



**OFFICE OF THE DISTRICT OF COLUMBIA AUDITOR**

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District of Columbia Auditor

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**Audit of the Public Service Commission  
Agency Fund for Fiscal Year 2005**

**September 22, 2009**

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## EXECUTIVE SUMMARY

### PURPOSE

In accordance with Section 455 of the District of Columbia Home Rule Act, as amended, Pub.L. No. 93-198,<sup>1</sup> and pursuant to D.C. Code, Section 34-912(a)(6),<sup>2</sup> the District of Columbia Auditor (Auditor) conducted an audit of the fiscal year 2005 financial activities of the Public Service Commission (PSC) Agency Fund.

### CONCLUSION

The Auditor found that during fiscal year 2005, \$1,021,534 in public utility assessments and \$13,012 in refunds of expenditures transferred to PSC's operating budget were deposited into the PSC's Agency Fund and recorded in the District's System of Accounting and Reporting (SOAR).

The Auditor also found that the PSC's fiscal year 2005 Trust Fund Reconciliation Report, which was submitted to the Mayor and Council of the District of Columbia, agreed with our finding that \$1,021,534 in public utility assessments were received by PSC and deposited into the Agency Fund in fiscal year 2004.

During fiscal year 2005, the PSC disbursed from the Agency Fund \$829,780 for expenses related to ongoing case activity. Additionally, refunds of unexpended assessments totaling \$451,674 were processed against the fund. The Auditor found that \$829,780 in fiscal year 2005 expenditures processed against PSC's Agency Fund appeared to be reasonable and necessary expenses as required by D.C. Code, Section 34-912. The Auditor successfully reconciled all expense vouchers and refunds to the District's accounting system (SOAR).

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<sup>1</sup> See section 455 (b) of the District of Columbia Home Rule Act, approved December 24, 1973 (Pub. L. No. 93-198; 87 Stat. 803); D.C. Code § 1-204.55 (b) (2001) which states: "The District of Columbia shall each year conduct a thorough audit of the accounts and operations of the government of the District in accordance with such principles and procedures and under such rules and regulations as he [she] may prescribe. See also D.C. Code § 1-204.55 (c) which states: "The District of Columbia Auditor shall have access to all books, accounts, records, findings, and all other papers, things, or property belonging to or in use by any department, agency, or other instrumentality of the District government and necessary to facilitate the audit."

<sup>2</sup> See D.C. Code, Section 34-912(a)(6) which states that, "The District of Columbia auditor shall review the amounts deposited and disbursed by the Commission and the Office under this section and shall issue a report to the Mayor and the Council on each agency fund on a biennial basis."

## **PURPOSE**

In accordance with Section 455 of the District of Columbia Home Rule Act, as amended, Pub.L. No. 93-198,<sup>3</sup> and pursuant to D.C. Code, Section 34-912(a)(6),<sup>4</sup> the District of Columbia Auditor (Auditor) conducted an audit of the fiscal year 2005 financial activities of the Public Service Commission's (PSC) Agency Fund.

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

The objectives of the audit were to:

1. verify public utility revenue deposits to and disbursements from the PSC's Agency Fund for fiscal year 2005;
2. examine expenses charged against PSC's Agency Fund to determine whether expense vouchers were supported by adequate documentation and whether the expenses were reasonable and necessary as required by D.C. Code, Section 34-912;
3. determine whether expense vouchers were properly reviewed and approved by appropriate PSC officials before payment; and
4. determine the amount of refunds to public utilities that were processed against PSC's Agency Fund.

The scope and period of the audit covered PSC's Agency Fund receipts, disbursements, and refunds for fiscal year 2005.

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<sup>3</sup>See section 455 (b) of the District of Columbia Home Rule Act, approved December 24, 1973 (Pub. L. No. 93-198; 87 Stat. 803); D.C. Code § 1-204.55 (b) (2001) which states: "The District of Columbia shall each year conduct a thorough audit of the accounts and operations of the government of the District in accordance with such principles and procedures and under such rules and regulations as he [she] may prescribe. *See also* D.C. Code § 1-204.55 (c) which states: "The District of Columbia Auditor shall have access to all books, accounts, records, findings, and all other papers, things, or property belonging to or in use by any department, agency, or other instrumentality of the District government and necessary to facilitate the audit."

