



OFFICE OF THE DISTRICT OF COLUMBIA AUDITOR

THE PRESIDENTIAL BUILDING

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Interim District of Columbia Auditor

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**Statutory Audit of the District's Depository
Activities for Fiscal Year 1996 and 1997**

September 25, 1998

EXECUTIVE SUMMARY

PURPOSE

Pursuant to the District of Columbia Depository Act of 1977 (D.C. Code, Section 47-349(b)), the District of Columbia Auditor conducted a compliance audit, for fiscal years 1996 and 1997, of the District government's depository activities, including the ranking of financial institutions that competed for contracts to provide financial services to the District. During fiscal year 1999, the Auditor will conduct a performance audit of the District's depository and investment activities.

CONCLUSION

During fiscal year 1996, the Office of Finance and Treasury (OFT) earned interest income of \$16,388,641 on its investment of public funds. For fiscal year 1997, the OFT earned interest income of \$10,657,210 on invested public funds. The Auditor's review of the OFT's investment activities for fiscal years 1996 and 1997 revealed that the District's interest earnings declined approximately \$9.4 million over the two year period. Further, the District's pooled cash investment balance declined by \$49.7 million during the same two-year period, and the District's bond proceeds investment balance declined by approximately \$93.5 million between fiscal year 1995 and the end of fiscal year 1997. These declines occurred as a result of several cash flow issues experienced by the District between fiscal years 1995 and 1997 including: (i) the timing of the receipt and disbursement of projected revenues and expenditures; and (ii) the receipt of funds such as the federal payment, bond proceeds, borrowings, and other funds that were held in escrow and invested by the District of Columbia Financial Responsibility and Management Assistance Authority.

The Office of Finance and Treasury did not rank financial institutions in accordance with the provisions of the Depository Act of 1977 before depositing millions of dollars in public funds with five local banks: NationsBank, Signet, First Union, First National of Maryland-DC, and Industrial Bank of Washington. Further, the Office of Finance and Treasury permitted these five banks to provide a variety of financial services on behalf of the District during fiscal years 1996 and 1997 without awarding and maintaining valid contracts with each bank to cover all of the services provided by them throughout the audit period. District officials did not competitively award and maintain valid contracts with the five local banks during periods that the banks held millions of dollars in District government funds in deposit and investment accounts.

The Office of Finance and Treasury did not adhere to the requirements of the Depository Act of 1977 by ranking the financial institutions it used for short-term investment of District government funds. The Depository Act of 1977 outlined six criteria for ranking financial institutions.

The Office of Finance and Treasury did not increase its investment of public funds with local credit unions during fiscal years 1996 and 1997. District of Columbia Code, Section 47-343(b) recognizes community credit unions as eligible depositories for term deposits exceeding ninety-one (91) days. Public funds deposited with community credit unions must be in equal amounts and may not exceed \$100,000. The Auditor observed that from fiscal years 1992 through 1997, the Office of Finance and Treasury deposited \$100,000 each in certificates of deposit (CDs) with each of the same two District credit unions: (1) Hospitality Community Federal Credit Union; and (2) District Government Employees Federal Credit Union. These two investments represented the District government's only deposits with local credit unions.

During the audited period, the Office of Finance and Treasury appears to have achieved the goal of maximizing earnings on invested District funds. However, this goal was accomplished in a manner that did not benefit District taxpayers or stimulate the District's economy in accordance with the intent of the Depository Act.

MAJOR FINDINGS

- o The District's Office of Finance and Treasury deposited millions of dollars in District funds with local banks without awarding financial services contracts.
- o The Office of Finance and Treasury placed only \$100,000 each in certificates of deposit (CDs) with the same two community credit unions serving designated geographical areas within the District during fiscal years 1996 and 1997.
- o The Office of Finance and Treasury did not adhere to the requirements of the Depository Act of 1977 by ranking the financial institutions it used for short-term investment of District government funds.

PURPOSE

Pursuant to the District of Columbia Depository Act of 1977 (D.C. Code, Section 47-349(b)), the District of Columbia Auditor conducted a compliance audit, for fiscal years 1996 and 1997, of the District government's depository activities, including the ranking of financial institutions that competed for contracts to provide financial services to the District. During fiscal year 1999, the Auditor will conduct a performance audit of the District's depository and investment activities.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of this audit were to:

1. determine the amount of interest earned on public funds invested by the District and the Financial Responsibility and Management Assistance Authority during fiscal years 1996 and 1997;
2. determine whether the District complied with provisions of D.C. Code, Section 47-343 entitled, "Selection of Depositories and Investments," and the District of Columbia Procurement Practices Act of 1985, as amended, in awarding, renewing, and extending contracts with local banks to provide financial services to the District;
3. determine whether the District's short-term investment activity complied with D.C. Code, Section 47-344 entitled, "Ranking of Depositories," and
4. determine whether the District increased its investment of public funds with community credit unions serving designated geographical areas within the District during fiscal years 1996 and 1997.

To accomplish the objectives, the Auditor reviewed D.C. Code, Sections 47-341 through 47-350; D.C. Law 12-56 entitled, "Financial Institutions Deposit and Investment Amendment Act of 1997;" and the District of Columbia Procurement Practices Act of 1985, as amended.

The Auditor interviewed knowledgeable staff in the Office of the Chief Financial Officer's Office of Finance and Treasury (OFT), including the associate treasurer for Debt and Investment Management (DIM), the debt manager, and the banking relations manager. (*The Office of Finance and Treasury was formerly known as the Office of the D.C. Treasurer*). The Auditor also interviewed the procurement analyst in the Office of the Chief Financial Officer's Office of Mission Support.

The Auditor examined bank service proposals, contracts between the District and area banks serving as depositories, and collateral reports for selected accounts. The Auditor also reviewed daily investment calendars and transaction summaries for short-term investments of 91 days or less, certificates of deposit with minority-owned banks, and records related to public funds on deposit with community credit unions.

BACKGROUND

On October 26, 1977, the Council of the District of Columbia enacted D.C. Law 2-32 entitled, "District of Columbia Depository Act of 1977" (Depository Act). The Depository Act established methods for depositing and investing public funds and obtaining financial services. Also, the Depository Act established a system under which the District awarded contracts to banks based upon a competitive bidding process that required the ranking of financial institutions, and the diversification of the District's investment portfolio. D.C. Code, Section 47-343(a) and (c)(1), in relevant part, state:

“(a) A short-term deposit or an investment of 91 days or less shall be made on the basis of the highest interest rate yield available at that time for a similar investment permitted under this subchapter and in a manner consistent with liquidity and safety. To the maximum extent possible, consistent with the highest interest rate yield and the intent of this subchapter, the Mayor shall utilize the evaluation criteria in § 47-344(a) to select financial institutions for short-term investments.

