

September 1999

FINANCIAL AUDIT

District of Columbia Highway Trust Fund's Fiscal Years 1998 and 1997 Financial Statements



G A O

Accountability * Integrity * Reliability

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Abbreviations

AICPA	American Institute of Certified Public Accountants
CFO	Chief Financial Officer
CIP	capital improvement plan
DPW	Department of Public Works
DCFO	Deputy Chief Financial Officer
FABS	Federal Aid Billing System
FHWA	Federal Highway Administration
FMFIA	Federal Managers' Financial Integrity Act of 1982
FMS	financial management system
GASB	Governmental Accounting Standards Board
LADS	Labor Acquisition and Distribution System
LAN	local area network
OCFO	Office of the Chief Financial Officer
OFT	Office of Finance and Treasury
OIS	Office of Information Systems
OMB	Office of Management and Budget
OTR	Office of Tax and Revenue
SOAR	System of Accounting and Reporting
Y2K	Year 2000



**United States General Accounting Office
Washington, D.C. 20548**

B-281963

September 28, 1999

Congressional Committees and Subcommittees

This report presents the results of our audits of the financial statements of the District of Columbia Highway Trust Fund (Fund) for the fiscal years ended September 30, 1998 and 1997, and our examination of the forecasted statements of the Fund's expected conditions and operations for the next 5 years. These financial statements and the forecasted statements are the responsibility of the District's Chief Financial Officer. This report also presents (1) our opinion on the effectiveness of the District's internal control related to the Fund as of September 30, 1998, and (2) the results of our evaluation of the District's fiscal year 1998 compliance with laws and regulations as they relate to the Fund.

We conducted our work pursuant to the provisions of section 3(e) of the District of Columbia Emergency Highway Relief Act and in accordance with generally accepted government auditing standards.

We are sending copies of this report to Senator Robert C. Byrd, Senator Richard Durbin, Senator Kay Bailey Hutchinson, Senator Joseph I. Lieberman, Senator Ted Stevens, and Senator Fred Thompson, and to Representative Dan Burton, Representative Tom Davis, Representative Ernest J. Istook, Representative James P. Moran, Representative Eleanor Holmes Norton, Representative David R. Obey, Representative Henry A. Waxman, and Representative C.W. Bill Young in their capacities as Chairmen and Ranking Minority Members of Senate and House Committees and Subcommittees. In addition, copies will be sent to Kenneth R. Wykle, Administrator of the Federal Highway Administration; the Honorable Anthony Williams, Mayor of the District of Columbia; Valerie Holt, Chief Financial Officer of the District of Columbia; Charles Maddox, Inspector General of the District of Columbia; Deborah K. Nichols, District of Columbia Auditor; and Alice Rivlin, Chairman of the District of Columbia Financial Responsibility and Management Assistance Authority.

If you have any questions regarding this report, please contact Gloria L. Jarmon, Director, Health, Education, and Human Services, Accounting and Financial Management Issues, at (202) 512-4476. Key contacts and contributors to this report are listed in appendix III.

A handwritten signature in black ink, appearing to read "D. M. Walker", with a long horizontal line extending to the right.

David M. Walker
Comptroller General
of the United States

Congressional Committees and Subcommittees

The Honorable John H. Chafee
Chairman
The Honorable Max Baucus
Ranking Minority Member
Committee on Environment and Public Works
United States Senate

The Honorable George V. Voinovich
Chairman
Subcommittee on Transportation and Infrastructure
Committee on Environment and Public Works
United States Senate

The Honorable Bud Shuster
Chairman
The Honorable James L. Oberstar
Ranking Minority Member
Committee on Transportation and Infrastructure
House of Representatives

The Honorable Thomas E. Petri
Chairman
The Honorable Nick J. Rahall, II
Ranking Minority Member
Subcommittee on Ground Transportation
Committee on Transportation and Infrastructure
House of Representatives



United States General Accounting Office
Washington, D.C. 20548

B-281963

To the Mayor of the
District of Columbia

This report presents the results of our audits of the financial statements of the District of Columbia Highway Trust Fund for the fiscal years ended September 30, 1998 and 1997, and our examination of the forecasted statements of the Fund's expected conditions and operations for the next 5 years, as required by section 3(e) of the District of Columbia Emergency Highway Relief Act.¹ This report also presents (1) our opinion on the effectiveness of the District's internal control related to the Fund as of September 30, 1998, and (2) the results of our evaluation of the District's compliance with laws and regulations during fiscal year 1998 as they relate to the Fund.

In 1995, the Department of Transportation's Federal Highway Administration (FHWA) expressed concerns about the District's ability to provide matching funds for federal aid highway projects and maintain its existing highway system.² To address these concerns, section 2(a) of the act³ temporarily waived the requirement that the District provide matching funds for federal aid highway projects for fiscal years 1995 and 1996. In addition, section 3(a) of the act⁴ required the District to establish by December 31, 1995, a dedicated highway trust fund whose revenues are to be used to repay the temporarily waived amounts and provide matching funds for the District's federal aid highway projects financed by FHWA. This dedicated trust fund is required to include amounts equivalent to receipts from motor fuel taxes⁵ and to be separate from the District's

¹Public Law 104-21, 109 Stat. 257 (1995), D.C. Code Ann. section 7-134.2(e) (1999 Supplement).

²Approximately 423 of the 1,020 miles of streets and highways and most of the bridges under the District's jurisdiction are eligible for federal aid.

³D.C. Code Ann. section 7-134.1(a) (1999 Supplement).

⁴D.C. Code Ann. section 7-134.2(a) (1999 Supplement).

⁵The District of Columbia levies and collects a tax of 20 cents per gallon on motor vehicle fuels within the District of Columbia sold or otherwise disposed of by an importer or by a user or used for commercial purposes (D.C. Code Ann. section 47-2301(1981, 1995 Replacement Vol.)).

General Fund.⁶ The District established the trust fund as required by the act.⁷ Motor fuel tax revenues were reported to be almost \$31 million for fiscal year 1998.

The act establishes priorities for using the Fund's revenues to pay the District's portion of federal aid highway project costs. The first priority of the Fund is to repay FHWA for the District's share of federal aid highway project costs temporarily waived during fiscal years 1995 and 1996. For the \$10.2 million temporarily waived during fiscal years 1995 and 1996, the act provides a repayment schedule with the final payment made at the end of fiscal year 1998.⁸

The remaining priorities of the Fund are to reimburse the District for local capital appropriated expenditures, which are (1) the District's share (normally at 20 percent) of federal aid highway project costs, (2) the salaries of District personnel working directly on transportation capital projects, overhead costs associated with federal aid projects, and other nonparticipating costs,⁹ and (3) the funding for local (100 percent District) capital and maintenance projects. All federal and local capital appropriated expenditures are to be paid out of the District of Columbia Department of Public Works' (DPW) Capital Operating account and then reimbursed by either FHWA or the Fund.

⁶Unless prohibited by law (as in the case of the Fund under the act), the District's cash from all funds is combined into the General Fund's cash management pool, which is used to make transfers to all the District's checking accounts as needed. Any cash not needed for immediate disbursement is invested.

⁷D.C. Code Ann. section 7-134.4 (1999 Supplement).

⁸As required by section 3(c) of the act, D.C. Code Ann. section 7-134.2(c) (1999 Supplement), half of the balance of these amounts is to be repaid in each of the 2 fiscal years following those in which the amounts were temporarily waived. One-half of the \$2.2 million waived in fiscal year 1995 was due and repaid as of September 30, 1996, and the remaining half was due and repaid at the end of fiscal year 1997. Likewise, of the \$8 million waived in fiscal 1996, half was due and repaid at the end of fiscal year 1997, with the remaining half due and paid at the end of fiscal year 1998.

⁹These include the District's expenditures for costs not eligible under the federal aid highway program, such as the costs for sewer cleaning, storm drain improvements, and retaining walls.

In addition to establishing the Highway Trust Fund account, as required by section 3(a) of the act, the District was required by section 4(b)¹⁰ to establish an independent revolving fund account, separate from its Capital Operating account, to make prompt payments to contractors working on federal aid highway projects. On May 28, 1996, the District established the Revolving Fund account by transferring \$5 million from the Capital Operating account. According to District officials, they do not intend to reimburse the Capital Operating account until fiscal year 2004 or at such time that it is determined that funds in the Highway Trust Fund are sufficient to maintain operations.

