

**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, 2012**



**CHARLES J. WILLOUGHBY  
INSPECTOR GENERAL**

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

Inspector General



February 1, 2013

Terry Bellamy  
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 203  
Washington, D.C. 20004

Dear Mr. Bellamy and Dr. Gandhi:

The Office of the Inspector General has completed an audit (OIG No. 12-1-13KA) of the comparative balance sheet of the District of Columbia Highway Trust Fund (Fund) as of September 30, 2012, 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 the forecast will be reported separately on or before March 15, 2013. 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.

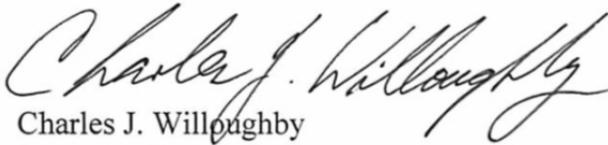
## **Unqualified Opinion on Financial Statements**

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, 2012, 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 2012 audit.

We appreciate the cooperation and courtesies extended to our staff during this audit. If you have any questions, please contact me or Ronald W. King, Assistant Inspector General for Audits, 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, 2012**

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**TABLE OF CONTENTS**

	<b>Page</b>
Introduction and Purpose.....	1
Independent Auditor’s Report.....	3
Comparative Balance Sheet.....	4
Comparative Statement of Revenues, Expenditures, and Change in Fund Balance.....	5
Summary of Significant Accounting Policies.....	6
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	14

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**DISTRICT DEPARTMENT OF TRANSPORTATION  
HIGHWAY TRUST FUND  
FINANCIAL STATEMENT AUDIT  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

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## **Introduction and Purpose**

Pursuant to D.C. Code § 9-109.02(e) (Supp. 2012), 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 March 15, 2013.

The District of Columbia Emergency Highway Relief Act (Act), Pub. L. No. 104-21, § 109 Stat. 257 (1995), codified at D.C. Code §§ 9-109.01 - 9-109.03 (2010), 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.* § 3.

Consistent with the Act's requirements, the District established a dedicated Highway Trust Fund separate from the District's General Fund. The 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. 2012). 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. 2012).

Also consistent with the Highway Relief 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 DDOT, and reserved for the prompt payment of contractors completing federal-aid highway projects in the District. *See* D.C. Code § 9-109.03(b) (2008).

Through FY 2011, pursuant to D.C. Code § 50-921.10(a)(2)(B) (2009), 80 percent of any remaining surplus (Fund Balance) from DDOT's Operating Fund, from the prior fiscal year was to be transferred to the Fund. D.C. Code §§ 50-921.11(c)(1) - (2) (Supp. 2010) further provided that the Fund received the incremental increase from the collection of public right-of-way user fees, charges, and penalties and, except for certain dedicated parking sales and use tax revenue, all parking sales and use tax collected in excess of \$30 million. Finally, the Fund received any incremental revenue collected from public space rental fees for vaults. D.C. Code § 50-921.11(c)(4) (Supp. 2010). The FY 2011 Supplemental Budget Support Act of 2010 (L18-0370) repealed D.C. Code §§ 50-921.10 and .11 as of October 1, 2011.

Introduction and Purpose  
Highway Trust Fund

Additionally, on December 21, 2011, the D.C. Council enacted the District Department of Transportation Omnibus Emergency Amendment Act of 2011 (A19-0254), which required the District Department of Transportation (DDOT) to deposit all unobligated and unexpended revenue from FY 2011 that would have been deposited into the DDOT Unified Fund into the Fund.

During FY 2012, the D.C. Council temporarily amended D.C. Code § 9.111.01a (Local Transportation Fund) (District Department of Transportation Omnibus Temporary Amendment Act of 2012, L19-97) by adding subsection (c-1), which provided that a portion of public rights-of-way user fees could be used to supplement the Fund for any shortages of local matching funds necessary to meet the District's local match, but limited the amount of funding to no more than 22% of proposed annual federal-aid highway project expenditures.

Furthermore, D.C. Code § 9.111.01(e)(1) requires:

Any excess monies remaining in the Fund after the requirements of § 9-109.02 have been met and remaining balances not necessary for the purposes outlined in Title 23 of the United States Code, based on the 6-year projected trust fund performance conducted by the Inspector General pursuant to § 9-109.02(e) shall be deposited into the Local Transportation Fund established by § 9-111.01a, and used exclusively for the purposes provided therein.

