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United States General Accounting Office  
Washington, DC 20548

Accounting and Information  
Management Division

B-283834

June 30, 2000

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

Subject: District of Columbia: Interest Earned on Federal Funds During  
Fiscal Years 1995 Through 1999

Dear Mr. Chairman:

This letter responds to your request for information on interest earned on federal appropriated funds to any District of Columbia (District) government entity including the District's Financial Responsibility and Management Assistance Authority (Authority) and other related entities for the operation of the District government. This interest was earned on appropriated amounts paid to the District or related entities and held in interest bearing bank accounts until payments were made. As you requested, we are providing data for the last 5 fiscal years ending September 30, 1999. We are also providing updated information on the use and availability of those amounts through February 29, 2000.

Specifically, you asked us to determine

- federal funds appropriated to the District government and its related entities for this period;
- total interest earned on those federal funds received by the District government and its related entities; and
- the status of those interest earnings, including the unobligated balances that could be used to support other District initiatives.

#### **Results in Brief**

- The District government and its related entities received over \$3.5 billion in appropriated federal funds from October 1, 1994, through September 30, 1999.

- The District government and its related entities reported total interest earnings of \$56.8 million<sup>1</sup> on the above federal funds from October 1, 1994, through February 29, 2000.
- The District government and its related entities reported a total of \$39.8 million of interest earnings on federal funds that were expended, returned to the U.S. Treasury, or restricted for specific uses, leaving an unobligated cash balance of \$17 million that was held in escrow by the Authority as of February 29, 2000. An additional \$3.1 million may become available when a property received in exchange for a grant is ultimately sold.

In the District's fiscal year 2000 Appropriations Act, the Congress required the Authority to transfer to the Mayor \$23 million in interest earnings that it held in escrow for the benefit of the District. As part of funding the required transfer, the Authority stated that all of the unobligated and available balance of interest earnings on federal funds held by it would be applied and that it would make up the difference with interest earned on nonfederal funds that it holds in escrow. The District and its related entities agreed with the contents of this letter.

### **Background**

The Constitution gives the Congress exclusive legislative authority over the District of Columbia as the seat of the federal government.<sup>2</sup> Consistent with this Constitutional mandate, the District of Columbia Home Rule Act was enacted into law in 1973 delegating certain powers to the District of Columbia government.<sup>3</sup> However, the delegation of powers to the District by the Home Rule Act is limited in that the District may not obligate or spend funds unless authorized by an act of Congress.<sup>4</sup> Some District spending is authorized by permanent provisions of law—for example, the authority to pay the principal and interest on general obligation bonds or notes.<sup>5</sup> However, other proposed spending is included in the budget adopted by the District government and submitted to the President for submission to the Congress as part of the federal government's annual appropriation process.<sup>6</sup> Like any other unit of government, the District raises funds by numerous local sources such as income and property taxes, fees, reimbursements, fines, penalties, the sale of property, gifts, interest on deposits, and borrowings from the private

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<sup>1</sup>This does not include the earnings on the fiscal year 1995 appropriation as discussed in our "Objectives, Scope, and Methodology" section.

<sup>2</sup>U.S. CONST., art. I, § 8, cl. 17.

<sup>3</sup>Pub. L. No. 93-198, § 102, 87 Stat. 774, 777 (1973), D.C. Code Ann. § 1-201 (1981, 1999 Replacement Vol.).

<sup>4</sup>Section 446 of the D.C. Home Rule Act, as amended, D.C. Code Ann. § 47-304 (2000 Supp.).

<sup>5</sup>See for example, D.C. Code Ann. § 47-331.2(d) (1981, 1997 Replacement Vol.).

<sup>6</sup>Sections 442, 446 of the D.C. Home Rule Act, as amended, D.C. Code Ann. §§ 47-301, 47-304 (1981, 1997 Replacement Vol.).

capital market.<sup>7</sup> In addition, federal fiscal assistance programs authorize federal grants to the District, the funding for which is provided in advance or by reimbursement to the District.<sup>8</sup> According to U.S. Treasury officials, grant payments to the District government are generally made to reimburse it for payments already incurred (for example, the highway trust fund).

The District's ability to raise revenues is affected by a number of legal and practical limitations on its authority, for example, the immunity of federal property from taxation, the prohibition on the District from passing a law to tax the income of nonresidents,<sup>9</sup> and the relative lack of taxable commercial and industrial property. The District of Columbia Home Rule Act included a procedure for congressional review of the budgetary impact of such limitations by requiring the District, to the extent feasible, to identify the impact of the various limitations and to include, in its budget submission, a request for an annual federal payment.<sup>10</sup> In fiscal year 1995, the amount appropriated to the District as an annual federal payment was deposited by the District into its General Fund (consistent with prior year payments) and used along with funds received from other sources to spend on District government activities. While the District invests cash balances until needed for disbursements, it did not separately track and account for the interest earned on the federal payments deposited in the General Fund.

