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Report to Congressional Committees and Subcommittees

December 1997

FINANCIAL AUDIT

District of Columbia Highway Trust Fund's 1996 Financial Statements

GAO/AIMD-98-30

GAO

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

Accounting and Information Management Division

B-278524

December 15, 1997

Congressional Committees and Subcommittees

This report presents the results of our efforts to audit the financial statements of the District of Columbia Highway Trust Fund (the Fund) for the 14-month period ended September 30, 1996, and to examine the 5-year forecasted statements of the Fund's expected conditions and operations. These financial statements and the 5-year forecasted statements are the responsibility of the District's Chief Financial Officer, the administrator of the Fund. This report also presents the results of our efforts to evaluate the Fund's internal controls as of September 30, 1996, and its compliance with laws and regulations during that 14-month period.

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 District of Columbia's Mayor, Chief Financial Officer, and Acting Inspector General, as well as the District of Columbia Auditor and the District of Columbia Financial Responsibility and Management Assistance Authority.

If you have any questions regarding this report, please contact me at (202) 512-4476.

Gloria L. Jarmon

Gloria L. Jarmon
Director, Civil Audits

List of Congressional Committees and Subcommittees

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Subcommittee on Surface Transportation
Committee on Transportation and Infrastructure
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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

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To the Mayor of the
District of Columbia

This report presents the results of our efforts to audit the financial statements of the District of Columbia's Highway Trust Fund (the Fund) for the initial 14-month period ended September 30, 1996, and to examine the 5-year forecasted statements of the Fund's expected conditions and operations, as required by section 3(e) of the District of Columbia Emergency Highway Relief Act.[1] This report also presents the results of our efforts to evaluate internal controls as of September 30, 1996, and compliance with laws and regulations during the 14-month period.

In 1995, the U.S. 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 for the District to 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 reported motor fuel tax revenues of $35 million from October 1, 1995, to September 30, 1996. Until May 1996, the taxes collected were not segregated from the General Fund, as required by the act. However, on May 24, 1996, the District established the Highway Trust

[1]Public Law 104-21, 109 Stat. 257 (1995), D.C. Code Ann. section 7-134.2(e) (1997 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 (1997 Supplement).

[4]D.C. Code Ann. section 7-134.2 (1997 Supplement).

[5]Motor fuel tax is an excise tax imposed at the wholesale level on motor fuel sales (including gasoline, diesel fuel, kerosene, heating oil, and all combustible gases and liquids suitable for the generation of power for motor vehicles) to retailers or directly to end users—such as construction, bus, and other companies—who consume that fuel within the District.

[6]Unless prohibited by law, 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.

Fund account and transferred to it $18.3 million—representing the amount equivalent to motor fuel taxes collected from October 1, 1995, through April 25, 1996—from the General Fund.[7] Subsequently, the remaining monthly motor fuel tax collections were deposited into the General Fund and equivalent amounts were transferred to the Highway Trust Fund account.

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 fiscal years 1995 and 1996, the District will have to repay temporarily waived amounts of approximately $2.2 million and $8 million, respectively.[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 (estimated at $6 million per year) of District personnel and excess overhead costs (construction engineering 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 the Highway Trust Fund required by section 3(a) of the act, section 4(b)[10] required the District to establish an independent revolving fund account, separate from its capital operating account, to make prompt

[7]The District enacted emergency legislation that was effective for only 90 days on December 8, 1995, to establish the Fund. The Fund's existence was continued through a series of emergency acts and a temporary law until a permanent provision of the law was adopted and became effective on April 9, 1997—D.C. Law 11-184, section 102, 43 DCR 4265, 44 DCR 2379, D.C. Code Ann. section 7-134.4 (1997 Supplement). The District has been required since the adoption of the first piece of emergency legislation to deposit into the Fund, on a monthly basis, an amount equivalent to all receipts from taxes, fees, and civil fines and penalties collected by the District after September 30, 1995, pursuant to the motor vehicle fuel tax law set forth in D.C. Code Ann. sections 47-2301 et seq.

[8]As required by section 3(c) of the act, D.C. Code Ann. section 7-134.2(c) (1997 Supplement), half of the balance of these amounts is to be repaid in each of the two fiscal years following those in which the amounts were temporarily waived. For example, 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 cleaning sewers, storm drain improvements, and retaining walls.

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

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. The transferred amount is part of the Fund's liability to the District's Capital Operating account as of September 30, 1996.

We are required by section 4(e) of the act[11] to (1) review and report on the District's establishment of the designated Highway Trust Fund and related independent Revolving Fund account and (2) audit the Fund and submit a report to the Congress by December 31 of each year, beginning with the 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 Fund's 5-year forecasted statements. We previously reported to the Congress in November 1996 and April 1997,[12] that the first audit of the Fund's financial condition and 5-year forecasted statements could not be completed by the due date because the District would not have critical financial data for us to audit until the completion of the fiscal year 1996 District's Comprehensive Annual Financial Report (CAFR), dated January 20, 1997. In addition, the remaining requested information (final compiled financial statements and responses to issues we had raised) and the 5-year forecasted statements were not received until July 1997. The District's Chief Financial Officer has already informed us that these critical financial data, which include year-end closing entries[13] and the subsequently prepared financial statements, will not be available for the 1997 fiscal year audit until February 1998 at the earliest. For this reason, we will continue to be unable to perform the annual audits in time to meet the future December 31 reporting deadlines required by the act.

