

DISTRICT OF COLUMBIA OFFICE OF THE INSPECTOR GENERAL

OIG Project No. 22-1-37KA

January 2023



HIGHWAY TRUST FUND

Financial Statements (With Independent Auditor's Report) For Fiscal Years Ended September 30, 2022 and 2021



GUIDING PRINCIPLES

*ACCOUNTABILITY * INTEGRITY * PROFESSIONALISM
TRANSPARENCY * CONTINUOUS IMPROVEMENT * EXCELLENCE*

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

Accountability * Integrity * Professionalism
Transparency * Continuous Improvement * Excellence



GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



January 31, 2023

The Honorable Muriel Bowser
Mayor of the District of Columbia
Mayor's Correspondence Unit
John A. Wilson Building
1350 Pennsylvania Avenue, N.W., Suite 316
Washington, D.C. 20004

The Honorable Phil Mendelson
Chairman
Council of the District of Columbia
John A. Wilson Building
1350 Pennsylvania Avenue, N.W., Suite 504
Washington, D.C. 20004


Dear Mayor Bowser and Chairman Mendelson:

Enclosed is the final report entitled *Highway Trust Fund Financial Statements (With Independent Auditor's Report) for Fiscal Years Ended September 30, 2022 and 2021* (OIG No. 22-1-37KA). McConnell & Jones LLP (MJ) conducted the audit and submitted this component report as part of our overall contract for the audit of the District of Columbia's general-purpose financial statements for fiscal year 2022.

On January 3, 2023, 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 identified no material weaknesses in internal control over financial reporting.

If you have questions about this report, please contact me or Fekede Gindaba, 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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Mayor Bowser and Chairman Mendelson
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The Honorable Steny Hoyer, Ranking Member, House Subcommittee on Financial Services and
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The Honorable Patty Murray, Chair, Senate Committee on Appropriations, Attention: Maria
Calederon

The Honorable Susan Collins, Vice Chairman, Senate Committee on Appropriations,
Attention: Steve Abbott

The Honorable Ron Wyden, Chairman, Senate Committee on Finance, Attention: Jeff Michels

The Honorable Mike Crapo, Chairman, Senate Committee on Finance, Attention: Mike Quickel

Mr. Wayne McConnell, Managing Partner, McConnell & Jones LLP

**DISTRICT OF COLUMBIA
HIGHWAY TRUST FUND**

**Financial Statements Together with
Reports of Independent Auditor's**

**For the Years Ended
September 30, 2022 and 2021**

**DISTRICT OF COLUMBIA
HIGHWAY TRUST FUND**

September 30, 2022 and 2021

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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, 2022, and 2021, and the related notes to the financial statements, which collectively comprise 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 financial position of the Fund as of September 30, 2022, and 2021, and the 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 audits 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 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, 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, 2022 and 2021, 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, 2023, 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.