(c)(1) The Mayor shall promulgate a list of financial services required to be performed by demand depositories in connection with the retention of deposits. The Mayor shall conduct public hearings concerning which of the financial services shall be set aside for award only to the highest ranking commercial banks based on the evaluation criteria in § 47-344(a).”

Finally, D.C. Code, Section 47-344(a), in relevant part, states that the ranking of depositories shall be based on the average of the 6 following categories:

1. two year loan origination for qualifying loans expressed as a percentage of total loans originated by financial institutions;
2. outstanding loans made by financial institutions to District residents or businesses expressed as a percentage of total deposits;

3. financial institutions' employment practices expressed as the average number of minority persons and women in management positions and on the board of directors as a percentage of the total number of such positions;
4. total dollar amount of District of Columbia moderately priced housing loans as a percentage of the total dollar amount of housing loans made by financial institutions;
5. total dollar amount of District of Columbia small business loans as a percentage of total business loans originated by financial institutions; and
6. women ownership or certification as minority owned by the Minority Business Opportunity Commission in accordance with D.C. Code, Section 1-1141 et seq.

The primary purpose of the Depository Act was to maximize earnings on public funds in a manner consistent with liquidity and safety while benefitting District residents and stimulating the District's economy. District finance officials were unsuccessful in implementing the ranking requirements of the Depository Act as a result of an inability (1) to obtain necessary information from financial institutions, and (2) to translate the social goals of the law into tangible, quantifiable results.

As noted in previous audit reports and agency comments, only once since the passage of the Depository Act has the District's Office of Finance and Treasury ranked financial institutions in accordance with criteria stated in the Act. The Auditor's findings and recommendations, and the agency's subsequent comments to the findings and recommendations, were primarily the same for fiscal years 1992 through 1995.

The Auditor's primary concern over the years has been the District's difficulty in ranking financial institutions selected for deposit and investment of public funds. As noted earlier, the District's Office of Finance and Treasury has consistently maintained that ranking financial institutions in accordance with the Depository Act was impossible because: (i) it was too costly; (ii) it was resisted by financial institutions, and (iii) the information required from financial institutions was often incomplete or not submitted. The Office of Finance and Treasury and its predecessor, the Office of the D.C. Treasurer, were unable to collect the information necessary to effectively rank financial institutions in accordance with the Depository Act.

Council Repeals the Depository Act of 1977 and Enacts New Legislation Governing Depository Activities

On October 17, 1997, the Council of the District of Columbia repealed, in its entirety, the Depository Act of 1977. In its place, the Council enacted the "Financial Institutions Deposit and Investment Amendment Act of 1997," D.C. Law 12-56, which was approved by the Authority.

The "Financial Institutions Deposit and Investment Amendment Act of 1997" states in relevant part:

"To amend chapter 3 of Title 47 of the District of Columbia Code to establish methods for depositing and investing District funds and obtaining financial services, including a system that will award banking business based upon a competitive bidding process involving the ranking of financial institutions, and diversification of the District's investment portfolio."

Analysis of Changes in Depository Activities Resulting From D.C. Law 12-56

District of Columbia Law 12-56:

1. Increased the types of investment instruments in which the District could invest public funds. - D.C. Law 12-56 authorizes the Mayor to invest public funds in instruments such as bonds, bills and notes, revenue bonds of the District, certificates of deposit, mortgage backed or asset backed securities, prime banker acceptances, prime commercial paper, investment grade obligations of the District, money market funds, and repurchase agreements. By contrast, the Depository Act (D.C. Code, Section 47-342(b)) limited investment of public funds to obligations of the United States government or its agencies, such as T-bills, notes and bonds, and repurchase agreements. D.C. Law 12-56 significantly expands the District's investment options.
2. Increased the length of time public funds may be invested. - D.C. Law 12-56 expanded the maturity date for all investments of public funds beyond the present 91-day limit. By comparison, the Depository Act limited the investment of public funds to a maximum of 91-days.
3. Changed the ranking criteria for financial institutions submitting bids for deposit and investment of public funds. - D.C. Law 12-56 places emphasis on local financial institutions' overall participation in community development and uses the reporting

requirements of the Community Reinvestment Act and the Home Mortgage Disclosure Act for ranking purposes. Eligibility is based on: (i) total mortgage lending in low-to-moderate income areas, (ii) total lending activity to small businesses located in low-to-moderate income areas, and (iii) number of branches in low-to-moderate income areas. By contrast, the Depository Act's ranking criteria included the 6 categories noted earlier in this report on pages 2 and 3.

4. D.C. Law 12-56 omitted the Auditor's statutory requirement to audit and report on the District's deposit and investment activity. However, under Public Law 93-198, the Auditor will continue to audit the District's deposit and investment activity on a regular basis.

District's Interest Income Earnings Declined by \$9.4 Million From Fiscal Year 1995 to Fiscal Year 1997

Interest income earned on the deposit and investment of District public funds declined from \$20,025,449 in fiscal year 1995 to \$16,388,641 in fiscal year 1996, and further declined to \$10,657,210 in fiscal year 1997. The \$9.4 million decline in interest income from fiscal year 1995 through fiscal year 1997 may be attributed to: (i) a decline in the amount of bond proceeds available for investment by the Office of Finance and Treasury, and (ii) variances in the amount of public funds available for investment.

During fiscal years 1996 and 1997, interest rates for investments made by the Office of Finance and Treasury ranged from 5.22% to 5.63%. Table I presents the interest income earned on invested public funds for fiscal years 1995, 1996, and 1997.