<sup>4</sup>See D.C. Code, Section 34-912(a)(6) which states that, "The District of Columbia auditor shall review the amounts deposited and disbursed by the Commission and the Office under this section and shall issue a report to the Mayor and the Council on each agency fund on a biennial basis."

In conducting the audit, the Auditor reviewed relevant D.C. Code provisions, public utility revenue deposits to and disbursements from PSC's Agency Fund. The Auditor also reconciled the deposits to the District's System of Accounting and Reporting (SOAR) and Executive Information System (EIS). Both SOAR and EIS reflect all financial activity processed against PSC's Agency Fund during fiscal year 2005. The Auditor also reconciled deposits made to PSC's Agency Fund to confirmation statements provided by Potomac Electric Power Company (PEPCO), Washington Gas, and Verizon.

Finally, the Auditor interviewed PSC's Agency Fiscal Officer (AFO) and senior accounting and disbursing analyst, in addition to officials from PEPCO, Washington Gas, and Verizon concerning their deposits to PSC's Agency Fund.

The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

**BACKGROUND**

The District of Columbia PSC is an independent agency of the District government established by Congress in 1913 to regulate electric, natural gas, and telephone companies in the District by functioning as a quasi-judicial agency. Today, the mission of the PSC is to serve the public interest by ensuring that financially healthy electric, natural gas, and telecommunications companies provide safe, reliable, and quality utility services at reasonable rates to District of Columbia residential, business, and government consumers. The PSC has rate-making and other regulatory authority over electric, natural gas, and telecommunications companies providing such services within the District of Columbia. The PSC is composed of a chairman and two commissioners appointed by the Mayor with the advice and consent of the Council of the District of Columbia. Each Commissioner serves a four-year term of office and is compensated at the District Service salary for a grade 17.

The PSC functions with two budgets: the annual budget for day-to-day operations and the assessment budget (PSC's Agency Fund) for expenses related to specific cases. The annual budget covers the costs of staff salaries, fringe benefits, rent, utilities, supplies, printing, equipment and maintenance, training, and professional publications. Like other agencies, the PSC participates in the District's annual budget process. However, none of the monies expended by the PSC come from the District's general fund revenues. Instead, each public utility provider doing business in the District pays a pro rata share of PSC's annual operating budget based on a reimbursement formula prescribed by law. The PSC assesses these providers on an annual basis for reimbursement of its operating expenses.

In carrying out its mission, the PSC may award contracts for legal, accounting, economic, engineering, court reporting, courier, and advertising services. The costs for these services are fully reimbursed to PSC from revenue deposits made by PEPCO, Washington Gas, Verizon, and other utility providers servicing the District of Columbia.

The PSC sets public utility rates and otherwise regulates utilities services through a formal legal process in which the affected provider, the Office of the People's Counsel, and other interested parties have an opportunity to present their case. Each public utility is authorized to charge rates that will permit the utility to earn a fair rate of return (or profit) on its capital in exchange for the right to conduct business in the District of Columbia. Utilities must apply to the PSC for changes in rates or regulatory treatment.

D.C. Code, Section 34-912(a)(1) established the PSC's Agency Fund as a fiduciary fund in the District of Columbia Treasury. Section 34-912(a)(2) requires any public utility making application to the PSC to deposit sufficient dollars, as determined by the PSC, into the Agency Fund to cover PSC's reasonable and necessary expenses pertaining to an application. Revenue deposits must be used exclusively for the payment of expenses arising from any investigation, valuation, revaluation, or proceeding conducted by the PSC and all expenses of any litigation, including appeals arising from decisions, orders, or other actions of the PSC.

D.C. Code, Section 34-912(a)(7) requires the PSC to issue an annual report to the Mayor and Council of the District of Columbia. The annual report must detail the name of each contractor hired, their qualification, a brief description of their work, the number of persons employed by each contractor, the hourly rate charged by each person employed by the contractor, and the estimated

value of each contract. Each voucher for payment must include an affidavit signed by the AFO, or his/her designee, stating that the voucher was independently examined, including supporting documentation, and that the voucher was appropriate for payment in the stated amount.