We are required by section 3(e) of the act¹¹ to audit the Fund and submit a report to the Congress by December 31 of each year, or 3 months after the close of the fiscal year, beginning in 1996. The audit is of the Fund's Balance Sheet and Statement of Revenues, Expenditures, and Change in Fund Balance for the fiscal year ending September 30 and an examination of the District's forecasted statements of the Fund's expected condition and operations for the next 5 years. We issued our initial report on this Fund due December 1996 in December 1997¹² and the second year's report due December 1997 in September 1998.¹³ As we noted in those reports and in an earlier letter to congressional Committees dated November 4, 1996, due to the timing regarding the District-wide financial statements (due February 1, after the September 30 year-end close), the submission of the forecasted statements (due June 15, after year-end close), and the availability of supporting documentation from the District, we will not be able to meet the future December 31 reporting deadlines required by the act.

¹⁰D.C. Code Ann. section 7-134.3(b) (1999 Supplement).

¹¹D.C. Code Ann. section 7-134.2(e) (1999 Supplement).

¹²*Financial Audit: District of Columbia Highway Trust Fund's 1996 Financial Statements* (GAO/AIMD-98-30, December 15, 1997). We were unable to give an opinion on the financial statements of the Fund because of a lack of evidence supporting \$3.7 million or 36 percent of capital appropriated expenditures that limited the scope of our work.

¹³*Financial Audit: District of Columbia Highway Trust Fund's Fiscal Year 1997 Financial Statements* (GAO/AIMD-98-254, September 30, 1998).

In our audits, we found the following.

- The financial statements for 1998 and 1997 were fairly presented, in all material respects.
- The District did not maintain effective internal control related to the Fund as of September 30, 1998. We found material weaknesses related to accounting for revenue, cashier operations, and computer system general controls.
- There was a reportable noncompliance with one of the laws we tested relating to the licensing and bonding of motor vehicle fuel wholesalers/businesses.
- The underlying assumptions made and methodology used to develop the Fund's revised forecasted statements provided a reasonable basis for such statements, and the statements were presented in conformity with guidelines established by the American Institute of Certified Public Accountants (AICPA).

The following sections outline each conclusion in more detail and discuss our conclusions and the scope of our audit.

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, 1998 and 1997 and its revenues, expenditures, and changes in fund balance for years then ended. However, misstatements may nevertheless occur in other financial information reported by the Fund as a result of the internal control weaknesses described in the following section.

The Year 2000 Compliance supplementary information on page 31 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board (GASB).¹⁴ We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion

¹⁴GASB was organized in 1984 to establish standards of financial accounting and reporting for state and local governmental entities that will result in useful information for users of financial reports and guide and educate the public, including issuers, auditors, and users of those financial reports.

on it. Further, we do not provide assurance that the District is or will be Year 2000 (Y2K) compliant in whole or in part or that parties with which the District does business will be Y2K compliant. Recently issued GAO testimonies on the District's Y2K include (1) *Year 2000 Computing Crisis: The District of Columbia Remains Behind Schedule* (GAO/T-AIMD-99-84, February 19, 1999) and (2) *Year 2000 Computing Crisis: The District of Columbia Faces Tremendous Challenges in Ensuring Vital Services Are Not Disrupted* (GAO/T-AIMD-99-4, October 4, 1998).

Adverse Opinion on Internal Control

We have examined management's assertion that the District maintained effective internal control related to the Fund as of September 30, 1998. Management based its assertion on criteria established under the Federal Managers' Financial Integrity Act of 1982 (FMFIA)¹⁵ and Office of Management and Budget (OMB) Circular A-123, *Internal Control Systems*. Management asserted that its internal control was effectively designed to meet the following control objectives:

- reliability of financial reporting – transactions are properly recorded, processed, and summarized to permit the preparation of financial statements and stewardship information in accordance with generally accepted accounting principles and assets are safeguarded against loss from unauthorized acquisition, use, or disposition and
- compliance with applicable laws and regulations - transactions are executed in accordance with the laws governing the use of budget authority and with other laws and regulations that could have a direct and material effect on the Fund's financial statements.

In our opinion, because of the effect of the material weaknesses found relating to controls over the Fund's revenue, cashier procedures, and computer systems, the District did not maintain effective internal control related to the Fund as of September 30, 1998, based on FMFIA and OMB established criteria.

A material weakness is a condition that precludes the entity's internal control from providing reasonable assurance that material misstatements in the financial statements will be prevented or detected promptly. Our

¹⁵The FMFIA requires agency managers to evaluate and report annually to the President and the Congress on the adequacy of their internal control and accounting systems and what is being done to correct the problems.

examination disclosed material weaknesses in the design and operation of the District's internal control components as of September 30, 1998. Some of these weaknesses were identified in our prior years' audits. These conditions were considered in determining the nature, timing, and extent of audit tests applied in our audit of the fiscal year 1998 financial statements, and our opinion on the District's internal control related to the Fund does not affect our opinion on the financial statements dated July 28, 1999. Unaudited information of the Fund, as reported by the District, may also contain misstatements resulting from these weaknesses.

Revenue

Weaknesses in revenue procedures resulted in (1) motor fuel taxes not being deposited promptly, (2) motor vehicle fuel revenue not being transferred to the Fund monthly, (3) the District still being unable to determine or verify that all revenues have been collected, (4) incomplete motor vehicle fuel tax returns still being accepted and processed, and (5) no documentation that teller reconciliations were being properly reviewed by a supervisor. These weaknesses resulted in the loss of interest income and increased the risk that cash receipts and revenue were exposed to losses from misappropriation, errors, and fraud.

In our prior years' audits, we reported that it took the District 14 days from the time of receipt to process and deposit motor vehicle fuel taxes. We recommended that the District's Office of Tax and Revenue (OTR) revise procedures to require daily logging, endorsing, and depositing of fuel tax receipts received by the District or establish a lockbox system¹⁶ for processing and depositing such receipts to improve cash management and enhance the control environment. OTR revised its procedures on October 24, 1997, to require prompt processing of motor fuel tax receipts. These revised procedures decreased the time it takes OTR to deposit receipts; however, improvements are still needed to ensure that the revised procedures are followed at all times.

Our current year audit work revealed that delays in processing and depositing revenue decreased from an average of 14 days to 4 days. Our analysis of 67 statistically selected tax returns, out of a total of 707 submitted during fiscal year 1998, showed that the District took an average of 4 days—ranging from 1 day to 26 days—to log, endorse, and deposit the

¹⁶A lockbox system is a banking service under which the bank assumes responsibility for receiving, examining, and processing incoming receipts from a customer.

taxes into the bank.¹⁷ Sixty percent of the selected tax returns—40 tax returns—took more than 1 day. Sound cash management practices typically result in daily deposits of cash receipts.

While the District has improved its processing and depositing of motor fuel revenue, the District is not transferring this revenue to the Fund's bank account promptly. District policies and procedures require that motor fuel receipts be transferred monthly to the Fund's bank account. The delays resulted in approximately \$224,000 in potential lost interest income (calculated using an estimated 4.5 percent annual interest rate for short-term Treasury bills in which the District invests any excess cash) to the Fund from the time the tax revenues were received and deposited into the Fund's bank account. Our audit showed that for 9 months during fiscal year 1998, it took the District 2 to 4 months to transfer revenue to the Fund. Although the District has improved the timeliness of deposits of motor fuel revenue into the General Fund, this money has not been transferred to the Highway Trust Fund each month.

In addition to the revenue processing, depositing, and transferring delays, the District is still not able to determine whether all motor fuel taxes are collected since it relies on an honor (self-assessment) system. According to OTR officials, the last verification of motor fuel taxes occurred approximately 9 years ago and revealed that construction companies underreported the number of gallons of motor fuel consumed within the District. Without effective monitoring initiatives, the District cannot determine whether wholesalers and construction, bus, and other companies have reported the total quantity of fuel actually sold to retailers and consumed.

