United States General Accounting Office

GAO

Report to Congressional Committees and Subcommittees

September 1998

FINANCIAL AUDIT

District of Columbia Highway Trust Fund's Fiscal Year 1997 Financial Statements

GAO/AIMD-98-254

GAO

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

Comptroller General
of the United States

B-278916

September 30, 1998

Congressional Committees and Subcommittees

This report presents the results of our audit of the financial statements of the District of Columbia Highway Trust Fund for the fiscal year ended September 30, 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, the Fund's administrator. This report also presents (1) our opinion on District management's assertion regarding the effectiveness of the Fund's internal controls as of September 30, 1997, and (2) the results of our evaluation of the District's fiscal year 1997 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 the Chairmen and Ranking Minority Members of the Senate Committee on Appropriations and its Subcommittee on the District of Columbia; the House Committee on Appropriations and its Subcommittee on the District of Columbia; the Senate Committee on Governmental Affairs and its Subcommittee on Oversight of Government Management, Restructuring and the District of Columbia; and the House Committee on Government Reform and Oversight and its Subcommittee on the District of Columbia. In addition, copies will be sent to the Department of Transportation's Federal Highway Administration; the District of Columbia's Mayor, interim Chief Financial Officer, and Inspector General; the District of Columbia Auditor; and the Chairman of the District of Columbia Financial Responsibility and Management Assistance Authority.

Major contributors to this report are listed in appendix III. 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) 512-4470.

James F. Hinchman
Acting Comptroller General
of the United States

Congressional Committees and Subcommittees

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

The Honorable John W. Warner
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 Surface Transportation
Committee on Transportation and Infrastructure
House of Representatives

Contents

Letter 1

Opinion Letter 6

Financial Statements 20
- Balance Sheet 20
- Statement of Revenues, Expenditures and Change in Fund Balance 21
- Notes to the Financial Statements 22
- Forecasted Financial Statements From Fiscal Years 1998 Through 2004 27

Appendix I Comments From the District of Columbia 31

Appendix II Status of 1996 Audit Recommendations 34

Appendix III Major Contributors to This Report 39

Abbreviations

AICPA	American Institute of Certified Public Accountants
CAFR	Comprehensive Annual Financial Report
CE	construction engineering
CFO	Chief Financial Officer
DPW	Department of Public Works
FABS	Federal Aid Billing System
FHWA	Federal Highway Administration
FMS	Financial Management System
LADS	Labor Acquisition and Distribution System
LAN	local area network
OIS	Office of Information Systems
OTR	Office of Tax and Revenue

GAO

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

Accounting and Information
Management Division

B-278916

To the Mayor of the
District of Columbia

This report presents the results of our audit of the financial statements of the District of Columbia Highway Trust Fund for the fiscal year ended September 30, 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 District management's assertion regarding the effectiveness of the Fund's internal controls as of September 30, 1997, and (2) the results of our evaluation of the District's compliance with laws and regulations during fiscal year 1997 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 of the act[3] 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 act[4] 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 taxes[5] and to be separate from the District's General Fund.[6] The District established the trust fund as required by the act.[7] Motor fuel tax revenues were reported to be $32 million for fiscal year 1997.

[1]Public Law 104-21, 109 Stat. 257 (1995), D.C. Code Ann. section 7-134.2(e) (1998 Supplement).

[2]Approximately 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.

[3]D.C. Code Ann. section 7-134.1 (1998 Supplement).

[4]D.C. Code Ann. section 7-134.2 (1998 Supplement).

[5]The 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).

[6]Unless 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.

[7]D.C. Code Ann. section 7-134.4 (1998 Supplement).

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 due 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 (estimated at $6 million per year), excess overhead costs (construction engineering (CE) cost overruns that exceed 15 percent) associated with federal aid projects, and other non-FHWA participating 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.

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 when it is determined that funds in the Highway Trust Fund are sufficient to maintain operations.

We are required by section 4(e) of the act[11] to audit the Fund and submit a report to the Congress by December 31 of each year, beginning with the

[8]As required by section 3(c) of the act, D.C. Code Ann. section 7-134.2(c) (1998 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 at the end of fiscal year 1998.

[9]These 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.

[10]D.C. Code Ann. section 7-134.3(b) (1998 Supplement).

[11]D.C. Code Ann. section 7-134.3(e) (1998 Supplement).

period ended September 30, 1996. The audit is on the Fund's financial condition and results of operations for fiscal years ending September 30 and the District's forecasted statements of the Fund's expected condition and operations for the next 5 years. We were able to issue our initial report in December 1997.[12] In that report, we noted that 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, prior to the fiscal year beginning October 1), 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.

In our audit of the Fund for fiscal year 1997, we found the following:

- The financial statements were reliable in all material respects.
- Management's assertion about the effectiveness of internal controls was not fairly stated. Management asserted that internal controls in place at September 30, 1997, were effective in (1) safeguarding assets from material loss, (2) assuring that there were no material misstatements in amounts reported in the financial statements, and (3) assuring material compliance with laws and regulations. Management's assertion on the effectiveness of internal controls was not fairly stated because of material weaknesses identified in accounting for revenue and capital appropriated expenditures and in computer system general controls.
- There was a reportable noncompliance with one of the laws we tested.
- The underlying assumptions made and methodology used to develop the Fund's 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.