D.C. Code, Section 34-912(a)(2), requires that any excess funds deposited by a public utility for a formal case that has been closed shall be refunded to the utility. PSC Agency Fund financial records must adequately reflect all refunds made to a utility and identify the formal cases for which revenue deposits were refunded.

## FINDINGS

### DEPOSITS TO AND EXPENDITURES AND REFUNDS FROM PUBLIC SERVICE COMMISSION AGENCY FUND FOR FISCAL YEAR 2005

As previously noted, D.C. Code, Section 34-912(a)(2) permits the PSC to assess utilities for regulatory and litigation expenses associated with retaining technical and legal consultants to perform work required by proceedings before the PSC. The utility assessments are deposited into the PSC Agency Fund.

#### Summary of Agency Fund Activity for Fiscal Year 2005

Table I summarizes the PSC's Agency Fund activity for fiscal year 2005.

**TABLE I**  
**Public Service Commission's Agency Fund:**  
**Statement of Activity For Fiscal Year**  
**Ending September 30, 2005**

Beginning Balance (10/01/04)	\$ 2,045,523
Receipts	1,021,534
Transfer expenditures to Oper. Budg.	13,012
Transfer into the Custodial Account <sup>5</sup>	21,335
Transfer out of closed Formal Cases	(21,335)
Expenditures	(829,780)
Refunds to Utilities	(451,674)
<b>Ending Balance (09/30/05)</b>	<b><u>\$ 1,798,615</u></b>

Source: EIS/SOAR, Office of the D.C. Auditor

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<sup>5</sup>See Report of the Public Service Commission of the District of Columbia for FY 2004 which states; A custodial account was established to serve as a repository for Competitive Local Exchange Carriers (CLECs) companies no longer operating in the District of Columbia, and left no forwarding communication or information. This account was necessary to facilitate the closure of formal proceedings and the refund process. Refund transfers for the defunct CLECs will be maintained in the custodial account until final disposition is determined.

As of October 1, 2004, the beginning balance in the PSC's Agency Fund was \$2,045,523. Receipts of \$1,021,534, and \$13,012 in refunds of expenditures transferred to the PSC's operating budget, less expenditures of \$829,780 and \$451,674 in refunds to the utilities resulted in an Agency Fund balance of \$1,798,615. The ending balance is a reserve balance to be used for authorized expenses pertaining to ongoing case activity. Unexpended funds remaining after a formal case has been properly closed or terminated must be refunded to the appropriate public utility.

#### **Fiscal Year 2005 Public Utility Assessments Deposited into PSC's Agency Fund**

During fiscal year 2005, the PSC issued 18 Notice of Agency Fund Requirement Orders to PEPCO, Verizon, and several small companies. PEPCO, Verizon, and the other providers responded by submitting 18 checks to PSC totaling \$1,021,534. The Auditor confirmed through SOAR, that the PSC received \$1,021,534 in utility assessments and deposited the funds into PSC's Agency Fund as follows: \$980,000 from PEPCO; \$3,000 from Verizon; and \$38,534 from other small companies.

The Auditor reconciled the \$1,021,534 in utility assessments to District Treasury deposit tickets, SOAR financial reports, utility confirmation statements. The Auditor found that the PSC's fiscal year 2004 Trust Fund Reconciliation Report, which was submitted to the Mayor and Council of the District of Columbia, agreed with our finding that \$1,021,534 in utility assessments were deposited into the Agency Fund in FY 2005.

Table II presents fiscal year 2005 deposits made to the PSC's Agency Fund. (See Appendix I for a brief description of each formal case.)

