



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

Accounting and Information  
Management Division

B-247837

July 11, 1994

The Honorable Fortney H. (Pete) Stark  
Chairman, Committee on the District  
of Columbia  
House of Representatives

The Honorable Jim Sasser  
Chairman, Subcommittee on General  
Services, Federalism and the  
District of Columbia  
Committee on Governmental Affairs  
United States Senate

This report presents the results of our review of the independent certified public accountants' audit of the District of Columbia's breakdown of revenue derived from the federal government and other sources for the year ended September 30, 1993. The District of Columbia Budgetary Efficiency Act of 1991 (Public Law 102-102) requires us to review this breakdown and to report the results to your committees. The revenue from sources other than the federal government is the basis for determining the authorized amount of the federal payment to the District of Columbia. The amount is determined using a formula specified in the act.

RESULTS IN BRIEF

In the auditors' opinion, the District of Columbia's revenue derived from federal and other sources as reported in its Comprehensive Annual Financial Report (CAFR) for the year ended September 30, 1993, is fairly presented in all material respects in accordance with generally accepted accounting principles. Our work, limited to a review of the District's revenues reported in its CAFR, found no material discrepancies to indicate that the auditors' opinion was inappropriate or unreliable.

On February 23, 1994, we received a letter from the Mayor of the District of Columbia presenting total local revenues for fiscal year 1993 of \$2,929,117,000 to be used as the calculation base for the fiscal year 1995 federal payment authorization amount. (See appendix I.) The amounts presented in the letter were unaudited. On May 2, 1994, we received an audited schedule of local revenue for fiscal year 1993 from the District's Controller. Based on the audited schedule, the total local revenue reported in the Mayor's letter was adjusted to \$2,892,232,000. (See appendix II.) However, the schedule included certain revenues which were not provided for in a directive from the District's Congressional authorizing and appropriating committees regarding the types of revenues to be used as the calculation base. If the directive had been followed, revenues of \$2,797,801,000 would have been reported as the calculation base. (See appendix III.)

During fiscal year 1993, the District changed the legal definition of the real property tax year. This and related changes resulted in counting \$172,863,000 of taxes collected as an increase to fiscal year 1993 revenue, but did not generate any additional cash during fiscal year 1993. As a result of these changes, the fiscal year 1995 federal payment authorization may be increased by approximately \$41 million under the payment formula.

#### BACKGROUND

The government of the District of Columbia is required by D.C. Code 47-119(a) to prepare annual financial statements of its operations in accordance with generally accepted accounting principles and to have them audited. Subsection 2(c)(1) of Public Law 102-102 amended D.C. Code 47-119(a) to require that beginning with the independent audit of the District's financial operations for fiscal year 1991, the audit include a report of the District's revenues broken down by those derived from the federal government and those derived from other sources.

The District of Columbia government contracted with independent certified public accountants, Bert Smith & Co. and Coopers & Lybrand, to audit its fiscal year 1993 financial statements. The District's financial statements do not break down revenues from the federal government in a way that would

enable compliance with the federal payment formula requirements of Public Law 102-102.

The purpose of breaking down revenues to be included in the report is to facilitate implementation of the federal payment formula established by section 2(b) of Public Law 102-102. The formula authorizes an amount equal to 24 percent of the local revenues for each fiscal year to be appropriated as the annual federal payment to the District in the second subsequent fiscal year. The federal payment is to compensate the District for revenue shortages from unreimbursed services provided to the federal government and from federally imposed limitations on the District's ability to raise certain tax revenues. The term "local revenues" is defined as meaning the independently audited revenues of the District that are derived from sources other than the federal government during that year.

Our May 1992 report<sup>1</sup> to your committees regarding the results of our review of the District's fiscal year 1991 revenue sources noted that local revenue included amounts from general, enterprise, and trust fund activities. We reported that applying the formula to these total revenues would result in a higher federal payment than historical trends would indicate and that congressional hearings and committee reports associated with enactment of the law generally compared the federal payment to general fund revenue. On June 17, 1992, the District of Columbia Appropriations Subcommittee of the House Appropriations Committee held a hearing to discuss, among other items, the formula payment for the District of Columbia. Issues discussed included the definition of the base, the possible inclusion of net lottery proceeds in the base, and the authorizing committee's intent with respect to the formula.