TABLE I
A Comparison of Interest Earned on Investments
For Fiscal Years 1995, 1996, and 1997

INVESTMENT CATEGORY	INTEREST EARNED ON INVESTMENTS BY FISCAL YEAR		
	1995	1996	1997
Pooled Cash	\$6,878,417	\$6,889,173	\$4,232,023
Overnight Cash	819,705	754,927	696,634
Bond Proceeds	6,158,325	4,056,091	807,836
Note Escrow	629,873	374,293	390,134
Bond Escrow-Repo	4,940,999	4,172,459	4,349,667
Bond Escrow-MMF	598,130	141,698	180,916
Grand Total	\$20,025,449	\$16,388,641	\$10,657,210

Source: Office of Finance and Treasury and the D.C. Auditor's Office

Bond Proceeds Investment Portfolio

In general, bond proceeds were used to: (i) finance the costs of certain capital projects included in the District's Capital Improvement Program (CIP); (ii) establish an escrow to refund certain parity bonds; and (iii) to pay the costs and expenses of issuing and delivering bonds. The District's fiscal year 1995 bond proceeds investment portfolio totaled \$109 million. In fiscal year 1996, the bond proceeds investment portfolio decreased to \$74.9 million. In fiscal year 1997, the bond proceeds investment portfolio further decreased to \$15.5 million. Over this three-year period, the District's bond proceeds investment portfolio decreased by approximately \$93.5 million, or 85.8% percent. The substantial decrease was due to the District spending bond proceeds on capital projects specifically identified for bond issues.

Investment of Pooled Cash

The average investment balance for pooled cash during fiscal years 1995, 1996, and 1997 was \$125 million, \$128.3 million, and \$78.6 million, respectively. Between fiscal years 1996 and 1997, the average investment balance for pooled cash declined by \$49.7 million. The District of Columbia's Comprehensive Annual Financial Report (CAFR) for fiscal year 1996 reported that

during fiscal year 1996 the District encountered a “significant pooled cash shortfall” and projected the shortfall to continue in fiscal year 1997. The pooled cash shortfall resulted from several cash flow issues which included the timing of the receipt and disbursement of projected revenues and expenditures, and the receipt of funds such as the federal payment, bond proceeds, borrowings, and other amounts held by the District of Columbia Financial Responsibility and Management Assistance Authority (the Authority).

During fiscal years 1994, 1995, and part of 1996, the District experienced substantial delays in making vendor payments, thereby increasing the availability of pooled cash. In the latter part of fiscal year 1996 and throughout fiscal year 1997, the District increased the timeliness of its vendor payments so that vendors were routinely paid within 30-45 days. Improvement in the vendor payment process decreased available cash balances, thereby affecting the amount of pooled cash available for investment. Additionally, during fiscal year 1996 (January 1996), the District borrowed \$283 million from the U.S. Treasury for operating expenses based on its cash needs for the entire fiscal year. However, during fiscal year 1997, instead of borrowing the entire amount of cash needed for the year, the District borrowed funds from the U.S. Treasury in two installments of \$173.1 million in December 1996 and \$50 million in March 1997. OFT’s decision to borrow funds in installments during fiscal year 1997, rather than borrow total funds required for the entire fiscal year at the beginning of the fiscal year, decreased the amount of cash available for investment.

Custody of Bond Proceeds Shifted from the District’s Office of Finance and Treasury to the District of Columbia Financial Responsibility and Management Assistance Authority

The District issued \$170.6 million in general obligation bonds in fiscal year 1996 and \$237.8 million in general obligation bonds in fiscal year 1997. The District of Columbia Financial Responsibility and Management Assistance Authority (the Authority), rather than the Office of the Chief Financial Officer, held in escrow and invested these bond proceeds pursuant to Public Law 104-8, the District of Columbia Financial Responsibility and Management Assistance Act of 1995, as amended. These funds were held in escrow and invested by the the Authority until specific amounts were requisitioned by the Office of Finance and Treasury for payment of capital project expenditures. Public Law 104-8, Section 204(a)(3) and (d), as amended by Public Law 104-208, and Section 211(b) of Public Law 104-8 state:

Section 204(a):

(3) “Borrowing Described. - This subsection shall apply with respect to any borrowing undertaken by the District government, including borrowing through the issuance of bonds under part E of title IV of the District of Columbia Self-Government and Governmental Reorganization Act, the exercise of authority to obtain funds from the United States Treasury under title VI of the District of Columbia Revenue Act of 1939 (sec. 47-3401, D.C. Code), or any other means.”

Section 204(d)

“Deposit of Borrowed Funds With Authority. - If the District government borrows funds during a control year, the funds shall be deposited into an escrow account held by the Authority, to be allocated by the Authority to the Mayor at such intervals and in accordance with such terms and conditions as it considers appropriate, consistent with the financial plan and budget for the year and with any other withholding of funds by the Authority pursuant to this act.”

Section 211(b)

“Deposit of Funds Obtained Through Borrowing With Authority. - Any funds obtained by the District government through borrowing by the Authority pursuant to this subtitle shall be deposited into an escrow account held by the Authority, which shall allocate such funds to the District government in such amounts and at such times as the Authority considers appropriate, consistent with the specified purposes of such funds.”

See Appendix I for the principal amount of bond and note proceeds held by the Authority and the interest earned by the Authority on invested bond proceeds during fiscal years 1996 and 1997.

FINDINGS

DURING FISCAL YEARS 1996 AND 1997 THE OFFICE OF FINANCE AND TREASURY DID NOT RANK FINANCIAL INSTITUTIONS OR AWARD CONTRACTS TO FINANCIAL INSTITUTIONS BEFORE DEPOSITING MILLIONS OF DOLLARS IN PUBLIC FUNDS

The Depository Act of 1977 required the District to rank local banks before awarding contracts for financial services and placing public funds on deposit with these institutions. D.C. Code, Section 47-343(c)(1), "Demand Deposits," states:

“(1) The Mayor shall promulgate a list of financial services required to be performed by demand depositories in connection with the retention of deposits. The Mayor shall conduct public hearings concerning which of the financial services shall be set aside for award only to the highest ranking commercial banks based on the evaluation criteria in subsection 47-344(a). After the public hearings and prior to the solicitation of any bid for placing demand deposits, the Mayor shall determine which financial services shall be set aside.”

Based upon an examination of fiscal years 1996 and 1997 bank statements and contract files maintained by the Office of Finance and Treasury and the Office of Mission Support, the Auditor found that the Office of Finance and Treasury routinely deposited millions of dollars with local banks without rating and ranking the institutions in accordance with D.C. Code, Section 47-343(c)(1) and Section 47-344. The Auditor also found that OFT failed to award new contracts or extend existing contracts in accordance with the requirements of the D.C. Procurement Practices Act of 1985, as amended, to cover on-going financial services that financial institutions provided to the District government. District of Columbia Code, Section 1-1181.5(d)(1) of the Procurement Practices Act states, in relevant part, that:

“No District official or District employee subject to this chapter shall authorize any payment for the value of goods and services received without benefit of a valid written contract. . .”