By 1995, the District's financial condition had deteriorated to the point where legislation was enacted establishing the Authority as an entity within the District of Columbia government to eliminate budget deficits and improve District government management.<sup>11</sup> The legislation provided that the Authority could hold in escrow certain funds on behalf of the District, for example, the annual federal payment,<sup>12</sup> the bond proceeds associated with, and any funds in a debt service reserve fund established pursuant to, any borrowing by the Authority on behalf of the District,<sup>13</sup>

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<sup>7</sup>For the purpose of this review, such locally generated revenues are not included. See our "Objectives, Scope, and Methodology" section for a complete discussion of what items will be discussed in this report.

<sup>8</sup>The Cash Management Improvement Act of 1990, Pub. Law No. 101-453, 104 Stat. 1058, 31 U.S.C. §§ 3335, 6503 (1994), requires that advances to states of fiscal assistance be made so as to minimize the time between the advance to the state and its use for program purposes and to authorize recovery of interest earned on such funds if they are not disbursed for program purposes in a timely manner.

<sup>9</sup>Sec. 602 (a)(3), (5) of the D.C. Home Rule Act, D.C. Code Ann. § 1-233(a)(3), (5) (1981, 1999 Replacement Vol.).

<sup>10</sup>Sec. 501 of the D.C. Home Rule Act, D.C. Code Ann. § 47-3405 (1981, 1997 Replacement Vol.).

<sup>11</sup>Secs. 2 and 101 of the District of Columbia Financial Responsibility and Management Assistance Act of 1995 (1995 Act), Pub. L. No. 104-8, 109 Stat. 97, 98, and 100 (1995), D.C. Code Ann. § 47-391.1 (1981, 1997 Replacement Vol.).

<sup>12</sup>Section 205 of the 1995 Act, D.C. Code Ann. § 47-392.5 (1981, 1997 Replacement Vol.).

<sup>13</sup>Section 213 of the 1995 Act, D.C. Code Ann. § 47-392.13 (1981, 1997 Replacement Vol.).

and all money requisitioned (borrowed) by the District from the United States.<sup>14</sup> In addition, recent annual District of Columbia appropriation acts appropriated federal funds for specific District government activities and required, more often than not, that the Authority hold the funds in escrow until they are used for the purpose for which they were appropriated.<sup>15</sup> With the enactment in August 1997 of the National Capital Revitalization and Self-Government Improvement Act of 1997 (Revitalization Act),<sup>16</sup> the Authority has been authorized to spend the interest earned on the accounts held on behalf of the District for such purposes as it considers appropriate to promote the economic stability and management efficiency of the District government.<sup>17</sup>

The Revitalization Act also repealed the provision in the District Home Rule Act requiring the District to submit an annual federal payment request as part of its budget request.<sup>18</sup> Instead, the federal government took over the funding of certain District government agencies or activities. Beginning with fiscal year 1998, the federal government has paid for the operations of the District of Columbia Courts (DC Courts), the District of Columbia Court Services and Offender Supervision Agency (CSOSA) Trustee, and the District of Columbia Corrections Trustee (Corrections Trustee).<sup>19</sup> In addition, the Revitalization Act authorized a federal contribution to the District of \$190 million for fiscal year 1998 and an indefinite amount in subsequent years.<sup>20</sup>

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<sup>14</sup>Section 204(b) of the 1995 Act, D.C. Code Ann. § 47-392.4(b) (1981, 1997 Replacement Vol.).

<sup>15</sup>Compare the appropriation for “Metrorail Improvements and Expansion” (making available \$25 million to the Washington Metropolitan Area Transit Authority for improvements and expansion of the metrorail stop at the new convention center) with the appropriation “Federal Payment for Management Reform” (making \$25 million available to the Authority to be held in escrow for management reform initiatives), District of Columbia Appropriations Act, 1999, Pub. L. No. 105-277, § 101 (c), 112 Stat. 2681, 2681-121 (1998).

<sup>16</sup>Section 11601(a)(1), Pub. L. No. 105-33, Title XI, 111 Stat. 712, 777 (1997).

<sup>17</sup>Section 106(d) of the 1995 Act, as added by section 11711(a) of the Revitalization Act, D.C. Code Ann. § 47-391.6 (1999 Supp.).

<sup>18</sup>Section 11601(a)(1) of the Revitalization Act, D.C. Code § 47-3405 (2000 Supp.).

