



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

Accounting and Financial
Management Division

B-247837

June 14, 1993

The Honorable Fortney H. (Pete) Stark
Chairman, Committee on the District
of Columbia
House of Representatives

The Honorable Jim Sasser
Chairman, Subcommittee on General
Services, Federalism and the
District of Columbia
Committee on Governmental Affairs
United States Senate



149422

This report presents the results of our review of the independent certified public accountants' audit of the District of Columbia's breakdown of revenue derived from the federal government and other sources for the year ended September 30, 1992. The District of Columbia Budgetary Efficiency Act of 1991 (Public Law 102-102) requires us to review this breakdown and to report the results to your Committees. The revenue from sources other than the federal government serves as a basis for determining the authorized amount of the federal payment to the District of Columbia. The amount is determined using a formula specified in the act.

RESULTS IN BRIEF

In the auditors' opinion, the District of Columbia's revenue derived from federal and other sources as reported in its Comprehensive Annual Financial Report (CAFR) for the year ended September 30, 1992, is fairly presented in all material respects in accordance with generally accepted accounting principles. Our work, limited to a review of the District's revenues reported in the CAFR, found no material discrepancies to indicate that the auditors' opinion was inappropriate or unreliable. We did find, however, that about \$8.7 million of federal revenue was included in other local revenue sources.

GAO/AFMD-93-88

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On February 23, 1993, we received a letter from the Mayor of the District of Columbia with a schedule showing total local revenues of \$3,341,101,000 to be used as the calculation base for the federal payment authorization (see appendix I). The revenue amounts were taken from the CAFR. However, the schedule included certain revenues which were not provided for in a directive from the appropriating and authorizing committees regarding the types of revenues to be used as the calculation base. If the directive had been followed, revenues of \$2,627,512,000 would have been reported as the calculation base for the federal payment authorization (see appendix II).

BACKGROUND

The government of the District of Columbia is required by D.C. Code 47-119(a) to prepare annual financial statements of its operations in accordance with generally accepted accounting principles and to have them audited. Subsection 2(c)(1) of Public Law 102-102 amended D.C. Code 47-119(a) to require that, beginning with the independent audit covering the District's financial operations for fiscal year 1991, the audit include a report of the District's revenues broken down by revenues derived from the federal government and revenues derived from other sources during the fiscal year.

The District of Columbia government contracted with independent certified public accountants, Bert Smith & Co. and Coopers & Lybrand, to audit its fiscal year 1992 financial statements. The District's financial statements contained a breakdown of revenues from the federal government and other sources.

The purpose of the breakdown of revenues included in the report is to facilitate implementation of the federal payment formula established by section 2(b) of Public Law 102-102. The formula authorizes an amount equal to 24 percent of the local revenues for each fiscal year to be appropriated as the annual federal payment to the District in the second subsequent fiscal year. The federal payment is to compensate the District for revenue shortages from unreimbursed services provided to the federal government and from federally imposed limitations on the District's ability to raise certain tax revenues. The term "local revenues" is defined as meaning the independently audited revenues of the District that are derived from sources other than the federal government during that year.

Our report of May 8, 1992,¹ to your Committees regarding the results of our review of the District's fiscal year 1991 revenue sources noted that local revenue included amounts from general, enterprise, and trust fund activities. Applying the formula to these total revenues results in a higher federal payment than historical trends would indicate. Congressional hearings and committee reports associated with enactment of the law generally compared the federal payment to general fund revenue. On June 17, 1992, the District of Columbia Appropriations Subcommittee of the House Appropriations Committee held a hearing to discuss, among other items, the formula payment to the District of Columbia. The issues covered included the definition of the base, the possible inclusion of net lottery proceeds in the base, and the authorizing committee's intent with respect to the formula.

The Appropriations Subcommittee subsequently received two letters, both dated June 22, 1992, one signed by the Chairman, and the other by the Ranking Republican Member of the House Committee on the District of Columbia. The purpose of these letters was to express their views on the authorizing committee's intent regarding Public Law 102-102. The letter from the Chairman enclosed an exhibit that directed the District to thereafter "prepare and submit the Schedule of Local Revenue required by section 2[b] of Public Law 102-102, 105 Stat. 496 (1991) as specified in the exhibit."

The letter from the Ranking Republican Member stated further that "the authorized federal payments in FY 1993, 1994, and 1995 should be based only upon those sources of revenue which have been counted by the appropriations committee [in the past and that] if some source of general revenue local collections has not been included in the Appropriations general revenue local collections category in the past, counting it now would be inconsistent with our intent."