The Appropriations Subcommittee subsequently received two letters, both dated June 22, 1992, one signed by the Chairman and the other by the Ranking Minority Member of the House Committee on the District of Columbia. The purpose of these letters was to express views of the authorizing committee's intent regarding Public Law 102-102. The Chairman enclosed an exhibit that directed the District to thereafter "prepare and submit the Schedule of Local Revenue required by section 2[b]

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<sup>1</sup>GAO/AFMD-92-50, May 8, 1992.

of Public Law 102-102, 105 Stat. 496 (1991) as specified in the exhibit."

The letter from the Ranking Minority Member stated:

"The authorized federal payments in FY 1993, 1994, and 1995 should be based only upon those sources of revenue which have been counted by the Appropriations Committee. . . . If some source of general revenue local collections has not been included in the Appropriations' general revenue local collections category in the past, counting it now would be inconsistent with our intent."

These views are reflected in reports of the House and Senate Appropriations Committees, which also directed the District to use a schedule of local revenues as displayed in the exhibit.

#### OBJECTIVES, SCOPE, AND METHODOLOGY

We conducted our review of the auditors' work in accordance with generally accepted government auditing standards. Our review was conducted during the period May 2, 1994, through June 22, 1994. To determine the reasonableness of the auditors' work in the revenue area and the extent to which we could rely on it, we

- reviewed the auditors' approach and planning of the audit;
- evaluated the qualifications and independence of the audit staff;
- reviewed the financial statements, schedule of local revenues, and auditors' report to evaluate compliance with generally accepted accounting principles and generally accepted government auditing standards;
- reviewed the auditors' working papers to determine (1) the nature, timing, and extent of audit work performed, (2) the extent of audit quality control methods the auditor used, (3) whether the auditors obtained an understanding of the revenue cycle's internal control structure, (4) whether the amounts reported in the revenue schedule agreed with those in the financial statements, and (5) whether the evidence in the working papers

supported the auditors' opinion on revenue as presented in the CAFR;

- asked District financial management personnel to identify the source of funds in certain General Fund accounts; and
- reviewed the District's unaudited and audited computations of local revenues, and compared them to Public Law 102-102 and the committees' directive.

LOCAL REVENUES REPORTED FOR FISCAL YEAR 1993

On February 23, 1994, we received a letter from the Mayor of the District of Columbia, which presented total local revenues of \$2,929,117,000 for fiscal year 1993. The Mayor's letter, however, was unaudited and did not compute the amount of local revenue in accordance with the committees' directive. On May 2, 1994, we received from the District Controller a schedule of local revenue for fiscal year 1993, audited by Coopers & Lybrand, adjusting the amount in the Mayor's letter to \$2,892,232,000. The audited schedule also did not conform to the committees' directive. If the directive had been followed, the amount of total local revenues would have been \$2,797,801,000.

The major difference between the local revenue amount presented in the audited schedule and the amount determined under the committees' directive is that the schedule includes local nonappropriated revenues, whereas the directive excludes all nonappropriated revenues.

On September 9, 1993, Delegate Eleanor Holmes Norton requested that we review the District's fiscal year 1992 nonappropriated revenue categories. As noted in our January 31, 1994,<sup>2</sup> letter, our review of the categories indicated that the local source revenue in the nonappropriated categories is similar to other local source revenues that have been included in the computation of the authorization amount.

Our calculation of the revenue base for the federal payment calculation, performed in accordance with the committees' directive, is in appendix III.

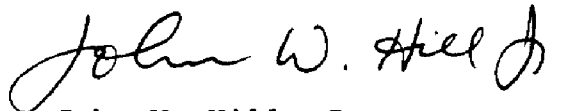
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<sup>2</sup>Letter to Delegate Eleanor Holmes Norton (GAO/AIMD-94-71R, January 31, 1994).

During fiscal year 1993, the District changed the legal definition of the real property tax year. This and related changes resulted in counting \$172,863,000 of taxes collected as an increase to fiscal year 1993 revenue. Before the changes, the revenue would have been recorded in fiscal year 1994. This tax year change did not generate any additional cash during fiscal year 1993. However, because the federal payment to the District is based upon a percentage of District revenues from local sources from the second preceding fiscal year, the fiscal year 1995 federal payment authorization may be increased by approximately \$41 million under the payment formula. This matter is discussed in more detail in our recently issued report on the District's financial status.<sup>3</sup>

We are sending copies of this report to the House and Senate Appropriations Subcommittees on the District of Columbia, Committees on Appropriations. We will also send copies to other interested committees, District of Columbia officials, and other interested parties. Copies will be made available to others on request.

If you wish to discuss this information further, please contact me at (202) 512-8549, or Assistant Director Michael J. Fischetti, at (202) 512-5125.