During fiscal years 1996 and 1997, NationsBank, First Union National Bank, Signet Bank, First National Bank of Maryland-DC, and the Industrial Bank of Washington provided various financial services to the District, including check writing services and the collection of payments by way of lockbox services. Lockbox services included the collection of payments from District

residents for income taxes, real estate taxes, business and professional licenses, and other payments. The Depository Act of 1977 and the District of Columbia Procurement Practices Act of 1985 require that services provided by financial institutions to the District must be covered by valid contracts.

The actual dollar amount of District funds held by financial institutions when financial services were provided without valid contracts varied each day depending on the District's demand for funds to pay bills. For example, during the period under review, the Department of Public Works' (DPW) revolving fund account at Signet Bank contained an average daily balance of \$7 million; the average daily balance in a motor vehicle lockbox account at Signet Bank was \$193,000; and the D.C. Water and Sewer Authority's account at Signet Bank averaged a daily balance of only \$656.

Appendix II presents 54 financial services provided by NationsBank, First Union, Signet, First National Bank of Maryland, and Industrial Bank of Washington. The absence of contract information on file with the Office of Finance and Treasury and the Office of Mission Support indicated that many of the services provided by these five local banks were not all covered by valid contracts during fiscal years 1996 and 1997.

For the Auditor's review, the Office of Finance and Treasury's banking relations manager made available contract files for only 13 of the 54 financial services provided by NationsBank, First Union Bank, Signet Bank, and First National Bank of Maryland-DC. The banking relations manager could not provide any contract files for financial services provided by Industrial Bank of Washington. The Auditor's analysis of the 13 contracts that were provided for this audit revealed periods of time during which four of the local banks provided financial services without valid contracts in force.

Table II presents the 13 contracts reviewed by the Auditor, the periods of time covered by each contract, and the financial services provided under each contract.

TABLE II
Local Banks Providing Financial Services
To The District of Columbia Government
During Fiscal Years 1996 and 1997

Local Bank	Valid Contract Period	Number of Months	Financial Services Provided
First Union	3/05/97 - 8/31/97	6	Sales & use tax, withholding tax, real estate lockbox
First Union	4/01/96 - 3/31/97	12	Job training program (JTPA)
Signet	3/05/97 - 8/31/97	6	D.C. Lottery, automated clearing house (ACH)
Signet	9/01/96 - 8/31/97	12	Automated clearing house (ACH)
Signet	12/17/95-12/16/96 12/17/96 - 6/30/97	12 6.5	Commission on Mental Health collection and disbursement account
Signet	5/24/96 - 5/24/97	12	DPW - trust account and revolving account
Signet	4/01/95 - 3/31/96	12	Group two - payroll account
Signet	7/10/97 - 01/10/98	6	Consolidated account - individual income, franchise, personal property.
NationsBank	8/01/96 - 6/30/97	11	District's Custodial Account, zero balance account (ZBA).
NationsBank	7/01/96 - 6/30/97	12	Payroll accounts for summer youth employment, Dept. of Recreation employees
NationsBank	4/01/96 - 3/31/97	12	DOES benefits payments and lockbox clearing accounts
NationsBank	12/01/96 - 4/30/97	5	WIC and Farmers Mkt. Accounts

Source: Office of Finance & Treasury and the Office Of The D.C. Auditor

Valid written and duly executed contracts should have been awarded to each of these financial institutions prior to the District placing any public funds in their custody.

Financial institutions provided services to the District government without being ranked in accordance with the provisions of the D.C. Depository Act of 1977, and without the award of valid written contracts in accordance with the D.C. Procurement Practices Act of 1985. As a consequence, the services provided by each of these financial institutions and contract performance standards were not clearly articulated in a written agreement. Further, the rate of compensation was not readily apparent, and contract performance was not governed and assessed by the terms of a written agreement.

RECOMMENDATION

The Office of the Chief Financial Officer competitively award and maintain in force contracts to cover services provided by financial institutions to the District government.

THE OFFICE OF FINANCE AND TREASURY DID NOT ADHERE TO THE REQUIREMENTS OF THE DEPOSITORY ACT OF 1977 FOR SHORT-TERM INVESTMENT ACTIVITY

For fiscal years 1996 and 1997, the Office of Finance and Treasury (OFT) did not adhere to the Depository Act of 1977 by ranking the financial institutions it used for short-term investment of public funds. As noted earlier, D.C. Code, Section 47-344(c) outlined the six (6) criteria for ranking depositories.

Rather than comply with the Depository Act, the Office of Finance and Treasury established its own guidelines for the short-term investment of public funds. The Office of Finance and Treasury's guidelines included: liquidity - funds must be available to meet District needs; yield - earning the highest possible interest rate on investments; and safety - investment instruments must provide a reasonable degree of security against loss of principal. In making these investments, OFT primarily utilized repurchase agreements obtained through investment dealers located outside of the District of Columbia. Repurchase agreements are agreements between a seller and buyer, usually of U.S. Government securities, whereby the seller agrees to repurchase the securities at an agreed upon price and, usually, at a stated time. While the Office of Finance and Treasury's guidelines protected the District's financial interest, they did not fully comply with the requirements of the Depository Act.

To determine the highest available interest rate yield on any given day, OFT officials called three investment dealers (Lehman Brothers, Merrill Lynch, and First Union) to obtain interest rate quotes. OFT officials then invested the total amount of public funds available on that day with the dealer(s) quoting the highest interest rate yield.

For fiscal year 1996, the District earned interest income of \$16.4 million on all investments (pooled cash, capital bond fund, and escrow bond fund) with an average daily interest rate of 5.20% as presented in Table III.

TABLE III
Office of Finance and Treasury:
Summary of Investment Account Activity
For Fiscal Year 1996

Public Funds Investment Accounts	Average Investment Portfolio	Annual Interest Earnings	Weighted Average Interest Rate Percentage
Pooled Cash	\$128,266,106	6,889,173	5.371
Overnight Cash	14,981,678	754,927	5.039
Note Escrow	7,202,105	374,293	5.197
Bond Proceeds	74,946,258	4,056,091	5.412
Bond Escrow-Repo	78,459,172	4,172,459	5.318
Bond Escrow-MMF	2,907,811	141,698	4.873
TOTAL	\$306,763,130	16,388,641	5.202

Source: Office of Finance and Treasury

For fiscal year 1997, the District earned interest income of \$10.7 million on all investments, with an average daily interest rate of 5.22% as presented in Table IV.