In our attempt to audit the Fund for the 14-month period ended September 30, 1996, we found the following:

- We are unable to give an opinion on the financial statements of the Fund because the lack of adequate documentation limited the scope of our

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

[12]Highway Fund Audit (GAO/AIMD-97-14R, November 4, 1996) and Status of Information Needed to Complete Financial Audit of the District of Columbia's Dedicated Highway Fund for Fiscal Year 1996 (GAO/AIMD-97-73R, April 3, 1997).

[13]In order to perform the year-end closing process, first expenditures and then revenues must be considered because grant revenues are dependent on the expenditure levels. Only after receiving all pertinent vendor data (invoices and other documentation that can take as long as 6 weeks after the fiscal year-end to receive) can District staff complete the process of calculating earned revenues and the related federal receivables and posting all adjustments and accruals. District officials stated that these steps have taken from 2 to 3-1/2 months after receipt of vendor data.

work. Specifically, the District did not provide evidence for $3.7 million (36 percent of the $10.3 million) in capital appropriated expenditures and the related liability to the Capital Operating account.[14] Thus, the financial statements may be unreliable.

- Material weaknesses in internal controls resulted in ineffective controls over (1) safeguarding assets, specifically revenue cash receipts, and/or the related accounts receivable, from material loss and (2) assuring that there were no material misstatements in amounts reported in the financial statements, specifically capital appropriated expenditures, the liability to the Capital Operating account, and revenue. In addition, we identified a material weakness in computer system general controls over (1) physical and logical security, (2) segregation of duties, and (3) service continuity.
- We are unable to report on compliance with laws and regulations because the District's lack of adequate documentation, which is discussed later in this report, limited the scope of our work.
- Also because of the lack of adequate documentation, we are unable to give an opinion on whether the underlying assumptions and methodology used to develop the Fund's 5-year forecasted statements provide a reasonable basis for such statements or whether the statements are presented in conformity with guidelines established by the American Institute of Certified Public Accountants (AICPA).

The following sections provide additional detail concerning our conclusions and the scope of our efforts.

Disclaimer of Opinion on Financial Statements

We are unable to give an opinion on the financial statements of the Fund for the 14-month period ended September 30, 1996, because the District could not provide detailed supporting documentation for $3.7 million (36 percent of the $10.3 million) in capital appropriated expenditures and 24 percent of the related liability to the Capital Operating account. As a result, we are unable to determine if the financial statements' presentation of the capital appropriated expenditures and the related liability to the Capital Operating account is reliable. A more detailed discussion of the documentation problem is provided in the next section.

Statement on Internal Controls

We gained an understanding of internal controls designed to

[14]Once non-FHWA federal aid or local highway project costs are paid by the District, the amount to be reimbursed by the Fund is charged to capital appropriated expenditures and a liability to the District's Capital Operating account is established.

- safeguard assets against loss from unauthorized acquisition, use, or disposition;
- assure the execution of transactions in accordance with management's authority and with selected provisions of those 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.

The purpose of our work was to determine our procedures for auditing the financial statements, not to express an opinion on internal controls. However, internal controls were ineffective as a result of material weaknesses found over (1) safeguarding assets, specifically revenue cash receipts and the related accounts receivable, from material loss and (2) assuring that there were no material misstatements in amounts reported in the financial statements, specifically capital appropriated expenditures, the liability to the Capital Operating account, and revenue. In addition, we identified a material weakness in computer system general controls over (1) physical and logical security, (2) segregation of duties, and (3) service continuity.

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 deficiencies identified in internal controls may adversely affect the quality of data on which management decisions are based. Unaudited information reported by the Fund, including the 5-year forecasted statements, may also contain misstatements resulting from these deficiencies.

Capital Appropriated Expenditures

The District did not provide adequate documentation to support their $3.4 million year-end closing adjustment[15] and $266,000 for six

[15]At year-end, an adjustment was made to match FHWA revenues with federal aid capital appropriated expenditures. The net amount of federal aid capital appropriated expenditures that exceed FHWA reimbursable amounts is charged to the Fund's capital appropriated expenditure account. This is needed since federal capital appropriated expenditures are limited to amounts billable to FHWA, and excess amounts are to be reimbursed by the Fund.

intra-District voucher payments[16] charged to capital appropriated expenditures. Without detailed supporting documentation, the validity of $3.7 million (36 percent of the $10.3 million) in capital appropriated expenditures, as well as the related liability to the Capital Operating account, could not be determined. Even though procedures for maintaining documentation for all payments existed, DPW officials stated that the support for the six intra-District voucher payments could not be located.

The District does not have procedures for maintaining detail-level support for the year-end closing adjustment and officials stated that the process for going back to trace these costs back to the detailed transaction level is cumbersome. As a result of our attempt to audit the Fund, DPW acknowledged the need to establish procedures to ensure that more detailed transaction information is available to support future audits of the Fund.