**TABLE II**  
**Public Utility Assessments Deposited Into**  
**The Public Service Commission's Agency Fund**  
**During Fiscal Year 2005**

Public Utility	Formal Case Number	Amount	Date PSC Received Check	Date of Deposit
<b>PEPCO</b>	945	\$ 160,000	08/01/05	8/10/05
	1017	\$ 170,000	08/01/05	8/10/05
	1023	\$ 150,000	09/15/05	N/A
	1032	\$ 500,000	11/15/05	N/A
<b>PEPCO TOTAL</b>		<b>\$ 980,000</b>		
<b>VERIZON</b>	TAC-19	\$ 3,000	N/A	05/18/05
<b>VERIZON TOTAL</b>		<b>\$ 3,000</b>		
<b><u>OTHER PROVIDERS</u></b>				
N/A	962	\$ 2,534	N/A	N/A
SBC	TAC-19	\$ 3,000	N/A	05/18/05
US LEC	TAC-19	\$ 3,000	N/A	05/18/05
SPRINT	TAC-19	\$ 3,000	N/A	05/18/05
DSL NET	TAC-19	\$ 3,000	N/A	05/18/05
N/A	TAC-19	\$ 3,000	N/A	N/A
N/A	TAC-19	\$ 3,000	N/A	N/A
N/A	TAC-19	\$ 3,000	N/A	N/A
N/A	TAC-19	\$ 3,000	N/A	N/A
N/A	TAC-19	\$ 3,000	N/A	N/A
N/A	TAC-19	\$ 3,000	N/A	N/A
N/A	TAC-19	\$ 3,000	N/A	N/A
N/A	TAC-19	\$ 3,000	N/A	N/A
<b>TOTAL MULTI -COMPANIES</b>		<b>\$ 38,534</b>		
<b>GRAND TOTAL DEPOSITS</b>		<b>\$ <u>1,021,534</u></b>		

\* N/A: Information Not Available

Source: Public Service Commission, SOAR/EIS and the Office of the D.C. Auditor

**Fiscal Year 2005 Expenditures Processed Against PSC’s Agency Fund Appeared to be Reasonable and Necessary**

During fiscal year 2005, the PSC processed 49 expense vouchers and journal entries totaling \$829,780 against the PSC Agency Fund. The Auditor successfully reconciled the \$829,780 in expenditures to individual expense vouchers and the District’s accounting system.

Approximately ninety-seven percent (97.4%), or \$808,773, of the total confirmed expenses paid by PSC during fiscal year 2005 were for professional services provided by attorneys, economists, engineer consultants, and certified public accountants. Three percent (2.6%), or \$21,007, were for administrative costs including travel, copying, telecommunications, delivery, and transportation services. The PSC’s Agency Fund expenditures appeared to be reasonable and necessary expenses as required by D.C. Code, Section 34-912. Further, each expense voucher was properly signed and approved for payment by an authorized PSC official.

**Fiscal Year 2005 Refunds of Unexpended Assessments Processed Against PSC’s Agency Fund**

During fiscal year 2005, the PSC processed 3 refund vouchers and journal entries totaling \$451,674 against the PSC Agency Fund. The Auditor successfully reconciled the \$451,674 in refunds of unexpended assessments to individual vouchers and the District’s accounting system. These refunds included: \$439,362 to PEPCO, \$6,156 to Verizon, and \$6,156 to AT&T.

Table III presents fiscal year 2005 refunds of unexpended assessments to public utilities.

**TABLE III  
Public Service Commission Agency Fund:  
Fiscal Year 2005 Refunds to Public Utilities**

<b>VENDOR</b>	<b>REFUND AMOUNT</b>
PEPCO	\$ 439,362
VERIZON	\$ 6,156
AT&T	\$ 6,156
<b>TOTAL REFUNDS</b>	<b>\$ <u>451,674</u></b>

Source: Public Service Commission and the Office of the D.C. Auditor

## **Fiscal Year 2005 Refunds Transferred to Custodial Accounts**

The PSC established a custodial account to serve as a repository for Competitive Local Exchange Carrier (CLEC) companies no longer operating in the District of Columbia that left no forwarding address. According to the AFO, the custodial account was necessary to facilitate the closure of formal proceedings and the refund process<sup>6</sup>.

During Fiscal Year 2005, the PSC processed two (2) journal entries transferring \$21,335 to the custodial account. The Auditor successfully reconciled the \$21,335 in refunds of unexpended assessments transferred into the custodial account to individual vouchers, journal entries, and the District's accounting system. In addition, the custodial account has a total balance of \$31,308 as follows: \$9,973 in FY 2004 and \$21,335 in FY 2005.

