



**OFFICE OF THE DISTRICT OF COLUMBIA AUDITOR**

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Deborah K. Nichols

District of Columbia Auditor

008:06:SDG:CA:gk

**Letter Report: District of Columbia Auditor's  
Concerns Regarding the Chief Financial Officer (CFO)  
of the District of Columbia's Nondisclosure of  
Pertinent Information Regarding the Fiscal Year (FY) 2006  
General Purpose General Fund Revenue Estimate**

**March 24, 2006**



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The Honorable Linda W. Cropp, Chairman  
Council of the District of Columbia  
1350 Pennsylvania Ave., NW, Suite 504  
Washington, D.C. 20004

Re: **Letter Report:** District of Columbia Auditor's Concerns Regarding the Chief Financial Officer (CFO) of the District of Columbia's Nondisclosure of Pertinent Information Regarding the Fiscal Year (FY) 2006 General Purpose General Fund Revenue Estimate

Dear Chairman Cropp and Members of the Council of the District of Columbia:

The purpose of this letter report is to alert the Council of the District of Columbia to the CFO's December 16, 2005, revision to the FY 2006 revised local source revenue estimate of \$4,487,381,000. The CFO's revision was issued only one day after the District of Columbia Auditor's (Auditor) certification of revenue estimates in support of \$331,210,000 in District General Obligation Bonds, and two days after the CFO signed a Management Representations Letter.

### Background in Brief

Pursuant to section 603 (b) (1) of the District of Columbia Home Rule Act (Home Rule Act),<sup>1</sup> (D.C. Code § 1-206.03 (b)(1)), the CFO requested that the Auditor certify to the FY 2006 revised total local source general fund revenue estimate of \$4,487,381,000.<sup>2</sup> The CFO requested the certification in furtherance of the District of Columbia's (District's) issuance of \$331,210,000 in General Obligation Bonds (Series 2005A).<sup>3</sup>

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<sup>1</sup>See District of Columbia Home Rule Act, approved December 24, 1973, Pub. L. No. 93-198, 87 Stat. 777, D.C. Code § 1-204.01 *et seq.* (2001).

<sup>2</sup>The FY 2006 revised local source revenue estimate of \$4,487,381,000 was transmitted by the CFO to the Mayor and Council of the District of Columbia in a letter dated September 22, 2005. At that time, the CFO increased the FY 2006 local source revenue estimate by \$51.7 million, from \$4,435,735,000, which was certified by the CFO in June 2005, to \$4,487,381,000. On December 15, 2005, the Auditor issued the requested certification.

<sup>3</sup>The bonds were titled to reflect the calendar year rather than the fiscal year. The \$331,210,000 General Obligation Bonds (Series 2005A) is a fiscal year 2006 issuance and, as such, will be reflected in the District's FY 2006 Comprehensive Annual Financial Report (CAFR).

Section 603 (b) (1) of the Home Rule Act (D.C. Code § 1-206.03) states, in relevant part, the following regarding the Auditor's certification of District revenues:

No general obligation bonds (other than bonds to refund outstanding indebtedness) or Treasury capital project loans shall be issued during any fiscal year in an amount which would cause the amount of principal and interest required to be paid both serially and into a sinking fund in any fiscal year on the aggregate amounts of all outstanding general obligation bonds and such Treasury loans, to exceed 17% of the District revenues. . .*which the Mayor estimates, and the District of Columbia Auditor certifies*, will be credited to the District during the fiscal year in which the bonds will be issued. . . .(emphasis added).

On September 22, 2005, the Office of the Chief Financial Officer's (OCFO) Office of Finance and Treasury (OFT) provided the Auditor with the District's FY 2006 revenue estimate of \$4,487,381,000 in addition to the proposed date for the issuance of \$331,210,000 in General Obligation Bonds. Shortly before the bond deal was scheduled to close in December 2005, the Auditor received the Mayor's signed Certificate setting forth the local revenues that the Mayor estimated would be credited to the District during FY 2006.

