

AUDIT REPORT

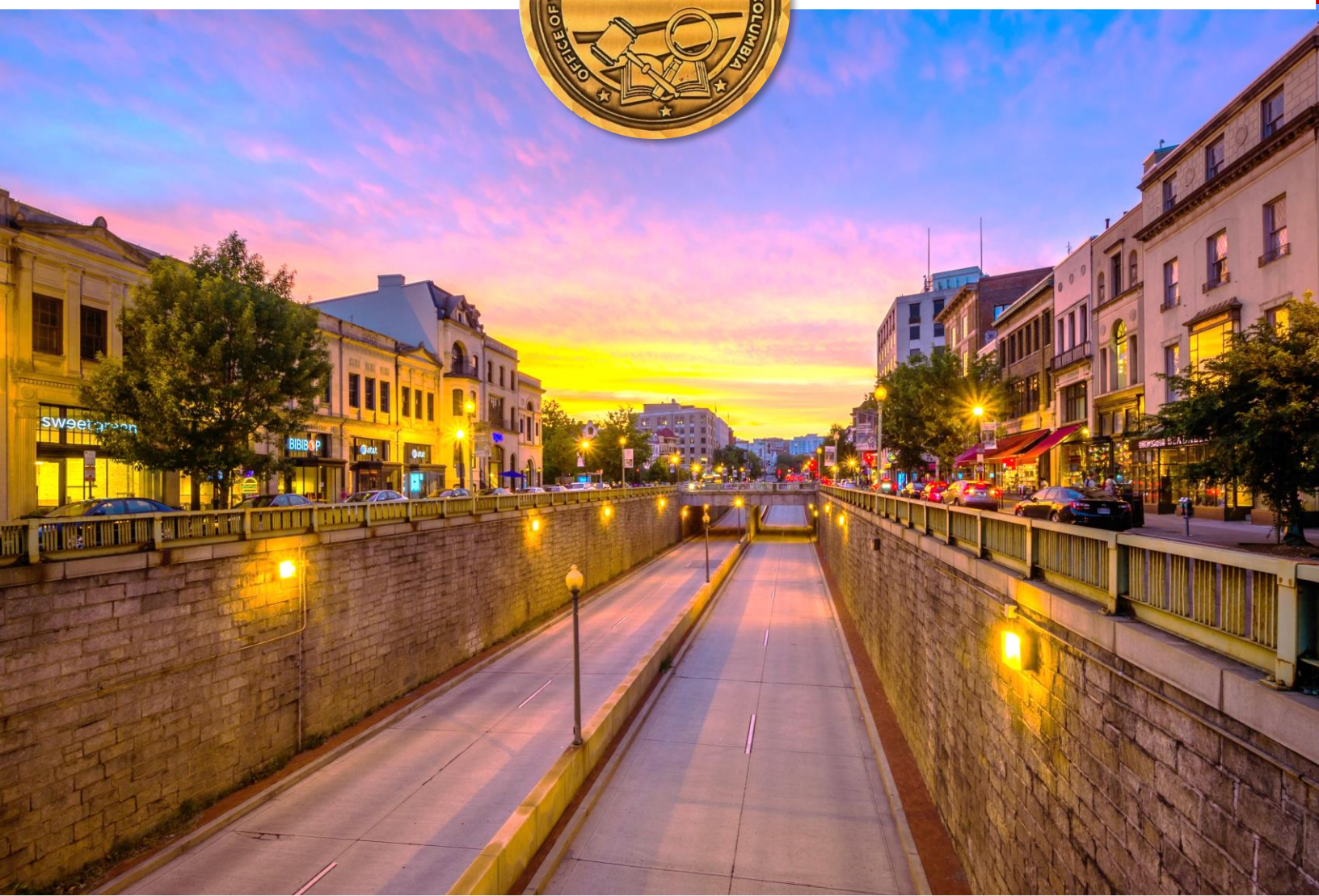
Highway Trust Fund

Annual Financial Statements and Independent Auditor's Reports

Fiscal Year 2024

OIG No. 24-1-08KA

January 31, 2025



DANIEL W. LUCAS
INSPECTOR GENERAL



OUR MISSION

We 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.

OUR VISION

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

OUR VALUES

Accountability: We recognize that our duty extends beyond oversight; it encompasses responsibility. By holding ourselves accountable, we ensure that every action we take contributes to the greater good of the District.

Continuous Improvement: We view challenges not as obstacles, but as opportunities for growth. Our commitment to continuous improvement drives us to evolve, adapt, and enhance our practices.

Excellence: Mediocrity has no place in our lexicon. We strive for excellence in every facet of our work.