D.C. Code § 9.111.01(e)(2) provides that the Mayor shall annually determine the excess amount in the Fund based upon the audit of the Inspector General issued pursuant to § 9-109.02(e).

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:

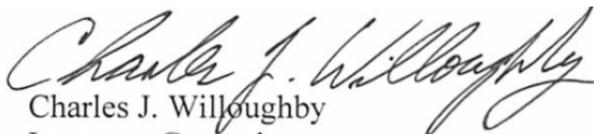
We have audited the accompanying financial statements of the Highway Trust Fund, which is administered by the District of Columbia Department of Transportation as of and for the year ended September 30, 2012. These financial statements are the responsibility of the Highway Trust Fund's management and 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, 2012, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2013, 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, 2013

**DISTRICT DEPARTMENT OF TRANSPORTATION  
HIGHWAY TRUST FUND  
FINANCIAL STATEMENT AUDIT  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

**COMPARATIVE BALANCE SHEET**

<b>ASSETS</b>	<u><b>FY 2012</b></u>	<u><b>FY 2011</b></u>
Cash & Investments		
Agency Controlled Cash	\$ 54,569,055	\$ 684,584
Primary Government Accounts	904,128	49,451,156
<b>Total Cash &amp; Investments</b>	<u>55,473,183</u>	<u>50,135,740</u>
Taxes and Account Receivables	2,055,184	1,583,190
Other Assets	165,828	105,531
<b>Total Assets</b>	<u>57,694,195</u>	<u>51,824,461</u>
 <b>LIABILITIES &amp; FUND BALANCE</b>		
<b>Liabilities:</b>		
Vouchers and Other Payables	7,941,839	5,926,536
Accrued Payroll	143,181	123,733
Deferred Revenue	-	724,781
Due to Other Fund/Agency	5,140,740	1,198,787
<b>Total Liabilities</b>	<u>13,225,760</u>	<u>7,973,837</u>
<b>Fund Balance:</b>		
Restricted	44,468,435	43,850,624
<b>Total Liabilities &amp; Fund Balance</b>	<u>\$ 57,694,195</u>	<u>\$ 51,824,461</u>

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

**DISTRICT DEPARTMENT OF TRANSPORTATION  
HIGHWAY TRUST FUND  
FINANCIAL STATEMENT AUDIT  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

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

<b>REVENUES</b>	<u><b>FY 2012</b></u>	<u><b>FY 2011</b></u>
Motor Fuel Tax	\$ 22,778,125	\$ 24,924,752
Sales Tax Parking/Storing Vehicles	-	16,507,730
Public Space Rental	-	3,869,184
Public Rights-of-Way Fees	16,654,170	6,751,665
Interest and Other Income	14,850	16,794
Unified Fund Unobligated Fund Balance	-	12,522,114
Pay Go Capital	-	4,000,000
<b>Total Revenue</b>	<u>39,447,145</u>	<u>68,592,239</u>
<b>EXPENDITURES</b>		
<b>Capital Appropriated Expenditures</b>		
Design, Site, Construction, and Equipment Costs	28,569,075	19,024,804
Project Mgmt Costs	4,425,491	1,857,866
Non-Participating Costs	5,834,768	13,356,926
<b>Total Net Expenditures</b>	<u>38,829,334</u>	<u>34,239,596</u>
<b>Excess of Revenues over Expenses</b>	617,811	34,352,643
<b>FUND BALANCE</b>		
Fund Balance -Restricted at October 1	43,850,624	9,497,981
<b>Fund Balance -Restricted at September 30</b>	<u>\$ 44,468,435</u>	<u>\$ 43,850,624</u>

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

**DISTRICT DEPARTMENT OF TRANSPORTATION  
HIGHWAY TRUST FUND  
FINANCIAL STATEMENT AUDIT  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

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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, public rights-of-way user rental fees to supplement local matching fund obligations, and interest income. 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**

The Fund's cash is deposited in a trust fund with an eligible financial institution. Funds not needed for current expenditures are swept overnight into a money market mutual fund where the funds earn interest, and returned for the payment of Fund expenditures.

The Fund no longer maintains a separate investment account.

**DISTRICT DEPARTMENT OF TRANSPORTATION  
HIGHWAY TRUST FUND  
FINANCIAL STATEMENT AUDIT  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

**Receivables and Payables**

Taxes receivable include motor fuel excise tax 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 the Office of Tax and Revenue or the District Department of Transportation for dedicated revenues other than excise and sales taxes that are dedicated to the Fund. "Due from Other Funds" represents monies due from other District agencies for amounts owed to the Fund for services provided.