Unqualified Opinion on Financial Statements

The financial statements and accompanying notes present fairly in all material respects, in conformity with generally accepted accounting principles, the Fund's balance sheet and statement of revenues, expenditures and change in fund balance for the fiscal year ended September 30, 1997. However, misstatements may nevertheless occur in

[12]Financial Audit: District of Columbia Highway Trust Fund's 1996 Financial Statements (GAO/AIMD-98-30, December 15, 1997).

other financial information reported by the Fund as a result of the internal control weaknesses described in the following section.

Adverse Opinion on Management's Assertion About the Effectiveness of Internal Controls

We evaluated management's assertion about the effectiveness of its internal controls designed to meet the following control objectives:

- safeguard assets against loss from unauthorized acquisition, use, or disposition;
- assure the execution of transactions in accordance with the laws and regulations that have a direct and material effect on the Fund's financial statements; and
- properly record, process, and summarize transactions to permit the preparation of reliable financial statements and to maintain accountability for assets.

Because of the material weaknesses in internal controls described below, internal controls do not provide reasonable assurance that for amounts material in relation to the financial statements, losses, noncompliance, and misstatements would be prevented or detected on a timely basis. In our opinion, because of the effect that the material weaknesses described in this section had on achieving control objectives, management's assertion that the Fund's internal controls provided reasonable assurance that losses, noncompliance, and misstatements material to the financial statements would be prevented or detected on a timely basis is not fairly stated, based on the control criteria used. Management made this assertion based upon criteria established under the Federal Managers' Financial Integrity Act of 1982 and Office of Management and Budget Circular A-123, Internal Control Systems.

A material weakness is a condition in which the design or operation of one or more of the internal control elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the financial statements may occur and not be detected promptly by employees in the normal course of performing their duties. Our internal control work would not necessarily disclose all material weaknesses.

The following material weaknesses identified in revenue, capital appropriated expenditures, and computer system general controls, some

of which were initially identified in our prior year audit,[13] may adversely affect the quality of data on which management decisions are based. Unaudited information of the Fund, as reported by the District, may also contain misstatements resulting from these deficiencies.

Revenue

Weaknesses in revenue procedures resulted in (1) a continuing problem with motor fuel taxes not being deposited promptly, (2) the District still not being able to determine or verify that all revenues have been collected, and (3) incomplete and erroneous motor vehicle fuel tax returns being accepted and processed. These weaknesses cost the Fund interest income and increased the risk that cash receipts and revenue were exposed to loss from misappropriation, errors, and irregularities and that cash was manipulated.

The delays in processing and depositing revenue resulted in approximately $74,500 in potential lost interest income (calculated using an annual average interest rate of 5 percent for the short-term Treasury bills in which the District invests any excess cash) for fiscal year 1997. Our analysis of 82 statistically selected cash receipt transactions, out of the 706 monthly tax returns submitted during fiscal year 1997, showed that the District took an average of 14 days—ranging from 1 day to 49 days—to receive fuel tax payments with monthly tax returns and log, endorse, and deposit them into the bank. Sound cash management practices require cash receipts to be deposited daily.

In our prior year audit, we recommended that the District revise its procedures to require daily logging, endorsing, and depositing of fuel tax receipts received by the District or establish a lockbox system[14] for processing and depositing such receipts to improve cash management and enhance the control environment. On November 24, 1997, the District's Chief Financial Officer (CFO) stated that the Office of Tax and Revenue (OTR) revised its procedures on October 24, 1997, to require timely processing of motor fuel tax receipts. We noted that although OTR did revise its procedures, those changes did not go into effect until fiscal year

[13]Because the 1996 audit report was not issued until December 1997, corrective actions to address the recommendations could not be implemented to improve the Fund's internal controls for this audit (as of September 30, 1997). Revised control procedures implemented by the District during fiscal year 1998 are briefly described in this report. We will evaluate these procedures as part of our audit of the fiscal year 1998 financial statements.

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

1998. We will assess the effectiveness of the new procedures during our fiscal year 1998 audit.

In addition to the revenue processing and deposit 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 8 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 year audit, 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 July 1998, OTR officials told us that the audit program had not yet been prepared and that the comprehensive audits are still in the planning stages. In addition, the commercial database had not been purchased.

In addition to not having procedures to verify or monitor the amount of fuel used by reporting entities, the District does 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.[15] Wholesalers are required to file a Motor Vehicle Fuel Tax Return for every month for which the motor vehicle fuel license is valid[16] 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.[17] Our review of reporting by the 60 licensed wholesalers showed that 8 did not submit returns for each month of the audit period. For example, six wholesalers never filed a return during fiscal year 1997, and OTR could not explain why

[15]The 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.

[16]D.C. Code Ann. section 47-2304.