These views are reflected in reports of the House and Senate Appropriations Committees, which also directed the District in the future to use a schedule of local revenues as displayed in the exhibit.

¹GAO/AFMD-92-50.

OBJECTIVES, SCOPE AND METHODOLOGY

We conducted our review of the auditors' work in accordance with generally accepted government auditing standards. To determine the reasonableness of the auditors' work in the revenue area and the extent to which we could rely on it, we

- reviewed the auditors' approach and planning of the audit;
- evaluated the qualifications and independence of the audit staff;
- reviewed the financial statements and auditors' report to evaluate compliance with generally accepted accounting principles and generally accepted government auditing standards;
- reviewed the auditors' working papers to determine (1) the nature, timing, and extent of audit work performed, (2) the extent of audit quality control methods the auditor used, (3) whether the auditors obtained an understanding of the revenue cycle's internal control structure, (4) whether the amounts reported in the revenue schedule agreed with those in the financial statements, and (5) whether the evidence in the working papers supported the auditors' opinion on the breakdown of revenue by source as presented in CAFR; and
- asked District financial management personnel to identify the source of funds in certain General Fund accounts.

REVENUES REPORTED FOR 1992

On February 23, 1993, we received a letter from the Mayor of the District of Columbia, which showed total local revenues of \$3,341,101,000 for fiscal year 1992. The Mayor's letter stated, however, that the District's appropriation request will be based only on the total of District sources of revenue in the General Fund (\$2,749,691,000) plus operating transfers from the Lottery and Games Enterprise Fund to the General Fund (\$48,500,000) for the year ended September 30, 1992.

The total local revenues reported in the Mayor's letter are from the same revenue categories the District used last year and are not provided for in the committees' directive and exhibit. If applied as directed, the Mayor would have

reported total local revenues of \$2,627,512,000, instead of \$3,341,101,000.

The major difference between the local revenue amounts reported by the Mayor and the amounts determined under the committees' directive is that the Mayor's report includes all revenues (general, enterprise, and trust funds) attributable to local sources, while the directive includes only General Fund revenue and lottery transfers to the General Fund, adjusted for certain charges for services and miscellaneous revenue. On March 31, 1993, the Mayor submitted a written statement as testimony before the Subcommittee on Fiscal Affairs and Health and the Subcommittee on Judiciary and Education of the House District of Columbia Committee stating, "The authorizing committee in May 1992, and again in June [1992], provided a different interpretation of the law in communications with the D.C. Appropriations Committee. In our view, the committee's interpretation is not consistent with what was the very basis of the historic legislation."

Our calculation of the revenue base for federal payment calculation, performed in accordance with the committees' directive, is in appendix II. Our calculation includes an adjustment for \$8,674,913 of federal revenue we noted during our review which was misclassified in the District's CAFR for fiscal 1992 as local source revenue.

ADDITIONAL ANALYSIS

On June 7, 1993, the Chairman of the House Committee on the District of Columbia asked us to include in this report additional analysis of two categories of funds that were deducted from General Fund Local Revenue in arriving at the calculation base in accordance with the directive. These amounts total about \$162 million and are reported as non-appropriated charges for services and miscellaneous revenue. In a letter dated May 24, 1993, the former Chairman of the House Committee on the District of Columbia stated that:

"the authorizing committee did not have an in-depth audit of the two categories in question as prescribed by P.L. 102-102. Therefore, the committee could not authorize their inclusion as a part of the revenue base for the determination of the federal payment for FY '93. In order to transmit the two categories to the Appropriations Subcommittee, it would have been necessary to have

had an in-depth explanation of the contents of the two categories audited by the District's independent auditor, clearly indicating that the two categories, in fact, consisted of revenues locally generated, as the D.C. Federal Payment Law requires."

The District has recently engaged independent auditors to provide an audit of the two categories. We understand that the fieldwork is in progress and that a report will be available soon.

Preliminary information obtained from the District indicates that about \$95 million of the \$162 million is District revenue generated from local sources. The difference of \$67 million is primarily composed of about \$45 million in intragovernmental transactions, about \$16 million in loan repayments and child support payment recoveries and about \$6 million in service charges and miscellaneous revenues paid by the federal government. If the \$95 million were to be added to the calculation base determined in accordance with the committees' directive, the base would increase to \$2,722,577,000 (see appendix III).