In our prior years' audits, we recommended that the District establish procedures to verify the completeness of motor fuel tax receipts. In November 1997, the District responded that it would (1) immediately institute an audit program for motor vehicle fuel wholesalers, (2) conduct comprehensive tax audits for the major wholesalers within the next 24 months, and (3) purchase a commercial database in fiscal year 1998 to assist in identifying the total population of wholesalers that should be reporting and paying taxes on motor fuel consumed within the District. However, in April 1999, OTR officials told us that the audit program had not

¹⁷The proceeds from taxes are required to be deposited into the General Fund upon receipt and subsequently transferred on a monthly basis to the Highway Trust Fund.

yet been prepared and that the comprehensive audits are still in the planning stages. In addition, the commercial database had not been purchased. Our fiscal year 1998 audit revealed that the District continued to lack adequate controls to verify or monitor the amount of fuel used by reporting entities.

We also reported in our prior year audit that the District did not investigate licensed wholesalers and/or construction, bus, or other companies that do not file motor vehicle fuel tax returns or filers who are not licensed or bonded.¹⁸ During our fiscal year 1998 audit, OTR officials informed us that these investigations took place; however, there was no documentation verifying that follow-up was performed. Wholesalers are required to file a Motor Vehicle Fuel Tax Return for every month for which the motor vehicle fuel license is valid¹⁹ and pay monthly motor fuel taxes for fuel sold or otherwise disposed of or used on or before the 25th day of the next succeeding month.²⁰ Our review of the 66 wholesalers in OTR's tracking records showed that no follow-up was performed on 1 wholesaler who did not submit the required returns. We also noted that 13 of the wholesalers filed returns but were not licensed to conduct business in the District (6 of these wholesalers subsequently obtained licenses). According to OTR officials, some wholesalers do submit their application for a license prior to filing any returns; however, there are delays in processing due to incomplete information provided by the wholesaler. In addition, no follow-up was performed on another five wholesalers who were licensed during our audit period but never filed returns. The District lacked controls to alert it when licensed wholesalers did not submit returns or unlicensed wholesalers submitted returns.

In our fiscal year 1997 audit, we recommended that OTR establish control procedures to investigate instances in which unlicensed wholesalers submit tax returns or licensed wholesalers do not submit monthly returns. As noted above, our fiscal year 1998 audit found that these instances continued to exist.

¹⁸The bond is in place to ensure the prompt payment of all motor vehicle fuel taxes and penalties levied or imposed by, and the faithful compliance with, the terms and conditions of D.C. Code Ann. sections 47-2301 to 2315 (1981, 1997 Replacement Vol., 1999 Supplement).

¹⁹D.C. Code Ann. section 47-2304.

²⁰D.C. Code Ann. section 47-2306.

Furthermore, we continued to find that the accuracy of the information reported by the wholesalers could not always be verified. Monthly tax returns are required to be submitted with various documents and other supporting schedules (which outline specific inventories, receipts, and distributions). Four of the 67 monthly tax returns that we reviewed lacked the required supporting documentation needed to substantiate the tax amount.

In our fiscal year 1997 audit report, we recommended that the District establish control procedures to (1) review each monthly tax return for completeness and accuracy, (2) reject incomplete and erroneous monthly tax returns, and (3) contact wholesalers if returns are rejected and follow up to ensure complete, accurate, and adequately documented monthly tax returns. On September 2, 1998, the District's Chief Financial Officer (CFO) stated that OTR established control procedures to mitigate the occurrence of these errors. Our fiscal year 1998 audit revealed that these procedures were not finalized as of July 28, 1999. In addition, documentation verifying that follow-up was performed was often not available.

Cashier Operations

The District does not have written procedures to ensure adequate and consistent application of controls over the receipt and handling of cash transactions within the District's Office of Finance and Treasury (OFT). We were informed that OFT cashiers handle as much as \$5 million per month and were performing daily tasks based on verbal or assumed policies. Once the motor fuel tax returns are received and processed in OTR, the revenues are deposited with OFT. To ensure that cash is properly managed, tellers are required to perform daily reconciliations of their cash receipts. These reconciliations are required to be reviewed by a supervisory teller (head cashier). Our analysis of the 67 tax returns revealed

- 10 instances in which there was a lack of segregation between teller reconciliations and supervisory reviews and
- 50 instances in which there was no documentation that teller reconciliations were being reviewed by a supervisor.

According to OFT officials, the lack of written procedures and staffing shortages contributed to these problems. During our audit period, OTR deposited its motor fuel tax revenue in the cashier's office located at One Judiciary Square. According to OFT officials, there were many times that only one person was working at this site; therefore, a second person was unable to review the teller's work. An effective internal control over cash

requires documented policies and procedures that enforce the segregation of duties and supervisory review.

Computer System General Controls

DPW relies on computerized information systems to process and account for the Fund's financial activities. General computer controls over the systems are intended to prevent or detect unauthorized access and intentional or inadvertent unauthorized modifications to the data and related computer programs. While we noted minimal improvements, our audit continued to reveal that fiscal year 1998 general controls over the automated systems remained ineffective.

Consistent with prior years, during fiscal year 1998, DPW's Office of Information Systems (OIS) operated a local area network (LAN) with 70 servers²¹ located at two data centers. Four servers on the LAN are used to process the five financial applications that relate to federal aid and local capital projects. The four applications that involve the Fund are the (1) Overhead Distribution System, (2) Federal Aid Billing Systems (FABS), (3) Labor Acquisition and Distribution System (LADS), and (4) Vehicle Usage System. For the most part, these applications obtain the data from the financial management system (FMS)—the central system and the original point of entry for capital project transactions—or distribute job cost data to the capital projects in FMS. For example, FABS is a reporting system that obtains information from FMS and organizes the data in a different format for billing to FHWA. In addition, LADS and the Vehicle Usage System distribute payroll and vehicle usage costs, respectively, to the appropriate capital project in FMS. The various users and multiple application systems are part of a decentralized computer environment where strong controls are vital.

In our prior years' audits, we recommended and are reaffirming in this report that the District

- strengthen physical security over the facilities, systems, and data by controlling all physical access to LAN centers and protecting all backup files;
- strengthen logical security (access to facilities, systems, and data) and improve controls by conducting a security risk analysis, restricting

²¹A file (or network) server is a high-speed computer in a network that stores program and data files shared by users on a network.

- access to security functions, maintaining security access files, and applying LAN modification updates uniformly;
- segregate incompatible duties, provide the appropriate supervisory review, and, if it is deemed necessary that any one person maintain complete access, establish controls to ensure that such activities are monitored;
 - ensure service continuity by completing disaster recovery plans and testing at both LAN centers; and
 - assess the Y2K vulnerabilities and develop an evaluation and conversion plan for DPW as it relates to the Fund.

We found that some improvements were made in strengthening physical security over facilities but further improvements are still needed in protecting critical executive software and data through off-site storage. Specifically, we found that the District consolidated its LAN servers in one location and secured the location with password lock controls. However, system and application software as well as data backup files remain unprotected because they are not stored in a separate location. District officials stated that these recommendations would be addressed with the implementation of their new financial management system—System of Accounting and Reporting (SOAR)—during fiscal year 1999. We will evaluate the status of these recommendations during our audit of the fiscal year 1999 financial statements.

In our review of the District's readiness to cope with the Y2K conversion effort, we found that the Office of the Chief Financial Officer (OCFO) and DPW have been identified as agencies that are critical to conducting operations of the District. As of July 28, 1999, both OCFO and DPW had identified their mission-critical systems, remediation strategies, and associated resources and technology. However, as we reported in February 1999,²² the District remains behind schedule in addressing the Y2K problem and consequently critical processes remain at risk. District systems are date dependent with databases and programs created to store and process the year as a two-digit field (for example, 1998 as "98"). Without promptly assessing concerns and strategies for addressing this issue, the advent of the year 2000 poses significant risks for the Fund.

²² *Year 2000 Computing Crisis: The District of Columbia Remains Behind Schedule* (GAO/T-AIMD-99-84, February 19, 1999).