[17]D.C. Code Ann. section 47-2306.

this occurred. We also noted that nine wholesalers filed returns but were not licensed to conduct business in the District (2 of these wholesalers subsequently obtained a license). The District lacked controls to alert them of the licensed wholesalers who did not submit returns or unlicensed wholesalers who submitted returns.

Furthermore, the accuracy of the information reported 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 82 monthly tax returns we reviewed lacked the required supporting documentation to substantiate the tax amount. One of the 4 had incorrect math calculations causing a $17,875 overstatement in the amount of tax due. We found that the District lacked adequate control procedures to review monthly tax returns for accuracy or reject incomplete returns. Without the supporting schedules, there is insufficient documentation to audit or review monthly tax returns submitted or to ensure compliance with OTR policies and procedures.

Capital Appropriated Expenditures

The District continues to lack basic internal control procedures to ensure the proper segregation of duties and maintain adequate documentation to support all journal entries.[18] In our prior year audit, we recommended that the District revise procedures to (1) ensure the segregation of duties in the preparation, processing, and approval of journal entries and disbursements, (2) perform supervisory reviews of journal entries related to capital projects, and (3) maintain detailed support for all adjustments to capital appropriated expenditures. The District responded that it would require journal vouchers and other adjusting entries to be approved by the agency CFO, controller, or designated department official.

While some improvements were made, we still found that 11 of the 40 expenditure journal entry transactions that we tested were prepared, approved, and validated by the same person without independent reviews or approvals. The lack of supervisory review increases the possibility of unauthorized or ineligible costs and errors not being detected and corrected prior to being recorded and paid. In addition, the District could not locate support for two of the journal entry transactions tested totaling $7,727.

[18]Journal entries record accounting transactions and other financial activity.

The failure to segregate duties and the lack of documentation related to journal entries increased the risk of misappropriation, errors, and irregularities related to capital appropriated expenditures.

Computer System General Controls

DPW relies on computerized information systems to process and account for the Fund's financial activities. General 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. Our audit revealed that minimal improvements have been made in this area and that general controls over the systems remain ineffective.

DPW's Office of Information Systems (OIS) operates a local area network (LAN) with 70 servers[19] 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 System (FABS), (3) Labor Acquisition and Distribution System (LADS), and (4) Vehicle Usage System. For the most part, these applications obtain 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 year audit, we recommended that the District

- strengthen physical security over the facilities, system, 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 access to security functions, maintaining security access files, and applying LAN modification updates uniformly;

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

- 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 Year 2000 vulnerabilities[20] and develop an evaluation and conversion plan for DPW as it relates to the Fund.

District officials stated that these recommendations would be addressed with the implementation of the new financial management system in fiscal year 1999. However, the OIS computer environment still lacked basic system controls to prevent or detect unauthorized access and intentional or inadvertent unauthorized modifications to the data and related computer programs. We found that the following significant weaknesses still exist in the controls over (1) physical and logical security, (2) segregation of duties, and (3) service continuity.

- Security over DPW's four servers at the two data centers and its data was not adequate to protect against unauthorized access. Physical access to one of the two data centers was not controlled. For example, doors were not locked and backup files were not protected. In addition, logical access to computer systems and the four financial applications that relate to the Fund was not monitored. For example, current security risks were not analyzed, access to security functions was not restricted, security access files were not maintained, and LAN modifications were not adequately controlled, resulting in updates that were not uniform across the four servers. Further, written security policies and procedures had not been formalized and distributed. Without assurance that security procedures are adequate, the integrity and reliability of financial data face a greater risk of being compromised.
- DPW did not adequately segregate duties. Seven employees who had supervisory access also had individual control access over the entire computer environment (including data files, production software programs, systems software, and utilities). Generally, no one person should have complete access to the entire computer environment without supervisory review by another person. In addition, another employee performed all phases of application modifications. The failure to segregate duties provides the opportunity for controls to be circumvented, which

[20]The Year 2000 problem is rooted in the way dates are recorded and computed. For the past several decades, systems have typically employed a two digit field to represent the year, such as "98" for 1998, to save electronic storage space and reduce operating costs. Using this date convention, however, the year 2000 can be misinterpreted as 1900, which could cause a system to malfunction or produce inaccurate information.

can result in unauthorized access and changes to systems and software applications.

- Service continuity was at risk because there was no current written and tested disaster recovery plan. Contingency disaster plans are needed to ensure that financial and other management information can be maintained if data processing operations are unexpectedly interrupted due to a disruption of electrical power or other events that might cause operations to halt. An interruption of computer services can significantly reduce the District's ability to meet users' needs for products and services and maintain control over District operations.

In addition, a Year 2000 program evaluation had not been completed and a conversion plan had not been established for DPW. District systems are time dependent with databases and programs created to store and process the year as a 2-digit field (for example, 1997 as "97"). Without promptly assessing concerns and strategies for addressing this issue, the advent of the year 2000 will pose significant problems for the Fund.