TABLE IV
Office of Finance and Treasury:
Summary of Investment Account Activity
For Fiscal Year 1997

Public Funds Investment Accounts*	Average Investment Portfolio	Annual Interest Earnings	Weighted Average Interest Rate Percentage
Pooled Cash	\$78,574,503	\$4,232,023	5.386
Overnight Cash	\$14,164,988	\$696,634	4.918
Note Escrow	\$7,174,221	\$390,134	5.438
Bond Proceeds	\$15,532,328	\$807,836	5.201
Bond Escrow-Repo	\$79,810,399	\$4,349,667	5.450
Bond Escrow-MMF	\$3,684,649	\$180,916	4.910
TOTAL	\$198,941,088	\$10,657,210	5.217

Source: Office of Finance and Treasury and the Office of the D.C. Auditor

* Note: Appendix III contains a glossary of terms which defines the public funds investment accounts.

As noted earlier, the Office of Finance and Treasury did not rank financial institutions used for short-term investment of public funds in accordance with the Depository Act. Instead, OFT followed its own guidelines which included liquidity, yield, and safety. As a consequence, during the audit period, the Office of Finance and Treasury appears to have achieved the goal of maximizing earnings on public funds but did not achieve the goal of benefitting District taxpayers and stimulating the local economy in accordance with the Depository Act.

THE DISTRICT DID NOT INCREASE ITS INVESTMENT OF PUBLIC FUNDS WITH LOCAL CREDIT UNIONS DURING FISCAL YEARS 1996 AND 1997

District of Columbia Code, Section 47-343(b) required term deposits exceeding ninety-one (91) days to be placed with community credit unions in the following manner:

“Equal amounts, not in excess of one hundred thousand dollars (\$100,000), shall be offered to be deposited in each community credit union.”

The Auditor observed that from fiscal years 1992 through 1997, the Office of Finance and Treasury deposited only \$100,000 each in certificates of deposit (CDs) with the same two (2) District credit unions: (1) Hospitality Community Federal Credit Union; and (2) District Government Employees Federal Credit Union. These two investments represented the District government's only deposits with community credit unions. During fiscal years 1996 and 1997, the Office of Finance and Treasury did not place any additional term deposits with community credit unions in designated geographical areas of the District.

The District earned interest income of \$6,273.31 in fiscal year 1996 and \$6,517.99 in fiscal year 1997 on the two certificates of deposit. Hospitality Community Federal Credit Union paid 2.52% interest during fiscal years 1996 and 1997. During fiscal years 1996 and 1997, the District Government Employees Federal Credit Union paid quarterly interest ranging from 3.8% to 7.63%.

CONCLUSION

During fiscal year 1996, the Office of Finance and Treasury earned interest income of \$16,388,641 on its investment of public funds. For fiscal year 1997, the OFT earned interest income of \$10,657,210 on invested public funds. The Auditor's review of the OFT's investment activities for fiscal years 1996 and 1997 revealed that the District's interest earnings declined approximately

\$9.4 million over the two year period. Further, the District's [pooled cash] investment balance declined by \$49.7 million during the same two-year period, and the District's bond proceeds investment balance declined by approximately \$93.5 million between fiscal year 1995 and the end of fiscal year 1997. These declines occurred as a result of several cash flow issues experienced by the District between fiscal years 1995 and 1997 including: (i) the timing of the receipt and disbursement of projected revenues and expenditures, and (ii) the receipt of funds such as the federal payment, bond proceeds, borrowings, and other funds that were held in escrow and invested by the District of Columbia Financial Responsibility and Management Assistance Authority.

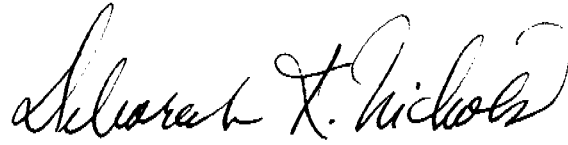
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The Office of Finance and Treasury did not increase its investment of public funds with local credit unions during fiscal years 1996 and 1997. District of Columbia Code, Section 47-343(b) recognizes community credit unions as eligible depositories for term deposits exceeding ninety-one (91) days. Public funds deposited with community credit unions must be in equal amounts and may not exceed \$100,000. The Auditor observed that from fiscal years 1992 through 1997, the Office of Finance and Treasury deposited \$100,000 each in certificates of deposits (CDs) with each of the same two District credit unions: (1) Hospitality Community Federal Credit Union; and (2) District Government Employees Federal Credit Union. These two investments represented the District government's only deposits with local credit unions.

During the audited period, the Office of Finance and Treasury appears to have achieved the goal of maximizing earnings on invested District funds. However, this goal was accomplished in a manner that did not benefit District taxpayers or stimulate the District's economy in accordance with the intent of the Depository Act.

Respectfully submitted,

A handwritten signature in black ink, reading "Deborah K. Nichols". The signature is written in a cursive style with a large, stylized initial 'D'.

Deborah K. Nichols

Interim District of Columbia Auditor

APPENDICIES

**Interest Earned on District Bond and Note Proceeds Held In Escrow By
The District of Columbia Financial Responsibility
and Management Assistance Authority
For Fiscal Years 1996 and 1997**

Investment Category	Net Amount of Bonds/Notes Issued	Interest Earned On Investment By Fiscal Year	
		1996	1997
Bond Proceeds (Series 1996A)	\$167,281,741*	\$-0-	\$ 930,309
Bond Proceeds (Series 1997A)	\$233,112,210*	\$-0-	\$2,550,268
Note Proceeds	\$ 4,199,500	\$692,262	\$-0-
Note Proceeds (Combined)**	\$264,832,787	\$-0-	\$1,388,882
Total	\$669,426,238	\$692,262	\$4,869,459

Source: Audited year-end Financial Statements provided by the Authority

*Note: Net of original issue discount and underwriter's fees associated with bond issuance.