Integrity: Our integrity is non-negotiable. We act with honesty, transparency, and unwavering ethics. Upholding the public's trust demands nothing less.

Professionalism: As stewards of oversight, we maintain the utmost professionalism. Our interactions, decisions, and conduct exemplify the dignity of our role.

Transparency: Sunlight is our ally. Transparency illuminates our processes, decisions, and outcomes. By sharing information openly, we empower stakeholders, promote understanding, and reinforce our commitment to accountability.






DISTRICT OF COLUMBIA | OFFICE OF THE INSPECTOR GENERAL

MEMORANDUM

To: The Honorable Muriel Bowser
Mayor of the District of Columbia

The Honorable Phil Mendelson
Chairman, Council of the District of Columbia

From: Daniel W. Lucas
Inspector General 

Date: January 31, 2025

Subject: **Highway Trust Fund Annual Financial Statements**
OIG No. 24-1-08KA

This memorandum transmits the final *Highway Trust Fund Financial Statements and Independent Auditor's Reports* for fiscal year 2024. McConnell Jones, LLP (MJ) conducted the audit and submitted these reports as part of our overall contract for the audit of the District of Columbia's general-purpose financial statements for fiscal year 2024.

On January 3, 2025, MJ issued its opinion and concluded that the financial statements are presented fairly in all material respects, in accordance with accounting principles generally accepted in the United States of America. MJ found no material weaknesses in internal control over financial reporting.

Should you have questions or concerns, please contact me or Dr. Sleemo Warigon, Assistant Inspector General for Audits, at (202) 792-5684.

**DISTRICT OF COLUMBIA
HIGHWAY TRUST FUND**

**Financial Statements Together with
Reports of Independent Auditors**

**For the Years Ended
September 30, 2024, and 2023**

**DISTRICT OF COLUMBIA
HIGHWAY TRUST FUND**

For the Years Ended September 30, 2024 and 2023

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INDEPENDENT AUDITOR'S REPORT

To the Mayor, Members of the Council of the Government of the District of Columbia,
and Inspector General of the Government of the District of Columbia
Washington, D.C.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the District of Columbia Highway Trust Fund (“the Fund”), a capital project fund of the Government of the District of Columbia, as of and for the years ended September 30, 2024, and 2023, and the related notes to the financial statements, which collectively comprise the Fund’s basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the Fund as of September 30, 2024, and 2023, and the respective changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

The Fund’s management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund’s ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.



Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the financial statements present only the Fund and do not purport to, and do not present fairly the financial position of the Government of the District of Columbia as of September 30, 2024 and 2023, or the changes in its financial position for the years then ended, in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to the matter.



Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 3, 2025, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

McConnell Jones LLP

Washington, D.C.
January 3, 2025

**DISTRICT OF COLUMBIA
HIGHWAY TRUST FUND**

**Balance Sheets
As of September 30, 2024, and 2023**

ASSETS:	<u>FY 2024</u>	<u>FY 2023</u>
Cash		
Cash and Cash Equivalents	\$ 11,259,325	\$ 12,955,930
Total Cash	<u>\$ 11,259,325</u>	<u>\$ 12,955,930</u>
Receivables and Other Assets		
Tax Receivables, Net	\$ 2,597,955	\$ 2,807,133
Other Assets	-	13
Total Receivables and Other Assets	<u>\$ 2,597,955</u>	<u>\$ 2,807,146</u>
Total Assets	<u>\$ 13,857,280</u>	<u>\$ 15,763,076</u>
LIABILITIES & FUND BALANCE		
LIABILITIES:		
Accounts Payable, Accrued Expenses and Other Liabilities	\$ 8,703,004	\$ 9,112,032
Due to Other Funds	848,554	868,583
Retainage	1,110,809	1,374,918
Total Liabilities	<u>\$ 10,662,367</u>	<u>\$ 11,355,533</u>
FUND BALANCE		
Restricted	<u>\$ 3,194,913</u>	<u>\$ 4,407,543</u>
Total Liabilities & Fund Balance	<u>\$ 13,857,280</u>	<u>\$ 15,763,076</u>