Compliance With Laws and Regulations

Except as noted below, our tests for compliance with provisions of selected laws and regulations disclosed no instances of noncompliance that would be reportable under generally accepted government auditing standards. However, the objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

D.C. Code Ann. section 47-2303 requires that wholesalers/businesses obtain an importer's license 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 of a minimum of $5,000 up to a maximum of $100,000.[21] During our audit we discovered that the District had been assessing and collecting $20 for the annual licensing fee and thus had been overcharging wholesalers/businesses $15 a year for the past 3 years. OTR officials agreed and stated that wholesalers would be reimbursed.

[21]The amount of the bond is determined by taking the sum of three times the average monthly motor fuel tax due from the importer during the preceding 12 months or an estimate of the succeeding 12 months.

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, 1998, the District prepared the 1999 transportation program's Capital Improvements Plan for fiscal years 1998 through 2004 (a 7-year forecast) and submitted it to the Congress for review and approval.

In our opinion, the accompanying statements 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, as revised on July 24, 1998. 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;
- establishing, maintaining, and assessing the Fund's internal controls to provide reasonable assurance that the internal control objectives are met;
- 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 obtaining reasonable assurance about whether (1) the financial statements are reliable (free of material misstatement and presented fairly in all material respects, in conformity with generally accepted accounting principles), and (2) management's assertion about the effectiveness of internal controls is fairly stated, in all material respects, for safeguarding assets against unauthorized acquisition, use, or disposition; compliance with laws and regulations; and financial reporting controls. We are also responsible for testing compliance with selected provisions of laws and regulations and for performing limited procedures with respect to certain other information appearing in 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 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 the internal control structure related to safeguarding assets and compliance with laws and regulations;
- assessed the design of controls and whether they had been placed in operation;
- tested relevant internal controls over safeguarding, compliance, and financial reporting and evaluated management's assertion about the effectiveness of internal controls;
- 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 limited our internal control testing to those controls necessary to achieve the objectives outlined in our opinion on management's assertion about the effectiveness of internal controls.

We conducted our work in accordance with generally accepted government auditing standards. We requested comments on a draft of this letter from the Mayor of the District of Columbia or his designee. The District's interim Chief Financial Officer 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 report on the audit of the 1996 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 Director of the Office of Tax and Revenue

- establish control procedures to investigate instances in which unlicensed wholesalers submit tax returns or licensed wholesalers do not submit monthly returns;
- 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; and
- enforce implementation of the D.C. Code Ann. section 47-2303 requirement of a $5 annual license fee for a motor vehicle fuel license and implement procedures to repay licensed wholesalers who overpaid during the past 3 years.

District Comments and Our Evaluation

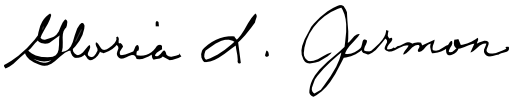
The District's CFO generally agreed with our findings regarding material weaknesses in internal controls for revenue and computer system general controls and the related recommendations. The CFO cited a number of actions that the District had taken or plans to take to improve its operating control environment and automated systems. However, the CFO's comments did not discuss the current status of continuing findings related to the Fund's accounting operations or the adequacy of its controls over revenues and capital appropriated expenditures as initially discussed in our audit report on the Fund's 1996 financial statements.

In response to our recommendations related to revenue, the CFO stated that the Office of Tax and Revenue would implement the following new procedures: (1) investigate licensed wholesalers who do not file monthly returns and unlicensed wholesalers who file monthly returns, (2) review the completeness of and use an automated spreadsheet to perform the math audit program on each monthly return, and (3) notify wholesalers of the $5 annual license fee and repay wholesalers that overpaid.

In response to our recommendations concerning computer system general controls, the CFO stated that the Office of Information Systems (subsequently identified in its response as the Office of Information and Telecommunications System) has begun implementing new procedures. The CFO cited improvements that were made to the physical access of both data centers and the segregation of incompatible duties. The CFO also

acknowledged that there is no full disaster recovery plan in place. Without a complete disaster recovery plan, the District's ability to meet users' needs for products and services could be severely hampered.

We will evaluate the effectiveness of the actions taken by the District as part of our audit of the Fund's fiscal year 1998 financial statements.



Gloria L. Jarmon
Director, Health, Education, and Human Services
Accounting and Financial Management Issues

July 31, 1998

Financial Statements

Balance Sheet

DISTRICT OF COLUMBIA HIGHWAY TRUST FUND
BALANCE SHEET
SEPTEMBER 30,1997

ASSETS	**1997**
Current Assets:	
Cash and Investments	$31,129,363
Receivables-Motor fuel tax revenues	5,770,931
Due from General Fund	434,757
Total Assets	$37,335,051
LIABILITIES AND FUND BALANCE	
Current Liabilities:	
Payables:	
Refunds	$117,724
Capital operating account	2,363,358
Federal highway administration	3,995,348
Total Current Liabilities	6,476,430
Fund Balance:	
Restricted	30,858,621
Total Liabilities and Fund Balance	$37,335,051

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
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
FOR THE YEAR ENDED SEPTEMBER 30, 1997

Revenues	**1997**
Motor Fuel Tax	$31,776,880
Interest Income	1,458,901
Total Revenues	$33,235,781
Expenditures	
Capital Appropriated Expenditures:	
Design, Site, Construction, and Equipment Costs	$15,139,863
Project Management Costs	2,018,014
Non-Participating Costs	4,111,855
Total Expenditures	$21,269,732
Excess of Revenues over Expenses	11,966,049
Fund Balance at October 1 (Restated)	18,892,572
Fund Balance at September 30	$30,858,621

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, 1997

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 its 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.