**Note: This includes 1997A Tax Revenue Anticipation Notes and 1997 General Obligation Notes.

Appendix II

**Local Banks Providing Financial Services
To The District of Columbia Government:
Fiscal Years 1996 and 1997**

No.	Local Bank	Financial Service Provided	Period Covered By Contract	Number of Months Covered by Contract
1	NationsBank	School Cafeteria	No Contract	-0-
2	NationsBank	Credit Card Receipts	No Contract	-0-
3	NationsBank	DPAH Rental Receipts	No Contract	-0-
4	NationsBank	Grant Funds	No Contract	-0-
5	NationsBank	HFA Monterey Park	No Contract	-0-
6	NationsBank	Ticket Processing	No Contract	-0-
7	NationsBank	FMS Vendor Payment	No Contract	-0-
8	NationsBank	Guaranteed Loan Fund	No Contract	-0-
9	NationsBank	DCRA-Lic. & Cert.	10/1/95-9/30/96	12
10	NationsBank	DCRA-Insurance	10/1/95-9/30/96	12
11	NationsBank	DOES Clearings	4/1/96-3/31/97	12
12	NationsBank	DCRA-Bus. Services	10/1/95-9/30/96	12
13	NationsBank	Benefit. & Annuit.	4/1/96-3/31/97	12
14	NationsBank	Benefit Payments	4/1/96-3/31/97	12
15	NationsBank	Benefit Payments	4/1/94-3/31/95	12
16	NationsBank	CETA Allow. (JTPA)	4/1/94-3/31/95	12
17	NationsBank	DC Rec. Payroll	7/1/96-6/30/97	12
18	NationsBank	Farmers Market Program	12/1/96-4/30/97	5
19	NationsBank	Women, Infants & Child	12/1/96-4/30/97	5
20	NationsBank	DCRA-Corp. Div.- Lockbox	10/1/95-9/30/96	12

No.	Local Bank	Financial Service Provided	Period Covered by Contract	Number of Months Covered by Contract
21	NationsBank	Group I Payroll (BW)	5/1/96-4/30/97	12
22	NationsBank	Group IV Payroll (BW)	4/1/96-3/31/97	12
23	NationsBank	Public Assistance PY	5/1/96-4/30/97	12
24	NationsBank	Summer Youth	7/1/96-6/30/97	12
25	NationsBank	DC Summer Teachers	7/1/96-6/30/97	12
26	NationsBank	Custodial	8/1/96-7/31/97	12
27	First Union	DC Gov't Sales Use	No Contract	-0-
28	First Union	FMS Vendors Payroll	No Contract	-0-
29	First Union	JTPA	4/1/96-3/31/97	12
30	First Union	Real Estate	3/5/97-08/31/97	6
31	First Union	Tax Refunds	10/1/95-9/30/96	12
32	First Union	Vendor Payments	10/1/95-9/30/96	12
33	First Union	D.C. Sales & Use	2/1/96-1/31/97	12
34	First Union	Tax Concentration	2/1/96-1/31/97	12
35	Signet Bank	WCC Concentration	No Contract	-0-
36	Signet Bank	WCC Hotel Occp. Tax	No Contract	-0-
37	Signet Bank	WCC Concentra. AC	No Contract	-0-
38	Signet Bank	DC Gov't Snw Remval	No Contract	-0-
39	Signet Bank	Group II Payroll	4/1/96-3/31/97	12
40	Signet Bank	ARCH Transmittal	9/1/96-8/31/97	12
41	Signet Bank	DPW Trust	5/24/97-5/23/98	12
42	Signet Bank	DPW Revolving Fund	5/24/97-5/23/98	12
43	Signet Bank	Motor Vehicles	5/2/96-5/1/97	12

No.	Local Bank	Financial Service Provided	Period Covered by Contract	Number of Months Covered by Contract
45	Signet Bank	Water/Sewer	10/1/95-9/30/96	12
46	Signet Bank	D.C. Lottery Board	3/5/97-8/31/97	6
47	Signet Bank	Patient Account	12/17/96-6/30/97	6.5
48	Signet Bank	D.C. Lottery Board	9/1/97-8/31/98	12
49	Signet Bank	Benef. Annuity Payroll	10/1/97-9/30/98	12
50	Signet Bank	Consolidation & Tax Arena Fee	180 days	6
51	First National Bank of Md.	Expedited Payroll	3/5/97-7/2/97	4
52	First National Bank of Md.	Investment Custodian	10/1/96-3/31/97	6
53	Industrial Bank of Wash.	Group VI Payroll	No Contract	-0-
54	Industrial Bank of Wash.	Pensioners Payroll	No Contract	-0-

Glossary of Terms Relating to
District Investment Accounts

Pooled Cash - public funds held by local financial institutions such as NationsBank custodial account, which, if not required for immediate disbursement to pay District bills, is made available to invest for short periods of time, from 1 to 7 days in most instances.

Overnight Cash - allows public funds held by local financial institutions, which, even though required for immediate disbursement to pay District bills, overnight availability to be invested in repurchase agreements on an overnight or 24-hour basis.

Note Escrow - represents funds to pay debt service on notes issued by the District of Columbia government. Payments are made based on monthly and semi-annual payments.

Note Proceeds - represents earnings from short term note borrowing used to pay bills or other operating cost within the fiscal year.

Bond Proceeds - represents funds related to the District of Columbia's Capital Improvement Program (CIP). Monies are needed to fund the projects that are a part of the CIP.

Bond Escrow - represents funds set aside to make payments on bonds issued by the District of Columbia. Payment schedules vary based on the specified terms of the bonds.

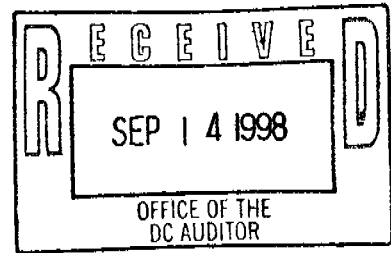
AGENCY COMMENTS

On August 10, 1998, the Office of the District of Columbia Auditor transmitted this report, in draft, to the Interim Chief Financial Officer for the District of Columbia and the Executive Director of the District of Columbia Financial Responsibility and Management Assistance Authority.

Comments were received from the Interim Chief Financial Officer on September 11, 1998. Where appropriate, changes to the final report were made to reflect the comments. Written comments, excluding voluminous attachments, are included with the final report. Upon request, the attachments, in their entirety, will be made available for review.

Agency Comments

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Chief Financial Officer



September 11, 1998

Deborah K. Nichols
Interim District of Columbia Auditor
415 12th Street, NW - Suite 210
Washington, D.C. 20004

Dear Ms. Nichols:

Thank you for the opportunity to comment on the draft report entitled: "Statutory Audit of the District's Depository Activities for Fiscal Years 1996 and 1997." The Office of the Chief Financial Officer (OCFO) presents the following comments for your consideration and inclusion in the final report.

One responsibility of the OCFO is to manage prudently and efficiently the financial assets and liabilities of the District. In its implementation of the Depository Act, the OCFO carried out its duties in a manner consistent with prudent financial management principles. In the past, the District of Columbia Auditor agreed that the inability of the Office of the D.C. Treasury, now the Office of Finance and Treasury (OFT), a component of the OCFO, to comply with certain provisions of the Act was not due to any negligence or shortcomings on the part of OFT, but the inability to collect necessary information from financial institutions.