In addition, the District did not seek FHWA reimbursement for construction engineering (CE) cost overruns[17] of $2.6 million included in the above mentioned year-end closing adjustment. CE cost overruns of up to 15 percent of the annual aggregate federal aid project construction costs are eligible for FHWA reimbursement. Any amounts above the 15 percent reimbursement ceiling would be charged to the Fund. However, the District only sought reimbursement for budgeted costs and did not seek FHWA reimbursement for the CE cost overruns of up to the above 15 percent. On July 8, 1997, FHWA notified the District that it could seek reimbursement of the $2.6 million of CE cost overruns pursuant to section 106 (c) of title 23, United States Code, and its implementing regulation in 23 C.F.R. 140.205. Since no CE cost overruns were submitted for FHWA reimbursement, the District charged the Fund CE costs that could be reimbursable by FHWA. Without adequate documentation as to the validity of the $2.6 million of the above adjustment, the amounts eligible for FHWA reimbursement or chargeable to the Fund cannot be determined. This occurred because District procedures did not address CE cost overruns, and District officials were unaware of the FHWA criteria for the reimbursement of CE cost overruns.

[16]An internal voucher is used to charge a particular District fund, for the services rendered, that were paid by another fund. For example, the General Fund is used to pay all District salaries and an intra-District voucher is used to charge the Fund for hours that District employees actually worked on federal-aid projects.

[17]CE cost overruns are individual project amounts in excess of budgeted amounts.

We also found that the District lacked basic internal control procedures to ensure the proper segregation of duties related to cash disbursements. One DPW person had overall responsibility for processing and approving costs associated with the Fund. We found that 114 of the 142 expenditure journal entry transactions that we tested were prepared, authorized, and recorded into the District's Financial Management System (FMS) 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 corrected for amounts recorded and paid.

As a result of the lack of documentation and failure to segregate duties related to cash disbursements, the risk of misappropriation, errors, and irregularities related to capital appropriated expenditures is increased.

Revenue

Weaknesses in revenue procedures resulted in motor fuel tax payments that were not recognized in the proper accounting period and deposited in a timely manner. We found that revenue was recorded when received, not when receipts were both measurable and available,[18] and deposits were made an average of 14 days after receipt, resulting in over $3.6 million of revenue that was recognized in the wrong accounting period and approximately $74,500 in potential lost interest income.

The following revenue recognition problems that we identified for the 14-month period were subsequently corrected by the District:

- Motor fuel tax revenue for September 1996 totaling $2.5 million was received in October 1996 and the District incorrectly recorded it in fiscal year 1997 instead of fiscal year 1996. Fuel tax receipts received by the due date, the 25th day of the following month, and deposited within another 14 days were incorrectly recorded as revenue on the deposit date instead of the tax due date. Since the tax receipts were both measurable and available as of September 30, 1996, the District should have recorded this amount as part of the Fund's fiscal year 1996 revenue. The failure to do so reduced assurance that revenue was reflected in the proper period and recognized under the modified accrual basis. The District adjusted its records and included the $2.5 million as part of the fiscal year 1996 revenue.

[18]The District uses the modified accrual basis of accounting for the Fund. Under this basis, the District recognizes revenues when they become both measurable and available—the District considers revenue receipts available if they are collected within 60 days from the tax due date. For example, an amount reported as due to the Fund as of September 30, 1996, should be treated as fiscal year 1996 revenue if the amount was actually collected by November 29, 1996.

- The District deposited and recorded $1.1 million of July 1996 motor fuel tax revenue from a wholesaler as a fiscal year 1997 transaction in February 1997. This wholesaler typically delivered checks to a mailing service for forwarding to the cognizant taxing authority. The wholesaler had confirmation of receipt dated August 26, 1996, by the mailing service, but there was no evidence that the District had received that check. The wholesaler stopped payment on the original check on January 17, 1997, and reissued a replacement check on January 31, 1997. To reflect the proper recognition of this missing check, the District adjusted its records and included the $1.1 million as a fiscal year 1996 revenue transaction.

The delays caused by untimely revenue processing and depositing resulted in the loss of interest income. These delays also increased the risk that cash and revenue were exposed to loss from misappropriation, error, and irregularities. We found that the District did not have procedures for depositing receipts. It took the District an average of 14 days from the time monthly fuel tax payments were received with tax returns until they were logged, endorsed, and deposited into the bank. One payment was not deposited for 5 months. Sound cash management practices require cash receipts to be deposited daily, which is consistent with U.S. Treasury requirements for all federal agencies. According to our analysis, revenue processing delays (1) resulted in approximately $74,500 in potential lost interest income (calculated using an average rate of 5 percent for short-term Treasury bills in which the District invests any excess cash) for the audit period and (2) could have contributed to the missing wholesaler check for July 1996 that was not received until February 1997.

As the District considers options to upgrade its internal receipt processing to establish adequate controls and prudent cash management practices, a lockbox system[19] is an alternative for reducing processing delays and untimely deposits. The District currently uses a lockbox for the prompt deposit of tax collections for the Sports Arena to reduce the risk of lost funds, increase interest income, and improve the timeliness of deposits. Under a lockbox system, customer payments to the post office box are accessible only to the bank, and cash flow is improved. District employees have no contact with cash remittances deposited directly into a lockbox, and the risk of mishandling or misappropriation is significantly reduced. Even though the banks charge a monthly fee for such services, those costs could be more than offset by the additional interest earned on investments promptly deposited.

