

**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, 2008**



**CHARLES J. WILLOUGHBY  
INSPECTOR GENERAL**

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

Inspector General



January 30, 2009

Frank Seales, Jr.  
Interim Director  
District Department of Transportation  
2000 14<sup>th</sup> Street, N.W., 6<sup>th</sup> Floor  
Washington, D.C. 20009

Natwar M. Gandhi, Ph.D.  
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. Seales and Dr. Gandhi:

The Office of the Inspector General has completed an audit (OIG No. 08-1-23KA) of the comparative balance sheet of the District of Columbia Highway Trust Fund (Fund) as of September 30, 2008, 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, 2009. 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, 2008, 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 2008 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 Audit, or me at (202) 727-2540.

Sincerely,



Charles J. Willoughby  
Inspector General

CJW/js

Enclosure

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## **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, 2009.

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. 2008). 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. 2008).

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, 2008. 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.

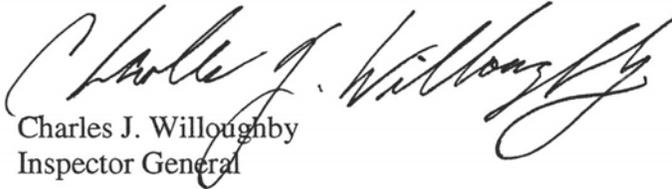
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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, 2008, 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 January 30, 2009, 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

January 30, 2009

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**DISTRICT DEPARTMENT OF TRANSPORTATION  
HIGHWAY TRUST FUND  
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**COMPARATIVE BALANCE SHEETS**

<b>ASSETS</b>	<u>2008</u>	<u>2007</u>
<b>Current Assets:</b>		
Cash & Investments	\$ 24,203,389	\$ 19,334,904
Receivables	5,292,518	6,660,269
Other Current Assets	<u>186,907</u>	<u>229,631</u>
<b>Total Assets</b>	<u><u>29,682,814</u></u>	<u><u>26,224,804</u></u>
 <b>LIABILITIES &amp; FUND BALANCE</b>		
<b>Current Liabilities:</b>		
Vouchers and Other Payables	5,350,523	6,597,852
Due To/From Other Funds	-	844,993
Deferred Revenue	<u>526,488</u>	<u>167,502</u>
<b>Total Current Liabilities</b>	<u>5,877,011</u>	<u>7,610,347</u>
 <b>Long-Term Liabilities</b>		
Retainage	<u>334,912</u>	<u>395,637</u>
<b>Total Long-Term Liabilities</b>	<u>334,912</u>	<u>395,637</u>
<b>Total Liabilities</b>	<u>6,211,923</u>	<u>8,005,984</u>
 <b>Fund Balance:</b>		
Restricted	<u>23,470,891</u>	<u>18,218,820</u>
<b>Total Liabilities &amp; Fund Balance</b>	<u><u>\$ 29,682,814</u></u>	<u><u>\$ 26,224,804</u></u>

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

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

<b>Revenues</b>	<b>2008</b>	<b>2007</b>
Motor Fuel Tax	23,199,011	\$ 26,775,985
Sales Tax Parking/Storing Vehicles	7,419,819	7,087,447
Public Space Rental	3,393,270	6,854,434
Right-of-Way Fees	6,718,561	6,701,064
DDOT Operating Surplus	5,486,040	7,149,486
Pay Go Capital	2,400,000	-
Interest and Other Income	886,439	857,776
Other Charges for Services	165,454	14,411
Advance Construction Recovery	<u>5,750,078</u>	<u>-</u>
<b>Total Revenue</b>	<u>55,418,672</u>	<u>55,440,603</u>
 <b>Capital Appropriated Expenditures</b>		
Design, Site, Construction, and Equipment Costs	26,761,322	21,009,300
Project Mgmt Costs	3,288,196	2,638,516
Non-Participating Costs	<u>20,117,083</u>	<u>20,774,595</u>
<b>Total Expenditures</b>	<u>50,166,601</u>	<u>44,422,411</u>
 <b>Excess (Deficit) of Revenues over Expenses</b>	 5,252,071	 11,018,192
Fund Balance at October 1	<u>18,218,820</u>	<u>7,200,628</u>
<b>Fund Balance at September 30</b>	<u>\$ 23,470,891</u>	<u>\$ 18,218,820</u>

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

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**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.

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**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 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 2008	Fiscal Year 2007
Highway Trust Fund Account	3,094,254	7,891,256
Investment Account	9,023,330	14,497,102
Primary Government Accounts	12,085,805	(3,053,454)
<b>Total Cash &amp; Investments</b>	<b>\$ 24,203,389</b>	<b>\$ 19,334,904</b>

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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, 2008, the following receivables established were:

Account Name	Fiscal Year 2008	Fiscal Year 2007
Motor Fuel Taxes	1,789,968	3,014,126
Parking & Storage Sales Tax	3,144,302	3,482,240
Public Space Rental Fees	-	163,903
Right-of-Way Rental Fees	2,744	-
Due from Other Fund	355,504	-
<b>Total Receivables</b>	<b>\$ 5,292,518</b>	<b>\$ 6,660,269</b>

**Other Current Assets**

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

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**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, repayments to the U.S. Department of Transportation's Federal Highway Administration, other non-participating costs, and local (100 percent District) capital and maintenance projects. The Fund balance must be sufficient to cover the cost sharing requirements established under Title 23, United States Code for the current fiscal year.

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**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;
- recovery of previously expensed capital costs under the Federal Highway Administration's Advanced Construction program;
- transfers from the DDOT Unified Fund creating "Pay-go" capital, including transfers for a portion of the DDOT Operating Fund annual surplus fund balance; 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);
- project associated costs not eligible for federal funding (non-participating costs); and
- local (100 percent District) capital and maintenance projects.

