

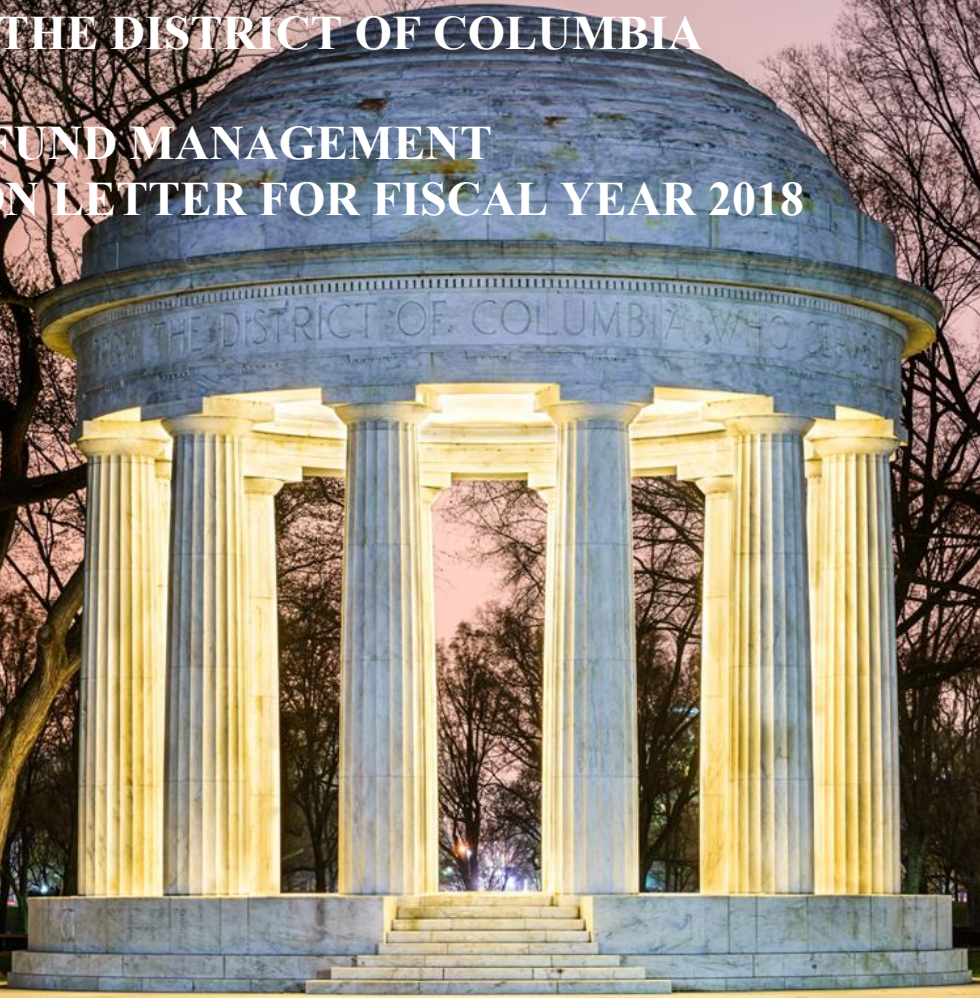
DISTRICT OF COLUMBIA OFFICE OF THE INSPECTOR GENERAL

OIG Project No. 19-1-27KA

March 2019



GOVERNMENT OF THE DISTRICT OF COLUMBIA HIGHWAY TRUST FUND MANAGEMENT RECOMMENDATION LETTER FOR FISCAL YEAR 2018



Guiding Principles

*Workforce Engagement * Stakeholders Engagement * Process-oriented * Innovation
* Accountability * Professionalism * Objectivity and Independence * Communication * Collaboration
* Diversity * Measurement * Continuous Improvement*

Mission

Our mission is to independently audit, inspect, and investigate matters pertaining to the District of Columbia government in order to:

- prevent and detect corruption, mismanagement, waste, fraud, and abuse;
- promote economy, efficiency, effectiveness, and accountability;
- inform stakeholders about issues relating to District programs and operations; and
- recommend and track the implementation of corrective actions.

Vision

Our vision is to be a world-class Office of the Inspector General that is customer-focused, and sets the standard for oversight excellence!

Core Values

Excellence * Integrity * Respect * Creativity * Ownership
* Transparency * Empowerment * Courage * Passion
* Leadership



GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



March 14, 2019

Jeff Marootian
Director
District Department of Transportation
55 M Street, S.E., Suite 400
Washington, D.C. 20003

Jeffrey S. DeWitt
Chief Financial Officer
Office of the Chief Financial Officer
John A. Wilson Building
1350 Pennsylvania Avenue, N.W., Suite 203
Washington, D.C. 20004

Dear Director Marootian and Chief Financial Officer DeWitt:

Enclosed is the report, Highway Trust Fund Management Recommendation Letter, SB & Company, LLC (SB&C) issued for fiscal year (FY) 2018 (OIG No. 19-1-27KA). SB&C submitted this report as part of our overall contract for the audit of the District of Columbia's general-purpose financial statements for FY 2018.

This report sets forth SB&C's comments and recommendations intended to improve internal controls or result in other operating efficiencies in the Highway Trust Fund.