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

In addition to these revenue recognition problems, the following issues significantly reduced the effectiveness of controls over revenue and cash receipts, and further increased the risk of cash manipulation:

- The District does not know whether all motor fuel taxes are collected since it relies on an honor (self-assessment) system. According to the District's Office of Tax and Revenue (OTR) officials, the last verification of motor fuel taxes occurred approximately 7 years ago and revealed that construction companies underreported the number of gallons consumed within the District. As a result of following the honor system (given the problems identified from the last verification, as well as the absence of procedures to verify fuel used and the related taxes), the District cannot determine whether wholesalers and construction, bus, and other companies have reflected the total actual quantity of fuel sold to retailers and consumed, respectively. Accordingly, the possibility exists that some wholesalers and/or construction, bus, or other companies do not pay either motor fuel taxes or all amounts due to the District.
- The District does not have procedures to ensure the segregation of duties related to recordkeeping and the physical handling of cash receipts. One OTR employee was the sole person responsible for processing tax returns and the related remittances. The person received and reviewed the tax returns, recorded all deposits on a spreadsheet (log), endorsed checks, and prepared standard deposit tickets and Revenue Cash Receipt forms. The person also hand delivered the checks to the District's cashier for deposit. There was no evidence of supervisory review of the cash receipt process, and no other staff person was assigned or trained to prevent further delays or processing errors when this person was absent or ill.

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 general controls over the systems were ineffective.

DPW's Office of Information Systems (OIS) operates a local area network (LAN) with 70 servers[20] 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, including the Fund. The applications that

[20]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.

involve the Fund include the (1) Overhead Distribution System, (2) Federal Aid Billing Systems (FABS), (3) Labor Acquisition and Distribution System (LADS), and (4) Vehicle Usage System. For the most part, these applications obtain data from 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.

The OIS computer environment lacked basic system controls to prevent or detect unauthorized access and intentional or inadvertent unauthorized modifications to the data and related computer programs. We identified the following significant weaknesses in the controls over (1) physical and logical security (access to facilities, systems, and data), (2) segregation of duties, and (3) service continuity:

- Security over the system and its data was not adequate to protect against unauthorized access to sensitive systems for personal gain or destructive purposes. Physical access to both data centers was not controlled. For example, the door remained unlocked at one data center, and backup files were not protected at the other data center. In addition, logical access to computer and application systems 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 practice segregation of duties. Seven employees with supervisory access had control 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 lack of segregation of duties provides the opportunity for controls to be circumvented, which can result in unauthorized access and changes to systems and software applications.

- Service continuity is at risk since 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[21] evaluation and conversion plan had not been established. 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, and processing codes, interfaces, and multiple processing environments may not operate.

Compliance With Laws and Regulations

We were unable to test the laws and regulations we considered necessary; accordingly, we are unable to report on the Fund's compliance with laws and regulations. The lack of adequate documentation limited the scope of our work for 36 percent of the capital appropriated expenditures. For example, as discussed earlier, the District could not provide detailed support for the year-end closing adjustment for $3.4 million in federal aid project costs that were charged to the Fund. Thus, we could not examine supporting documentation to determine whether the transactions recorded in the Fund's accounting records complied with laws and regulations deemed significant to the financial statements.

Disclaimer on 5-Year Forecasted Statements

The act requires the District to prepare 5-year forecasted statements of the Fund's expected conditions and operations. 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. In June 1997, the District prepared the Transportation Program's Capital Improvement Plan for fiscal years 1998 through 2003 (the 5-year forecasts) and submitted it to the Congress for review and approval.

[21]A Year 2000 program addresses the problem caused by the way dates are recorded and used in many computer systems. Many systems use two digits to represent the year. As a result of this ambiguity, system or application programs that use dates to perform calculations, comparisons, or sorting may generate incorrect results when working with the years after 1999. Systems that are Year 2000 compliant do not have this date problem.

We attempted to examine the Fund's 5-year forecasted statements that the District prepared and submitted to the Congress. We could not complete our examination because the District did not have adequate documentation related to the preparation and presentation of the forecasted statements. For example, the District lacked adequate documentation to support the underlying assumptions and the methodology used to develop the forecasts. As a result, we are unable to and do not give an opinion on whether the underlying assumptions and methodology used to develop the forecasts provide a reasonable basis for the Fund's 5-year forecasted statements or whether such statements are presented in conformity with guidelines for presentation of a forecast established by the AICPA. And since significant differences between the 1996 base year forecasts and the reported expenditures were not reconciled, we did not include the 5-year forecasted statements in this report.

The AICPA Forecast/Projection Guide establishes presentation and disclosure requirements, and accounting and auditing guides published by the AICPA have been identified as sources for determining generally accepted accounting principles for prospective financial statements. Under the guide, the forecast process should consist of (1) a formal system for preparing forecasted statements, (2) performance of a work program that outlines the steps followed in preparing the statements, or (3) documented procedures, methods, and practices used in preparing the statements. It also states that good faith, appropriate care, accounting principles, best information, consistency of information, key factors, appropriate assumptions, assumption sensitivity, documentation, comparison of results, and review and approval should be incorporated into the forecasted statement preparation process.

