



Memorandum

U.S. Department of
Transportation
Office of the Secretary
of Transportation
Office of Inspector General

Subject: INFORMATION: Quality Control Review of
Single Audit on the New Mexico
Department of Transportation
Report No. QC-2012-047

Date: January 30, 2012

From: 
Earl C. Hedges
Program Director for Single Audit

Reply To JA-20

Attn Of:

To: See Distribution

The U. S. Department of Transportation (DOT) is the cognizant Federal single audit agency for the New Mexico Department of Transportation (New Mexico DOT). This report presents the results of our Quality Control Review (QCR) of a single audit performed by Meyners & Company, LLC on New Mexico DOT for the fiscal year ended June 30, 2009. During this period, New Mexico DOT expended approximately \$351 million from DOT grant programs, as shown on the attached Schedule of Expenditures of Federal Awards. The DOT programs determined to be major by Meyners & Company were: (1) the Highway Planning and Construction Program, (2) the Federal Transit Cluster, (3) the Nonurbanized Area Formula Program, (4) the Highway Safety Cluster, and (5) the Minimum Penalties for Repeat Offenders for Driving While Intoxicated Program.

The Office of Management and Budget's (OMB) Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," requires the auditor to render an opinion on the entity's financial statements, identify inappropriate use of Federal funds, and report internal control and compliance deficiencies that affect Federal grant programs.

Meyners & Company rendered an unqualified (clean) opinion on New Mexico DOT's financial statements and did not question any costs concerning DOT's grant programs. Meyners & Company rendered an unqualified opinion on DOT's major programs, but made recommendations to correct internal control and compliance deficiencies that directly affect the Federal Highway Administration (FHWA), Federal Transit Authority (FTA), and National Highway Traffic Safety Administration (NHTSA) Programs.¹

¹We advised FHWA, FTA and NHTSA about these deficiencies in a separate memorandum. The single audit report issued by Meyners & Company, LLC is available upon request sent to singleauditrequest@oig.dot.gov.

SCOPE

The purpose of our QCR was to determine: (1) whether the audit work complied with generally accepted Government auditing standards, the Single Audit Act of 1984, as amended (the Act), and OMB Circular A-133, and (2) the extent to which we can rely on the auditor's work.

RESULTS

Our initial review (performed in August 2010) determined that Meyners & Company's audit work was *Technically Deficient*. A *Technically Deficient* audit means that the audit documentation contained quality deficiencies that affect the reliability of the audit results and require corrective actions for the audit under review. The most significant deficiencies were:

1. **Identification of Direct and Material Compliance Requirements for Each Major Program.** Meyners & Company did not properly identify the direct and material compliance requirements for each of the major DOT programs. Furthermore, Meyners & Company did not use Part 7 of OMB's Compliance Supplement to determine the direct and material compliance requirements for NHTSA's Minimum Penalties for Repeat Offenders Program.
2. **Suspension and Debarment and Buy American Act Requirements (FHWA and FTA Major Programs).** Meyners & Company's audit documentation did not evidence compliance testing of Suspension and Debarment and Buy American Act requirements. The documentation did not show the testing of the Excluded Parties List System to ensure that contractors were not included on the list of suspended and debarred bidders.
3. **Understanding and Testing of Internal Controls Related to Major Programs' Direct and Material Compliance Requirements.** Meyners & Company's audit documentation did not evidence adequate understanding and testing of internal controls for each of the major programs' direct and material compliance requirements.
4. **Reporting (FHWA and NHTSA Programs).** Meyners & Company's audit documentation did not evidence compliance testing of FHWA's PR-20 (Voucher for Work Performed Under Provisions of the Federal Aid and Federal Highway Acts) and NHTSA's Federal-Aid Reimbursement Voucher.
5. **Special Tests and Provisions (OMB Compliance Supplement Part 4 for FHWA Programs).** Meyners & Company's audit documentation did not evidence compliance testing of the special tests and provisions listed in Part 4 of the OMB Compliance Supplement.

6. **Subrecipient Monitoring (FTA Programs).** Meyners & Company's audit documentation did not evidence compliance testing of subrecipient monitoring on FTA's Nonurbanized Area Formula Program.

We recommended that Meyners & Company perform additional internal control and compliance testing, and subsequently reissue the Single Audit Report on New Mexico DOT's fiscal year ending June 30, 2009. Meyners & Company concurred with our recommendation and requested that we perform a follow-up review of its additional audit work.

In June 2011, we performed a follow-up review and determined that the audit quality deficiencies were not corrected and the audit work remained *Technically Deficient*. We provided Meyners & Company a detailed list of corrective actions needed to address each of the audit quality deficiencies. Meyners & Company requested an opportunity to perform additional audit work to correct the deficiencies.

In July 2011, we performed another follow-up review and determined that the audit work was *Acceptable with a Deficiency*, and therefore generally met the requirements of generally accepted Government auditing standards, the Act, and OMB Circular A-133. We found nothing to indicate that Meyners & Company's opinion on New Mexico DOT's financial statements or reports on internal controls and compliance were inappropriate or unreliable.

However, we identified a deficiency in audit documentation that Meyners & Company needed to correct. Based on Meyners & Company's explanations, we determined that this deficiency did not alter the overall results of the audit. The deficiency, which should be corrected in future audits, is related to the following area:

Understanding of Internal Controls Related to Suspension and Debarment (FTA and NHTSA Programs). Meyners & Company did not adequately document its understanding of internal controls related to suspension and debarment of New Mexico DOT's subrecipients, even though, as we determined, it had performed sufficient compliance testing of the suspension and debarment requirement. Meyners & Company agreed to adequately document its understanding of internal controls related to suspension and debarment in future audits.

We also identified the following deficiency as part of our desk review of the Single Audit Report on New Mexico DOT's fiscal year ending 2009:

- Meyners & Company's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 (Compliance Report) did not identify the two findings that are required to be reported by OMB Circular A-133, as shown on the Schedule of Findings and Questioned Costs.

During our exit conference, Meyners & Company agreed to revise the Compliance Report and subsequently file the final Single Audit Report on New Mexico DOT's fiscal year ending June 30, 2009 with the Federal Audit Clearinghouse.

If you have any questions concerning this report, please call me at (410) 962-1729, or John R. Sysak, DOT National Single Audit Coordinator, at (410) 962-2630.

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