John W. Hill, Jr.  
Director  
Audit Support and Analysis Group

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<sup>3</sup>Financial Status: District of Columbia Finances  
(GAO/AIMD/GGD-94-17BR, June 22, 1994).

LETTER FROM THE MAYOR OF THE DISTRICT OF COLUMBIA



THE DISTRICT OF COLUMBIA  
WASHINGTON, D.C. 20001

SHARON PRATT KELLY  
MAYOR

February 17, 1994

The Honorable Charles A. Bowsher  
Comptroller General  
441 G Street, NW  
Washington, DC 20001

Dear Mr. Comptroller General:

In accordance with section 4(a) of Public Law 94-399, as amended by section 2(b) of Public Law 102-102, the comprehensive annual financial report of the District of Columbia, audited by Coopers & Lybrand and Bert Smith & Co., certified public accountants, includes a report of the revenues of the District of Columbia for the fiscal year ended September 30, 1992, broken down by revenues derived from the Federal Government and revenues derived from sources other than the Federal Government during that fiscal year.

A summary of the revenues reported for fiscal year 1993 follows (in thousands of dollars):

Total District sources (a) .....	\$2,904,429
Plus Lottery Board transfers in (b) .....	66,875
Less Federal sources (c):	
Nonappropriated charges for services .....	(4,773)
Nonappropriated miscellaneous revenues ....	(28,416)
Appropriated miscellaneous revenues .....	<u>(8,998)</u>
Local revenues .....	<u>\$2,929,117</u>

Sources:

- (a) Exhibit S-1 of the District's Comprehensive Annual Financial Report (CAFR) from the column headed "Total District Sources."
- (b) Exhibit C-2 of the District's CAFR from the column headed "Lottery and Games," and the line captioned Operating Transfers In (Out): General Fund.
- (c) Enclosure entitled "Federal Sources of Revenue."

There is authorized to be appropriated as the 1995 annual federal payment to the District of Columbia for fiscal year 1995 an amount equal to 24 percent of the local revenues for fiscal year 1993. The authorized amount for fiscal year 1995 is \$702,988,000.

Sincerely,

 Sharon Pratt Kelly  
Mayor

Enclosure



FEDERAL SOURCES OF REVENUE  
 FEDERAL PART OF NON-APPROPRIATED FOR CHARGES FOR SERVICES AND  
 MISCELLANEOUS REVENUES  
 FOR FY 1993

AG	REV/S	NAME OF REVENUE SOURCE	NO.	CAT	CL	TOTAL	REMARK	FED PART
<b>CHARGES FOR SERVICES</b>								
FA	1431	WALES Program		03	02	27,202.08	PART	25,082.00
FP	1430	Correctional Industries Sales		03	02	2,740,411.74	PART	2,544,078.00
GA	1321	Capital Page School		03	02	190,447.84	100%	190,447.84
BE	1556	Police/Fire Retirement		07	03	28,188.84	100%	28,188.84
FA	1856	Clinic/Detail Services		07	03	255,941.73	PART	40,791.73
GA	1555	Reserve Officers Training		07	03	369,116.93	100%	369,116.93
JA	1556	Student Loans Repaymed		07	03	161,385.74	PART	1,853.00
KA	1856	Mail Tunnel Maintenance		07	03	142,378.23	100%	142,378.23
SUB TOTAL:						3,915,081.71		3,341,724.37
AS	1459	Rentals from Property Management		03	17	426,398.34	PART	25,879.00
GA	1229	Supplemental Security Income		03	13	1,405,791.93	100%	1,405,791.93
SUB TOTAL:						1,832,190.27		1,431,670.93
<b>CHARGES FOR SERVICES TOTAL:</b>						<b>5,747,452.18</b>		<b>4,773,395.30</b>