## **RECOMMENDATION**

AFO promptly close the custodial account and transfer the funds to the OCFO's Unclaimed Property Unit.

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<sup>6</sup>See report of the Public Service Commission of the District of Columbia for FY 2004 which states; A custodial account was established to serve as a repository for Competitive Local Exchange Carriers (CLECs) no longer operating in the District of Columbia, and left no forwarding communication or information. This account was necessary to facilitate the closure of formal proceedings and the refund process. Refund transfers for the defunct CLECs will be maintained in the custodial account until final disposition is determined.

**The Economic Development and Regulation Cluster's Shared Service Center (EDRC/SSC)<sup>7</sup>**  
**Failed to Maintain Adequate Fiscal Records to Support FY 2005 Revenue Receipts Entries**

According to Government Internal Control Standards issued by the Comptroller General of the United States:

*"Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. ... All documentation and records should be properly managed and maintained."*<sup>8</sup>

Further, according to 1 DCMR § 1502.1 (2001):

*"Agency heads shall establish controls over the creation of records to ensure that adequate and proper records are made and preserved in the District government."*<sup>9</sup>

The Auditor found that accountable EDRC's Shared Service Center (EDRC's SSC) revenue management officials failed to maintain complete records of FY 2005 assessment and revenue/receipts deposited into the PSC Agency Fund. The Auditor found that EDRC's Shared Service Center revenue management officials lacked effective processes to ensure that all journal entries were properly supported. The Auditor found, based on a review of the 18 journal entries for revenue/receipts vouchers issued during the audit period that either supporting documents were missing or there was insufficient documentation to support 16 of the 18 journal entries. This deficiency had not existed prior to assumption of this responsibility by EDRC's Shared Service Center staff.

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<sup>7</sup>According to PSC's Agency Fiscal Officer, during FY 2002, the Office of the Chief Financial Officer (OCFO) announced the restructuring of financial management and operations in the District which created an Associate Chief Financial Officer (ACFO) for each cluster. In March 2003, component operations were established in the Economic Development and Regulation Cluster (EDRC) and a shared Service Center (SSC) operation was implemented. The SSC under the management of the EDRC Controller provides accounting, accounts payable, financial reporting, and revenue management to 19 agencies in the EDRC including PSC. Prior to the creation of the Shared Services Center, all PSC's accounting duties including cash receipts and revenue accounting duties and responsibilities were handled by PSC's Finance Office.

<sup>8</sup>See United States General Accounting Office, Standards for Internal Control in the Federal Government, November 1999, p. 15.

<sup>9</sup>See 1 DCMR § 1502.3, which further states: "The record of every transaction of public business by any District official or employee shall be complete to the extent required by the following: (a) to facilitate actions by incumbents and their successors in office; (b) to make possible proper oversight by the Council of the District of Columbia, courts and other authorized agencies of the government, and other persons responsible for the manner in which public business has been discharged; and (c) to protect the financial, legal and other rights of the government and of persons affected by the government's actions."

## RECOMMENDATIONS

1. EDRC's Controller establish appropriate effective controls over revenue receipt documents to ensure that all documents and records are properly managed, maintained, and made readily available for examination.
2. PSC's AFO request a copy of complete revenue/receipts entry documents from Shared Service Center management and establish an effective system in which to maintain the documentation.

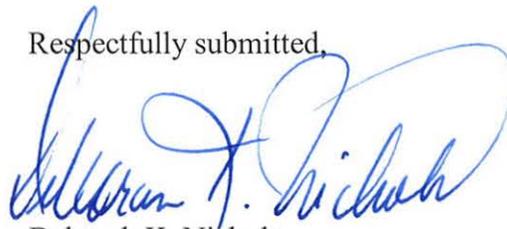
## CONCLUSION

The Auditor found that during fiscal year 2005, \$1,021,534 in public utility assessments and \$13,012 in refunds of expenditures transferred to PSC's operating budget were deposited into the PSC's Agency Fund and recorded in the District's System of Accounting and Reporting (SOAR).