<sup>19</sup>As a result of the Revitalization Act, the federal government also assumed responsibility to pay the District’s unfunded pension liability for judges, police and firefighters, and teachers, Subtitle A of the Revitalization Act, 111 Stat. 715–731 and Subtitle C, Chapter 4, Subchapter B of the Revitalization Act, 111 Stat. 756-759. In addition, the federal government increased its share of District Medicaid expenditures from 50 percent to 70 percent, section 4725(b) of the Balanced Budget Act of 1997, Pub. L. No. 105-33, 111 Stat. 251, 518 (1997).

<sup>20</sup>Section 11601(c) of the Revitalization Act, D.C. Code Ann. § 47-3406.2 (2000 Supp.).

Over the past 3 years, there has been a decline in the amounts made available to the District related entities to earn interest.<sup>21</sup>

- During fiscal years 1998 and 1999, the federal funds were paid to DC Courts and deposited by it in interest bearing accounts until needed to make payments. Beginning with fiscal year 2000, the fiscal year 2000 appropriation act requires the federal funds to remain in the U.S. Treasury until needed by DC Courts to make payments.
- During fiscal years 1998 and 1999, the federal funds appropriated to the Corrections Trustee for operations (1-year appropriation available for incurring obligations for a definite time period) and for capital construction (no-year appropriation available for incurring obligations for an indefinite period until exhausted) were also deposited into interest bearing accounts until needed to make payments. Beginning with fiscal year 2000, federal money appropriated to the Corrections Trustee for operations (1-year appropriation) is required by law to remain in the Treasury until needed to make payments. No appropriations for capital construction were made to the Corrections Trustee for fiscal years 1999 and 2000.
- During fiscal year 1998, the federal funds appropriated to the CSOSA Trustee were deposited into interest bearing accounts until needed to make payments. Beginning with fiscal year 1999, the federal funds appropriated to CSOSA are required by law to remain in the Treasury until needed to make payments.

### **Objectives, Scope, and Methodology**

As we agreed with your office, our review includes only the appropriation of federal funds that went directly to the Authority, or a District related entity (DC Courts, Corrections Trustee, and CSOSA). We excluded locally generated revenues and the appropriation of federal funds received by not-for-profit organizations and federal agencies as designated in the District of Columbia Appropriations Acts. As we also agreed, we excluded the federal grants to the District and its related entities because they are provided on a reimbursement basis and no interest was earned on them. In addition, we agreed to exclude interest earned on the fiscal year 1995 federal payment that went directly to the District's General Fund since those earnings were not tracked separately or earmarked as interest to be used for a specific purpose. Instead, those funds were available, along with local funds, for the District's general operations.

We included the Washington Metropolitan Area Transit Authority (WMATA) because it is a corporate body that is a regional instrumentality and common agency of each

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<sup>21</sup>District of Columbia Appropriations Act, 1998, Pub. L. No. 105-100, 111 Stat. 2160, 2161 (1997); District of Columbia Appropriations Act, 1999, Pub. L. No. 105-277, § 101(c), 112 Stat. 2681, 2681-122 through 2681-123 (1998); and District of Columbia Appropriations Act, 2000, Pub. L. No. 106-113, Division A, Title I, 113 Stat. 1501, 1502 – 1504 (1999).

of the signatory parties to the WMATA Compact<sup>22</sup>—the District of Columbia, the State of Maryland, and the Commonwealth of Virginia. The other entities that we have identified as District-related are not related to any other government. Therefore, we have separately identified the amounts appropriated to WMATA from amounts appropriated to District-related entities because WMATA differs from the other entities identified.

To determine the total federal funds received by the District government and its related entities for fiscal years 1995 through 1999, we

- analyzed all District appropriation acts from fiscal years 1995 through 1999 and any other emergency or supplemental appropriations from the Congress to the District or its related entities during that period;
- interviewed officials at the District entities that had received appropriations including the Authority, DC Courts, CSOSA, the Corrections Trustee, WMATA, and the District's Office of Finance and Treasury and Office of Budget and Planning; and
- obtained reports, schedules, bank statements, and other financial information of actual federal funds received by the Authority, DC Courts, CSOSA, the Corrections Trustee, and WMATA, and reconciled the amounts to the appropriated amounts.

To determine the interest earnings and uses by the District government and its related entities from fiscal year 1995 through 1999, as well as the subsequent period of October 1, 1999, through February 29, 2000, we

- reviewed bank statements, legislative documents, contracts, and other pertinent data and interviewed officials at DC Courts, the Corrections Trustee, CSOSA, and WMATA;
- reviewed the working papers and held discussions with the Authority's external auditors on the audit work performed for the financial statement audits for fiscal years 1996 through 1999;
- held discussions with the Authority's financial staff, external auditors, and contract accountants on specific detailed information that they provided to us relating to audits covering fiscal years 1996 through 1999 and performed the necessary reconciliations of financial information where appropriate; and
- obtained and analyzed reports, schedules, and detailed information that was provided on additional interest earnings and uses during the subsequent period of October 1, 1999, through February 29, 2000.