Even though District officials gave us the Fund's 5-year forecasted statements, a brief description of the revenue assumptions and estimates from 1998 through 2001 (provided by transmittal dated September 3, 1997), and gasoline consumption statistics for each month from 1981 through 1996, they did not provide adequate documentation to support the assumptions made and methodology used. Our review of the previously mentioned information revealed the following:

- Gasoline consumption statistics for past periods could not be verified since source documentation was not provided. We also noted two instances in which the same amounts were reported in the same month for two consecutive years. Specifically, 14,229,073 gallons of gas consumption were reported for December 1995 and 1996, and 13,443,221 for August 1980 and 1981. In addition, the District stated that they assumed a 10 percent decline in consumption for the 5-year projection based on a comparison of 1993 and 1996 usage. Our analysis of the actual gasoline consumption schedule reflected only a 7.3 percent decline between those years. District officials did not explain why 1993 was used as the base year for projected consumption.

- Recalculation of the 1996 tax receipts based on reported consumption at \$0.20/gallon (\$32.56 million as reported for the 12-month period) did not agree with the amount reported in the forecasted Cash Flow Statement (\$31.84 million). In addition, interest income of \$580,000 for fiscal year 1996 was not considered in the forecasts.
- The line item "local share of uses" in the Cash Flow Statement (\$22.4 million), used as the 1996 base year for the forecasts, had not been reconciled to the 1996 reported expenditures (\$19 million). We found that the net \$3 million difference is from (1) a \$9 million overstatement of reported expenditures for temporarily waived amounts that had not yet been paid to FHWA and (2) an unexplained \$12 million of other forecasted cash uses which resulted in understated reported expenditures by that amount.
- The projected repayment of the waived local match for fiscal year 1997 (\$4.5 million) did not agree with the actual amount due for the 1996 temporarily waived amount (\$3.95 million, 50 percent of \$7.99 million, see footnote 8). Local and federal-use forecasts for project management, nonparticipating costs, and design, site, construction, and equipment costs were not supported and no explanations were provided. In addition, local street costs that should have been projected were not and no explanation was provided.

Objectives, Scope, and Methodology

Management is responsible for

- preparing the Fund's financial statements in conformance 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 a sufficient understanding of internal controls to plan the audit and for performing limited procedures with respect to certain other information appearing in these financial statements. In order to fulfill our responsibilities, we

- assessed the design of controls and whether they had been placed in operation and
- tested relevant internal controls over safeguarding, compliance, and financial reporting.

We limited our internal control testing to those controls necessary to achieve the objectives outlined in our statement on internal controls. Because of inherent limitations in any system of internal control, losses, noncompliance, or misstatements may nevertheless occur and not be detected.

Except for the limitations on the scope of our work on the financial statements and compliance with laws and regulations described above, we did our work in accordance with generally accepted government auditing standards. We completed our fieldwork on September 4, 1997.

Recommendations

To address weaknesses in capital appropriated expenditures identified in this report, we recommend that the Director of the Department of Public Works take the following actions:

- Enforce procedures that call for maintaining documentation for all voucher and intra-District payments made on federal aid and local highway projects.
- 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.
- 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.
- 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.

- Ensure the segregation of duties in the preparation, processing, and approval of journal entries and disbursements.
- Perform supervisory reviews of journal entries and disbursements related to capital projects.

To address weaknesses in revenue identified in this report, we recommend that the Director of the Office of Tax and Revenue take the following actions:

- 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).
- 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.
- 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.
- 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.

To address weaknesses we identified in computer system general controls, we recommend that the Director of the Office of Information Systems take the following actions:

- Strengthen physical security over the facilities, system, and data by controlling all physical access to local area network (LAN) centers and protecting all backup files.
- 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.

- 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.
- Ensure service continuity by completing disaster recovery plans and testing at both LAN centers.
- Assess the Year 2000 vulnerabilities and develop an evaluation and conversion plan.

District Comments and Our Evaluation

We requested comments on a draft of this letter from the Mayor of the District of Columbia. The District's Chief Financial Officer (CFO) provided us with written comments that are reprinted in appendix I.

The CFO generally agreed with our findings regarding material weaknesses in internal controls for capital appropriated expenditures, revenue, and computer system general controls. He explained a number of measures that they intended to take in order to improve their operating control environment and automated systems.

Regarding the capital appropriated expenditures, the CFO's comments focused on general reasons for the year-end closing cost reclassification adjustment and the subsequent collection of $1.7 million of construction engineering cost overruns from FHWA and stated that the District had provided all but 6 of the 500 requested documents.

However, the material weakness we reported relates to the District's inability to provide adequate support and specific reasons for the $3.4 million year-end closing adjustment and the six missing disbursement transactions, which represented 36 percent of the $10.3 million in capital appropriated expenditures. The District agreed that it would modify procedures for year-end closing adjustments, stating that future adjustments will be generated by journal vouchers and appropriate supporting documentation. In our opinion, had the appropriate documentation been available, some of the uncertainty regarding billing FHWA for the CE cost overruns and the associated problems in accounting for those costs could have been avoided. In his comments, the CFO stated the District had asked for FHWA approval to recover the $2.6 million in CE cost overruns. FHWA responded in July 1997 that the District can seek reimbursement based on federal regulations in existence since 1991. The District's Chief Financial Officer stated that $1.7 million has been subsequently collected from FHWA, and DPW stated that the remaining

$900,000 will be submitted for reimbursement during fiscal year 1998. Notwithstanding the reimbursement from FHWA, which was based on summary-level reports, the amount charged to the Fund for the $3.4 million year-end closing adjustment and for the 6 intra-District voucher payments cannot be validated without appropriate supporting documentation. Until these accounting practices are modified—as the District states it plans to do—this will continue to be an audit issue.