The accompanying notes are an integral part of these financial statements

**DISTRICT OF COLUMBIA
HIGHWAY TRUST FUND**

**Statements of Revenues, Expenditures and Changes in Fund Balance
For the Years Ended September 30, 2024, and 2023**

Revenues:	FY 2024	FY 2023
Motor Fuel Tax	\$ 21,679,637	\$ 22,484,996
Rights of Way Fees	20,707,000	9,824,997
Interest and Other Income	500,013	282,828
Utility Financed Revenue	-	550,172
Total Revenue	\$ 42,886,650	\$ 33,142,993
 Expenditures:		
Capital Appropriated Expenditures:		
Design, Site, Construction, and Equipment Costs	\$ 20,661,976	\$ 31,106,726
Project Management Costs	19,969,395	6,240,531
Non-Participating Costs	3,467,908	(229,511)
Total Net Expenditures	\$ 44,099,280	\$ 37,117,747
 Excess of Revenues Over Expenses	 \$ (1,212,629)	 \$ (3,974,753)
 Beginning Fund Balance	 \$ 4,407,543	 \$ 8,382,296
 Ending Fund Balance	 \$ 3,194,913	 \$ 4,407,543

The accompanying notes are an integral part of these financial statements

**District of Columbia
Highway Trust Fund**

**Notes to the Financial Statements
As of September 30, 2024 and 2023**

NOTE 1: DESCRIPTION OF THE HIGHWAY TRUST FUND

The Government of the District of Columbia (the District) established the District of Columbia Highway Trust Fund (the Fund) under the District of Columbia Emergency Highway Relief Act (the Act). The Fund was established as a dedicated highway fund to be comprised, at a minimum, of amounts equivalent to receipts from motor fuel taxes and, if necessary, motor vehicle taxes and fees collected by the District to pay the cost-sharing requirements established under Title 23 of the United States Code. The Fund is required to be separate from the general fund of the District.

The Fund is managed within the District's Office of the Chief Financial Officer. The Fund is a capital projects fund of the District, restricted for the purpose of executing Federal highway projects.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB).

The financial statements of the Fund report the financial position and the change in its financial position. 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 financial statements of the Fund are intended to present only the financial position and changes in financial position of the Fund and do not purport to, and do not present the financial position or changes in financial position of the District. Additionally, the Fund's accompanying financial statements are not indicative of the Fund as if it were a stand-alone entity.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Fund's financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting.

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 motor fuel excise taxes and interest. Expenditures are generally recorded when a fund liability is incurred, regardless of the timing of related cash flows.

District of Columbia Highway Trust Fund

Notes to the Financial Statements As of September 30, 2024 and 2023

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Fund adopted the financial reporting model, as required by GAAP as set by GASB. GAAP does not require stand-alone financial statements of a governmental fund, which are part of the general government, but are not a component unit or separate legal entity of the general government to present required supplementary information (RSI), including management's discussion and analysis. While GAAP does not preclude the presentation of RSI from the separate financial statements of a governmental fund, GAAP does not require RSI to be presented. The Fund has elected to not present a management's discussion and analysis.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and changes therein, as of the date of the financial statements. Actual results could differ from these estimates.

Cash

The Fund's cash is deposited in a trust fund account with an eligible financial institution. The bank account is an interest-bearing, demand deposit account. Interest is earned on the account balance with interest compounded daily and paid monthly.

The Fund does not have a separate investment account.

Receivables and Payables

Taxes receivable include motor fuel excise tax levied by the District (including interest and penalties on delinquent taxes that have not been collected, canceled, or abated), less the portion of the receivables estimated not to be collectible.

Accounts payable are the Fund's share of amounts owed to vendors for goods or services purchased and received. Retainage payable represent the Fund's share of amounts owed to contractors upon completion of project task, or project completion as surety for contractor performance.

Other Assets

Other assets are advances made to other District agencies for work performed on capital projects under an intra-District agreement. FY 2023 other assets balance includes remaining balance of intra-district advances to the seller agency in the amount of \$13. Final payments for the work performed by the agency under this project were completed in FY 2024.

District of Columbia Highway Trust Fund

Notes to the Financial Statements As of September 30, 2024 and 2023

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Fund Balance

The Fund balance is restricted for the District's cost-sharing requirements for eligible Federal-aid highway projects. The Fund balance must be sufficient to cover the cost sharing requirements established under Title 23, United States Code, based on the 6-year projected Fund's performance.

Revenue Recognition

The dedicated revenues consist of excise taxes earned on motor fuel sold in the District, at the wholesale level, and interest income earned on the Fund's bank balances. Taxes are recognized as revenue when the sale takes place. Revenue also consists of public right-of-way (ROW) fees. The ROW fees supplement local matching fund obligations and are recognized when received from the District. ROW fees were received for fiscal years 2024 and 2023.

Payroll-related expenditures

The Fund does not have any direct employees. Instead, direct labor costs are allocated from the District based on actual hours worked at the rate for salary and fringe benefits. Indirect labor costs are also allocated to the capital projects. Non-participating costs include direct and indirect labor for certain projects that support the District Department of Transportation (DDOT) capital programs, which are not part of the eligible Federal-aid highway projects reimbursable cost.