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<sup>22</sup>D.C. Code Ann. § 1-2431 (1981, 1999 Replacement Vol.).

To determine the available interest balances that could be used to support other District initiatives, we

- prepared a schedule and obtained an understanding of all of the interest earnings, uses, and other interest transactions for fiscal years 1995 through 1999 and the first 5 months of fiscal year 2000 and
- analyzed the interest activity for the 5-year period and the available interest balance, as of February 29, 2000, subtracting all interest used, returned to the U.S. Treasury, restricted for a specific purpose, and subsequent commitments relating to interest earnings.

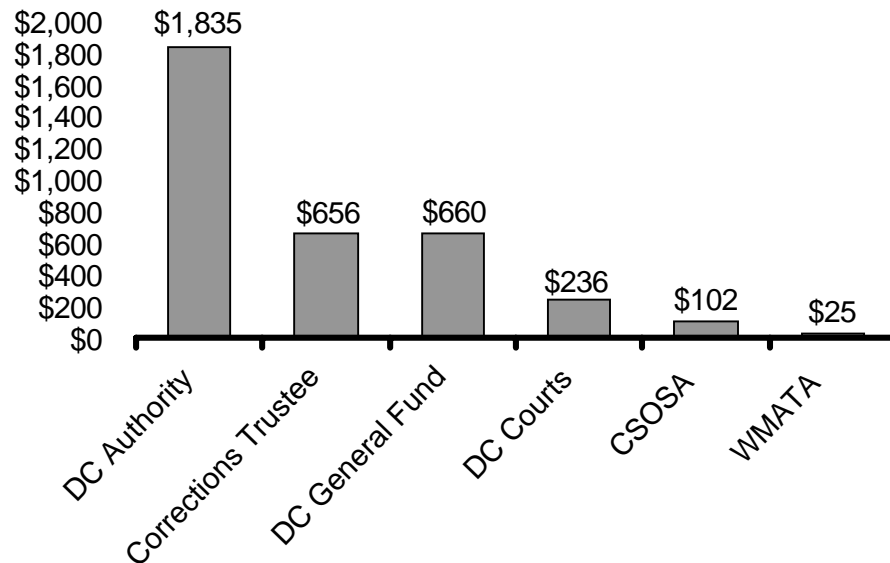
Some of the above steps represented additional procedures that were needed to enable us to address each objective since the Authority's financial statements, reports, and schedules were not reconciled, adequately explained, or provided to us in a timely manner throughout the review. The Authority informed us that it did not have the time to gather "historical" information for us that related to prior years and that, in some instances, the information needed to be recreated.

We conducted our work from August 1999 through June 2000 in accordance with generally accepted government auditing standards. We requested comments on a draft of this report from the District government, the Authority, the Corrections Trustee, DC Courts, CSOSA, and WMATA. Officials from the District, the Authority, the Correction Trustee, DC Courts, CSOSA, and WMATA provided comments that are discussed in the "Entities' Comments" section.

### **Federal Funds Appropriated**

Over \$3.5 billion in federal funds were appropriated to the District of Columbia government and its related entities during fiscal years 1995 through 1999. The Authority received and deposited into escrow accounts 51 percent of the federal funds. The District government received 19 percent and deposited it directly into its General Fund account. Other federal funds were appropriated directly to related entities at 19 percent for the Corrections Trustee, 7 percent for DC Courts, 3 percent for CSOSA, and 1 percent for WMATA. (See figure 1.)

