

**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, 2007**



**CHARLES J. WILLOUGHBY
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



February 1, 2008

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. 07-1-26KA) of the comparative balance sheet of the District of Columbia Highway Trust Fund (Fund) as of September 30, 2007, 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, 2008. 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.

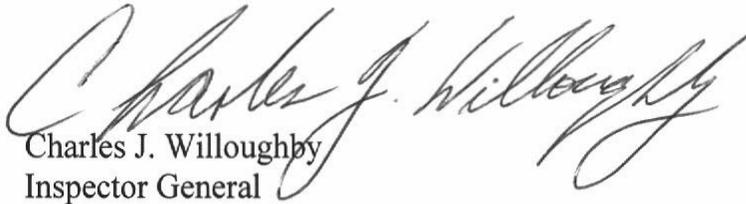
Unqualified Opinion on Financial Statements

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, 2007, 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 significant deficiencies during our fiscal year 2007 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, 2007**

TABLE OF CONTENTS

	Page
Introduction and Purpose.....	1
Auditor’s Report on Financial Statements.....	2
Comparative Balance Sheets.....	4
Comparative Statements of Revenues, Expenditures, and Change in Fund Balance.....	5
Summary of Significant Accounting Policies.....	6
Auditor’s Report on Compliance and on Internal Control Over Financial Reporting.....	12

**DISTRICT DEPARTMENT OF TRANSPORTATION
HIGHWAY TRUST FUND
FINANCIAL STATEMENT AUDIT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007**

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, 2008.

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, and other funding sources collected by the District pursuant to D.C. Code § 9-111.01(c) (Supp. 2007). 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) (Supp. 2007).

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).

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 right-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, 2007. 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.

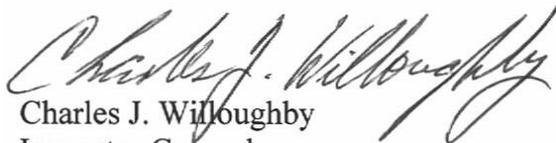
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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, 2007, 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, 2008, 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, 2008

**DISTRICT DEPARTMENT OF TRANSPORTATION
HIGHWAY TRUST FUND
FINANCIAL STATEMENT AUDIT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007**

COMPARATIVE BALANCE SHEETS

ASSETS	<u>2007</u>	<u>2006</u>
Current Assets:		
Cash & Investments	\$ 19,334,904	\$ 6,173,496
Receivables	6,660,269	12,300,029
Other Current Assets	<u>229,631</u>	<u>126,592</u>
Total Assets	<u>26,224,804</u>	<u>18,600,117</u>
 LIABILITIES & FUND BALANCE		
Current Liabilities:		
Vouchers and Other Payables	6,597,852	7,091,204
Due To/From Other Funds	844,993	3,537,597
Deferred Revenue	<u>167,502</u>	<u>48,459</u>
Total Current Liabilities	<u>7,610,347</u>	<u>10,677,260</u>
 Long-Term Liabilities		
Retainage	<u>395,637</u>	<u>722,229</u>
Total Long-Term Liabilities	<u>395,637</u>	<u>722,229</u>
Total Liabilities	<u>8,005,984</u>	<u>11,399,489</u>
 Fund Balance:		
Restricted	<u>18,218,820</u>	<u>7,200,628</u>
Total Liabilities & Fund Balance	<u>\$ 26,224,804</u>	<u>\$ 18,600,117</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, 2007**

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

Revenues	2007	2006
Motor Fuel Tax	\$ 26,775,985	\$ 24,960,273
Sales Tax Parking/Storing Vehicles	7,087,447	3,585,602
Public Space Rental	6,854,434	1,670,286
Right-of-Way Fees	6,701,064	918,199
DDOT Operating Surplus – FY 2006	7,149,486	-
Interest and Other Income	857,776	855,554
Other Charges for Services	<u>14,411</u>	<u>-</u>
Total Revenue	<u>55,440,603</u>	<u>31,989,914</u>
Capital Appropriated Expenditures		
Design, Site, Construction, and Equipment Costs	21,009,300	16,755,167
Project Mgmt Costs	2,638,516	2,505,270
Advance Construction Projects	5,876,924	1,717,596
Non-Participating Costs	<u>\$14,897,671</u>	<u>24,542,416</u>
Total Expenditures	<u>44,422,411</u>	<u>45,520,449</u>
Excess (Deficit) of Revenues over Expenses	11,018,192	(13,530,535)
Fund Balance at October 1	<u>7,200,628</u>	<u>20,731,163</u>
Fund Balance at September 30	<u>\$ 18,218,820</u>	<u>\$ 7,200,628</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, 2007**

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, a portion of vehicle parking and storage sales and use taxes, the incremental increase in public right-of-way user fees, charges, and penalties, and the incremental increase in public space rental fees for vaults and fuel storage tanks. The monies are held by the District to pay at a minimum the District's share of federal-aid highway projects. In addition, monies are used to pay the salaries of District employees working directly on transportation capital projects, overhead associated with federal aid projects, indirect cost charges, and other non-participating costs, and local (100 percent District) capital and maintenance 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, 2007**

Receivables and Payables

Taxes receivable include motor fuel and 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 Fund Balance

The Fund is restricted as to use by federal and local legislation.