If you have any questions concerning this report, please contact me or Benjamin Huddle, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,



Daniel W. Lucas
Inspector General

DWL/ws

Enclosure

cc: See Distribution List

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Director Marootian and Chief Financial
Officer DeWitt
HTF Management Recommendation Letter
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The Honorable Mike Quigley, Chairman, House Subcommittee on Financial Services,
Attention: Elliot Doomes (via email)
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Attention: John Martens (via email)
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Ella Sullins (via email)
The Honorable Patrick J. Leahy, Ranking Member, Senate Committee on Appropriations,
Attention: Erica Chabot (via email)
The Honorable Chuck Grassley, Chairman, Senate Committee on Finance (via facsimile)
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Ms. Kathryn Valentine, Budget Officer, DDOT Government Services Cluster (via email)
Mr. Graylin (Gray) Smith, Partner, SB & Company, LLC (via email)

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
HIGHWAY TRUST FUND**

**Management Recommendation Letter
For the Year Ended September 30, 2018**



SB & COMPANY, LLC
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The Mayor and the Council of the Government of the District of Columbia
Inspector General of the Government of the District of Columbia

In planning and performing our audit of the basic financial statements of the District of Columbia Highway Trust Fund, a special revenue fund of the Government of the District of Columbia (the Fund) as of and for the year ended September 30, 2018, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the Fund's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Fund's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses. However, as discussed below, we identified certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report, dated January 25, 2019, on the financial statements of the Fund. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control, or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows:



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Improve Process of Reviewing Fuel Taxes Revenue Collection for Completeness

We identified motor fuel tax revenue from one taxpayer for May 2018 through September 2018 that was not properly recorded in the Fund's financial statements. The District of Columbia's Office of Tax and Revenue (OTR) determined that revenue totaling \$364,762 for May, June and August 2018, was collected during the fiscal year, but because the taxpayer did not indicate that the payments were for motor fuel taxes, the revenue was recorded as sales and use tax revenue. The July payment of \$127,586 was collected; however, the tax return was not received, and therefore, the payment was not recorded as motor fuel taxes. These payments had not been transferred to the Fund as of September 30, 2018. In addition, the September 30, 2018 payment of \$116,967 was incorrectly recognized in fiscal year 2019.

Recommendation

In order to provide more accurate and timely accounting information, we recommend that management establish more effective review and reconciliation policies and procedures as a customary part of the accounting process. Management should develop a year end closing process to reconcile fuel tax collections. We also recommend management perform an analysis by selecting the highest taxpayer accounts and perform a review to ensure the collected revenue as of year-end is complete and accurate.

Management Response

Management concurs. The Revenue Accounting Administration currently reviews deposit accounts to identify potential mis-postings and erroneous fund transfers of electronic payments posted as "Unknown Tax Type," which may include motor fuel taxes. Management is currently revising its reconciliation policies and procedures to incorporate a monthly, year-over-year review and reconciliation of total receipts, including a quarterly year-over-year delta analysis for each top taxpayer.

Improve the Year End Expenditure Accrual Process

We identified invoices totaling \$880,284 for expenditure related to fiscal year 2018 that were not properly accrued. The Fund's management record an estimated accrual to cover invoices that are received after year end but for services that were performed in the fiscal year. For most years, the process to estimate the accrual resulted in an adequate accrual. For the year ended September 30, 2018, the estimated accrual of \$133,755 was not sufficient to cover the expenditures identified above.



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Recommendation

We recommend that management implement controls to ensure a proper review of expenditures is completed in a timely manner. We also recommend that management perform a review of invoices paid after year-end to ensure that all accruals are recorded properly or determine a better method to estimate the accrual at year end.

Management Response

We do not concur with the recommendation concerning monitoring of accounts payable.

The recommendation was presented as a result of sampling the HTF subsequent disbursements and identification of \$880,284 of paid invoices applicable to the pooled accrual. Auditors indicated that 2018 HTF pooled accruals recorded in the amount of \$133,755 are not sufficient to cover FY 2018 invoices. The recommendation is failing to recognize, that monitoring of the Accounts Payable has already been put in place and utilized by Accounting Unit as a tool of ensuring the reasonableness of GSC Methodology for developing the pooled accruals estimates. Copy of the Methodology was submitted to the Audit team along with the schedule of the expenditures paid against the pooled accruals. AP schedules of pooled accruals payments, as a part of Closing Requirements, have been incorporated in the accounting practices of the GSC for many years. Tracking of the liability payments against pooled accruals continues throughout the fiscal year.

We maintain the position that pooled accruals represent an ESTIMATED amount and are calculated across multiple capital funds based on the methodology developed by the Cluster. Estimates are the approximation of the financial statement element, item or account. We apply the accounting estimate, because the measurement of the payable amounts is uncertain and pending the outcome of the future events. We also apply it, because relevant data concerning events that have already occurred, cannot be accumulated on a timely, cost-effective basis. In the section “Summary of significant accounting polices” of the HTF Financial statements we acknowledge, that “preparation of the financial statements in accordance with GAAP..... requires management to make estimates and assumptions. Actual results could differ from these estimates.”

FY 2018 all capital funds expenditures total \$332 million. Precise determination of the dollar amount of FY 2018 capital invoices still pending approval of the program managers represents the task beyond our operational capacity and cannot be achieved on a timely, cost-effective basis. In a previous years application of the pooled accrual method proved not to cause any material misstatements of the financial statements.



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Lastly, that Total Pooled Accruals/Liabilities in DF0320 are recorded in the amount of \$2,617,647, with \$113,755 being recorded in GL 1204 and \$2,483,892 being recorded in GL 2732 (retainage). Both components represent the ESTIMATES based on our assumptions. Retainage is released upon the completion of contract tasks, which is the volatile factor, not providing any precision in calculating this portion of current year accrued payables as well. To our assessment, overall HTF pooled accruals of \$2,617,647 represent a reliable estimate of the liabilities in the context of the financial statement as a whole.

We believe that the implementation of these recommendations will provide the Fund with a stronger system of internal control, while also making its operations more efficient. We will be happy to discuss the details of these recommendations with you and assist in any way possible with their implementation.

Washington, DC
January 25, 2019

SB & Company, LLC