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# *Office of Inspector General*

# *Audit Report*

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## **QUALITY CONTROL REVIEW OF AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL YEARS 2011 AND 2010**

*Department of Transportation*

*Report Number: QC-2012-009*

*Date Issued: November 15, 2011*





# Memorandum

**U.S. Department of  
Transportation**

Office of the Secretary  
of Transportation  
Office of Inspector General

Subject: **ACTION:** Quality Control Review of Audited  
Consolidated Financial Statements for Fiscal Years  
2011 and 2010, Department of Transportation  
Report Number: QC-2012-009

Date: November 15, 2011

From: Calvin L. Scovel III  
Inspector General

Reply to  
Attn. of: JA-20

To: The Secretary

I respectfully submit our report on the quality control review (QCR) of the Department of Transportation's (DOT) audited consolidated financial statements for fiscal years 2011 and 2010.

The audit of DOT's consolidated financial statements as of and for the years ended September 30, 2011, and September 30, 2010, was completed by Clifton Gunderson, LLP under contract to the Office of Inspector General (attached). The contract required the audit be performed in accordance with generally accepted Government auditing standards and Office of Management and Budget Bulletin 07-04, "Audit Requirements for Federal Financial Statements," as amended.

Clifton Gunderson, LLP concluded that the consolidated financial statements present fairly, in all material respects, DOT's assets, liabilities, and net position as of September 30, 2011, and September 30, 2010, and net costs, changes in net position, and budgetary resources for the years then ended, in conformity with U.S. generally accepted accounting principles.

DOT substantially corrected two of the five significant deficiencies in internal control reported in Clifton Gunderson, LLP's fiscal year 2010 audit report, but the remaining three significant deficiencies in internal control are again included in this year's report.

## **Clifton Gunderson, LLP's Fiscal Year 2011 Audit Report**

Clifton Gunderson, LLP reported three significant deficiencies in internal control and seven actual or potential instances of reportable noncompliance with laws and regulations.

### ***Significant Deficiencies***

1. **Financial and Fund Status Monitoring and Reporting** - DOT management needs to continue addressing the overreliance of manual journal entries for financial reporting. Also, DOT needs to employ cost accounting methodologies or cost finding techniques to compensate for financial system limitations in order to fully implement managerial cost accounting requirements. Finally, DOT needs to strengthen fund status monitoring and reporting to reduce the risk that anti-deficiency violations may occur.
2. **Undelivered Orders** - DOT needs to strengthen controls for monitoring inactive obligations and reduce unneeded obligations by an estimated \$1.4 billion. These funds could possibly be made available for other DOT requirements.
3. **Implementation of GrantSolutions Grants Management System** - The Federal Railroad Administration and the Federal Motor Carrier Safety Administration need to improve the effectiveness and functionality of their grants management processes and systems in order to strengthen controls and safeguard obligations.

### ***Noncompliance with Laws and Regulations***

**Anti-Deficiency Act** - DOT's management needs to report four actual violations of the Anti-Deficiency Act to the President and Congress—one for the Maritime Administration, and three for the Federal Motor Carrier Safety Administration. Furthermore, DOT's management needs to complete its assessment of two potential violations of the Anti-Deficiency Act at the Federal Highway Administration. These OAs should also enhance their internal control systems for monitoring of fund balances.

**Federal Managers' Financial Integrity Act** - DOT's management needs to enhance its annual FISMA reporting process to provide sufficient and timely information on its assessment of the adequacy of its information security program and any significant deficiencies identified that need to be reported in the annual assurance statement.

We performed a QCR of Clifton Gunderson, LLP's report and related documentation. Our QCR, as differentiated from an audit performed in accordance with generally accepted Government auditing standards, was not intended for us to express, and we do not express, an opinion on DOT's financial statements or conclusions about the effectiveness of internal controls or compliance with laws and regulations. Clifton Gunderson, LLP is responsible for its report dated November 11, 2011, and the conclusions expressed in that report. However, our QCR disclosed no instances in which Clifton Gunderson, LLP did not comply, in all material respects, with generally accepted Government auditing standards.

Clifton Gunderson, LLP made 35 recommendations to strengthen DOT's financial, accounting, and system controls. We agree with all, and therefore, are making no additional recommendations. DOT officials concurred with Clifton Gunderson, LLP's findings on the significant deficiencies and actual or potential instances of noncompliance. The Department also committed to its submitting to OIG, no later than December 31, 2011, a detailed action plan to address the findings contained in the audit report. In accordance with DOT Order 8000.1C, the corrective actions taken in response to the findings are subject to follow up. Accordingly, please provide us with periodic progress reports on the actions taken to reduce the approximately \$1.4 billion in unneeded obligations discussed in Clifton Gunderson, LLP's "Undelivered Orders" significant deficiency.

We appreciate the cooperation and assistance of DOT representatives and Clifton Gunderson, LLP. If we can answer any questions, please call me at x61959, or Lou Dixon, Principal Assistant Inspector General for Auditing and Evaluation, at x61427.

Attachment

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