The CFO agreed with the reported revenue findings and stated that the Office of Tax and Revenue has implemented procedures for processing motor fuel tax collections as of October 24, 1997. He also said that the District will (1) establish procedures to ensure that its accounting policies for revenue recognition are followed, (2) institute an audit program for motor fuel wholesalers, and (3) conduct a comprehensive audit of major wholesalers within 24 months to verify the quantity of fuel consumed.

Concerning computer system general controls, the CFO stated that the District is developing a new or revised Financial Management System, with the Department of Public Works as one of the selected pilot agencies. He also stated that (1) his office will conduct an independent quality assurance evaluation and test the new software systems and integrated software/hardware system modifications and (2) an independent systems administrator will work closely with the Department of Public Works' Director of the Office of Information Systems to make recommendations to strengthen security, segregation of duties, and disaster recovery plans and assess the Year 2000 vulnerabilities and conversion plan.

Regarding the 5-year forecasted statements of the Fund's expected conditions and operations, the CFO stated that no model exists for the revenue forecasts, that gasoline consumption has declined since 1993, and that the District's estimates through 2001 are reasonable. However, we are unable to opine on the 5-year forecasted statements because of a scope limitation. This limitation resulted from a lack of documentation to support the assumptions made and the methodology used by the District to prepare the forecasted statements of revenue and expenditures.

Gloria L. Jarmon
Director, Civil Audits

September 4, 1997

Financial Statements

Balance Sheet

DISTRICT OF COLUMBIA HIGHWAY TRUST FUND
BALANCE SHEET
SEPTEMBER 30, 1996
UNAUDITED

ASSETS

Current Assets:		
Cash and investments	$	35,526,233
Receivables-Motor fuel tax revenues		6,262,457
Total assets	$	41,788,690

LIABILITIES AND FUND BALANCE

Current Liabilities:		
Payables:		
Refunds	$	172,352
General fund		983,549
Capital operating account		15,262,464
Federal highway administration		5,082,405
Total current liabilities		21,500,770
Long Term Liabilities:		
Federal highway administration		3,995,348
Total liabilities		25,496,118
Fund Balance:		
Restricted		16,292,572
Total liabilities and fund balance	$	41,788,690

See accompanying notes.

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 14 Months Ended September 30, 1996
UNAUDITED

Revenues:		
Motor fuel tax	$	35,054,208
Interest		578,581
Total revenues		35,632,789
Expenditures:		
Federal-aid highway costs-District share		9,077,753
Capital appropriated expenditures		10,262,464
Total expenditures		19,340,217
EXCESS OF REVENUES OVER EXPENDITURES		16,292,572
Fund Balance at August 1		-0-
Fund Balance at September 30	$	16,292,572

See accompanying notes.

Notes to the Financial Statements

DISTRICT OF COLUMBIA HIGHWAY TRUST FUND
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 1996
UNAUDITED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ESTABLISHMENT OF THE HIGHWAY TRUST FUND

Public Law 104-21 of the 104th Congress of the United States, dated August 4,1995, established the "District of Columbia Emergency Highway Relief Act". The "Act" authorized the temporary waiver of the non-federal share of federal-aid highway project costs in the District of Columbia ("the District") for fiscal years 1995 and 1996 and for other purposes.

The District was required to establish a dedicated highway fund, to be comprised, at a minimum of amounts equivalent to receipts from motor fuel taxes, to pay in accordance with the cost-sharing requirements established under title 23, United States code, and to repay the Federal Highway Adminstration for temporarily waived amounts during fiscal years 1995 and 1996 and to pay non-participating costs for federal-aid highway projects and other local highway projects. The fund must be separate from the general fund of the District. For fiscal year 1997 and each fiscal year thereafter, amounts in the fund shall be sufficient to pay, at a minimum, the District's share of eligible federal-aid highway costs for each fiscal year.

Motor vehicle fuel taxes and fees collected by the District must be deposited in the Highway Trust Fund. The District is required to establish an independent revolving fund account for federal and highway projects which must be separate from the capital account of the Department of Public Works and reserved for the prompt payment of contractors completing highway projects in the District under title 23,United States code.

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 enough thereafter to be used to pay liabilities of the current period.

CASH AND INVESTMENTS

Highway Trust Fund cash is deposited in Signet Bank. Each day, the funds are invested overnight and redeposited, with accrued interest, the following day. The law (D.C. Code 47-341) 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

DISTRICT OF COLUMBIA HIGHWAY TRUST FUND
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 1996
UNAUDITED

government. Such investments are considered to be the equivalents of cash because they are readily convertible into cash.