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's fund balance 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: 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 Fund as of September 30 are detailed in Table 1 below.

Table 1 - Cash & Investments

Account Name	Fiscal Year	
	2012	2011
Highway Trust Fund Account	\$ 54,569,055	\$ 684,584
Investment Account	-	-
Primary Government Accounts	904,128	49,451,156
<b>Total Cash &amp; Investments</b>	<b>\$ 55,473,183</b>	<b>\$ 50,135,740</b>

**DISTRICT DEPARTMENT OF TRANSPORTATION  
HIGHWAY TRUST FUND  
FINANCIAL STATEMENT AUDIT  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

Highway Trust Fund Account – bank account used to receive dedicated revenues transferred from the District for the payment of the District’s share of federal highway projects and other related expenditures; for the receipts of the Federal Highway Administration’s payment of federal highway projects; and for receipt of interest revenue earned on overnight sweep to a money market account in accordance with the District’s investment policies. The District closed the Fund’s investment account during fiscal year (FY) 2011.

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 until reimbursed to the District by the Fund.

**Receivables**

Fund receivables consist of dedicated taxes earned in the current FY but not yet received, as well as amounts due from other funds. On September 30, 2012, total receivables were \$2,055,184 as detailed in Table 2 below.

Table 2 - Taxes and Accounts Receivables

Account Name	Fiscal Year	
	2012	2011
Motor Fuel Tax	\$ 1,884,635	\$ 2,324
Due from Other Fund	170,549	1,646,148
Dishonored Checks	-	(65,282)
<b>Total Receivables</b>	<b>\$ 2,055,184</b>	<b>\$ 1,583,190</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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**DISTRICT DEPARTMENT OF TRANSPORTATION  
HIGHWAY TRUST FUND  
FINANCIAL STATEMENT AUDIT  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

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**NOTE 3: LIABILITIES**

**Accounts Payable**

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

Deferred Revenues – monies received in advance of services provided, or received in advance of revenue funding period.

Due to Other Agency Fund – amount owed to the District for Fund project expenditures not yet reimbursed and the return of (FY-12) Pay-go funding that was not due to the Highway Trust Fund.

**NOTE 4: 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 (FHWA), and other non-participating costs. The Fund balance must be sufficient to cover the cost sharing requirements established under Title 23, United States Code, based on the 6-year projected trust fund's performance.

**NOTE 5: REVENUES**

The Highway Trust Fund dedicated revenue through FY 2011 consisted 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;
- the incremental increase of public space rentals for vaults;
- the incremental increase for rights-of-way user fees, charges, and penalties;
- eighty percent of DDOT's operating fund balance from the previous fiscal year; and
- interest income earned from short-term (overnight) sweep of Fund's bank balance into a money market mutual fund account where the funds earn interest.

Additional funding was provided in FY 2011 through emergency legislation, the District Department of Transportation Omnibus Emergency Amendment Act of 2011 (Act) (A19-0254). The Act required the transfer of any unobligated and unexpended DDOT Unified

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**DISTRICT DEPARTMENT OF TRANSPORTATION  
HIGHWAY TRUST FUND  
FINANCIAL STATEMENT AUDIT  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

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Fund's fund balance to the Fund (Highway Trust Fund) by October 1, 2011. This legislation provided additional funding of approximately \$12.5 million to the Fund.

For FY 2012, dedicated revenue to the Fund consisted of:

- excise taxes earned on motor fuel sold in the District, at the wholesale level; and
- interest income earned on Fund's bank balance from short-term (overnight) sweep into a money market mutual fund account.

During FY 2012, legislation was passed to supplement the Fund with rights-of-way user fees sufficient to meet the District's local matching funds for federal-aid highway projects. The legislation capped the amount to be transferred not to exceed 22 percent of proposed annual federal-aid highway project expenditures.

**NOTE 6: EXPENDITURES**

**Participating 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 (non-participating costs).

**Non-Participating Expenditures**

Project expenditures not eligible for federal funding (non-participating costs) are detailed in Table 3 on page 11.