DISTRICT OF COLUMBIA HIGHWAY TRUST FUND
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 1997

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 Signet Bank (subsequently merged into First Union). Each day, the funds are invested overnight and redeposited, with accrued interest, the following day. The law (D.C. Code 47-342) authorizes the District to invest directly or through repurchase agreements, in obligations of the United States or its agencies which are backed by the full faith and credit of the federal government. 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 taxed that are legally restricted for certain highway projects.

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.

DISTRICT OF COLUMBIA HIGHWAY TRUST FUND
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 1997

CASH AND INVESTMENTS

At year-end, the carrying amount and bank balance of the deposit was $31,129,363; $25,723,478 for the Highway Trust Fund, and $5,405,885 for the revolving fund account. 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.

ACCOUNTS RECEIVABLES

Motor fuel taxes for August ($2,761,707), September ($2,599,651), and miscellaneous amounts for June/July ($30,694) 1997, which were not collected until October and November 1997, are receivables to the Highway Trust Fund at September 30, 1997. The receivable amount also includes the uncollected interest and penalty ($378,879) on the July 1996 taxes due August 1996 from one wholesaler, that was subsequently deposted in February 1997.

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 $2,363,358 of current year expenditures paid from the operating fund which is reimbursable from the Highway Trust Fund. $5 Million, which had been advanced from the capital operating fund in 1996 to establish the revolving bank account, was returned to the capital operating fund on January 31, 1997. Subsequent discussions resulted in management decision to re-advance the $5 million from the Capital Operating Fund to the Highway Trust Fund; however, this transfer did not occur until October 3, 1997 and accordingly, is not reflected in the liability or cash and investment numbers for September 30, 1997. Repayment of the $5 million is not expected prior to fiscal year 2004.

Federal Highway Administration – represents the final temporarily waved District share of federal-aid highway project costs (one half of the temporarily waived amount from fiscal year 1996) that are to be repaid by September 30, 1998.

REVENUES

The Highway Trust Fund revenue consist of use taxes earned on motor fuel sold, at the wholesale level, in the District from October 1, 1996, to September 30, 1997 (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.

3

DISTRICT OF COLUMBIA HIGHWAY TRUST FUND
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 1997

EXPENDITURES

The total represents capital appropriated expenditures for the period from October 1, 1996 to September 30, 1997. 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 1997.

PRIOR PERIOD ADJUSTMENT

Prior to the issuance of the unaudited financial statements for the 14-month period ended September 30, 1996, the construction engineering (CE) cost overruns, in excess of 15 percent of each specific federal-aid project, were not eligible for federal reimbursement. Therefore, the CE costs were reallocated to capital appropriated expenditures of the Highway Trust Fund. Subsequently, the District determined that $2.6 million of CE costs overruns were reimbursable by FHWA and not an expense of the Highway Trust Fund. During fiscal year 1997, the District submitted $1.7 million for reimbursement from FHWA, which was approved and paid. By the end of fiscal year 1997, the District expects to recover the remaining $900,000 from FHWA.

As a result, the 1996 financial statements have been restated. The $2.6 million restatement reduced the 1996 capital appropriated expenditures and the related capital operating account payable, resulting in an increase in the September 30, 1996 fund balance.

FORECASTED STATEMENTS

The seven-year forecast, published in the fiscal year 1999 Capital Budget and fiscal year 1999 – 2004 Capital Improvement Plan, presents, to the best of management's knowledge and belief, the Highway Trust Fund's expected cash flows from fiscal year 1998 to 2004. Accordingly, the forecast reflects management's judgment as of June 1, 1998, the date of the forecast, of the expected conditions, operations, and its expected course of action. The revenue forecasts were revised on July 24, 1998. 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 do not occur as expected, and those differences may be material.

DISTRICT OF COLUMBIA HIGHWAY TRUST FUND
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 1997

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

- The local share columns represent the local revenue sources and the District's share of federal-aid highway project expenditures that are not 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 1997 amounts are based on actual amounts included in the District's fiscal year 1997 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, less the revolving fund amount ($5 million, which is disclosed separately) and the fiscal year 1997 payments of the audited outstanding liabilities as of September 30, 1996. 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 5 percent annual interest rate on the rolling monthly average cash balance.

- Motor fuel tax is estimated at a .6 percent annual decline in gas consumption based on actual tax collections for fiscal year 1997 consumption.

- Repayment of waived local match represents the final amount due from the District to repay the local share amounts that were temporarily waived for fiscal years 1995 and 1996. The 1998 forecasted amount is the final 50 percent repayment of the actual amount waived for fiscal year 1996 ($7.99 million). The first half was repaid in fiscal year 1997.

- 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 highway-aid 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 costs in excess of the 15 percent of construction engineering costs, utility and sewage repair, and construction enhancement not covered by FHWA. No cost estimates were conducted for construction and repairs made to local District streets.