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 2007	Fiscal Year 2006
Highway Trust Fund Account	7,891,256	4,154,747
Investment Account	14,497,102	6,173,496
Primary Government Accounts	(3,053,454)	(4,154,747)
Total Cash & Investments	\$ 19,334,904	\$ 6,173,496

**DISTRICT DEPARTMENT OF TRANSPORTATION
HIGHWAY TRUST FUND
FINANCIAL STATEMENT AUDIT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007**

Highway Trust Fund Account – dedicated bank account used to receive revenues transferred from the District for the payment of the District’s share of federal highway projects and other related expenditures 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 right-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 until reimbursed to the District by the Fund.

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, 2007, the following receivables established were:

Account Name	Fiscal Year 2007	Fiscal Year 2006
Motor Fuel Taxes	3,014,126	2,875,811
Parking & Storage Sales Tax	3,482,240	2,893,687
Public Space Rental Fees	163,903	918,200
Right-of-Way Rental Fees	-	1,670,286
Due from Other Fund	-	3,942,045
Total	\$ 6,660,269	\$ 12,300,029

Other Current Assets

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

**DISTRICT DEPARTMENT OF TRANSPORTATION
HIGHWAY TRUST FUND
FINANCIAL STATEMENT AUDIT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007**

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.

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 or right-of-way rental fees received in advance of the rental period.

Due to Other Agency Fund – amount owed to the District for Fund project expenditures 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 with the District Department of Transportation's (DDOT) 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 in use for the District's cost-sharing requirements for eligible federal-aid highway projects, including the salaries of District employees working directly on transportation capital projects, overhead associated with federal aid projects, indirect cost charges, and other non-participating costs; and for local (100 percent District) capital and maintenance projects.

**DISTRICT DEPARTMENT OF TRANSPORTATION
HIGHWAY TRUST FUND
FINANCIAL STATEMENT AUDIT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007**

NOTE 6: REVENUES

The Highway Trust Fund revenue consists primarily of:

- excise taxes earned on motor fuel sold in the District, at the wholesale level;
- sales and use tax revenue in excess of \$30 million for parking and storing vehicles;
- incremental increase for public space rentals for vaults and fuel storage tanks;
- the incremental increase for right-of-way user fees, charges, and penalties; and,
- interest and investment income earned from short-term (overnight) investments and in obligations of the United States or its agencies through repurchase agreements.

NOTE 7: EXPENDITURES

The total expenditures represent capital appropriated costs 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);
- US Federal Highway Administration's advance construction program;
- project associated costs not eligible for federal funding; and,
- local (100 percent District) capital and maintenance projects.

Project expenditures eligible for federal funding (participating costs) include both the costs of designing and constructing the capital projects, as well as the costs to manage the projects.

Advance Construction Expense

In 2006, the District Department of Transportation implemented the Advance Construction Program as one of its' financing methods. The U.S. Federal Highway Administration's Advance Construction Program, allows for one hundred percent of project costs to be paid from the Highway Trust Fund. Proposed infrastructure projects are reviewed by the Federal Highway Administration for eligibility and states are assured that a grant can be obtained when funding is available. No commitment of grant funds or guarantee of future funding is made by the Federal Highway Administration, and states are not obligated to request federal grant funds for the project at a future date. However, when federal funding is applied for, and granted for an approved advance construction project, the local funding is converted to federal funding.

**DISTRICT DEPARTMENT OF TRANSPORTATION
HIGHWAY TRUST FUND
FINANCIAL STATEMENT AUDIT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007**

Advance construction funds expended and converted in FY's 2006 and FY 2007 were:

Description	FY 2007	FY 2006
Advance Construction Expenditures	6,387,951	1,717,596
Converted to Federal Aid Funding	(511,027)	-
	\$ 5,876,924	\$ 1,717,596

As of September 30, 2007, a total of \$7,594,520 of local funds have been expended under the advance construction and are eligible for conversion upon availability of federal funds or request of the District Department of Transportation.

Non-Participating Expenditures

Project expenditures not eligible for federal funding (non-participating costs) include:

Description	FY 2007	FY 2006
Final Audit Cost Adjustments and Federal Grant Disallowances	\$ 4,025,067	\$ 5,174,739
Non-Participating Costs Vendor Payments and Payroll	12,018,518	9,408,589
Legal Settlement–reimbursement to the Fund for FY 2006 costs	(3,900,000)	3,635,721
14 th Street Bridge Corridor Environmental Study – requirement for local funding from Maryland and Virginia to obtain federal appropriated funds	0	550,000
Advance Funding for East Washington Traffic Relief – reimbursed to Highway Trust Fund for FY 2006 costs	(1,148,207)	1,148,207
Due from WASA for Construction Costs – billable in FY 2008	1,454,257	293,172
Cost Adjustments and Overruns on Federal Aid Projects –local funding required	0	368,625
Estimated Annual Expenditure Accrual – net of prior year reversals.	2,448,036	3,965,000
Non classified entries	0	(1,637)
Total Non-Participating Spending	\$ 14,897,671	\$ 24,542,416

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, 2007, and have issued our report thereon dated February 1, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, and not to provide an opinion on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

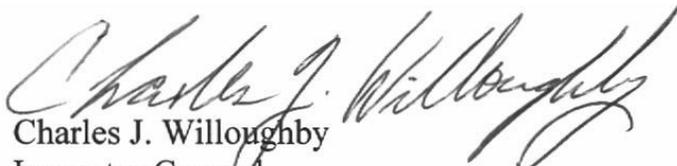
Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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, 2008