**MISCELLANEOUS REVENUES**

FF	1948	Drug Use Forecasting		07	81	22,867.27	100%	22,867.27
FF	4867	Drug Control Program		07	94	131,813.53	100%	131,813.53
SUB TOTAL:						154,680.80		154,680.80
OB	1573	Rehabilitation Loans Collected		07	91	685,482.86	100%	685,482.86
DB	CDVA	Urban Renewal Rental Property		07	94	1,808,569.45	100%	1,808,569.45
DB	CDVC	Rehabilitation Loans Collected		07	91	3,073,037.99	100%	3,073,037.99
DB	CDVD	Sales of Land/Structures		07	94	6,387,272.23	100%	6,387,272.23
DB	CDVE	Rehabilitation Loans Collected		07	91	989,233.00	100%	989,233.00
DB	CDVJ	Home Purchase Loans Collected		07	91	2,334,402.29	100%	2,334,402.29
DB	CDVK	First Right to Purchase Loan Collect		07	91	11,705.59	100%	11,705.59
DB	CDVL	Long Term Lease		07	94	3,670,844.41	100%	3,670,844.41
DB	CDVM	Economic Development Loan Collec		07	91	1,633,085.47	100%	1,633,085.47
DB	CDVZ	Other Income		07	94	0.00	100%	0.00
EN	GLFR	HUD Guaranteed Loans Collected		07	94	102,309.63	100%	102,309.63
JA	1824	Child Support Collected		07	94	5,788,085.91	100%	5,788,085.91
JA	2058	Food Stamp Transaction Fees		07	94	7,190.55	100%	7,190.55
JA	J8J1	Pediatric AIDS Health Care		08	90	0.00	100%	0.00
KA	1814	Inspection of Penn Ave/Metro		07	94	1,099,657.91	PART	11,920.74
SUB TOTAL:						29,348,867.39		28,261,120.22
<b>MISCELLANEOUS REVENUES TOTAL:</b>						<b>29,503,548.19</b>		<b>28,415,631.02</b>
<b>NON APPROPRIATED TOTAL:</b>						<b>35,290,820.37</b>		<b>33,189,986.32</b>

FEDERAL PART OF APPROPRIATED FOR SERVICE CHARGES AND  
 MISCELLANEOUS CHARGES  
 FOR FY 1993

AG	REV/S	NAME OF REVENUE SOURCE	NO.	CAT	CL	TOTAL	REMARK	FED PART
<b>MISCELLANEOUS REVENUES:</b>								
FL	1888	Federal Prisoners		07	92	8,988,357.50	100%	8,988,357.50
SUB TOTAL:						8,988,357.50		8,988,357.50
<b>MISCELLANEOUS REVENUES TOTAL:</b>						<b>8,988,357.50</b>		<b>8,988,357.50</b>
<b>APPROPRIATED TOTAL:</b>						<b>8,988,357.50</b>		<b>8,988,357.50</b>
<b>GRAND TOTAL:</b>						<b>44,249,178</b>		<b>42,187,326</b>

INDEPENDENT AUDITORS' REPORT

Coopers  
& Lybrand

certified public accountants

Independent Auditors Report

To the Mayor and Council  
of the District of Columbia

We have audited the accompanying Schedule of Local Revenues of the District of Columbia for the year ended September 30, 1993. This schedule is the responsibility of the District of Columbia's management. Our responsibility is to express an opinion on the Schedule based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the Schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the schedule. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Schedule of Local Revenues was prepared for the purpose of complying with Public Law 102-102 related to the District of Columbia's Federal payment formula, specifically, locally-generated revenue as described in Note 2 to the Schedule, and is not intended to be a complete presentation of the District of Columbia's total revenues or results of operations.

In our opinion, the Schedule of Local Revenues referred to above presents fairly, in all material respects, the locally-generated revenue, as described in Note 2, of the District of Columbia for the fiscal year ended September 30, 1993, in conformity with generally accepted accounting principles.

Washington, D.C.  
April 20, 1994

DISTRICT OF COLUMBIA  
 SCHEDULE OF LOCAL REVENUES  
 Fiscal Year Ended September 30, 1993  
 (thousands of dollars)

Total District sources		\$2,904,429
Plus transfers-in:		
Lottery		66,875
Less:		
Charges for services - nonappropriated	\$(85,253)	
Amount representing local revenues	<u>43,472</u>	(41,781)
Miscellaneous revenues - nonappropriated	(79,253)	
Amount representing local revenues	<u>50,960</u>	(28,293)
Charges for services - appropriated	(52,903)	
Miscellaneous revenues - appropriated	(34,606)	
Amount representing local revenues	<u>78,511</u>	<u>(8,998)</u>
Total local revenues		<u>\$2,892,232</u>
Twenty-four percent of net local revenues		<u>\$ 694,136</u>

The accompanying notes are an integral  
part of this Schedule.

DISTRICT OF COLUMBIA  
NOTES TO SCHEDULE OF LOCAL REVENUES

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1. Schedule of Local Revenues

The Schedule of Local Revenues (Schedule) presents the District's locally-generated revenue (see Note 2) which excludes all federally-generated revenue (as defined in Note 2) components thereof. The Schedule was prepared in accordance with Public Law 102-102 as it amends Title V, "Federal Payment", of the District of Columbia Self-Governmental Reorganization Act.

