

March 26, 2002

The Honorable Stephen Horn
Chairman
Subcommittee on Government Efficiency,
Financial Management and Intergovernmental Relations
Committee on Government Reform
House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

We are providing this information in response to your letter of March 8, 2002, regarding the usefulness of the Department of Transportation (DOT) financial systems. You asked that the Office of Inspector General (OIG) assess DOT's financial management systems by responding to six multiple choice questions. You also asked that we provide any further insights we might have on any aspect of DOT's financial management systems. We have keyed our responses to your six questions and selected what we consider the best category from your multiple choice answers.

Based on the current state of your agency's financial management systems, how challenging will it be to complete next year's financial statement audit by February 1?

A major challenge. To complete the annual audit timely, OIG must get accurate financial statements from DOT on time. Last year, it took heroic efforts on the part of DOT and the OIG to meet the February 27 date set by the Office of Management and Budget. To meet the February 1 date next year, DOT will have to provide more accurate financial statements earlier than late November as it did last year.

Further complicating next year's audit is that DOT plans to implement its new financial management system, Delphi, in some of its larger and more complex agencies, including the new Transportation Security Administration. Last year, we reported that Delphi had some serious deficiencies that needed to be corrected. We also experienced problems with DOT providing timely data from Delphi to support our audit work. DOT is working hard to resolve these problems, but it does not expect to have Delphi fully operational until April 2003, well after the cutoff date

for the FY 2002 Financial Statements as of September 30, 2002. Issuing our audit reports by February 1 will be a major challenge. Notwithstanding, OIG will do everything possible to meet the February 1 date.

Were this year's financial statements prepared from data produced routinely by the agency's financial management system?

Only to a limited extent. DOT's larger agencies continue to use the Departmental Accounting and Financial Information System (DAFIS). DAFIS cannot produce financial statements based on the information included within the system. DAFIS does not use the U.S. Government standard general ledger and must close its books within 5 days after yearend. Therefore, DOT must make adjustments outside the financial system to prepare its financial statements. For example, DOT made about 850 adjustments, totaling about \$41 billion, outside DAFIS to prepare the Fiscal Year (FY) 2001 Financial Statements. DAFIS was designed in the 1980s and does not comply with the requirements set forth by the Chief Financial Officers Act of 1990, the Federal Financial Management Improvement Act of 1996, and the Joint Financial Management Improvement Program. Although Delphi was in operation in seven of DOT's smaller Operating Administrations, it also did not routinely produce the data for the financial statements.

Are the agency's financial and performance management systems integrated?

Only to a limited extent. DOT does not have integrated systems in place to allocate costs and identify the full costs of major programs. Also, performance measures in DOT's Performance Plan and the financial statements did not provide information about cost-effectiveness, nor were the performance measures linked to the cost of achieving targeted results. DOT has been making progress in this area, especially with its major infrastructure projects, but still needs to get its financial systems to capture costs by the specific programs and activities included in the performance systems.

DOT plans to have its Delphi financial management system in full operation by April 2003. Delphi has cost accounting capabilities to integrate financial and performance data, but these cost accounting capabilities have not yet been implemented. Additionally, the Federal Aviation Administration (FAA) is implementing a separate cost accounting system, which is expected to be fully operational early in calendar year 2003.

Do the agency's financial systems contain complete and reliable data on the costs of its programs and activities?

Only to a limited extent. DOT agencies, except FAA and the Coast Guard, have not made progress implementing managerial cost accounting standards or using cost accounting practices to identify the costs of DOT programs and activities. Beginning in FY 1998, the Statement of Federal Financial Accounting Standards (SFFAS) Number 4, Managerial Cost Accounting Standards, required that each reporting entity accumulate and report the costs of its activities on a regular basis. DAFIS does not have the capability to capture the full costs, including direct and indirect costs assigned to DOT programs. As mentioned earlier, Delphi has cost accounting capabilities but they have not yet been implemented. Although FAA and Coast Guard are making progress in this area, neither agency's financial systems contain complete and reliable data on the costs of its programs and activities.

Do the agency's financial systems provide timely, accurate and useful data to support day-to-day management and policy-making?

Only to a limited extent. It took DOT about 8 weeks after September 30 to prepare its FY 2001 Financial Statements. To accomplish this, DOT had to make 850 adjustments totaling \$41 billion outside the financial systems to prepare these data as of September 30, 2001. To improve the accuracy, DOT also had to make major adjustments to the data as a result of our audit work. As mentioned earlier, we encountered problems getting timely and accurate data from Delphi.

Did the agency have any Anti-deficiency Act violations during Fiscal Year 2001?

No. We saw no evidence of Anti-deficiency Act violations during our audit of the FY 2001 Financial Statements. The new Transportation Security Administration was not implemented during FY 2001. Accordingly, it was not covered in last year's audit.

If we can answer questions or be of further assistance, please feel free to contact me at (202) 366-1959, or my Deputy, Todd J. Zinser, at (202) 366-6767.

Sincerely,



Kenneth M. Mead
Inspector General