Washington, D.C.
January 3, 2023

**DISTRICT OF COLUMBIA
HIGHWAY TRUST FUND**

**Balance Sheets
As of September 30, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
ASSETS		
Cash		
Cash & Investments		
Agency Controlled Cash	\$ 14,076,220	\$ 25,651,427
Primary Government Accounts	2,136,580	-
Total Cash	<u>16,212,800</u>	<u>25,651,427</u>
Receivables and Other Assets		
Taxes receivable net	2,978,158	2,641,999
Due from DC Water, net	-	351,244
Due from Other Funds	-	5,557,392
Other Assets	57,886	209,775
Total Assets	<u>\$ 19,248,844</u>	<u>\$ 34,412,005</u>
LIABILITIES & FUND BALANCE		
Liabilities		
Accounts Payable, accrued expenses and other liabilities	\$ 8,754,866	\$ 7,580,858
Due to Other Funds	871,143	481,735
Retainage	1,240,539	546,675
Total Liabilities	<u>\$ 10,866,548</u>	<u>\$ 8,609,268</u>
Fund Balance:		
Restricted	<u>8,382,296</u>	<u>25,802,569</u>
Total Liabilities & Fund Balance	<u>\$ 19,248,844</u>	<u>\$ 34,411,837</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, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
Revenues		
Motor Fuel Tax	\$ 22,927,652	\$ 23,637,882
Right of Way Fees	-	5,557,392
Interest and Other Income	13,491	1,287
Utility Financed Revenue	-	41,778
Total Revenue	<u><u>\$ 22,941,143</u></u>	<u><u>\$ 29,238,339</u></u>
Expenditures		
Capital Appropriated Expenditures		
Design, Site, Construction, and Equipment Costs	33,166,137	27,009,476
Project Mgmt Costs	6,171,736	5,514,700
Non-Participating Costs	1,023,543	3,623,127
Total Expenditures	<u><u>\$ 40,361,416</u></u>	<u><u>\$ 36,147,303</u></u>
Excess of Revenues over Expenses	(17,420,273)	(6,908,964)
Beginning Fund Balance	<u>25,802,569</u>	<u>32,711,533</u>
Fund Balance at end of period, FY 2021 and 2020	<u><u>\$ 8,382,296</u></u>	<u><u>\$ 25,802,569</u></u>

The accompanying notes are an integral part of these financial statements

**DISTRICT OF COLUMBIA
HIGHWAY TRUST FUND**

**Notes to the Financial Statements
September 30, 2022 and 2021**

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.

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 Government 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 September 30, 2022 and 2021

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. The amount of motor fuel taxes receivable, which were earned but were not available for the purpose of recognition in the Fund is recorded as deferred inflows. Due from DC Water are amounts owed to the Fund by DC Water for construction paid on its behalf that has not been reimbursed. These receivables are recorded at net realizable value.

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, project phase, or project completion as surety for contractor performance. For FY22 and FY21 there were surcharge funds received from motor fuel that are due to another agency.

Other Assets

Other assets are advances made to other District agencies for work performed on capital projects under an intra-District agreement.

DISTRICT OF COLUMBIA HIGHWAY TRUST FUND

Notes to the Financial Statements September 30, 2022 and 2021

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 consisted 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 and no such ROW fees were received for fiscal year 2022.

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 and other overhead 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.

Certain employees of the District are covered under a defined contribution pension plan as well as a postemployment benefit plan, which are sponsored by the District. The District prepares a separate annual comprehensive financial report, which can be obtained from the Office of the Chief Financial Officer at 1350 Pennsylvania Avenue, N.W., Suite 209, Washington D.C. 20004.

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 and securities are insured up to \$500,000 under Securities Investor Protection Corporation (SIPC). At times, the balances on deposit and securities will exceed the balance insured by the FDIC and SIPC. The total deposits held are collateralized at 102% with securities 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 September 30, 2022 and 2021

3. CASH (Continued)

Interest earned in the account for the years ended September 30, 2022 and 2021 was \$13,491 and \$1,267 respectively. Based on current domestic microeconomic and market conditions, there has been a steady decline in the interest earned by the fund in the past few years. During FY2021 the interest rate on the Fund account was cut to 0%. In July 2022 the Funds interest rate increase to .16%.

As of September 30, 2021, and 2020, there was no exposure to interest rate, credit, concentration, or foreign currency risks as the Fund held no investments.

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 DDOT may be financed from the Fund without funding from FHWA grants, once current year matching of the Federal obligation is satisfied.

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. There were no grant disallowances for the years ended September 30, 2021 and 2020.

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.

DISTRICT OF COLUMBIA HIGHWAY TRUST FUND

Notes to the Financial Statements September 30, 2022 and 2021

5. SUBSEQUENT EVENTS

The Fund's management has evaluated subsequent events through the date this report was available for issuance, which was January 3, 2023. There are no material events that would have an effect on the financial statements.



**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***

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.

We have audited, 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, 2022, 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, 2023.

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) to determine the 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 of 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*.



McConnell
Jones

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

Washington, D.C.
January 3, 2023

To report fraud, waste, abuse, or mismanagement:



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



<http://oig.dc.gov>



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