ACCOUNTS RECEIVABLE

Motor fuel taxes for August ($2,691,398) and September ($2,503,795) 1996, were not collected until October 1996, are receivables to the Trust Fund at September 30, 1996.

The receivable amount also includes the July 1996 taxes due ($1,067,264) August 1996 from one wholesaler, that were subsequently deposited.

CURRENT LIABILITIES

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

General fund-represents erroneous transfers made to the trust , revolving and custodial bank accounts.

Capital operating fund - represents $5,000,000 borrowed from the capital operating fund to establish the revolving fund bank account and $10,262,464 paid from the operating fund for expenses during the year which is reimbursable from the trust fund account.

Federal Highway Administration -represents the temporarily waived District share of federal-aid highway project costs that are to be repaid by September 30, 1997.

LONG TERM LIABILITIES

The amount due to the Federal Highway Administration for the temporary waived District share of federal-aid highway project cost totaled $10,164,810 for the 14 months ended September 30, 1996. The final temporarily waived amount due of $3,995,348 for fiscal year 1996 is due after September 30, 1997.

DISTRICT OF COLUMBIA HIGHWAY TRUST FUND
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 1996
UNAUDITED

REVENUES

The Highway Trust Fund revenues consist of use tax on motor fuel sold at the wholesale level in the District as of October 1,1995 (DC Act II-337, Title I, Section 102 (c) and of interest revenue accrued from short term (overnight) investment of the cash in the trust fund.

EXPENDITURES

Of the total of $19,340,217 in Highway Trust Fund expenditures, $9,077,753 is the not yet reimbursed amounts temporarily waived by the Federal Highway Adminstration for the District's share of federal-aid highway project costs for fiscal years 1995 and 1996. The balance of $10,262,464 is attributable to other expenditures that are payable from the Trust Fund. These include the following:

- Payment of the District's share of temporarily waived federal-aid highway project costs
- In-house capital outlay labor costs
- 100% locally funded capital projects
- The construction engineering cost overruns, in excess of 15% of each specific federal-aid project, are not eligible for federal reimbursement as of September 30, 1996.

Comments From the District of Columbia

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Chief Financial Officer

Anthony A. Williams

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 a copy of the draft financial audit of the District of Columbia's Highway Trust Fund 1996 Financial Statements and listed below are comments related to the material weaknesses described in that report.

Capital Appropriated Expenditures

Inadequate support for $3.4 million year-end closing adjustment.

In FY 1996, $3.4 million in capital grant funded expenditures were adjusted to match revenues recognized for that current fiscal year. These adjustments resulted from spending and revenue activity that occurred over the last five to ten fiscal years. Listed below are the general reasons for the cost reclassification, how adjusting entries were recorded, and other mitigating factors:

1) In fiscal year 1996 the District requested approval from the Federal Highway Administration (FHWA) to recover $2.6 million in construction engineering (CE) cost overruns by aggregating CE costs annually at the program level and allowing CE cost overruns to be netted against CE underruns. The Federal Highway Administration did not grant approval for the District's request until July 1997. Therefore, the CE overruns in fiscal year 1996 were included as part of the year-end closing adjustment (charged to the capital appropriation). Of the $2.6 million in CE overruns, $1.7 million was collected during fiscal year 1997 as a result of increases in grant awards.

See comment 1.

2) The federal grant finalization audit (internal) of disbursements charged to completed grants is performed after final contract payments have been disbursed. The audit may result in additional claims on the final billing to FHWA. For example, a number of years ago non-participating line items related to maintenance costs such as cleaning catch basins were not isolated on contract advisements because they were not considered a material cost. These items were adjusted on the final grant billing after completion of the

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finalization audit. Disbursements related to these final billings usually were incurred in prior fiscal years, resulting in a reclassification of costs to match the current year revenues.

3) The temporary federal-aid financing of the District's share of reimbursable spending resulted in the retroactive establishment of a number of grant funding sources. New funding sources were established with new reimbursement rates to reflect the temporary waiver. In addition reimbursement rates related to contractor's retainage (documents often established years prior to fiscal year 1996) were also revised. These also resulted in year-end adjusting entries.

The $3.4 million resulted from a reclassification of federal spending to the capital appropriation spending due to the reasons listed above. The District contends that the cost reclassification concept was sound and does not represent a material weakness. However, the reclassification was performed to account for aggregate costs such as CE cost overruns, and current collections (grant finals) related to prior year spending activity, and not specific spending transactions.

The General Accounting Office requested approximately five hundred (500) spending documents during the audit. The District provided original documentation and support for all but six (6) transactions.

This reclassification/documentation issue has never been presented as an issue during any prior annual Comprehensive Annual Financial Review audit or the Single Audit of Federal-Grants. However the District acknowledges that year-end closing adjustments must be eliminated in the future. For fiscal year 1997, there will be no reclassifications recorded in this manner. Current year adjustments to prior year spending will be generated by journal vouchers and appropriate support documentation, and will not be generated electronically as a part of year end closing.

The District agrees with the internal control findings. Journal vouchers and other adjusting entries will be approved by the Agency CFO, Controller or designee within the Department of Public Works' (DPW) Office of the Chief Financial Officer.