Compliance With Laws and Regulations

Except as noted below, our tests for compliance with the provisions of selected laws and regulations disclosed no other 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 laws and regulations. Accordingly, we do not express such an opinion.

D.C. Code Ann. section 47-2303 requires that wholesalers/businesses obtain importer licenses to distribute motor vehicle fuel within the District. The law requires that an applicant for a license pay an annual license fee of \$5 and obtain a motor vehicle fuel bond in the approximate sum of three times the average monthly motor fuel tax due from the applicant during the preceding 12 months or estimated for the succeeding 12 months, but in no event less than \$5,000 or more than \$100,000. During our audit, we discovered that the District had been issuing bonds to wholesalers for amounts less than the amounts required by the law. We found that three wholesalers were underbonded in an amount totaling \$27,000. OTR officials agreed and stated that bond calculations would be performed electronically to ensure that bonds are calculated properly.

Unqualified Opinion on Forecasted Statements

The act requires that the District prepare and that we examine the forecasted statements of the Fund's expected conditions and operations for the next 5 years. These forecasts are required to determine the District's ability to meet future local matching requirements under the federal highway program for capital improvements to the District's transportation system. On June 1, 1999, the District prepared the *Fiscal Year 2000 to 2005 Highway Trust Fund Capital Improvements Plan (CIP) and Fiscal Year 2000 Capital Budget* and submitted it to the Congress for review and approval. The budget included a 7-year financial forecast of the Fund.

Consistent with our prior year's findings, our examination of the CIP submitted in June 1999 identified that the District needed to revise its forecasts to the Congress to reflect a proper presentation of projections in accordance with AICPA guidelines.²³ Our examination of the CIP submitted to the Congress also revealed a lack of adequate support for the projections, as required by AICPA guidelines, as well as arithmetic errors.

²³Statements on Standards for Attestation Engagements No. 1 and No. 4, Financial Forecasts and Projections (AT section 200).

On July 28, 1999, the District revised its fiscal year 2000 financial forecast and stated that it would advise the Congress of the changes.

Specifically, the District revised its financial forecasts to reflect changes to (1) the fiscal year 1998 base year amounts so that they agreed with the fiscal year 1998 financial statements, (2) revenue projections that were overstated by almost \$4 million per year over the 7-year period, and (3) correct arithmetic miscalculations. As a result of the reduction in projected revenues and correction of various errors, the District reevaluated its projected expenditures and deferred the start-up of projects to ensure that a balance was maintained in the Fund. The deferral of these projects lowered planned expenditures by \$8 million over the 7-year period. We found that the need for these revisions was primarily attributable to the lack of written procedures identifying the responsible agencies and their functions in preparing the forecasts.

In our opinion, the accompanying forecasted statements, as revised on July 28, 1999, are presented in conformity with guidelines for presentation of forecasted information established by the AICPA. The underlying assumptions made and methodology used to develop the statements provided a reasonable basis for the first 5 years of the 7-year forecast. However, there will usually be differences between forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

Objectives, Scope, and Methodology

Management is responsible for

- preparing the Fund's financial statements in conformity with generally accepted accounting principles,
- maintaining effective internal control,
- complying with applicable laws and regulations, and
- preparing 5-year forecasted statements of the Fund's expected conditions and operations in accordance with standards established by the AICPA.

We are responsible for (1) obtaining reasonable assurance about whether the financial statements are free of material misstatement and presented fairly in all material respects, in conformity with generally accepted accounting principles, and (2) expressing an opinion on the effectiveness

of the District's internal control related to the Fund based on our examination.

We are also responsible for testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements. In addition, we are responsible for expressing an opinion on whether the forecasted statements are presented in conformity with AICPA guidelines and for determining whether the assumptions used provide a reasonable basis for the preparation of the statements.

In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the financial statements and the 5-year forecasted statements;
- obtained a sufficient understanding of internal control related to financial reporting, including safeguarding assets and compliance with laws and regulations;
- tested relevant internal controls over financial reporting, including safeguarding assets and compliance with laws and regulations, and examined management's assertion about the effectiveness of internal control;
- tested compliance with selected provisions of the following laws: (1) D.C. Procurement Practices Act of 1985, (2) D.C. Quick Payment Act of 1984, (3) D.C. Emergency Highway Relief Act, and (4) D.C. Code Ann. section 47-2303; and
- examined the assumptions made and methodology used for the first 5 years of the District's 7-year forecast of the Fund's expected conditions and operations and the preparation and presentation of the forecasted statements.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to those controls necessary to achieve the objectives outlined in our opinion on internal control.

We did not test compliance with all laws and regulations applicable to the Fund. We limited our tests of compliance to those that we deemed

applicable to the financial statements of the Fund. We caution that noncompliance other than that discussed in this report may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

We conducted our work in accordance with generally accepted government auditing standards. We requested comments on a draft of this report from the Mayor of the District of Columbia or his designee. The District's CFO provided us with written comments that are discussed in the "District Comments and Our Evaluation" section and are reprinted in appendix I.

Recommendations

We reaffirm the recommendations outstanding from our reports on the audits of the 1996 and fiscal year 1997 financial statements of the District's Highway Trust Fund. Appendix II indicates the current status of those recommendations. To address the newly reported revenue-related weaknesses identified in this report, we recommend that the Deputy Chief Financial Officer (DCFO) for the Office of Tax and Revenue

- enforce procedures to require monthly transfers of motor fuel receipts from the General Fund to the Highway Trust Fund and require the District to reimburse the Fund for potential lost interest if the receipts are transferred after 30 days and
- enforce implementation of the licensing requirement (D.C. Code Ann. section 47-2303) for a bond in the approximate sum of three times the average monthly motor fuel tax due from each wholesaler during the preceding 12 months or an estimate of the succeeding 12 months.

To address the weakness in procedures governing cashier operations, we recommend that the DCFO for the Office of Finance and Treasury establish written procedures to

- enforce the segregation of duties between the preparer of daily reconciliations and the reviewer and
- require that a supervisor independently review all teller reconciliations.

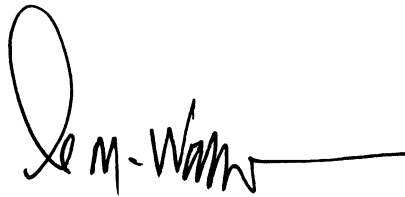
To address the weakness identified in the District's preparation and submission of its forecasted statements to the Congress, we recommend that the Chief Financial Officer establish written procedures governing the processes for preparing, coordinating, and approving the financial forecasts prior to submission to the Congress. These procedures should identify the parties responsible and time frames for the

- development of the underlying assumptions and methodologies for each line item and
- overall preparation and presentation of the financial forecasts.

District Comments and Our Evaluation

The District's CFO generally agreed with our audit findings and recommendations. The CFO stated that the computer system general controls recommendations should be addressed during fiscal years 1999 and 2000 and that procedures are now in place to address our recommendations regarding the monthly transfers of motor fuel receipts from the General Fund to the Highway Trust Fund and implementation of the licensing requirement.

We will evaluate the effectiveness of the actions taken by the District as part of our audit of the Fund's fiscal year 1999 financial statements.