- 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.

5

Forecasted Financial Statements From Fiscal Years 1998 Through 2004

HIGHWAY TRUST FUND Cash Flow Proforma (dollars in 000s)	Local Share FY 1997	Federal Aid FY 1997	Total FY 1997	Local Share FY 1998	Federal Aid FY 1998	Total FY 1998
Sources						
Beginning Fund Balance	19,107,867	471,802,809	490,910,676	29,386,276	488,412,359	517,798,635
Interest Earnings	1,458,901	0	1,458,901	2,133,388	0	2,133,388
Motor Fuel Tax	32,570,111	0	32,570,111	31,012,386	0	31,012,386
Federal Aid Obligation	0	90,000,000	90,000,000	0	90,000,000	90,000,000
Subtotal	**$53,136,879**	**$561,802,809**	**$614,939,688**	**$62,532,050**	**$578,412,359**	**$640,944,409**
Uses						
Repayment of Waived Local Match	1,087,056	0	1,087,056	0	0	0
Repayment of Waived Local Match	3,995,348	0	3,995,348	3,995,348	0	3,995,348
Estimated Project Management	2,018,014	8,072,059	10,090,073	4,707,678	24,448,886	29,156,564
Estimated Non-Participating	4,111,855	0	4,111,855	3,114,852	0	3,114,852
Estimated Design/Construction	12,538,330	65,318,391	77,856,721	32,017,820	162,796,741	194,814,561
Subtotal	**$23,750,603**	**$73,390,450**	**$97,141,053**	**$43,835,698**	**$187,245,627**	**$231,081,325**
Total - Highway Trust Fund Balance	**$29,386,276**	**$488,412,359**	**$517,798,635**	**$18,696,352**	**$391,166,732**	**$409,863,084**
REVOLVING HIGHWAY TRUST FUND BALANCE	**$5,000,000**		**$5,000,000**	**$5,000,000**		**$5,000,000**

HIGHWAY TRUST FUND Cash Flow Proforma (dollars in 000s)	Local Share FY 1999	Federal Aid FY 1999	Total FY 1999	Local Share FY 2000	Federal Aid FY 2000	Total FY 2000
Sources						
Beginning Fund Balance	18,696,352	391,166,732	409,863,084	7,805,743	306,882,737	314,688,480
Interest Earnings	1,102,645	0	1,102,645	561,866	0	561,866
Motor Fuel Tax	30,825,354	0	30,825,354	30,638,372	0	30,638,372
Federal Aid Obligation	0	90,000,000	90,000,000	0	90,000,000	90,000,000
Subtotal	**$50,624,351**	**$481,166,732**	**$531,791,083**	**$39,005,981**	**$396,882,737**	**$435,888,718**
Uses						
Repayment of Waived Local Match	0	0	0	0	0	0
Estimated Project Management	6,824,854	20,531,840	27,356,694	5,250,346	19,722,527	24,972,873
Estimated Non-Participating	3,674,344	0	3,674,344	2,565,645	0	2,565,645
Estimated Design/Construction	32,319,410	153,752,155	186,071,565	23,774,986	124,303,627	148,078,613
Subtotal	**$42,818,608**	**$174,283,995**	**$217,102,603**	**$31,590,977**	**$144,026,154**	**$175,617,131**
Total - Highway Trust Fund Balance	**$7,805,743**	**$306,882,737**	**$314,688,480**	**$7,415,004**	**$252,856,583**	**$260,271,587**
REVOLVING HIGHWAY TRUST FUND BALANCE	**$5,000,000**		**$5,000,000**	**$5,000,000**		**$5,000,000**

HIGHWAY TRUST FUND
Cash Flow Proforma (dollars in 000s)

	Local Share FY 2001	Federal Aid FY 2001	Total FY 2001	Local Share FY 2002	Federal Aid FY 2002	Total FY 2002
Sources						
Beginning Fund Balance	7,415,004	252,856,583	260,271,587	4,327,974	176,847,688	181,175,662
Interest Earnings	467,512	0	467,512	363,337	0	363,337
Motor Fuel Tax	30,454,542	0	30,454,542	30,271,815	0	30,271,815
Federal Aid Obligation	0	90,000,000	90,000,000	0	90,000,000	90,000,000
Subtotal	**$38,337,058**	**$342,856,583**	**$381,193,641**	**$34,963,126**	**$266,847,688**	**$301,810,814**
Uses						
Estimated Project Management	5,427,148	24,349,908	29,777,056	4,792,508	16,972,054	21,764,562
Estimated Non-Participating	2,624,725	0	2,624,725	2,263,575	0	2,263,575
Estimated Design/Construction	25,957,211	141,658,987	167,616,198	21,676,176	117,015,027	138,691,203
Subtotal	**$34,009,084**	**$166,008,895**	**$200,017,979**	**$28,732,259**	**$133,987,081**	**$162,719,340**
Total - Highway Trust Fund Balance	**$4,327,974**	**$176,847,688**	**$181,175,662**	**$6,230,867**	**$132,860,607**	**$139,091,474**
REVOLVING HIGHWAY TRUST FUND BALANCE	**$5,000,000**		**$5,000,000**	**$5,000,000**		**$5,000,000**