The Auditor also found that the PSC's fiscal year 2005 Trust Fund Reconciliation Report, which was submitted to the Mayor and Council of the District of Columbia, agreed with our finding that \$1,021,534 in public utility assessments were received by PSC and deposited into the Agency Fund in fiscal year 2004.

During fiscal year 2005, the PSC disbursed from the Agency Fund \$829,780 for expenses related to ongoing case activity. Additionally, refunds of unexpended assessments totaling \$451,674 were processed against the fund. The Auditor found that \$829,780 in fiscal year 2005 expenditures processed against PSC's Agency Fund appeared to be reasonable and necessary expenses as required by D.C. Code, Section 34-912. The Auditor successfully reconciled all expense vouchers and refunds to the District's accounting system (SOAR).

Respectfully submitted,



Deborah K. Nichols

District of Columbia Auditor

# APPENDIX

**Description of Formal Cases In Which  
Utilities Made Deposits to the  
Public Service Commission's Agency Fund  
During Fiscal Year 2005**

<u>FORMAL CASE NUMBER</u>	<u>DESCRIPTION OF CASE</u>
<b><u>PEPCO</u></b>	
945	In the Matter of the Investigation into Electric Services Market Competition and Regulatory Practices.
1017	In the Matter of Development and Designation of Standard Offer Service in the District of Columbia.
1023	In the Matter of the Joint Investigation into the Effect of the Bankruptcy of Mirant Corporation on Retail Electric Service in the District of Columbia.
1032	In the Matter of the Investigation into Potomac Electric Power Company's Distribution Service Rates.
<b><u>VERIZON WASHINGTON DC, INC.</u></b>	
TAC-19	In the Matter of the Petition of Verizon Washington DC Inc. Pursuant to Section 252(B) of the Telecommunication Act of 1996.
<b><u>OTHER PROVIDERS</u></b>	
962	In the Matter of the Implementation of the Requirements of the District of Columbia Telecommunications Act of 1996.
TAC-19	In the Matter of the Petition of Verizon Washington DC Inc. Pursuant to Section 252(B) of the Telecommunication Act of 1996.

# **AGENCY COMMENTS**

## AGENCY COMMENTS

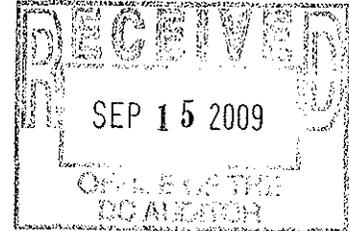
On August 24, 2009, the Office of the District of Columbia Auditor submitted this report in draft for review and comment to the District of Columbia Chief Financial Officer, the Chairperson of the Public Service Commission, and the Executive Director of the Public Service Commission.

Written comments were received from the Chairperson of the Public Service Commission on September 15, 2009. Where appropriate, changes were made to the final report based upon the comments received. All written comments are appended, in their entirety, to the final report.



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September 15, 2009



Ms. Deborah K. Nichols  
Office of the District of Columbia Auditor  
717 14<sup>th</sup> Street, NW Suite 900  
Washington D.C. 20005

Dear Ms. Nichols:

I have reviewed the draft Report of the D.C. Auditor entitled "*Audit of Public Service Commission Agency Fund for Fiscal Year 2005*," which was provided to Phylcia Fautleroy Bowman, Executive Director of the Public Service Commission, on August 24, 2009.

I am pleased to know that your office has determined that the Fiscal Year 2005 expenditures and refunds processed against the PSC's Agency Fund were reasonable.

I am submitting with this letter several editorial corrections including where appropriate changing "PSC" to "Agency Fiscal Officer" or "AFO" to indicate the responsible office.

I also note that the two recommendations your office is making to improve the process are for actions to be undertaken by the AFO or the Shared Service Center of the Office of the Chief Financial Officer. It is my understanding that the OCFO concurs with these recommendations.

Thank you for the opportunity to respond to the findings and recommendations in your draft report. Please do not hesitate to contact me on (202) 626-5125 if you have further questions or need additional information.

Sincerely,

A handwritten signature in black ink, appearing to read "Betty Ann Kane".

Betty Ann Kane  
Chairman

Enclosure

cc: Phylcia Fautleroy Bowman, Executive Director