NOTE 3: CASH

The Fund's cash is held in accounts established and approved by the District's Office of the Chief Financial Officer, Office of Finance and Treasury for the District of Columbia. The Fund Account is an agency-controlled bank account used to receive dedicated revenues transferred from the District for the payment of the District's share of Federal highway projects and other related expenditures and for the receipt of interest revenue earned. The Primary Government accounts are dedicated accounts used to record revenues for motor fuel tax revenues and reimbursements, prior to transfer from the District, and to record expenditures for capital program costs, including vendor payments, payroll, and intra-District transfers until reimbursed to the District by the Fund.

The cash balances are insured under the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As balances generally exceed the FDIC insurance limit, balances above the limit are collateralized by securities with a market value of at least 102%. The collateral is held by the District or by its agent in the name of the District.

District of Columbia Highway Trust Fund

Notes to the Financial Statements As of September 30, 2024 and 2023

NOTE 3: CASH (Continued)

Interest earned in the account for the years ended September 30, 2024, and 2023 were \$500,013 and \$282,828, respectively. Based on changes in the Federal Reserve's policy rate, the Fund's average interest rate rose in fiscal years 2024 and 2023. During FY2021 the interest rate on the Fund account was cut to 0% during the Covid-19 pandemic. In July 2022, the Fund's interest rate moved above zero, and reached a peak of 1.96% in February 2024, where it remained before declining to 1.46% in September.

As of September 30, 2024, and 2023, there was no exposure to interest rate, credit, concentration, or foreign currency risks as the Fund held no investments.

NOTE 4: EXPENDITURES

Participating Expenditures

Participating expenditures are project associated costs eligible for Federal funding, for the District's matching share of the Federal-aid highway project cost.

Non-Participating Expenditures

Non-participating expenditures are project associated costs not eligible for Federal funding, which are undertaken for the benefit of the District and are included in the project funding plan in addition to federally funded items. Major initiatives of District Department of Transportation (DDOT) may be financed from other local funding sources without funding from Federal Highway Administration (FHWA) grants, once current year matching of the Federal obligation is satisfied. These initiatives will limit the amount of non-participating funding that will be needed from the fund.

Federal Cost Adjustments and Grant Disallowances

Federal grant disallowances occur when the FHWA determines that costs incurred are ineligible for Federal participation based on FHWA program limitations or the scope of the capital projects.

Because the Fund shares in the matching of Federal awards received by the District for highway projects, the Fund is also subject to various compliance requirements. Federal cost adjustments are based on finalization reviews completed by the DDOT before completing the FHWA required certification of final costs, which must be submitted to the FHWA for each completed Federal-aid highway project. Any cost adjustments resulting from such reviews could become a liability of the District. Management believes such cost adjustments, if any, would be immaterial.

Reimbursable from DC Water for Construction Costs

DC Water shares responsibility in capital projects when road or bridge construction provides an opportunity to maintain, improve, or construct infrastructure supporting DC Water's services. DC Water reimburses the District for costs and construction engineering oversight. DC Water is billed as construction draw payments are made to third-party vendors. During FY 2024, payments were made from DC Water for open projects. The reimbursements for open projects were treated as a reduction to the projects' non-participating

District of Columbia Highway Trust Fund

Notes to the Financial Statements As of September 30, 2024 and 2023

expenditures. For closed projects reimbursements were treated as utility financed revenue. During FY 2023 net negative balance in non-participating expenditures was attributed to DC Water's reimbursement of prior year costs associated with work performed by DDOT for DC Water component of the projects. Reimbursement amount exceeded FY 2023 non-participating costs.

NOTE 5: SUBSEQUENT EVENTS

The Fund's management has evaluated subsequent events through the date this report was available for issuance, which was January 3, 2025. There are no material events that would have an effect on the financial statements.



INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Mayor, Members of the Council of the Government of the District of Columbia, and Inspector General of the Government of the District of Columbia
Washington, D.C.

We were engaged to audit, 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, the financial statements of the District of Columbia Highway Trust Fund (“the Fund”), a capital project fund of the Government of the District of Columbia, as of and for the year ended September 30, 2024, and the related notes to the financial statements, which collectively comprise the Fund’s basic financial statements, and have issued our report thereon dated January 3, 2025.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, 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.

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, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.



Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McConnell Jones LLP

Washington, D.C.
January 3, 2025

REPORT WASTE, FRAUD, ABUSE, AND MISMANAGEMENT.

 (202) 724-TIPS (8477) and (800) 521-1639

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