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We are sending copies of this report to the House and Senate Subcommittees on the District of Columbia, Committees on Appropriations. As agreed, unless you publicly announce the contents of this report earlier, we plan no further distribution until 2 days from the date of this letter. At that time, we will send copies to the District of Columbia, other interested committees; and other interest parties. Copies will be made available to others on request.


Donald H. Chapin
Assistant Comptroller General

LETTER FROM THE DISTRICT OF COLUMBIA



THE DISTRICT OF COLUMBIA
WASHINGTON, D. C. 20004

SHARON PRATT KELLY
Mayor

The Honorable Charles A. Bowsher
Comptroller General
441 G Street, NW
Washington, DC 20001

Dear Mr. Comptroller General:

In accordance with section 4(a) of Public Law 94-399, as amended by section 2(b) of Public Law 102-102, the comprehensive annual financial report of the District of Columbia, audited by Coopers & Lybrand and Bert Smith & Co., certified public accountants, includes a report of the revenues of the District of Columbia for the fiscal year ended September 30, 1992, broken down by revenues derived from the Federal Government and revenues derived from sources other than the Federal Government during that fiscal year.

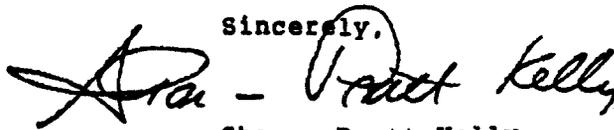
A summary of the revenues reported for fiscal year 1992 follows (in thousands of dollars):

Exhibit	Source			Total
	Local	Federal	Interfund	
Governmental:				
General (A-2).....	\$2,700,769	1,343,743	44,567	4,089,079
Capital projects (B-2)...	-	76,657	-	76,657
Enterprises (C-2):				
Operating revenues.....	270,742	49,151	53,025	372,918
Nonoperating revenues....	6,994	7,822	-	14,816
Trusts:				
Expendable (D-2).....	139,815	118,226	7,438	265,479
Pension (D-3).....	222,781	28,950	255,003	506,734
Total revenues.....	\$3,341,101	1,624,549	360,033	5,325,683

There is authorized to be appropriated as the 1994 annual federal payment to the District of Columbia for fiscal year 1994 an amount equal to 24 percent of the local revenues for fiscal year 1992. The authorized amount for fiscal year 1994 is \$801,864,000.

The District of Columbia Budget Request Act for the year ended September 30, 1994, will request an appropriation of \$671,566,000 for the federal payment. This amount represents 24 percent of the total of District sources of revenue in the General Fund (\$2,749,691,000 on Exhibit S-1) plus operating transfers from the Lottery and Games Enterprise Fund to the General Fund (\$48,500,000 on Exhibit C-2) for the year ended September 30, 1992.

Sincerely,

A handwritten signature in cursive script that reads "Sharon Pratt Kelly". The signature is written in dark ink and is positioned to the left of the typed name.

Sharon Pratt Kelly
Mayor

DISTRICT OF COLUMBIA
SCHEDULE OF LOCAL REVENUES
FISCAL YEAR ENDED SEPTEMBER 30, 1992

(Dollars in thousands)

Total District sources ^a	\$2,749,691
Plus Lottery Board transfer-in ^b	48,500
Less:	
Charges for services--nonappropriated ^c	(91,303)
Miscellaneous--nonappropriated ^d	<u>(70,701)</u>
Total local revenue	2,636,187
GAO adjustment for federal payments classified as local source revenue	<u>(8,675)</u>
Total adjusted local revenue	<u>\$2,627,512</u>

Sources:

- ^a Exhibit S-1 of the District's Comprehensive Annual Financial Report (CAFR) from the column headed "Total District Sources"
- ^b Exhibit C-2 of the District's CAFR from the column headed "Lottery and Games," and the line captioned "Operating Transfers in (Out): General Fund"
- ^{c,d} Exhibit 3 of the District's CAFR from the column headed "Nonappropriated Actual" and the group captioned "Revenue" lines captioned "Charges for Services" and "Miscellaneous"

ADDITIONAL ANALYSIS REQUESTED
BY THE HOUSE COMMITTEE ON
THE DISTRICT OF COLUMBIA

(Dollars in thousands)

Total adjusted local revenue (see appendix II)	\$2,627,512
Charges for services--nonappropriated	41,802
Miscellaneous revenue--nonappropriated	<u>53,263</u>
Total	<u>\$2,722,577</u>

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