**Participating Expenditures**

Participating expenditures are project expenditures required to match federal funding, and include the local share of both the costs of designing and constructing the capital projects, as well as the costs to manage the projects.

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**Non-Participating Expenditures**

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

Description	FY 2008	FY 2007
Final Audit Cost Adjustments and Federal Grant Disallowances	2,316,968	4,025,067
Reimbursable from WASA for Construction Costs – (current year advances less recoveries in current year)	1,122,271	1,454,257
FHWA Advance Construction Program (current year net expenditures, see note below)	471,151	5,876,924
Labor and Other Overhead Charges in Support of D.C. Department of Transportation Capital Program (allocated total capital projects on the basis of direct labor charges)	13,437,858	11,681,333
Non-Participating Costs - Vendor Payments and Project Direct Labor ( see note below)	2,768,835	(2,262,985)
<b>Total Non-Participating Spending</b>	<b>\$ 20,117,083</b>	<b>\$ 20,774,596</b>

**Final Audit Cost Adjustments and Federal Grant Disallowances**

Final cost adjustments are based upon finalization audits required by Federal Highway Administration for each completed federal aid project. Net adjustments per finalization audits in FY 2008 total \$164,518 and in FY 2007 \$1,757,264. The net of finalization audits can vary markedly from one year to the next.

Federal grant disallowances occur when the Federal Highway Administration determines that costs incurred are ineligible for federal participation based on Federal Highway Administration program limitations or scope of capital projects. In FY 2008, a total of \$2,152,450 was disallowed and in FY 2007 total disallowances of \$2,267,803 occurred.

**Reimbursable for WASA for Construction Costs**

The D.C. Water and Sewer Authority (WASA) participates in capital projects when road or bridge construction provides an opportunity to maintain, improve, or construct infrastructure supporting WASA's services. WASA reimburses the District for participating costs and construction engineering oversight. WASA is billed as construction draw payments are made. Advances made for WASA's benefit totaled \$2,334,420 in FY 2008 and \$2,158,167 in FY 2007. Reimbursements from WASA equaled \$1,212,148 in FY 2008 and \$703,910 in FY 2007.

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**FHWA Advance Construction Program**

The U.S. Federal Highway Administration’s advance construction program, one of the “innovative financing” techniques provided by the Federal Highway Administration, allows states to initiate capital infrastructure construction projects when federal funds are limited, yet preserve eligibility for future federal aid funding. 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. In 2006, the District Department of Transportation implemented the advance construction program as one of its’ financing methods. One hundred percent of project costs are paid from the Highway Trust Fund. When federal funding is applied for and granted for an approved advance construction project, the local funding is converted to federal funding. Material recoveries, in excess of \$1.5 million per project, from conversion of advance construction funds are treated as revenue by the Highway Trust Fund.

<b>FHWA Advance Construction Program Summary</b>				
<b>Advance Construction Project Balance</b>		<b>FY 2008 Advance Construction Activity</b>		
Description	Balances & Activity	Expenditures/ Conversions	Revenue on Conversion	Net Advance Construction Expenditures
Advance Construction Balance 10/1/07	\$ 7,594,520			
FY 2008 Program Expenditures	2,682,645	2,682,645	-	2,682,645
FY 2008 Program Conversions	(7,961,572)	(7,961,572)	5,750,078	-2,211,494
Advance Construction Balance 9/30/08	\$ 2,315,593	\$ (5,278,927)	\$ 5,750,078	\$ 471,151

**Labor and Other Overhead Charges**

Salaries for certain executive, supervisory, and administrative positions funded by the Department of Transportation’s capital program are not eligible for Federal Highway Administration grant funding. Labor charges for these positions, as well as charges for eligible positions when time is not directly devoted to a capital project, and certain administrative costs are charged to the capital clearing account. These charges are allocated to capital projects on the basis of direct labor charges to capital projects.

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**Non-Participating Costs – Vendor Payments and Project Direct Labor**

Major initiatives of the Department of Transportation may be financed from the Highway Trust Fund without funding from Federal Highway Administration grants. Non-participating initiatives included:

<b>Vendor Payments &amp; Project Direct Labor</b>	<b>FY 2008</b>	<b>FY 2007</b>
Anacostia Water Front and Riverwalk	\$ 603,749	\$ 393,996
Citywide Pavement Restoration	110,559	200,960
Pedestrian Bridges over the C&O Canal	261,803	307,622
New Hampshire Ave, NE Bridge over CSX	226,259	444,691
Traffic Signals	613,206	-
Reconfiguration of Thomas Circle	106,428	-
Reconstruction of 4th Street, NW	146,732	-
16th St, NW Streetscape	-	110,176
Rehab of F Street, NW - 17th-23rd Streets	-	481,640
Reimbursement (Settlement) NW Inspection Station	-	(3,900,000)
Recovery of Advances - East Washington Traffic Relief	-	(1,148,207)
Other Non-Participating Costs	700,099	846,137
<b>Total Vendor Payments &amp; Project Direct Labor Costs</b>	<b>\$ 2,768,835</b>	<b>\$ (2,262,985)</b>

**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, 2008, and have issued our report thereon dated January 30, 2009. 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.

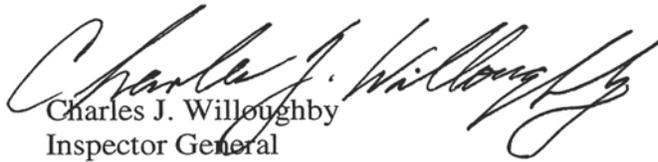
Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A significant deficiency is a deficiency in internal control, or combination of 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.

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.

## **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

January 30, 2009