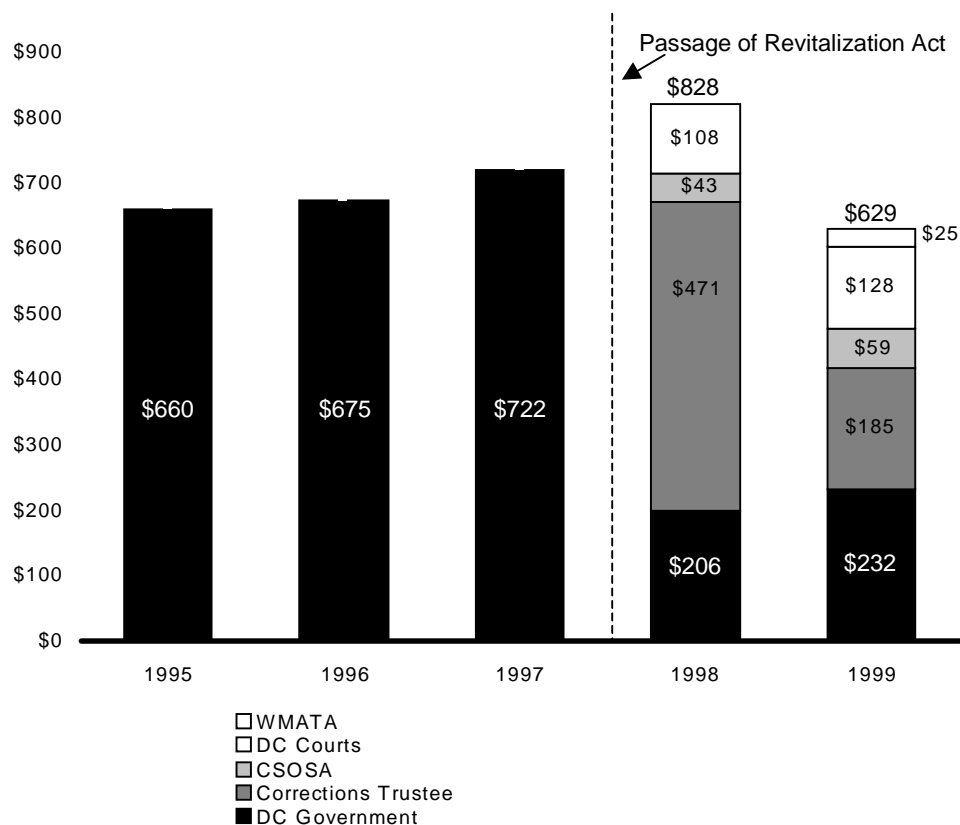
**Figure 1: Federal Funds Appropriated For Fiscal Years 1995 Through 1999  
(Dollars in Millions)**



These funds moderately increased during fiscal years 1995 through 1997 from \$660 million to \$722 million, before reaching a peak in fiscal year 1998 at \$828 million and then dropping to \$629 million in fiscal year 1999. The significant changes in fiscal years 1998 and 1999 resulted from changes in the way the federal government contributed to the funding of the District government. With the passage of the Revitalization Act, the federal government took over the funding of certain District government agencies and activities. These agencies included the Corrections Trustee, the DC Courts, and CSOSA, which accounted for almost \$1 billion (or 68 percent) of the nearly \$1.5 billion in federal funds appropriated in fiscal years 1998 and 1999. The Authority also received and held in escrow \$437.9 million in other federal funds during those years for specific programs and support in the District. WMATA received a \$25 million appropriation in fiscal year 1999 for expansion and improvement of the Mount Vernon Square Metrorail Station located at the site of the new Washington Convention Center. (See figure 2.)



**Figure 2: Federal Funds Appropriated by Entity Over the 5-Year Period  
(Dollars in millions)**



The appropriations to the District were relatively stable throughout fiscal years 1995 through 1997 due to the annual federal payments of \$660 million to the District's general fund in fiscal year 1995 and to the Authority in fiscal years 1996 and 1997. Also, the Congress appropriated additional funds to the Authority for specific programs during fiscal years 1996 and 1997. For example, in fiscal year 1996, the Authority received \$15 million to assist the District's Metropolitan Police Department with local law enforcement,<sup>23</sup> and in fiscal year 1997, three other appropriations, totaling \$61.7 million, were received for other District government activities. These appropriations were \$55 million for the financing of the DC Public Schools' elementary and secondary school facility construction and repair, a \$5.7 million payment in lieu of reimbursement of expenditures for the presidential inauguration, and a \$1 million contribution to repair the District's drinking water system.

Under the Revitalization Act, the federal government discontinued the annual federal payments. At the same time, the federal government took over the funding of certain District government activities. Total appropriations for fiscal years 1998 and 1999 were \$828 million and \$629 million, respectively. Of those amounts, the Congress

<sup>23</sup>We reported on the use of these funds in our report entitled *District of Columbia: Metropolitan Police Department's Use of \$15 Million Appropriation* (GAO/AIMD-99-21, November 13, 1998).