David M. Walker
Comptroller General
of the United States

July 28, 1999

Financial Statements

Balance Sheets

**DISTRICT OF COLUMBIA HIGHWAY TRUST FUND
COMPARATIVE BALANCE SHEETS
SEPTEMBER 30, 1998 and 1997**

ASSETS	<u>1998</u>	<u>1997</u>
Current Assets:		
Cash and Investments	\$51,281,131	\$31,129,363
Receivables-Motor fuel tax revenues	2,312,399	5,770,931
Due from General Fund	<u>6,749,202</u>	<u>434,757</u>
Total Assets	<u><u>\$60,342,732</u></u>	<u><u>\$37,335,051</u></u>
 LIABILITIES AND FUND BALANCE		
Current Liabilities:		
Payables:		
Refunds	\$4,997	\$117,724
Capital operating account	12,178,175	2,363,358
Federal highway administration	<u>0</u>	<u>3,995,348</u>
Total Current Liabilities	12,183,172	6,476,430
 Long Term Liabilities:		
Payables:		
Capital operating account	<u>5,000,000</u>	<u>0</u>
Total Liabilities	17,183,172	6,476,430
 Fund Balance:		
Restricted	<u>43,159,560</u>	<u>30,858,621</u>
Total Liabilities and Fund Balance	<u><u>\$60,342,732</u></u>	<u><u>\$37,335,051</u></u>

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

Statement of Revenues, Expenditures, and Change in Fund Balance

**DISTRICT OF COLUMBIA HIGHWAY TRUST FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCE
FOR THE YEARS ENDED SEPTEMBER 30, 1998 AND 1997**

Revenues	<u>1998</u>	<u>1997</u>
Motor Fuel Tax	\$30,639,673	\$31,776,880
Interest Income	<u>2,237,976</u>	<u>1,458,901</u>
Total Revenues	<u>\$32,877,649</u>	<u>\$33,235,781</u>
Expenditures		
Capital Appropriated Expenditures:		
Design, Site, Construction, and		
Equipment Costs	\$13,314,466	\$15,139,863
Project Management Costs	2,874,950	2,018,014
Non-Participating Costs	<u>4,387,294</u>	<u>4,111,855</u>
Total Expenditures	<u>\$20,576,710</u>	<u>\$21,269,732</u>
Excess of Revenues over Expenses	12,300,939	11,966,049
Fund Balance at October 1	<u>30,858,621</u>	<u>18,892,572</u>
Fund Balance at September 30	<u>\$43,159,560</u>	<u>\$30,858,621</u>

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

Notes to the Financial Statements

**DISTRICT OF COLUMBIA HIGHWAY TRUST FUND
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 1998**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BACKGROUND

The District of Columbia Emergency Highway Trust Fund Act (Act), Public Law 104-21, 109 Stat. 257, August 4, 1995, D.C. Code Ann. Sections 7-134.1 through 7-134.3, allowed the Federal Government to increase its share of eligible project costs to fund the District of Columbia's (District) 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.

Consistent with the Act's requirements, the District established a Highway Trust Fund separate from the General Fund. The Highway Trust Fund is comprised of amounts equivalent to all motor vehicle fuel tax receipts, fees, civil fines and penalties collected by the District pursuant to Chapter 23 of Title 47 of the District of Columbia Code Annotated. The receipts are required to be deposited to 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, United States Code beginning with fiscal year 1997. (D.C. Code Ann. Section 7-134.4.)

Also consistent with the Act's requirements, the District established a revolving fund account separate from the capital account of the Department of Public Works and reserved for the prompt payment of contractors completing federal-aid highway projects in the District.

BASIS OF PRESENTATION

The District uses the Highway Trust Fund to 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 Highway Trust Fund is an Agency Fund, which is used to account for the monies held in escrow by the District as an agent for the motor vehicle fuel taxes and fees collected for the District's share of federal-aid highway projects. The District accounts for the construction of federal-aid highway projects, which are mostly financed by FHWA grants in the Capital Projects Fund. The monies from the Highway Trust Fund are transferred on a reimbursement basis into the Capital Projects Fund to cover the District's share of the federal-aid highway projects.

**DISTRICT OF COLUMBIA HIGHWAY TRUST FUND
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 1998**

BASIS OF ACCOUNTING

The modified accrual basis of accounting is used for the Highway Trust 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 sales and use taxes and interests. Sales and use taxes are recognized as revenue when the sale and use take place. Interest is recognized as revenue through the passage of time.

CASH AND INVESTMENTS

Highway Trust Fund cash is deposited in First Union National Bank. Each day, the funds are invested overnight and redeposited, with accrued interest, the following day. The law (DC Law 12-56, "Financial Institutions Deposit and Investment Amendment Act of 1997") repealed the previous law (DC Code 47-341) effective March 18, 1998, and provides the District much more flexibility in its investment choices. However, through September 30, 1998, the District has continued to only invest directly or through repurchase agreements in obligations of the United States or its agencies. Such investments are considered to be the equivalents of cash because they are readily convertible into cash and may be held for not more than 91 days after purchase.

RECEIVABLES AND PAYABLES

Taxes receivable are taxes levied by the District and interest penalties on delinquent taxes which have not been collected, canceled, or abated, less the portion of the receivables estimated not to be collectible. Accounts receivable/payable are amounts owned by/to customers or vendors for goods and services sold or purchased. Interfund receivables/payables or transfers in/out are amounts owed or conveyed between funds in the primary government. Amounts due within one year are classified as current receivables/payables in the balance sheet.

RESTRICTED ASSETS AND LIABILITIES

All assets are restricted as to use by legal or contractual agreements. The Highway Trust Fund includes certain assets and liabilities arising from dedicated taxes that are legally restricted for certain highway projects.

**DISTRICT OF COLUMBIA HIGHWAY TRUST FUND
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 1998**

ESTIMATES

The preparation of financial statements and five-year forecasted 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.

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 as of September 30 are listed below:

	1998	1997
Highway Trust Fund Account	\$43,101,131	\$25,723,478
Revolving Fund Account	8,180,000	5,405,885
Total	\$51,283,129	\$31,129,363

Receivables – Motor fuel tax revenues – represents motor fuel tax revenues recognized at September 30, which were subsequently collected.

Due from General Fund – The Highway Trust Fund (Fund 320) participates in the pooled cash process of the District of Columbia. Although the accounting is maintained separately by fund, certain treasury-controlled accounts are used for some of the transactions. At year-end, there is an accounting performed whereby a due to / due from with the General Fund is determined. In the case of Fund 320, these treasury-controlled accounts had deposits in excess of payments.

CURRENT LIABILITIES

Refunds – represents refunds due to Greyhound Bus Company and other owners of out of town buses who pay the motor fuel tax but are due a rebate on the amount of fuel used outside of the District.

Capital Operating Fund – represents fiscal year expenditures paid from the operating fund which are reimbursable from the Highway Trust Fund.

Federal Highway Administration – represents the remaining temporarily waived District share of FHWA project costs from fiscal years 1995 and 1996. The final payment was made on September 30, 1998.

**DISTRICT OF COLUMBIA HIGHWAY TRUST FUND
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 1998**

LONG TERM LIABILITIES

The District's Capital Project Fund advanced \$5 million in 1996 to establish the Highway Trust Fund revolving bank account. Repayment of this amount is not expected prior to fiscal year 2004. This amount is classified as a long-term liability. As of September 30, 1997, the \$5 million was incorrectly returned to the District's Capital Operating Fund. Subsequent discussions resulted in management's decision to return the \$5 million from the Capital Operating Fund to the Highway Trust Fund, which occurred on October 3, 1997.

REVENUES

The Highway Trust Fund revenue consists of use taxes earned on motor fuel sold, at the wholesale level, in the District from October 1 through September 30 for each fiscal year (DC Act II-337, Title I, Section 102 (c)), and interest revenue earned from short-term (overnight) investment of cash in the Highway Trust Fund and revolving fund accounts.

EXPENDITURES

The total represents capital appropriated expenditures for the period October 1 through September 30 for each fiscal year. These expenditures that are payable from the Highway Trust Fund include the following:

- Payment of the District's share of federal-aid highway project costs,
- In-house capital outlay labor costs (DPW personnel), and
- 100 percent of the locally funded capital projects during fiscal year 1998.

FORECASTED STATEMENTS

The seven-year forecast, which is a revision in the published fiscal year 2000 Capital Budget and fiscal year 1999 – 2005 Capital Improvement Plan, presents, to the best of management's knowledge and belief, the Highway Trust Fund's expected cash flows from fiscal year 1999 to 2005. Accordingly, the forecast reflects management's judgment as of July 28, 1999, the date of the revised forecast, of the expected conditions, operations, and its expected course of action. The assumptions disclosed herein are those that management believes are significant to the forecast. There will usually be differences between the forecasted and actual results because events and circumstances frequently change due to the nature of the activities (major design and construction), and those differences may be material.

