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United States General Accounting Office
Washington, DC 20548

November 3, 2000

The Honorable Ernest J. Istook, Jr.
Chairman, Subcommittee on the District of Columbia
Committee on Appropriations
House of Representatives

Subject: Review of Certain Aspects of the District of Columbia's Fiscal Year 1999 Comprehensive Annual Financial Report (CAFR)

Dear Mr. Chairman:

On April 24, 2000, Mitchell & Titus, LLP, issued its Independent Auditors' Report on the general purpose financial statements included in the District of Columbia's CAFR for the fiscal year ended September 30, 1999. This letter responds to your request that we review certain aspects of this report. In meetings with your staff in September, we agreed to provide responses to six specific questions that would address the Subcommittee's concerns related to the CAFR.

To address these questions, we reviewed the fiscal year 1999 CAFR, prior financial statements as well as audit reports, and reports on internal control and compliance with laws and regulations. We interviewed officials from Mitchell & Titus and the District of Columbia. In addition, we examined workpapers prepared by Mitchell & Titus and documents and schedules of the District of Columbia. We conducted our work from September through October 2000 in accordance with generally accepted government auditing standards.

Responses to Question on the District of Columbia's Fiscal Year 1999 CAFR

Our answers to the six questions follow.

1. *Why is the amount of actual expenditures for the D.C. Financial Authority (Control Board) reported in the CAFR different than the amount reported in the Control Board's audited financial statements?*

Due to an oversight by the District's Office of the Chief Financial Officer (OCFO), the Control Board's budgeted expenditures from its fiscal year 1999 financial statements were incorrectly reported in the actual expenditure column in Exhibit 3, on page 26 of the fiscal year 1999 CAFR. District officials stated that the amount reported was

overstated by $56,656, which had the effect of decreasing the District's surplus by that amount. As discussed under Question 2 below, this amount would not have been deemed to be material to the District's fiscal year 1999 CAFR and accordingly would not necessarily have been identified by Mitchell & Titus' audit. The OCFO is now aware of the reporting difference and has stated that the actual amounts of revenues and expenditures reported in the Control Board's audited financial statements for fiscal year 2000 and thereafter shall be included on Exhibit 3 of the District's CAFR.

2. *Were reasonable procedures performed by the District's independent auditors and the District's Office of the Chief Financial Officer (OCFO) to ensure that there were no other revenues or expenditures similarly misstated in the CAFR?*

Based on our review of the independent auditors' workpapers and the District OCFO's procedures, it appears that reasonable procedures were performed in accordance with generally accepted government auditing standards to ensure that material amounts of the revenues and expenditures reported in Exhibit 3, on page 26 of the CAFR, were supported by audit workpapers and accounting records.

3. *Were reasonable procedures performed by the District's independent auditors to satisfy them that all appropriate District government entities were included and fairly presented in the CAFR, in accordance with generally accepted accounting principles (GAAP)? Specifically, where are the revenues and expenses of the Cable Television activity and the Business Improvement Districts (BIDs)?*

Based on our review of the independent auditors' workpapers, the District's independent auditors performed adequate procedures to ensure that appropriate District government entities were included and fairly presented in the CAFR, in accordance with GAAP.

With regard to the revenues and expenses of the Cable Television activity, a review of the District's Approved Fiscal Year 1999 Appropriation Budget shows that this agency is not part of the General Fund. The revenues and expenses for Cable Television are reported on Exhibits G-1 and G-2, pages 95 and 97, of the CAFR on a schedule entitled "Financial Reporting Entity." The schedule reports revenues and expenses of various entities on a combined basis.

BIDs revenues and expenses are reported on Exhibit 3, page 26, of the CAFR. Revenues of $9.3 million are included in the line captioned "Private & Other," while expenses of $7.2 million are included in the line captioned "Economic development and regulation." The excess of $2.1 million for revenues over expenses was appropriately deferred for future use in the General Fund Deferred Revenue account.

4. *Is there sufficient accounting detail to support the property, plant, and equipment in the CAFR, and was the detail sufficiently audited to warrant a clean opinion on the amounts presented?*

Exhibit 1, on page 23 of the CAFR, reports approximately $6 billion of recorded property, plant, and equipment for the District as of September 30, 1999. The

District's independent auditors concluded that risk was low in the property, plant, and equipment area based on their determined materiality levels and the anticipated implementation of a new property management system, which was not in place at the end of the audit. The independent auditors' risk analysis did not appear to consider that (1) the new system was not in place during fiscal year 1999 and (2) recent prior audits reported weaknesses in controls over property, plant, and equipment. The auditors' testing focused on additions and deletions to property, plant, and equipment during the fiscal year ended September 30, 1999. We noted no evidence of the application of audit procedures to determine if the total reported balance of property, plant, and equipment at the beginning of the period or the end of the period was complete and accurately reported.

5. *Were the reversal of accruals at the close of the fiscal year 1999 handled properly according to GAAP? How were accruals and the reversal of accruals performed in general, and for the Advisory Neighborhood Commission (ANC) account?*

The District's Office of the Chief Financial Officer has procedures that explain the year-end accrual/reversal/payment process applicable across the District government's departments and agencies. While these procedures, properly applied, would have resulted in appropriate accounting information, they were not properly applied. The consequences of not properly following the procedures resulted in the ANC's expenditures being understated by about $277,000.

As discussed with staff in your office, we attempted to obtain information from the District on other accounts that might be misstated due to the District not properly following its accrual procedures. However, because of the District's year-end closing process and other current priorities, this information may not be available until much later.

6. *Was the amount loaned to the Public Benefit Corporation by the District government for use at the D.C. General Hospital fully reserved?*

The amount loaned to the Public Benefit Corporation by the District government is not fully reserved because there has not been a legislatively binding decision to forgive the debt. District officials informed us that when a decision is made to forgive the loan, the receivable would then be written off and expensed. At the beginning of fiscal year 1999, there was an accounts receivable balance related to these transactions of $42 million. In addition, $28 million of loans were made during the fiscal year. Also, during fiscal year 1999, $29 million was forgiven and approved by the City Council and, therefore, deducted from receivables. The balance of approximately $41 million was reported on page 44 of the CAFR along with other amounts due to the District from the Public Benefit Corporation of $1 million, for a total amount due to the District of $42 million.

District and Auditor Comments

On October 27, 2000, officials from the District of Columbia's Office of Financial Operations and Systems, the office responsible for the preparation of the fiscal year 1999 CAFR, told us they had no comments on the letter.

On November 2, 2000, officials at Mitchell & Titus told us they had no comments on our letter.

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We are sending copies of this letter to Representative James P. Moran, Ranking Minority Member of your Subcommittee, and to Representative C. W. Bill Young, Chairman, and Representative David R. Obey, Ranking Minority Member, of the House Committee on Appropriations. We are also sending copies to Anthony E. Pompa, Chief Financial Officer of the District of Columbia; Darrell Giles, Partner, Mitchell & Titus, LLP; and other interested parties. Copies will also be made available to others on request.

If you have any questions on the material in this letter, please contact me at (202) 512-7353 or Michael Fischetti, Assistant Director, at (202) 512-5125. We can also be reached by e-mail at *calder.aimd@gao.gov* and *fischettim.aimd@gao.gov*, respectively.

Sincerely yours,

Philip T. Calder
Chief Accountant

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