HIGHWAY TRUST FUND Cash Flow Proforma (dollars in 000s)	Local Share FY 2003	Federal Aid FY 2003	Total FY 2003	Local Share FY 2004	Federal Aid FY 2004	Total FY 2004
Sources						
Beginning Fund Balance	6,230,867	132,860,607	139,091,474	20,477,184	136,801,453	157,278,637
Interest Earnings	803,632	0	803,632	1,867,592	0	1,867,592
Motor Fuel Tax	30,090,184	0	30,090,184	29,909,643	0	29,909,643
Federal Aid Obligation	0	90,000,000	90,000,000	0	90,000,000	90,000,000
Subtotal	**$37,124,683**	**$222,860,607**	**$259,985,290**	**$52,254,419**	**$226,801,453**	**$279,055,872**
Uses						
Estimated Project Management	2,786,844	11,131,574	13,918,418	2,786,844	11,131,574	13,918,418
Estimated Non-Participating	1,341,884	0	1,341,884	1,341,884	0	1,341,884
Estimated Design/Construction	12,518,771	74,927,580	87,446,351	12,518,771	74,927,580	87,446,351
Subtotal	**$16,647,499**	**$86,059,154**	**$102,706,653**	**$16,647,499**	**$86,059,154**	**$102,706,653**
Total - Highway Trust Fund Balance	**$20,477,184**	**$136,801,453**	**$157,278,637**	**$35,606,920**	**$140,742,299**	**$176,349,219**
REVOLVING HIGHWAY TRUST 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
EXECUTIVE OFFICE

Chief Financial Officer

441 4th ST., N.W.
11th Floor
Washington, D.C. 20001

September 2, 1998

Mr. Gene L. Dodaro
Assistant Comptroller General
Accounting and Information Management Division
General Accounting Office
441 G Street, N.W.
Washington, D.C. 20546

Dear Mr. Dodaro:

I am in receipt of the draft financial audit of the District of Columbia's Highway Trust Fund (Fund) 1997 Financial Statements. Listed below are comments related to the material weaknesses described in that report.

Computer System General Controls

As part of the department-wide plan, over the last twelve (12) months, the Office of Information and Telecommunications System (OITS) has procured seven (7) new COMPAQ servers to replace and consolidate the seventy (70) existing servers.

There are currently two (2) data centers. One is in the Reeves Center at 2000 14th St., NW, and it has almost 75% of the department's servers and contains all the applications related to the Fund, such as Overhead Distribution System (ODS), Federal Aid Billing System (FABS), Labor Acquisition and Distribution System (LADS) and Vehicle Usage System (VUS). The other center is at 301 C St., NW, which is servicing mostly Department of Motor Vehicle activities. In relation to the 1996 GAO recommendations:

1. Beginning in May 1997, the physical access to the Reeves data center is controlled by an electronic security system including electronic key access and video camera monitoring. The other center lock was changed and only OITS employees are allowed to have keys to the Information Technology areas even though by October 1, 1998, they will become a separate department and will have no access to Fund servers.

2. The supervisor password for accessing these applications is changed and is known by only three (3) persons. Therefore, file access is restricted and access is permitted to only authorized personnel who need access to security functions. An on-going plan including new procedures is being implemented to improve the access control further before the end of fiscal year 1998.

Letter to Mr. Gene L. Dodaro
September 2, 1998
Page Two

3. Incompatible duties on the network administration within OITS were segregated. The system administrator for Motor Vehicle Information System (MVIS) is given rights only to the MVIS servers with which he needs to work. The new procedures, once implemented, will further improve the access rights and monitoring activities.

4. There is no full disaster recovery plan in place at this time. A temporary plan to have all the related files backed up on tapes is in place. At this point, tapes can be taken off site to ensure a full disaster recovery if one does indeed take effect. The foreseeable problem with the existing plan is that new equipment would have to be procured immediately to take the place of the servers that could be lost in a disaster. A new disaster plan for the remaining components of the Department of Public Works is being formatted and is tentatively scheduled to be implemented in March of 1999.

5. From the hardware side, all servers are in the process of being upgraded to be year 2000 compliant. The main MVIS servers have already been upgraded with year 2000 compliant hardware. Seven Compaq Proliants were purchased to finish the move of all non year 2000 compliant hardware in the Reeves Center to year 2000 compliance. All users of the applications referenced above will be equipped with year 2000 compliant workstations by the end of 1998. Network router upgrades are also being purchased to ensure compliance. OITS is working with both the FMS management and the District of Columbia Office of Chief Technology to address the application software.

Revenue

The General Accounting Office (GAO) recommended that the Office of Tax and Revenue (OTR) establish control procedures to investigate instances in which unlicensed wholesalers submit tax returns or licensed wholesalers do not submit monthly returns.