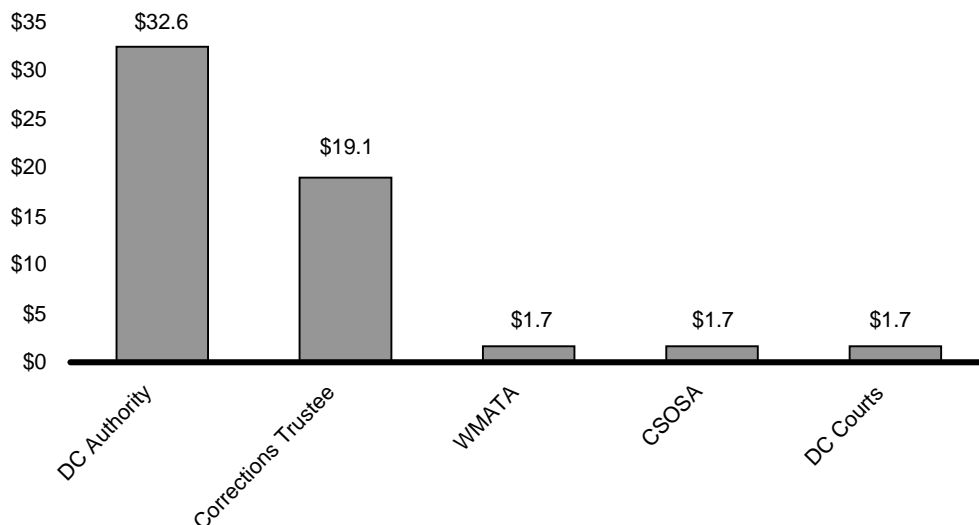
appropriated \$622 million (or 75 percent) in fiscal year 1998 and \$397.2 million (or 63 percent) in fiscal year 1999 to the Corrections Trustee, CSOSA, DC Courts, and WMATA. These funds were allocated for general operations of the Corrections Trustee, CSOSA, and DC Courts, construction and repair of correctional facilities, and improvements in the Metrorail Mount Vernon Station associated with the construction of the District's new convention center.

In addition to the funds appropriated in fiscal year 1998 to the District related entities identified above, another \$206 million was appropriated to the Authority for district programs and operations, management reform, and capital improvements to the District's public schools. Likewise, in fiscal year 1999, an additional \$232 million was appropriated to the Authority for programs in the District, including funding for the potential Year 2000 problem, transportation and public safety infrastructure needs, public schools, police and fire departments, and management reform. The Authority held all of the funds appropriated for district programs and operations for fiscal years 1998 and 1999 in escrow accounts.

### **Interest Earnings**

As of February 29, 2000, more than \$56.8 million of interest was earned on the \$2.9 billion (excluding the fiscal year 1995 federal payment) of federal funds appropriated and paid to the District government and other District related entities in fiscal years 1996 through 1999. Of the \$56.8 million of interest earnings, the Authority earned approximately \$32.6 million (or 57 percent), the Corrections Trustee earned about \$19.1 million (or 34 percent), and CSOSA, DC Courts, and WMATA earned almost \$1.7 million each (or 3 percent each). (See figure 3.)

**Figure 3: Interest Earnings on Federal Funds by Entity Over the 4-Year Period (Dollars in Millions)**



### **Use of Interest Earnings**

For the 4-year period, \$39.8 million of the \$56.8 million in interest earnings was reported as (1) expended, (2) returned to the U.S. Treasury, or (3) unspent but

unavailable. The Authority, Corrections Trustee, WMATA, DC Courts, and CSOSA reported the obligation and spending of total interest of \$18.1 million, total interest returned to the Treasury of \$13.1 million,<sup>24</sup> and another \$8.6 million that was unspent but unavailable. All of the spending occurred between fiscal years 1997 and 1999, and with the exception of \$2.5 million, the Authority was responsible for all uses of interest. CSOSA spent \$1.7 million of interest earnings during fiscal years 1998 and 1999, and DC Courts spent \$0.8 million of interest earnings during fiscal year 1998 without the needed authority.<sup>25</sup>

The \$8.6 million of interest that was unspent but unavailable as of September 30, 1999, comprised: (1) \$1.7 million for WMATA, (2) \$6 million for the Corrections Trustee, and (3) \$0.9 million for DC Courts. According to WMATA officials, the interest earned on its federal payment will be used to support any additional costs associated with the Metrorail Mount Vernon Station project. WMATA officials also stated that should the interest not be used, it will be returned to the U.S. Treasury. WMATA classified the interest earned on its federal payment as restricted funds.

