

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

**OFFICE OF THE ATTORNEY GENERAL
ANTIFRAUD FUND
MANAGEMENT LETTER
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 25, 2010

Peter J. Nickles
Attorney General
Office of the Attorney General
The John A. Wilson Building
1350 Pennsylvania Avenue, N.W., Room 409
Washington, D.C. 20004

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. Nickles and Dr. Gandhi:

In conjunction with the financial statement audit of the Office of the Attorney General's (OAG) Antifraud Fund Fiscal Year 2008 (OIG 09-1-26CB, November 16, 2009), we issued a Draft Management Letter to report that the method used to account for the Antifraud Fund (Fund) transactions was not in compliance with D.C. Code § 2-308.20(a). This identified matter of noncompliance does not modify our opinion as previously reported.

As a result of our audit, we recommended that the OAG/OCFO use the accrual method of accounting as required by statute to record transactions of the Antifraud Fund or seek legislation to amend D.C. Code § 2-308.20(a), to categorize the Fund as a special purpose revenue fund. The OCFO responded to our draft report on December 31, 2009. The OCFO agreed with our recommendation to seek legislative change to properly categorize the Fund as a special revenue fund. We consider actions planned by the OCFO to be responsive to the recommendation. The full text of the OCFO's response is attached.

We appreciate the cooperation and courtesies extended to our staff by the OAG personnel. If you have any questions, please contact William J. DiVello, Assistant Inspector General for Audit, at (202) 727-2540.

Sincerely,

A handwritten signature in black ink that reads "Charles J. Willoughby".

Charles J. Willoughby
Inspector General

CJW/js

cc: See Distribution List

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MANAGEMENT RESPONSE

**Government of the District of Columbia
Office of the Chief Financial Officer**



Natwar M. Gandhi
Chief Financial Officer

December 31, 2009

Mr. Charles J. Willoughby
District of Columbia Inspector General
Office of the Inspector General
717 14th Street, N.W., Fifth Floor
Washington, D.C. 20005

Dear Mr. Willoughby:

Thank you for the opportunity to respond to the Draft Management Letter issued by the Office of the Inspector General (OIG), in conjunction with the OIG's financial statement audit of the Office of the Attorney General's (OAG) Antifraud Fund for Fiscal Year 2008 (OIG 09-1-26CB, November 16, 2009). Although the Office of the Chief Financial Officer's (OCFO) Office of Financial Operations and Systems (OFOS) has provided the OIG with a copy of the Statement of Position (SOP) #0903 which covers accounting for the Antifraud Fund, I am providing this letter as a formal response to the OIG's management letter to further highlight the OCFO's position on this issue.

The OCFO, in conformance with sound business practices and effective internal controls, seeks to fully comply with applicable laws, regulations, and other relevant guidelines in managing the District's financial operations. However, for financial reporting purposes, the OCFO's primary objective is to ensure that the District's accounting and financial reporting practices comply with generally accepted accounting principles (GAAP) because noncompliance with GAAP can negatively impact the independent auditor's opinion on the District's annual financial statements.

After reviewing the legislation which created the Antifraud Fund and contemplating the intended purpose of this Fund, the OCFO has determined that establishing and operating the Antifraud Fund as a proprietary fund is not consistent with GAAP. GAAP defines a proprietary fund as one which operates similarly to a business enterprise, focusing on the determination of operating income, changes in net assets, financial position, and cash flows, and the generation of net income or profit. D.C. Code §2-308.20 does not indicate that the Fund was established to generate profit or operate in a manner that is similar to a business enterprise.

MANAGEMENT RESPONSE

D.C. Code §2-308.20(b) does state, however, that: “ Amounts in the Fund shall be available for use by the Corporation Counsel [Office of the Attorney General] to carry out the enforcement of this chapter, including all costs reasonably related to prosecuting cases and conducting investigations pursuant to this chapter.” D.C. Code §2-308.20(d) further states that: “It is intended that disbursements made from the Fund to the Office of the Corporation Counsel [Office of the Attorney General] or other appropriate agency be used to supplement and not supplant the Corporation Counsel’s [Office of the Attorney General’s] appropriated operating budget.” Because use of the amounts held in the Antifraud Fund is legally restricted to a specific purpose, to comply with GAAP, and to satisfy the intent and substance of the enabling D.C. legislation, this Fund was established and maintained as a Special Revenue Fund. GAAP defines a Special Revenue Fund as a fund that is used to account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditure for specific purposes. Even if the Antifraud Fund had been operated as a Proprietary Fund as required by the D.C. Code, because of the nature of the transactions, the results of operations and the financial position of the Fund would not have been different from what is reported in the Special Revenue Fund that GAAP required.

The OCFO does not advocate or support noncompliance with GAAP for financial reporting purposes because of its negative impact on the District’s ability to obtain a clean audit opinion. Thus, the OCFO does not agree with the OIG’s recommendation that transactions in the Antifraud Fund be recorded in a Proprietary Fund. The OCFO, however, concurs with the OIG’s recommendation that the Office of the Attorney General and the OCFO should seek a clarifying legislative change to properly categorize the Fund as a special revenue fund. We will engage the OAG in the necessary discussions to facilitate the implementation of this recommendation.

Thank you again for the opportunity to provide a formal response for inclusion in the OIG’s final audit report. If you have questions or require additional information, please contact Anthony Pompa, Deputy Chief Financial Officer for Financial Operations and Systems at (202) 442-8200.

Sincerely,



Natwar M. Gandhi
Chief Financial Officer

cc: Mr. Neil Albert, City Administrator, District of Columbia
Anthony Pompa, Deputy CFO for Financial Operations and Systems
Victoria Syphax, Agency Fiscal Officer, OAG
Robert Hildum, Deputy for Public Safety, OAG
Paul Gallagher, Assistant Deputy for Public Safety, OAG