Revenue

General Accounting Office (GAO) found that $2.5 million of motor fuel taxes were not included as revenue in fiscal year 1996. Office of Tax and Revenue (OTR) concurs with GAO's finding, and as reported, adjusted its fiscal year 1996 revenues to accurately reflect total motor fuel revenues. As noted in the District's Comprehensive Annual Financial Report, it is the District's (and OTR's) accounting policy to record revenues when they become measurable and available. OTR will establish procedures to ensure that the District's accounting policies are followed.

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GAO found that OTR's motor fuel tax deposits and revenue processing were not performed timely. OTR concurs with GAO's findings and agrees with its recommendation to revise its procedures for ensuring timely deposits, and have therefore implemented new procedures for processing motor fuel tax collections. Starting on October 24, 1997, OTR's Returns Processing Administration's (RPA) Document Control Unit began forwarding the motor fuel mail to RPA's Central Processing Unit (CPU) for deposit and revenue processing. CPU prepares the standard deposit ticket and the Revenue Cash Receipt (RCR) documents, and submits them with the checks to the Office of Finance and Treasury's, 4th floor, One Judiciary Square cashier by 12 noon daily. CPU then forwards the motor fuel tax returns and copies of the standard deposit tickets and RCRs to the Compliance Operations Administration's Audit Division for processing.

OTR will ensure that all deposits are made timely through its recently established Internal Control Unit, as well as RPA's Quality Assurance Unit; therefore a lock box system will not be required to assure timely processing and depositing of motor fuel tax receipts. It should further be noted that current lock box arrangements have been found to lack adequate quality controls on processing resulting in substantial rework by OTR. Until these deficiencies can be addressed, we do not contemplate expanding these third party processing responsibilities.

See comment 2.

Although OTR did not process deposits timely during fiscal year 1996, GAO's report incorrectly stated that the District lost a $1.1 million check from a wholesaler. The wholesaler provided OTR supporting documentation which indicates that they requested their mailing service to send the tax return and check via certified mail. The mailing service's records indicates that the certified mail was sent out on August 26, 1997. However, neither the wholesaler nor its mailing service has provided supporting documentation which shows the acceptance of the certified mail by a District official.

GAO found that OTR does not know whether all motor fuel taxes potentially due and owed are collected. OTR concurs with GAO's finding and will immediately institute an audit program for motor vehicle fuel wholesalers. OTR's Compliance Operations Administration's Audit Division will conduct comprehensive motor vehicle fuel excise tax audits for the major wholesalers within the next 24 months to determine if these wholesalers are reporting the correct quantity of fuel consumed. Based on the results of these audits, the Audit Division will determine the extent to which the other wholesalers should be audited. In addition, during fiscal year 1998 Compliance Operations will purchase commercial databases which will assist in identifying the total population of wholesalers that should be reporting and paying tax on motor fuel consumed in the District. Upon identification of non-filing wholesalers, OTR will initiate assessment and collection action for motor fuel taxes not paid to the District.

GAO found that OTR does not have procedures to ensure the segregation of duties related to record keeping and the physical handling of cash receipts. OTR concurs with GAO's findings

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Page 4

and has recently segregated the motor vehicle tax cash receipt functions from the record keeping function. As stated above, OTR's Return Processing Administration's Central Processing Unit is now responsible for depositing the tax payments, while the Compliance processes the tax returns and maintains the records of taxpayer's compliance.

Computer System General Controls

The District is in the process of developing a new or revised Financial Management System. The DPW has been selected as one of the pilot agencies for initial implementation of this integrated financial system. Computer system issues such as security access, segregation of duties, disaster recovery plan, and the Year 2000 program are major issues being addressed during the Financial Management System implementation process.

The Office of the Chief Financial Officer will conduct an independent quality assurance evaluation and testing of the new software systems and integrated software/hardware system modifications. It is imperative that an integrated quality assurance team continually review software and hardware systems to ensure that operational requirements of the fund are uncompromised. An independent systems administrator will work closely with the Department of Public Work's Director of the Office of Information Systems to make recommendations to strengthen security, segregation of duties, disaster recovery plans and assess the year 2000 vulnerabilities and conversion plan.

While GAO made no recommendations in this area, several observations were reported regarding the revenue forecast. Although there may be some limitations in the precision of some of the monthly data derived from OTR files, it is clear that gasoline consumption (whether measured on a calendar or fiscal year basis) has been falling since 1993. Since no model exist which can provide accurate, reliable forecasts of future consumption within narrow confidence limits, there is no alternative to making reasonable estimates based on current trends and the outlook for the economy. OTR believes the estimates through 2001 is reasonable; while growth in the economy may tend to slow the rate of decline or even stabilize sales, continued decrease in the District's population appears likely in the near future.

Sincerely,

Anthony A. Williams
Chief Financial Officer

AAW:ECC/os

The following are GAO's comments on the District of Columbia Chief Financial Officer's letter dated November 20, 1997.

GAO Comments

1. The report has been modified to include the $1.7 million of construction engineering cost overruns that the District stated it received from FHWA during fiscal year 1997. The report was also modified to reflect the District's statement that the remaining $900,000 will be submitted for reimbursement from FHWA in fiscal year 1998.

2. The report has been modified to clarify that the certified receipt for the $1.1 million was from the wholesaler's mailing service and not from the District.

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