The GAO found that 8 of 60 licensed wholesalers did not file the required tax return for each month of the audit period, and 9 wholesalers submitted tax returns but were not licensed to conduct business in the District. The OTR concurs with the GAO's findings and agrees with the GAO's recommendations. The OTR has established control procedures to mitigate the occurrence of these errors. Specifically, each month, the Audit Assistant will review the license log records in conjunction with the review of monthly returns filed by wholesalers. If there is a wholesaler without a license filing a monthly return, the Audit Assistant will provide the Investigator the name and address of the wholesaler. The Investigator will then contact the wholesaler regarding the requirement for motor vehicle fuel importer's licensing. In addition, if a licensed wholesaler is not filing a monthly return, the Audit Assistant will use a standard form letter to contact the wholesaler and request that the monthly return be filed within ten (10) days.

The GAO recommended that the OTR 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.

Mr. Gene L. Dodaro
September 2, 1998
Page Three

The GAO found that the tax amounts on 4 of 82 tax returns were not substantiated with the required supporting documentation. In addition, one of the four returns had incorrect math calculations. The OTR concurs with the GAO's findings and agrees with its recommendation, and has therefore implemented new procedures. The Audit Assistant will review the monthly return regarding the completeness of all schedules. If a schedule is missing, the Audit Assistant will send a standard form letter to the wholesaler requesting that the missing schedule be filed within twenty days. In addition, to ensure mathematical accuracy of the returns, the Audit Assistant will now enter the tax return amounts in a recently-developed Excel spreadsheet to perform the math audit program on each monthly return.

The GAO recommended that the OTR enforce implementation of the D.C. Code 47-2303 $5 annual license fee for a motor vehicle license and implement procedures to repay licensed wholesalers who overpaid the fee during the past 3 years.

The GAO found that the OTR had been assessing and collecting $20 for the annual licensing fee for the past 3 years. The OTR concurs with the GAO's finding and effective immediately, each wholesaler receiving a new application for motor vehicle importer license will be notified of the $5 annual license fee. In addition, the OTR is in the process of implementing the procedures necessary to repay those wholesalers that overpaid.

Sincerely,

Earl C. Cabbell

Earl C. Cabbell
Interim Chief Financial Officer

ECC:AFP/jmo

Status of 1996 Audit Recommendations

The results of our efforts to audit the Fund's 1996 Financial Statements were presented in our report entitled Financial Audit: District of Columbia Highway Trust Fund's 1996 Financial Statements (GAO/AIMD-98-30, December 15, 1997). Our recommendations to correct the internal control weaknesses identified in that 1996 report are listed below. We determined the status of the recommendations based on our fiscal year 1997 audit work and discussions with District officials. We plan to update our assessment of the District's responses as part of our fiscal year 1998 audit.

Recommendation	Action complete	Action in progress	Action in planning or planning complete	No specific action planned
To the Director of the Department of Public Works:				
Enforce procedures that call for maintaining documentation for all voucher and intra-District payments made on federal aid and local highway projects.	X			
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.		X		

(continued)

Recommendation	Action complete	Action in progress	Action in planning or planning complete	No specific action planned
Establish procedures to (1) obtain detailed documentation for construction engineering cost overruns, (2) bill FHWA for those overruns up to 15 percent of aggregate annual construction costs, and (3) charge the remaining overruns to the District of Columbia Highway Trust Fund's capital appropriated expenditures.	X			
Obtain the detailed documentation to determine the validity of the $3.4 million year-end closing adjustment. If any portion of the $2.6 million of construction engineering cost overruns is valid, seek reimbursement from FHWA for amounts that do not exceed 15 percent of annual aggregate construction costs and reduce these amounts from those originally charged to the capital appropriated expenditures. If any portion of the $3.4 million is not valid, reduce the amounts charged to the capital appropriated expenditures.	X			
Ensure the segregation of duties in the preparation, approval and validation of journal entries and disbursements.			X	

(continued)

Recommendation	Action complete	Action in progress	Action in planning or planning complete	No specific action planned
Perform supervisory reviews of journal entries and disbursements related to capital projects.		X		
To the Director of the Office of Tax and Revenue:				
Enforce procedures to ensure the recognition of revenue in the month the tax is due if the revenue is measurable and available (that is, the amount of revenue can be determined and is collected within 60 days of the month-end due dates).	X			
Revise procedures to require daily logging, endorsing, and depositing of 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.			X	

(continued)

Recommendation	Action complete	Action in progress	Action in planning or planning complete	No specific action planned
Establish 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 who buy at the wholesale level and consume that fuel within the District. 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 are examples of such procedures.			X	
Segregate incompatible duties, if the District elects to administer collections in-house, by assigning separate individuals to deposit motor fuel tax receipts and perform recordkeeping functions.	X			
To the Director of the Office of Information Systems:				
Strengthen physical security over the facilities, system, and data by controlling all physical access to LAN centers and protecting all backup files.			X	

(continued)

Recommendation	Action complete	Action in progress	Action in planning or planning complete	No specific action planned
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.			X	
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.			X	
Ensure service continuity by completing disaster recovery plans and testing at both LAN Centers.			X	
Assess the Year 2000 vulnerabilities and develop an evaluation and conversion plan.			X	

Major Contributors to This Report

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