway Trust Fund revenue from October 1 through September 30 consists primarily 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.

As of July 1, 2006, the Fund received three new funding sources:

- sales and use tax revenue in excess of \$30 million for parking and storing vehicles;
- incremental revenue from public space rentals for vault storage; and
- the incremental increase for rights-of-way user fees, charges, and penalties.

**DISTRICT DEPARTMENT OF TRANSPORTATION
HIGHWAY TRUST FUND
FINANCIAL STATEMENT AUDIT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006**

NOTE 7: EXPENDITURES

The total represents capital appropriated expenditures for the period October 1 through September 30. Expenditures that are payable from the Fund include the following:

- payment of the District's share of federal-aid highway project costs,
- in-house capital outlay labor costs (DDOT personnel), and
- project associated costs not eligible for federal funding.

Project associated costs not eligible for federal funding, reported as non-participating costs, were unusually high in fiscal year (FY) 2006 due to a number of factors. Of the over \$26 million reported, it is anticipated that over \$10 million will be recovered due to transfer of these costs to federal grant funding or through alternative financing. The variance in non-participating costs between FY 2006 and FY 2005 is skewed due to large recoveries in non-participating costs in FY 2005 that decreased reported non-participating spending in that year. A summary of non-participating spending for FY 2006 and FY 2005 follows:

Description	FY 2006	FY 2005
Final Audit Cost Adjustments and Federal Grant Disallowance	\$ 5,174,739	\$ (5,311,705)
Non-Participating Costs Vendor Payments and Payroll	9,408,589	6,952,596
Advance Construction Costs – convertible to federal grant funding in FY 2007	1,717,596	
Legal Settlement – reimbursable to the Fund in FY 2007	3,635,721	
14 th Street Bridge Corridor Environmental Study – requirement for local funding from Maryland and Virginia to obtain federal appropriated funds	550,000	
Advance Funding for East Washington Traffic Relief – reimbursable to Highway Trust Fund in FY 2007	1,148,207	
Reimbursable from WASA for Construction Costs – billable in FY 2007	293,172	
Cost Adjustments and Overruns on Federal Aid Projects – local funding required	368,625	
Estimated Annual Expenditure Accrual – to be reversed in FY 2007, with anticipated federal funding of accrual in excess of \$3 million.	3,965,000	
Non classified entries	(1,637)	
Total Non-Participating Spending	\$ 26,260,012	\$ 1,640,891

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, 2006, and have issued our report thereon dated February 1, 2007. 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.

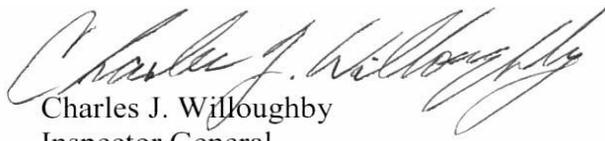
Internal Control over Financial Reporting

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 assurances on 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*.



Charles J. Willoughby
Inspector General

February 1, 2007