Of the \$6 million of unspent and unavailable interest earnings as of February 29, 2000, the Corrections Trustee returned \$852,000 of this interest that was earned on its fiscal year 1999 operating federal payment to the U.S. Treasury.<sup>26</sup> The Corrections Trustee stated that the remaining interest earned on federal funds was for restricted purposes as follows:

- The fiscal year 2000 appropriation act made \$4.6 million of interest earned on the fiscal year 1998 operating federal payment to the Corrections Trustee available to pay additional operating costs.
- The President's budget requests that the Corrections Trustee be authorized to use any remaining interest earned on the federal payments made to it in the District's fiscal year 1998 appropriation. Through February 29, 2000, the Corrections

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<sup>24</sup>As of February 29, 2000, the Corrections Trustee had earned \$19.1 million on its fiscal years 1998 and 1999 federal payments. During fiscal year 1999, the Corrections Trustee returned \$13.1 million of the interest earned on its fiscal year 1998 capital federal payment to the U.S. Treasury. Of the remaining \$6 million, \$4.6 million was restricted and \$1.4 million is unspent but unavailable as discussed later in this section.

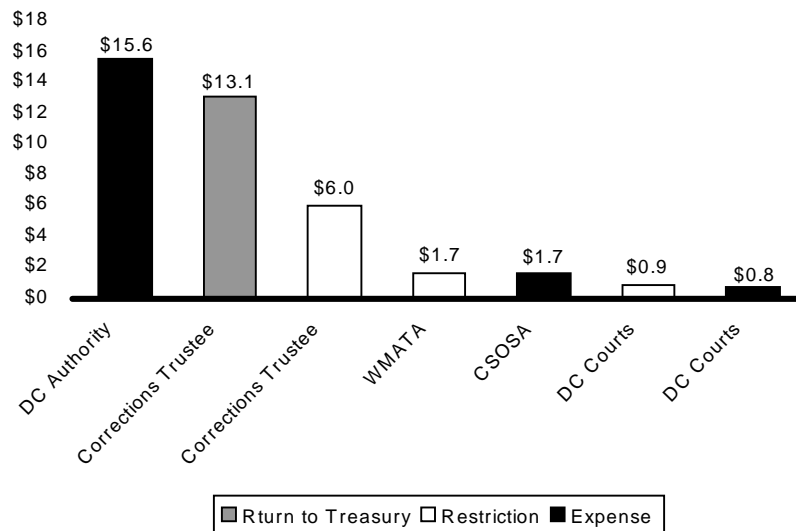
<sup>25</sup>These two entities did not have statutory authority to use the interest income and, as a result, violated the Anti-Deficiency Act, which prohibits government officials from making obligations or expenditures in excess of amounts available in an appropriation or fund unless they are otherwise authorized to do so by law. We reported these findings on the unauthorized use of interest earned on appropriated funds in our letter to CSOSA (B-283834, February 24, 2000) and in our report entitled *DC Courts: Planning and Budgeting Difficulties During Fiscal Year 1998* (GAO/AIMD/OGC-99-226, September 16, 1999).

<sup>26</sup>On June 7, 2000, the Corrections Trustee returned a total of almost \$893,000 of interest earnings to the U.S. Treasury. The amount represents the total interest earned through June 1, 2000, on the fiscal year 1999 federal payment. The Corrections Trustee also returned almost \$429,000 of interest that was earned on fiscal year 2000 funds.

Trustee reported \$541,000 of interest earned on these federal payments and estimated that the amount would not exceed \$550,000.

In addition, in fiscal year 2000 the DC Courts was authorized to use the interest earned on its fiscal year 1999 appropriation to pay for obligations incurred during fiscal year 1999 upon satisfying certain conditions. The conditions were satisfied, as we certified on DC Courts' restricted use of interest earnings in our January 2000 letter.<sup>27</sup> Consequently, DC Courts used \$0.9 million of actual interest earnings to pay for fiscal year 1999 obligations. (See figure 4.)

**Figure 4: Uses of Interest Earned on Federal Funds Over the 5-Year Period (Dollars in Millions)**



Our review of the Authority's use of the interest earnings revealed that \$12.7 million of the \$15.6 million were cash outflows during fiscal year 1999. This amount represented \$8.1 million of expenditures and \$4.6 million of grants. The Authority made the \$4.6 million in grants to the District on the condition that if the District identified other resources it would repay the Authority. According to Authority officials, the bulk of the grants (\$4.4 million, or 96 percent) were paid to the District in connection with the financial hardships of the Greater Southeast Community Hospital, while the remaining \$0.2 million pertained to other activities. Currently, the District has returned \$1.1 million of the grants to the Authority. The Authority expects to receive at least another \$3.1 million when it sells a property that it received in exchange for a \$3.1 million grant to the District on July 13, 1999.