**DISTRICT OF COLUMBIA HIGHWAY TRUST FUND
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 1998**

The seven-year forecasted statements are based on the following assumptions:

- The Highway Trust Fund columns represent the local revenue sources and the District's share of project expenditures that are subject to the Federal Aid match.
- The Federal Aid columns represent the Federal Aid commitment balances and projection of matching grants for known highway projects.
- The fiscal year 1998 amounts are based on actual amounts included in the District's fiscal year 1998 Comprehensive Annual Financial Report (CAFR). This includes the beginning Highway Trust Fund balances for the local share and federal aid. The local share equals the audited cash and investment amounts as of September 30, 1997 plus the fiscal year 1998 collections of receivables as of September 30, 1997 less the fiscal year 1998 payments of the audited outstanding liabilities as of September 30, 1997. The Federal Aid amount includes the federal share of FHWA financed projects in progress or completed, but not closed out.
- Interest earned is estimated based on a 4.5 percent annual interest rate on the rolling monthly average cash balance.
- The forecast for motor fuel taxes is based on historical data for fiscal year 1984 through 1996 and actual tax collections for fiscal year 1997 through the first two quarters of fiscal year 1999. The collections for fiscal year 1999 are based on a 3.3 percent estimated decline in gas consumption. The remaining years are based on a .9 percent annual decline in gas consumption.
- The estimated uses for project management, non-participating costs, and design, site construction, and equipment costs are based on the actual estimated completion date for the phase of each federal-aid highway project. The project management and design, site, construction, and equipment costs, which are eligible for Federal Aid match, are allocated based on the federal and local share of each individual project. The non-participating costs are those costs that are not eligible for Federal Aid match and include overhead construction engineering costs, utility and sewage repair, and construction enhancement not covered by FHWA. Cost estimates have been included for local projects funded from the Federal redistributed Barney Circle allocations of \$98 million. The anticipated spending for these local projects have been incorporated in the annual projections. Note that these funds also require a 15% D.C. match. This matching requirement is obtained from the District's Highway Trust Fund.
- The District assumes that the \$5 million in the revolving fund account, which was borrowed from the District's Capital Operating Fund to establish the revolving fund bank account, will not require repayment prior to fiscal year 2004.

Supplementary Information

SUPPLEMENTARY INFORMATION

**DISTRICT OF COLUMBIA HIGHWAY TRUST FUND
SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 1998**

YEAR 2000 COMPLIANCE

Certain computer programs have been written using two digits rather than four to define the applicable year, which could result in the computer recognizing the date using "00" as the year 1900 rather than the year 2000. This, in turn, could result in major system failures in miscalculations, and is generally referred to as the "Year 2000" problem. The District has commenced a process to assure Year 2000 (Y2K) compliance of all hardware, software, and ancillary equipment that is date dependent.

The District has established a Y2K program office to manage and coordinate Y2K activities throughout the District. A project strategy was launched that included assessments of Information Technology (IT) systems and support software and hardware; non-IT assets; remediation and testing; contingency planning, compliance/vendor management and clean management processing. The District has budgeted approximately \$31 million in fiscal year 1999 for Y2K remediation efforts. The District has requested a supplemental appropriation of \$111 million for 1999 to accelerate the pace of the remediation efforts. The Y2K compliance program is one of the top priorities of the Financial Responsibility Authority and is being funded as part of the overall management reform effort.

The District's Y2K process involves four phases:

Phase I – Awareness Stage. This phase encompasses establishing a budget and project plan for dealing with the Year 2000 issue.

Phase II – Assessment Stage. This begins with identifying all of the District's systems and individual components of those systems. The District has identified its mission-critical systems and equipment, which are systems and equipment that are critical to conducting operations and checking for compliance.

Phase III – Remediation Stage. This phase is comprised of making technical changes to existing systems and equipment or switching to new compliant systems. During this stage, decisions are made on how to make the systems Y2K compliant and the required system changes are made.

Phase IV – Validation/Testing Stage. This phase validates and tests the changes made during the remediation stage. This stage includes the development of test data and test scripts, the running of test scripts, and the review of test results.

The scope of the Y2K project included over 336 applications across 68 District agencies, of which 18 agencies have been deemed mission critical. The District has identified 226 applications as mission critical. Three of these 18 mission critical agencies relate to the operations of the Highway Trust covering 11 mission critical applications. Of these 11 mission critical applications; five will be retired and replaced by the new District financial system

**DISTRICT OF COLUMBIA HIGHWAY TRUST FUND
SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 1998**

(System of Accounting and Reporting-SOAR); two will be retired and replaced by the new District payroll and personnel system (Comprehensive Automated Payroll and Personnel System-CAPPS); one will be retired and replaced with a new application which is in the final stage of selection/procurement; one, which was not even used in FY 1998, if replaced, will be done by a manual application; and two are FoxPro developed databases that are Y2K compliant. As of February 1999, the District believed that its applications were in the following stages of work.

	Total	Awareness	Assessment	Remediation	Validation/ Testing	Complete
Mission Critical Systems	226	34	181	9	2	0
Other	110	110	0	0	0	0

While the District has allocated significant resources to Y2K issue and expects to resolve all of its Y2K problems, there can be no assurance that all systems will be ready or that failure of systems not identified as critical will not have a significant negative effect on the District's operations. Also, minor problems will undoubtedly remain after December 31, 1999. The District does not expect Y2K problems to have a material adverse effect on its financial health or its ability to meet its financial obligations in a timely manner. However, the District has no control over the Y2K remediation efforts of external third parties and to the extent that the third parties have not resolved its Y2K problems, they may negatively impact the District.

Financial Statements

Forecasted Statements

Transportation Capital Program Financial Forecasts		Highway Trust Fund FY 1998	Federal Aid FY 1998	Total FY 1998	Highway Trust Fund FY 1999	Federal Aid FY 1999	Total FY 1999
Sources							
Beginning Trust Fund Balance	30,858,621	488,412,359	519,270,980	43,159,560	494,376,280	537,535,840	
Interest Earnings	2,237,976	0	2,237,976	2,060,660	0	2,060,660	
Motor Fuel Tax	30,639,673	0	30,639,673	29,637,210	0	29,637,210	
Federal Aid Obligation	0	90,000,000	90,000,000	0	103,000,000	103,000,000	
Total	\$63,736,270	\$578,412,359	\$642,148,629	\$74,857,430	\$597,376,280	\$672,233,710	
Uses							
Repayment of Waived Local Match <small>(Part 2)</small>	3,995,348	0	3,995,348	0	0	0	
Estimated Project Management	2,874,950	7,511,509	10,386,459	3,482,843	14,477,458	17,960,301	
Estimated Non-Participating Cost	4,387,294	0	4,387,294	1,877,712	0	1,877,712	
Estimated Design, Site, Constr.& Equip. Cost	9,319,118	76,524,570	85,843,688	19,828,323	96,885,675	116,713,998	
Total	\$20,576,710	\$84,036,079	\$104,612,789	\$25,188,878	\$111,363,133	\$136,552,011	
ENDING BALANCE	\$43,159,560	\$494,376,280	\$537,535,840	\$49,668,552	\$486,013,147	\$535,681,699	
REVOLVING FUND BALANCE	\$5,000,000		\$5,000,000	\$5,000,000		\$5,000,000	

Financial Statements

Transportation Capital Program
Financial Forecasts

	Highway Trust Fund FY 2000	Federal Aid FY 2000	Total FY 2000	Highway Trust Fund FY 2001	Federal Aid FY 2001	Total FY 2001
Sources						
Beginning Trust Fund Balance	49,668,552	486,013,147	535,681,699	44,928,947	410,078,082	455,007,029
Interest Earnings	2,081,456	0	2,081,456	1,843,702	0	1,843,702
Motor Fuel Tax	29,379,570	0	29,379,570	29,113,774	0	29,113,774
Federal Aid Obligation	0	105,000,000	105,000,000	0	106,000,000	106,000,000
Total	\$81,129,578	\$591,013,147	\$672,142,725	\$75,886,423	\$516,078,082	\$591,964,505
Uses						
Estimated Project Management	2,922,425	17,194,524	20,116,949	3,268,792	20,416,416	23,685,208
Estimated Non-Participating Cost	2,511,745	0	2,511,745	2,431,090	0	2,431,090
Estimated Design, Site, Constr. & Equip. Cost	30,766,461	163,740,541	194,507,002	31,056,575	169,099,676	200,156,251
Total	\$36,200,631	\$180,935,065	\$217,135,696	\$36,756,457	\$189,516,092	\$226,272,549
ENDING BALANCE	\$44,928,947	\$410,078,082	\$455,007,029	\$39,129,966	\$326,561,990	\$365,691,956
REVOLVING FUND BALANCE	\$5,000,000		\$5,000,000	\$5,000,000		\$5,000,000