**DISTRICT DEPARTMENT OF TRANSPORTATION  
HIGHWAY TRUST FUND  
FINANCIAL STATEMENT AUDIT  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

Table 3 - Non-Participating Expenditures

Description	FY 2012	FY 2011
Non-Participating Costs-Vendor Payments and Project Direct Labor (See Table 4)	3,492,510	1,905,388
Final Audit Cost Adjustments and Federal Grant Disallowances	(593,574)	1,744,522
Reimbursable DC Water Construction Costs – (current year advances less recoveries in current year)	(828,297)	(711,876)
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)	3,764,129	10,418,892
<b>Total Non-Participating Spending</b>	<b>\$ 5,834,768</b>	<b>\$ 13,356,926</b>

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

Major initiatives of DDOT may be financed from the Fund without funding from FHWA grants, once current year matching of federal obligations have been satisfied. Current non-participating initiatives include the projects detailed in Table 4 on page 12.

**DISTRICT DEPARTMENT OF TRANSPORTATION  
HIGHWAY TRUST FUND  
FINANCIAL STATEMENT AUDIT  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

Table 4 - Non-Participating Cost Projects

Vendor Payments & Project Direct Labor	FY 2012	FY 2011
Anacostia Water Front and Riverwalk	\$ -	\$ (1,537,538)
STP-888 (106) Historic Streets/Alleys	1,900,769	1,189,820
Traffic Signal Maintenance STP	-	(1,626,286)
18th St., N.W. P-S Sts. STP - 3105 (1)	396,150	223,022
STP 3105 (5) Reconstruction of 18th St., N.W.	-	473,610
STP – 1121 (012) Rehab of Sherman Ave.	279,348	274,234
Western Ave., N.W.	-	129,584
STP – 2112 (004) 11th St., S.W. ov CSX / D St. Rdwy.	-	126,118
Reconstruction Park Rd., N.W., 14 <sup>th</sup> St. to Mt. Pleasant St., N.W.	-	135,081
Columbia Heights Improvement		569,407
ARA – STP – 3208 (6) Great Sts., N.H. Burroughs Ave.	-	125,180
Georgia Ave. Streetscape Improvements	284,779	564,516
ARA-1300 (105) PA Ave., S.E. 27-Southern Ave.	-	301,150
Pedestrian BR Over Kenilworth Ave. - NASH FZG-13	253,534	-
STP-8888 (165) SD Ave./Riggs Rd. Improvements	-	392,804
STSCP: 4th St., N.W., L St.-Massachusetts Ave., N.W.	-	112,600
Other Non-Participating Costs	377,930	452,086
<b>Total Vendor Payments &amp; Project Direct Labor</b>	<b>\$ 3,492,510</b>	<b>\$ 1,905,388</b>

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

Final cost adjustments are based upon finalization audits required by the FHWA for each completed federal aid project. Net adjustments, per finalization audits in FY 2012, total (\$1,107,455.60), and in FY 2011, \$1,331,790. The net of finalization audits can vary markedly each year.

Federal grant disallowances occur when the FHWA determines that costs incurred are ineligible for federal participation based on FHWA program limitations or scope of capital projects. In FY 2012, a total of \$513,882 was disallowed, and \$412,732 in FY 2011.

**DISTRICT DEPARTMENT OF TRANSPORTATION  
HIGHWAY TRUST FUND  
FINANCIAL STATEMENT AUDIT  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

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**Reimbursable From DC Water for Construction Costs**

DC Water, formerly the District of Columbia Water and Sewer Authority, participates in capital projects when road or bridge construction provides an opportunity to maintain, improve, or construct infrastructure supporting DC Water's services. DC Water reimburses the Fund for participating costs and construction engineering oversight. DC Water is billed as construction draw payments are made. Advances made for DC Water's benefit totaled \$1,471,898 in FY 2012, and \$2,676,981 in FY 2011. Reimbursements from DC Water equaled \$2,300,195 in FY 2012, for current and prior year advances, and \$3,388,857 of reimbursements made in FY 2011.

**Labor and Overhead Charges**

Salaries for certain executives, supervisory, and administrative positions funded by DDOT's capital program are not eligible for FHWA 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.

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

Inspector General



**Independent Auditor's 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, 2012, and have issued our report thereon dated February 1, 2013. 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**

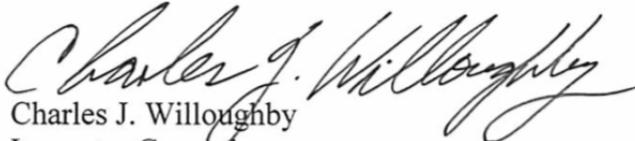
Management of the Fund is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

A deficiency in internal control over financial reporting 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Fund's basic financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be significant deficiencies or material weaknesses, as defined above.

## 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, 2013