There have been numerous efforts over the course of many years to enact new legislation governing the District's deposit and investment activities, given the impracticalities associated with implementing certain Depository Act provisions. Finally, in October 1997, the Financial Institutions Deposit and Investment Amendment Act of 1997 (the "Deposit and Investment Act") was enacted due to efforts spearheaded by the OCFO. This new legislation enables the OCFO to negotiate better banking services for the District. The OCFO is in the process of negotiating several such long-term contracts.

This office recognizes that the lapsed banking services contracts detailed in the audit are not consistent with proper procurement practices, thus, the OCFO is conducting an internal review to determine where additional internal controls are needed. Short-term contracts have been executed for all banking services for which contracts had expired. We continue to work on the renewal of these contracts, which will be complete by the end of the 1998 calendar year.

Despite the removal of the audit requirement in the recently enacted law providing new depository and investment criterion, the OCFO welcomes your continued review of the District's depository activities.

FINDING #1 - THE DISTRICT'S INTEREST INCOME EARNINGS DECLINED BY \$9.4 MILLION BETWEEN FISCAL YEAR 1995 AND FISCAL YEAR 1997

Auditor's Finding

...Interest income earned on the deposit and investment of District public funds declined from \$20,025,449 in fiscal year 1995 to \$16,388,641 in fiscal year 1996, and further declined to \$10,657,210 in fiscal year 1997 may be attributed to: (i) variances in the average investment portfolio size of pooled cash investments, and (ii) a decline in the amount of bond proceeds available for investment.

OCFO Response

The OCFO disagrees with the use of interest income as a measure OFT's performance of its duties under the Depository Act. While it is accurate that the amount of interest income declined by the amounts indicated, the decline was the direct result of a consequent decrease in the amount of funds available to invest. The decline in the amount of funds available for investment is primarily the result of declining cash balances due to the financial crisis which the OCFO inherited, including the existence of operating budget deficits in fiscal years 1994, 1995, and 1996, and a backlog of delayed vendor payments.

The Depository Act delineates the manner in which the District handles the funds at its disposal and makes no reference to the dollar amount of investment earnings. In fact, OFT's investment performance during the audit period was excellent as measured by the average yield or rate of return on its investments as compared to industry benchmarks, given the very conservative nature of the District's permitted investments (see Attachment A for a comparison of District investment results with industry benchmarks).

Auditor's Finding

The average investment balance for pooled cash during fiscal years 1995, 1996, and 1997 was \$125 million, \$128 million, and \$78.6 million, respectively, which was a \$49.4 million difference between fiscal years 1996 and 1997. The District of Columbia's Comprehensive Annual Financial Report (CAFR) for the fiscal year ending September 30, 1996 reported that the District had encountered a "significant pooled cash shortfall" and projected the shortfall to continue in fiscal year 1997. The pooled cash shortfall

resulted from several cash flow issues which included the timing of the receipt and disbursement of projected revenues and expenditures, and the receipt of funds such as the federal payment, bond proceeds, borrowings, and other amounts held by the District of Columbia Financial Responsibility and Management Assistance Authority (the Control Board).

OCFO Response

Again, the OCFO disagrees with the use of interest income earned on the pooled cash investment balance as a measure of performance under the Depository Act. There is no correlation between fluctuations in investment balances, the Depository Act of 1977, and OFT's investment performance. The pooled cash shortfall refers to the condition or prospect of not having sufficient cash with which to operate. The decline in the average pooled cash investment balance or in the amount of funds available for investment should not be characterized as a "shortfall" in this context. Rather, it would be accurate to refer to it as simply a decline in average cash balances (although such decline is also attributable to the operating budget deficits *and* other cash flow issues).

The District's "pooled cash shortfall"—in existence in FY 1996 and eliminated in FY 1997—was the result of the accumulated operating deficits from FY 1996 and prior fiscal years. The pooled cash investment account is used to invest the District's idle operating cash. As the primary source of cash for the District's operating activities, balances available for investment are used for vendor payments and other services. As the District accelerated its payments to vendors, one would anticipate a decline in pooled cash balances available for investment.

Auditor's Comment

Additionally, during fiscal year 1996 (January 1996), the District borrowed \$283 million from the U.S. Treasury for operating purposes based on its cash needs for the entire fiscal year. However, during fiscal year 1997, instead of borrowing the entire lump sum of cash needed for the year, the District borrowed funds from the U.S. Treasury in two installments of \$173.1 million in December 1996 and \$50 million in March 1997. OFT's decision to borrow funds in installments during fiscal year 1997, rather than borrow total funds required for the entire fiscal year, decreased the amount of available cash on hand thus adding to the pooled cash shortfall.

OCFO Response

Again, the use of the term "pooled cash shortfall" here is inappropriate (please see above response). The audit should indicate the reason that the District borrowed from the U.S. Treasury in two installments in fiscal year 1997. Specifically, pursuant to the Financing

Agreement between the U.S. Treasury and the District (see attachment B for a copy of the Financing Agreement), the U.S. Treasury only permits the District to borrow amounts that are needed to cover District expenditures over the course of the 30 days immediately following the borrowing date. In fiscal year 1996, primarily due to the delayed receipt of the majority of the Federal payment, the District demonstrated expenditure needs of \$283 million, the entire fiscal year 1996 U.S. Treasury borrowing amount, within 30 days following the borrowing date. Thus, it was not within the District's discretion whether or not to borrow from the U.S. Treasury in installments. The result was that differing borrowing patterns was a contributing factor in the District having a higher average pooled cash investment balance in fiscal year 1996 as compared to fiscal year 1997. Moreover, the timing of borrowing is not related to compliance with and performance of its duties under the Depository Act of 1977.

FINDING #2 - DURING FISCAL YEARS 1996 AND 1997 THE OFFICE OF FINANCE AND TREASURY DID NOT RANK FINANCIAL INSTITUTIONS OR HAVE VALID CONTRACTS IN FORCE BEFORE DEPOSITING MILLIONS OF DOLLARS IN PUBLIC FUNDS

Auditor's Comment

...Based upon an examination of fiscal years 1996 and 1997 bank statements and contract files maintained by the Office of Finance and Treasury, the Auditor found that the District routinely deposited millions of dollars with local banks without rating and ranking the institutions in accordance with D.C. Code, Section 47-343(c)(1) and Section 47-344.