Financial Statements

Transportation Capital Program
Financial Forecasts

	Highway Trust Fund FY 2002	Federal Aid FY 2002	Total FY 2002	Highway Trust Fund FY 2003	Federal Aid FY 2003	Total FY 2003
Sources						
Beginning Trust Fund Balance	39,129,966	326,561,990	365,691,956	26,173,402	220,027,340	246,200,742
Interest Earnings	1,411,377	0	1,411,377	1,004,516	0	1,004,516
Motor Fuel Tax	28,852,676	0	28,852,676	28,593,919	0	28,593,919
Federal Aid Obligation	0	108,000,000	108,000,000	0	110,000,000	110,000,000
Total	\$69,394,019	\$434,561,990	\$503,956,009	\$55,771,837	\$330,027,340	\$385,799,177
Uses						
Estimated Project Management	4,363,113	26,116,888	30,480,001	3,515,827	21,761,733	25,277,560
Estimated Non-Participating Cost	2,860,675	0	2,860,675	2,316,723	0	2,316,723
Estimated Design, Site, Constr. & Equip. Cost	35,996,829	188,417,762	224,414,591	29,518,744	162,905,436	192,424,180
Total	\$43,220,617	\$214,534,650	\$257,755,267	\$35,351,294	\$184,667,169	\$220,018,463
ENDING BALANCE	\$26,173,402	\$220,027,340	\$246,200,742	\$20,420,543	\$145,360,171	\$165,780,714
REVOLVING FUND BALANCE	\$5,000,000		\$5,000,000	\$5,000,000		\$5,000,000

Financial Statements

Transportation Capital Program
Financial Forecasts

	Highway Trust Fund FY 2004	Federal Aid FY 2004	Total FY 2004	Highway Trust Fund FY 2005	Federal Aid FY 2005	Total FY 2005
Sources						
Beginning Trust Fund Balance	20,420,543	145,360,171	165,780,714	28,646,466	129,536,427	158,182,893
Interest Earnings	1,084,006	0	1,084,006	1,614,687	0	1,614,687
Motor Fuel Tax	28,337,482	0	28,337,482	28,083,346	0	28,083,346
Federal Aid Obligation	0	110,000,000	110,000,000	0	110,000,000	110,000,000
Total	\$49,842,031	\$255,360,171	\$305,202,202	\$58,344,499	\$239,536,427	\$297,880,926
Uses						
Estimated Project Management	2,158,025	16,432,244	18,590,269	1,577,229	15,239,556	16,816,785
Estimated Non-Participating Cost	1,362,814	0	1,362,814	981,547	0	981,547
Estimated Design, Site, Constr. & Equip. Cost	17,674,726	109,391,500	127,066,226	12,211,495	106,654,631	118,866,126
Total	\$21,195,565	\$125,823,744	\$147,019,309	\$14,770,271	\$121,894,187	\$136,664,458
ENDING BALANCE	\$28,646,466	\$129,536,427	\$158,182,893	\$43,574,228	\$117,642,240	\$161,216,468
REVOLVING FUND BALANCE	\$5,000,000		\$5,000,000	\$5,000,000		\$5,000,000

Comments From the District of Columbia

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Chief Financial Officer

Valerie Holt
Chief Financial Officer



SEP 9 1999

Jeffrey C. Steinhoff
Acting Assistant Comptroller General
Accounting and Information Management Division
General Accounting Office
441 G Street, N.W.
Washington, D.C. 20546

Dear Mr. Steinhoff:

I am in receipt of the draft financial report entitled FINANCIAL AUDIT - District of Columbia Highway Trust Fund's Fiscal Year 1998 Financial Statements. Listed below are comments related to the material weaknesses described in the report.

COMPUTER SYSTEMS GENERAL CONTROLS

The General Accounting Office (GAO) recommended that the DPW's Office of Information Services strengthen physical securities over the facilities, system and data; strengthen logical security and improve controls by conducting a security risk analysis; segregate incompatible duties and provide the appropriate supervisory review; ensure service continuity by completing disaster recovery plans and testing; and also assess the Y2K vulnerabilities and develop an evaluation and conversion plan.

In relation to the 1998 recommendations, the Chief Financial Officer of DPW stated that:

1. Local Area Network (LAN) Centralization. During FY1999, DPW has consolidated its local area network (LAN) into one data center located at the Reeves Center and has actively worked to consolidate the number of servers that comprise the Department's LAN. As a result, the number of servers has been reduced from the 70 servers observed by GAO in FY 1998 to 26 servers as of today. The applications and data used by the OCFO-DPW including those related to the Transportation Trust Fund have been consolidated from four servers as noted by the GAO to one server exclusively dedicated to the OCFO-DPW. The Department is scheduled to continue this consolidation effort in FY 2000 by further reducing the total number of LAN servers to 15 by December 31, 1999.

Appendix I
Comments From the District of Columbia

Jeffrey C. Steinhoff
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2. Physical Security. An electronic card system has been installed in the Department's data center. In FY 2000, the Department also plans to move the data center from the second floor of the Reeves Center where several public offices including a credit union are located to a more secure location on another floor. When this relocation is undertaken, the electronic access system will be reinstalled and/or upgraded.
3. Logical Security and Segregation of Incompatible Duties. During FY 1999, DPW's Office of Information and Telecommunication Services (OITS) recruited and hired a certified Novell administrator (CNA) to serve as the main LAN Administrator for the center. New network policies, procedures, and standards have been developed and are being implemented upon review by the District's Office of the Chief Technology Officer (OCTO). Although the appointment of a LAN administrator has supported better segregation of duties, the size of the OITS staff requires that some duties and responsibilities continue to be shared among employees and contracted support. The Department will review the issue of OITS staffing and funding as part of the FY 2001 budget process and make recommendations as deemed appropriate to the Office of Budget and Planning and the Mayor for consideration.
4. Disaster Recovery. Although a temporary back up system is in place to support a disaster recovery program, a full tape back-up system including daily and weekly back-up and off-site storage of tapes is scheduled for implementation by the end of calendar year 1999.
5. Year 2000 Readiness. DPW is actively working to remediate, repair, and/or replace all mission critical information systems including those systems related to the Highway Trust Fund and other assets containing embedded computer chips. As of August 1999, DPW had completed approximately 80 percent of the remediation, repair and replacement activities required to make all these systems and applications compliant, including the replacement of non-compliant desk top personal computers (PCs). Although DPW expects to complete these efforts and test all systems by September 30, 1999, the Department will continue to monitor and test these systems until January 1, 2000, and thereafter as necessary.

The entire DPW including OITS and the OCFO-DPW are actively engaged in the Y2K contingency planning process. OITS is focusing on the processes related to the operation of the LAN while the OCFO-DPW is focusing on financial processes including those related to the Highway Trust Fund. To date, contingency plans for Network Operations, Accounts Payable, Grants Management, and the FHWA Biller have been developed.

6. Financial Applications. As part of the District-wide Y2K effort, the four financial applications noted on page 15 of the draft report were determined to be non-Y2K compliant. In some cases, the application was already scheduled for retirement because its functionality was to be replaced by the new financial management system (SOAR). In summary, the functionality of the four financial applications related to the Trust Fund has been addressed as follows:
 - a) The Overhead Distribution System has been retired and its functionality being provided through the cost allocation module within SOAR.

Appendix I
Comments From the District of Columbia

Jeffrey C. Steinhoff
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- b) The Federal Aid Billing System (FABS) has been retired and replaced by the Federal Aid Billing module in SOAR.
- c) The Labor Distribution System has been retired and its functionality is being provided through an interface between the District-wide personnel/payroll system (CAPPS) and SOAR.
- d) The Vehicle Usage System has been retired and its limited functionality is being handled through a manual process while electronic options for this process are being considered.