In order to secure and assure the provision of the most up-to-date financial data for the FY 2006 certification, the Auditor requested and the District's CFO signed a Management Representations Letter on December 14, 2005.<sup>4</sup> The Management Representations Letter<sup>5</sup> states the CFO's understanding regarding his office's responsibilities relative to providing information necessary to facilitate the Auditor's examination and certification of the local source revenue estimate and that the information provided during the course of the examination is current and true. The CFO represented that all OCFO representatives were responsible for: (a) providing financial data on which the Auditor's certification was based; (b) adopting sound accounting policies, and (c) establishing and maintaining adequate internal control.

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<sup>4</sup>See Management Representations Letter signed by the District's CFO on December 14, 2005.

<sup>5</sup>Management Representations Letters are customarily used in the accounting profession.

**Auditor's Process for Determining Sufficiency, Achievability, and Reasonableness of the Local Source Revenue Estimate**

In determining the sufficiency, achievability, and reasonableness of the local source revenue estimate, the Auditor must rely heavily on representations made by the CFO and his staff. The Auditor consults many OCFO officials and staff in the OFT, the Office of Revenue Analysis, the Office of Tax and Revenue, the Department of Employment Services, and the Department of Consumer and Regulatory Affairs.

Additionally, the Auditor expends substantial staff resources in examining statistical, economic, and other data obtained from several sources independent of the District. Based on the representations and documentation provided by OCFO officials and staff, as well as information obtained from independent sources, the Auditor's staff completes a thorough review and analysis of the estimate.

As previously stated, shortly before bond deals are scheduled to close the Auditor receives a signed Certificate of the Mayor setting forth the local source revenues that the Mayor estimates will be credited to the District. The Auditor signs a separate certification document if the Auditor's analyses and other review procedures affirm the Mayor's estimates. The Auditor's certification of the Mayor's revenue estimate is required before closing a general obligation bond deal.

**CONCERNS REGARDING THE OCFO'S APPARENT NONDISCLOSURE OF ALL RELEVANT FINANCIAL INFORMATION RESULTING IN THE REVISION OF THE REVENUE ESTIMATE IMMEDIATELY AFTER THE AUDITOR'S CERTIFICATION**

On December 14, 2005, the CFO signed the Management Representations Letter. On December 15, 2005, the Auditor signed a certification letter attesting to the achievability of the CFO's FY 2006 General Purpose General Fund Revenue Estimate of \$4,487,381,000.<sup>6</sup> By letter dated December 16, 2005,<sup>7</sup> one day after our certification, the Auditor received notification that the CFO's September 22, 2005 revised FY 2006 local source revenue estimate of \$4,487,381,000 was

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<sup>6</sup>See CFO's OFT September 22, 2005 letter to the Auditor.

<sup>7</sup>See CFO's December 16, 2005 letter to the Mayor and Chairman of the Council of the District of Columbia.

being increased (or revised) by \$32,309,000 to \$4,519,690,000.<sup>8</sup> The timing of this action indicates that, during our examination, the CFO's staff failed or refused to fully disclose to the Auditor the most current revenue information then in their possession. **Table I** presents the local source revenue estimate on which the Auditor's certification was based and the OCFO's revision the day after obtaining the Auditor's signed certification of a different OCFO revised revenue estimate.

**TABLE I**  
**CFO's Change in the FY 2006**  
**Local Source General Fund Revenue Estimate**

Local Source General Fund Revenue Estimate	FY 2006
Estimated Non-dedicated General Fund Revenues as of December 2005	\$4,519,690,000
Estimated Non-dedicated General Fund Revenues as of September 2005	\$4,487,381,000
Change between September and December 2005 Revenues	\$32,309,000

Source: CFO's letter dated December 16, 2005

Because the CFO's staff withheld the *revised* FY 2006 revenue estimate until after obtaining the Auditor's signed certification of the previously issued revised estimate, it appears that relevant information was deliberately not disclosed to, or was deliberately withheld from, the Auditor during our examination and *prior* to obtaining the Auditor's signed certification. In the Management Representations Letter, the CFO affirmed as accurate the following critical components:

2. The official estimate of total Local Source Revenue for FY 2006 is accurate based on the information available to us and the underlying assumptions and documentation for the calculations made.