OCFO Response

The OCFO agrees in part with this finding. During the audit period, the OFT was responsible for implementing the rating and ranking of financial institutions in accordance with the Depository Act. We agree that financial institutions were not rated and ranked during the audit period, but note that this was due to long-standing issues with the Depository Act, which made compliance in this area infeasible.

A new law governing deposit and investment activity had been sought for many years by several different administrations. The OCFO worked diligently over the course of the audit period, consistent with the D.C. Auditor's recommendations, to secure passage of the Deposit and Investment Act, enacted on October 17, 1997. The rating and ranking issue has been resolved through the recent enactment of this new legislation.

As stated in the background section of the audit, OFT was previously unable to rate and rank financial institutions according to the criteria delineated in the Depository Act

because financial institutions either do not compile or do not release such information. This problem has been well documented by the D.C. Auditor in past audits of the implementation of the Depository Act. The response of OFT to the "Review of Implementation of the D.C. Depository Act During Fiscal Years 1994 and 1995" with regard to this issue contained the following:

"The D.C. Auditor's report for FY'81 stated, 'It is the opinion of this office that the failure to comply is not due to any shortcomings or negligence by the cash management unit [D.C. Treasury], but due to requirements of the [Depository] Act that have been difficult to meet... The D.C. Auditor recommends...that the requirements of Section 5 concerning banks submitting information and being ranked according to social criteria be reconsidered. The Auditor fully supports the social objectives of the statute, but given the practical failure, other ways of achieving the goal should be considered. If this legislation were to be applied as written, it could disrupt the District's banking operations.'"

Auditor's Comment

...The Auditor also found that the District failed to award new contracts or extend existing contracts in accordance with the requirements of the D.C. Procurement Practices Act of 1985, as amended, to cover on-going financial services provided by financial institutions to the District government...

OCFO Response

The OCFO agrees in part with this finding. During the audit period, the District did not have valid contracts in place for certain banking services. However, upon realization that certain contracts had expired, the OCFO began an evaluation of all banking services contracts to determine their status and how well they conformed to industry standards and statutory requirements. The OCFO continued to operate under the terms and conditions of the base contracts until long-term contracts could be executed. This arrangement has not negatively impacted the District's fiduciary responsibility for managing public funds, nor has it incurred additional costs.

Between the time that the expired contracts were identified and the end of the audit period, seven long-term contracts were put in place. Since then, the OCFO has taken further action to rectify this situation. Indeed, short-term contracts have been put in place for the remaining services until such time that longer-term contracts can be properly executed. The current procurement process that establishes new contracts takes into consideration the consolidation of accounts, economies of scales, and implementation of the new Financial Management System. It is anticipated that long-term contracts for all financial services, providing improved banking services, will be in place by the end of

calendar year 1998. Systems have been established to monitor pending expiration dates and dates by which options have to be invoked to eliminate lapses in contracts.

FINDING #3 - THE OFFICE OF FINANCE AND TREASURY DID NOT ADHERE TO THE REQUIREMENTS OF THE DEPOSITORY ACT OF 1977 FOR SHORT-TERM INVESTMENT ACTIVITY

Auditor's Finding

...For fiscal years 1996 and 1997, the Office of Finance and Treasury (OFT) did not adhere to the Depository Act of 1977 by ranking the financial institutions it used for short-term investment of public funds. As noted earlier, D.C. Code, Section 47-344(c) outlined the six (6) criteria for ranking depositories...Rather than comply with the Depository Act, the Office of Finance and Treasury established its own guidelines for short-term investment of public funds with financial institutions. The Office of Finance and Treasury's guidelines included: liquidity—funds must be available to meet District needs; yield—earnings the highest possible interest rate on investments; and safety—investment instruments must provide a reasonable degree of security against loss of principal. In making these investments, OFT primarily utilized repurchase agreements obtained through investment dealers located outside of the District of Columbia.

OCFO Response

OCFO **strongly disagrees** with the finding that OFT did not comply with the Depository Act with regard to its short-term investments. Section 47-343 of the D.C. Code provides that “a short-term deposit or investment of 91 days or less shall be made on the basis of the highest interest rate yield available at that time for a similar investment permitted under this subchapter and in a manner consistent with liquidity and safety (emphasis added).” During the audit period, OFT made investments on the basis of the highest interest rate yield available at the time, consistent with liquidity and safety, as the statute instructs.

The statute also instructs: “To the maximum extent possible, consistent with the highest interest rate yield and the intent of this subchapter, the Mayor shall utilize the evaluation criteria in D.C. Code 47-344(a) to select financial institutions for short-term investments.” OFT uses investment providers that consistently offer the highest available market interest rates for District investments, providing liquidity and safety. The statute does not state how the District should proceed in the event that it is not possible to make investments consistent with the highest interest rate yield and the intent of the subchapter, if the interpretation of the intent is something other than the highest yield, liquidity and safety. Furthermore, the preface to this instruction is “to the maximum extent possible,” implying that if it is not possible, then the District is not so obligated and must select investment institutions based on the highest yield. Thus, it is clear that the appropriate

action is to revert to the first instruction in the statute regarding short-term investments. This instruction, again, states that investments “shall be made on the basis of the highest interest rate yield available at that time for a similar investment permitted under this subchapter and in a manner consistent with liquidity and safety.” Therefore, OFT had no other choice under the statute but to make investments with providers based on the highest yield, in a manner consistent with liquidity and safety.

FINDING #4 - THE DISTRICT DID NOT INCREASE ITS INVESTMENT OF PUBLIC FUNDS WITH LOCAL CREDIT UNIONS DURING FISCAL YEARS 1996 AND 1997

Auditor’s Comment

District of Columbia Code, Section 47-343(b) required that all term deposits exceeding ninety-one (91) days should be placed with depositories in the following manner: “Equal amounts, not in excess of one hundred thousand dollars, shall be offered to be deposited in each community credit union.” ...the Office of Finance and Treasury deposited only \$100,000 each ...with two (2) District credit unions...

OCFO Response

The OCFO concurs with this finding and acknowledges there may be additional credit unions that could be eligible for receipt of District deposits. However it was unclear under the Depository Act how to determine whether or not a credit union qualified as a “community credit union...serving designated geographical areas within the District.” The new Deposit and Investment Act is more clear on the manner in which credit unions are to be evaluated in order to qualify for receipt of District funds. OFT is implementing these provisions of the Deposit and Investment Act, which resolves this issue.

If you have any questions regarding these responses, please do not hesitate to contact me.

Sincerely,



Earl C. Cabbell
Interim Chief Financial Officer

Attachments