2. Summary of significant accounting policies

Revenue Recognition

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (that is, 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 enough thereafter to be used to pay liabilities of the current period. A one year availability period is used by the District for revenue recognition for all governmental fund revenues with the exception of property taxes in which case a period of 60 days after year end is used.

Those revenues susceptible to accrual are property taxes, sales and use taxes, income and franchise taxes, gross receipts taxes and interest revenue. Property taxes are recognized as revenue in the tax year for which they are levied, provided they are available. Sales and use taxes are recognized as revenue when the sales or use take place.

Licenses and permits, fines and forfeits, charges for services, and other taxes are not susceptible to accrual because generally they are not measurable until received in cash.

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DISTRICT OF COLUMBIA  
NOTES TO SCHEDULE OF LOCAL REVENUES

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Locally-generated revenues

Any revenues generated by the District of Columbia through General Fund activities for goods or services provided to any and all consumers, whether private or public (including the federal government), in a transaction that constitutes a valid commercial exchange for due consideration, and that would be subject to all the covenants of the Uniform Commercial Code of business law, are to be considered revenues generated by the District of Columbia with all rights and privileges to use the revenues in the matter prescribed by the District of Columbia Self-Government and Governmental Reorganization Act. Other net revenues from operations and non-operating sources, such as interest income, or other fund activities of the District are also to be considered locally-generated revenues to the extent net revenues are available and are not restricted as to their use.

Federal source revenues

Revenues received from the federal government for grants or programs provided through federal appropriations legislation for activities which derive benefit to the citizenry of the District of Columbia are to be considered federal source revenues as compensation for revenue deficiencies in the District's tax base resulting from federally imposed limitations on the District's ability to raise revenue.

3. Public Law 102-102

Public Law 102-102 was enacted on August 17, 1991 to amend Title V, "Federal Payment", of the District of Columbia Self-Government and Governmental Reorganization Act by adding, among other items, the formula for calculating the balance of locally-generated revenues (Note.2) upon which an amount equal to 24 percent will be remitted to the District as the Federal Payment.

The Federal Payment calculation was enacted to assist the District in compensating for revenue shortages resulting from the unreimbursed services provided by the District to the Federal Government and the significant

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DISTRICT OF COLUMBIA  
NOTES TO SCHEDULE OF LOCAL REVENUES

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deficiencies in the District's tax base resulting from federally imposed limitations on the District's ability to raise revenue.

4. Calculation of Local Revenues

The calculation for the District's Schedule of Local Revenue was performed in accordance with Public Law 102-102 as interpreted by the District and the General Accounting Office. In a letter dated June 14, 1993 (GAO Interpretation), the GAO reported to the House Subcommittee on General Services, Federalism and the District of Columbia, as to the inclusion and exclusion of certain District revenues in its local revenue calculation. This report references the House Subcommittee Directive (the Directive) of June 22, 1992, explicitly defining local revenue.

Based on this Directive and the GAO's Interpretation, the calculation is to include only General Fund revenue and lottery transfers to the General Fund, adjusted for certain charges for services and miscellaneous revenues. These adjustments to the General Fund revenue should include reductions for all revenue obtained from Federal Sources.

**U.S. GENERAL ACCOUNTING OFFICE**  
**COMPUTATION OF LOCAL REVENUE**  
**FOR THE DISTRICT OF COLUMBIA**  
**FOR FISCAL YEAR ENDING**  
**SEPTEMBER 30, 1993**

	(\$ in millions)
Total General Fund revenue from District sources	\$2,904,429 (1)
Plus: Operating transfers from the Lottery and Games Fund	66,875 (2)
	8,998 (3)
Less: Federal source revenues	
Nonappropriated revenues:	
Charges for services	85,253 (4)
Miscellaneous	<u>79,252 (4)</u>
Total adjusted District General Fund revenue	<u>\$2,797,801</u>

Note: The amounts identified as (1), (2), and (4) are from the District's 1993 Comprehensive Annual Financial Report (CAFR).

- (1) Represents total District source revenues from taxes, licenses and permits, fines and forfeits, charges for services, and miscellaneous charges (p.65).
- (2) Represents a transfer of funds from the Lottery and Games fund to the General Fund (p.49).
- (3) Mayor Kelly's letter of February 17, 1994, identified other General Fund revenue sources from reimbursements made by the federal government for housing of federal prisoners. These revenues are included in appropriated miscellaneous revenues and were not identified nor reported in the District's fiscal year 1993 CAFR.
- (4) Represents nonappropriated revenues from charges for services and miscellaneous charges (p.19).

(917057)