REVENUE

The GAO recommended that the Director of the Office of Tax and Revenue (OTR) enforce procedures to require monthly transfers of motor fuel receipts from the General Fund to the Highway Trust Fund (Fund) and require the District to reimburse the Fund for potential lost interest if the receipts are transferred after 30 days.

The District is not transferring the motor fuel receipts revenue to the Fund's bank account on a timely basis. District policies and procedures require that motor fuel receipts be transferred monthly to the Fund's bank account. The GAO found that for nine months during fiscal year 1998, it took the District two to four months to transfer revenue to the Fund. The delays resulted in approximately \$224,000 in potential lost interest income to the Fund from the time the tax revenues were received and deposited in to the Fund's bank account.

Except for the reimbursement of potential lost interest to the Fund, the Deputy Chief Financial Officer for OTR agrees with the GAO's recommendation. The OTR Revenue Accounting Administration (RAA) has recently revised its transfer procedures to include specific deadlines for processing. RAA now creates a transfer amount to the Highway Trust Fund on a monthly basis that is received by the Fund within 30 days of receipt by the District. The District receives motor fuel returns and revenue for any given month by the 25th of the following month. By the 15th of the next month (or the next business day), RAA submits documentation for wiring purposes to the Office of Finance and Treasury, and to the Department of Public Works (DPW) for informational purposes. The Office of Finance and Treasury should then wire the funds into the Highway Trust Fund by the 20th of the month. The OTR does not maintain a budget for lost interest should the wire to the Fund occur more than 30 days after receipt.

COMPLIANCE WITH LAWS AND REGULATIONS

The GAO recommended that OTR enforce implementation of the licensing requirement (D.C. Code Ann. Section 47-2303) for a bond in the approximate sum of 3 times the average monthly motor fuel tax due from each wholesaler during the preceding 12 months or an estimate of the succeeding 12 months.

The GAO found that the District had been issuing bonds to wholesalers for amounts lesser than the amounts required by the law. They found that 3 wholesalers were underbonded in an amount totaling \$27,000.

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The Deputy Chief Financial Officer for OTR agrees with the GAO recommendation. The OTR Compliance Operations Administration has recently developed an excel spreadsheet to properly calculate the motor fuel bond amount. Correct bond amounts were calculated for July 1, 1999 to June 30, 2000 license year, and sent to each motor fuel wholesaler/licensee with their new license application. Each bond amount was computed for each licensee using the following calculation: the monthly motor fuel return payments for the periods 03-01-98 through 02-28-99 were summed, divided by 12 and multiplied by 3. The periods used were the most recent available at the time the computations were made. Bond amounts computed were rounded up to the next \$500 increment, and were reviewed for compliance with the statutory minimum amount of \$5,000 and the maximum limitation amount of \$100,000.

UNQUALIFIED OPINION ON FORECASTED STATEMENTS

To address the weakness identified in the District's preparation and submission of its forecasted statements to the Congress, the GAO recommended that the Chief Financial Officer establish written procedures governing the processes for preparing, coordinating, and approving the financial forecasts prior to submission to the Congress. These procedures should identify the parties responsible and timeframes for the:

- development of the underlying assumptions and methodologies for each line item; and
- overall preparation and presentation of the financial forecasts

The GAO examination of the Capital Improvement Plan (CIP) submitted to the Congress in June 1999 identified that the District needed to revise its forecasts to reflect a proper presentation of projections in accordance with AICPA guidelines. Their examination also revealed a lack of adequate support for the projections as required by AICPA guidelines as well as arithmetic errors. On July 28, 1999 the District revised its fiscal year 2000 financial forecast and stated that they would advise the Congress of the changes.

The Interim Deputy Chief Financial Officer for Budget and Planning stated that the Office of Budget and Planning, in conjunction with the Office of Finance and Treasury, Department of Public Works, the Office of Tax and Revenue, and the Office of Financial Operations and Systems, is in the process of developing official policies and procedures for the development and submission of the District of Columbia's Highway Trust Fund forecasted statements. The policy and procedures will identify the following:

- a listing of all responsible agencies,
- the roles and responsibilities of the identified parties,
- the assumptions and methodologies for completion of tasks for each party,
- the timeline for deliverables,
- the required certifications from all responsible parties, and
- the overall presentation of the financial forecasts.

Appendix I
Comments From the District of Columbia

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It is expected that the policies and procedures will be completed no later than September 30, 1999 and will be effective October 1, 1999.

Sincerely,



Valerie Holt
Chief Financial Officer

Status of Prior Years' Audit Recommendations

The results of our efforts to audit the Fund's fiscal year 1997 and 1996 Financial Statements were presented in our reports entitled *Financial Audit: District of Columbia Highway Trust Fund's Fiscal Year 1997 Financial Statements* (GAO/AIMD-98-254, September 30, 1998) and *Financial Audit: District of Columbia Highway Trust Fund's 1996 Financial Statements* (GAO/AIMD-98-30, December 15, 1997). Both reports included a total of 18 recommendations addressing internal control weaknesses. Five of these recommendations were implemented during the fiscal year 1997 audit period. We determined the status of the remaining 13 recommendations, which are listed below, based on our fiscal year 1998 audit work and discussions with District officials. We plan to update our assessment of the District's responses as part of our fiscal year 1999 audit.

Table 1: Status of Our 1997 and 1996 Recommendations

Year(s)	Recommendation	Status
To the DCFO for the Department of Public Works		
1997 and 1996	Revise procedures to require maintaining detailed support for all adjustments to capital appropriated expenditures. This should include detailed records to support (1) year-end closing adjustments and (2) any necessary schedules and reconciliations needed to provide an adequate audit trail from the financial management systems.	AC
	Ensure the segregation of duties in the preparation, approval, and validation of journal entries disbursements.	AC
	Perform supervisory reviews of journal entries and disbursements related to capital projects.	AC
To the DCFO for the Office of Tax and Revenue		
1997	Establish control procedures to investigate instances in which unlicensed wholesalers submit tax returns or licensed wholesalers do not submit monthly returns.	AP
	Establish control procedures to (1) review each monthly tax return for completeness and accuracy, (2) reject incomplete and erroneous monthly tax returns, and (3) contact wholesalers if returns are rejected and follow up to ensure complete, accurate, and adequately documented monthly tax returns.	AP
	Enforce implementation of the D.C. Code Ann. section 47-2303 requirement of a \$5 annual license fee for motor vehicle fuel license and implement procedures to repay licensed wholesalers who overpaid during the past 3 years.	AC
1996	Revise procedures to require daily logging, endorsing, and depositing of motor fuel tax receipts received by the District or establish a lockbox system for the processing and depositing of such receipts to improve cash management and enhance the control environment.	AP

(Continued)

Year(s)	Recommendation	Status
	Establish the procedures to verify the completeness of motor fuel tax receipts from wholesaler fuel sales to retailers or for fuel consumed by construction, bus, and other companies that buy at the wholesale level and consume that fuel within the District. Examples of such procedures are on-site inspections and reviews of wholesaler shipping documents and confirmation with retailers and construction and bus companies annually or on a scheduled but random-sample basis.	PL
To the Director of the Office of Information Systems		
1997 and 1996	Strengthen physical security over the facilities, systems, and data by controlling all physical access to LAN centers and protecting all backup files.	AP
	Strengthen logical security and better control the access to data and systems by conducting a security risk analysis, restricting access to security functions, maintaining security access files, and applying LAN modification updates uniformly.	PL
	Segregate incompatible duties and provide the appropriate supervisory review and, if it is deemed necessary that any one person maintain complete access, establish controls to ensure that such activities are monitored.	PL
	Ensure service continuity by completing disaster recovery plans and testing them at both LAN centers.	PL
	Assess the Y2K vulnerabilities and develop an evaluation and conversion plan.	PL

(Continued from Previous Page)

Legend:

AC – action complete

AP – action in progress

PL – action in planning or planning complete

NP – no specific action planned

GAO Contacts and Staff Acknowledgements

GAO Contacts

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Acknowledgements

In addition to those named above, Richard Cambosos, Angela Samblanet, Debra S. Rucker, and Chau Dinh made key contributions to this report.

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