In addition to the above uses of interest earnings, the District requested about \$16 million of other obligations against the interest earnings. Based on our discussions with the Authority and according to information submitted in its status report to the Congress, the Authority obligated \$8.8 million of interest earnings in the

<sup>27</sup> *DC Courts Certification* (GAO/AIMD/OGC-00-68R, January 27, 2000).

form of grants to the District government as of February 29, 2000. Subsequently, the District also requested (1) a grant for interest earnings of \$2.2 million to assist in funding pay bonuses that were approved on December 14, 1999 and (2) other grant requests for interest earnings of about \$5 million. However, based on the Authority's criteria for actually awarding a grant, the District has to show that no other funds are available to support the activity. The Authority stated that based on the audit results of the District's Fiscal Year 1999 Comprehensive Annual Financial Report (CAFR),<sup>28</sup> it does not expect to award the above grant requests since the District should be able to identify the needed funds from its reported surplus. As a result, these additional obligations are not identified as uses of interest earnings.

### **Interest Available**

As of February 29, 2000, the Authority reported \$17 million in available interest earnings on federal funds that it held in escrow. In addition, the Authority reported another \$30.8 million of interest earnings on funds from nonfederal funds that it held in escrow. The nonfederal funds consisted of borrowed funds that are primarily general obligation bond proceeds. The records of the Corrections Trustee, DC Courts, CSOSA, and WMATA indicated that they did not have any available and unrestricted interest earnings as of February 29, 2000.

Legislation enacted in November 1999 provided for transferring interest earnings held in escrow by the Authority during fiscal year 2000. The District's fiscal year 2000 Appropriations Act required the Authority to transfer to the Mayor \$23 million in interest earnings that were held in escrow by the Authority on behalf of the District. Specifically, the Congress appropriated \$18 million for (1) severance payments to District employees separated from employment during fiscal year 2000 and (2) implementation of a system of managed competition among public and private providers of goods and services by and on behalf of the District. Also, the Congress appropriated \$5 million to provide offsets against local taxes for a commercial revitalization program.

The Authority's Chief Financial Officer stated that the order of priority for committing the interest earnings it holds in escrow on behalf of the District is to first use earnings from interest on federal funds and then to use earnings from interest on nonfederal funds.<sup>29</sup> Therefore, the \$17 million held in escrow by the Authority will be used in full, and the Authority will use interest earnings from its nonfederal funds to make up the rest. As a result of the above, the District does not have any interest earnings on federal funds available. However, the Authority's balance does not include \$3.1 million of interest earnings on federal funds that would become available if the grant to the District were repaid upon the sale of the previously referred to property.

<sup>28</sup>The CAFR was issued on April 24, 2000, and resulted in an unqualified (clean opinion). The report showed that the District had a surplus of \$86 million for fiscal year 1999 and a positive fund balance of almost \$199 million as of September 30, 1999.

<sup>29</sup>The Authority reported more than \$30.8 million of interest earnings on nonfederal funds that it held in escrow as of February 29, 2000.

**Entities' Comments**

In commenting on a draft of this report, the Chief Financial Officer of the District of Columbia, the Chief Financial Officer of the Authority, the General Counsel of the Corrections Trustee, the Director of CSOSA, the acting Executive Officer of DC Courts, and the Internal Auditor of WMATA stated that they agreed with our findings. They also provided technical comments, which we have incorporated as appropriate.

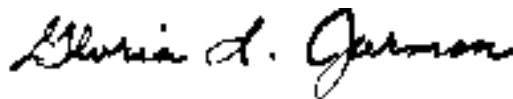
In addition to the technical comments, CSOSA provided copies of letters it sent to Members of the House and Senate transmitting its response to our February 2000 letter on its violation of the Anti-Deficiency Act.<sup>30</sup> The letters to the Members stated that CSOSA has acted to ensure that it complies with federal budgetary guidelines. The letters also request that these Members consider retroactively approving the expenditure of interest in fiscal years 1998 and 1999.

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We are sending copies of this letter to Senator Kay Bailey Hutchinson, Senator Richard Durbin, Senator George Voinovich, and Representative James P. Moran, Representative Thomas M. Davis, III, and Representative Eleanor Holmes Norton in their capacities as Chair or Ranking Minority Member of Senate and House Committees and Subcommittees. Copies will be made available to others upon request.

If you have any questions, please contact me at (202) 512-4476 or by e-mail at [jarmong.aimd@gao.gov](mailto:jarmong.aimd@gao.gov) or Steven R. Haughton, Assistant Director, at (202) 512-5999 or by e-mail at [haughtons.aimd@gao.gov](mailto:haughtons.aimd@gao.gov). Key contributors to this letter were John D. Sawyer, Arkelga L. Braxton, and Richard Cambosos.

Sincerely yours,



Gloria L. Jarmon  
Director, Health, Education and Human Services  
Accounting and Financial Management Issues

(916295)

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<sup>30</sup>See our letter to CSOSA (B-283834, February 24, 2000).