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<sup>8</sup>The revisions to the FY 2006 non-dedicated general fund revenue estimate triggered \$24.3 million in tax reductions and expenditures in accordance with the FY 2006 Budget Support Act, including \$19.2 million for Triennial Group Taxable Assessment Disparity Correction Act of 2005; \$3.6 million for Disabled Person Tax Reduction Act of 2005; and \$1.5 million for Disabled Property Owners Tax Reduction Act of 2005. After adjusting the December 2005 Non-dedicated General Fund Certified Revenues estimate of \$4,519,690,000 due to these policy changes, the estimate totaled \$4,495,417,000. However, for consistency purposes, this analysis is based on the \$4,487,381,000, which was submitted for the Auditor's certification in connection with the \$331,210,000 General Obligation bonds (Series 2005A) to the \$4,519,690,000 because neither estimate included any policy changes.

3. We have made available to you all relevant financial records and related data.
  
5. All accounting estimates that could be material to the FY 2005 and FY 2006 financial statements, including the key factors and significant assumptions underlying those estimates, have been properly disclosed to you during the review and we believe the estimates are reasonable under the circumstances.

The CFO's representations, with regard to the aforementioned items, could not have been accurate or creditable due to the timing of the OCFO's \$32,309,000 revision to the FY 2006 local source revenue estimate one day after obtaining the Auditor's signed certification. It is likely that OCFO personnel had obtained additional information, conducted additional analyses, and were fully aware of the ensuing revision to the revenue estimate when the CFO executed the Management Representations Letter and at the time the Auditor signed the certification. Despite the apparent existence of this additional data, no updated information was disclosed to the Auditor about the pending \$32,309,000 revision to the FY 2006 local source revenue estimate. The Auditor believes there are inherent dangers in operating in this manner particularly if the CFO ever has to decrease the estimate and does not disclose this information before the Auditor certifies the estimate and the bond deal is closed. Operating in the manner also raises potential risks to the District government's credibility with Wall Street, major bond rating agencies, potential investors, and anyone else who must rely upon information produced by the CFO's office.

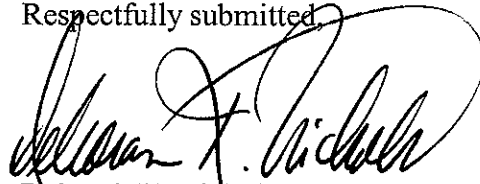
### CONCLUSION

As stated in the Auditor's report dated February 27, 2006, entitled "Certification of the Fiscal Year 2006 Revised General Purpose General Fund Revenue Estimate in Support of the District's \$331,210,000 General Obligation Bonds (Series 2005A)" the Auditor certified, in whole, to the Mayor's FY 2006 General Purpose General Fund Revenue Estimate of \$4,487,381,000.

The Auditor acknowledges that the CFO's estimates are based on information that can and often does rapidly change thus resulting in revisions to the estimate throughout the fiscal year. Nevertheless, the change to the FY 2006 local source revenue estimate immediately after the Auditor's certification indicates that full disclosure of all relevant available data and information was not made available to the Auditor by OCFO personnel, staff, or officials as represented by the CFO in his signed Management Representations Letter. Notwithstanding, the CFO's increased estimate, *per se*, does not alter the Auditor's December 15, 2005 Certificate attesting to the achievability of the FY 2006 General Purpose General Fund Revenue Estimate of \$4,487,381,000.

As always, please do not hesitate to contact me at (202) 727-3600 should you have any questions regarding this matter.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Deborah K. Nichols". The signature is fluid and cursive, with a large loop at the end.

Deborah K. Nichols

District of Columbia Auditor