Office of Inspector General

Audit Report

Fiscal Year 1997
Consolidated Financial Statements

Department of Transportation

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ACTION: Report on Fiscal Year 1997
Consolidated Financial Statements, DOT
Report Number: FE-1998-105


The audit report is the responsibility of the OIG. All other information--including the Overview, Financial Statements, Notes, and Supplemental Information--is the joint responsibility of the Department of Transportation and its Operating Administrations (DOT). Our audit was limited to the Consolidated Financial Statements as of, and for the year ended, September 30, 1997.

During the last year, DOT worked hard to address deficiencies in its financial operations, but more needs to be accomplished. DOT must continue to aggressively work on completing corrective actions on 33 of the 77 recommendations in our prior report on the FY 1996 Consolidated Financial Statements (see exhibit).

All Federal departments were required by Federal Financial Accounting Standards to have the capability in place, by October 1, 1997, to meet the requirements of the managerial cost accounting standards. Cost accounting is needed in the Federal Government to provide reliable and timely information on the full cost of Federal programs. DOT is considering several options. For example, FAA is currently developing a cost accounting system. The National Civil Aviation Review Commission called for strong financial controls, including a reliable cost accounting system by October 1998, so that FAA can manage its resources in a businesslike manner, and allocate its cost correctly and fairly as the basis for a cost-based user fee system.
Until the financial control issues discussed in this report are resolved and DOT receives an unqualified audit opinion on its financial statements, DOT’s new cost accounting systems, when implemented, will not produce accurate, and defensible, cost data. This is essential for FAA if it is to move to a Performance Based Organization, and eventually provide services paid directly by user fees.

For FY 1998, the Office of Management and Budget (OMB) significantly changed its requirements for preparing financial statements. To its credit, DOT decided to prepare two statements (Balance Sheet and Statement of Budgetary Resources) in accordance with the new guidance. Lessons learned from the early start will assist the Deputy Chief Financial Officer in providing clear instructions for resolving inconsistencies in the FY 1998 financial statements.

Other noteworthy accomplishments during FY 1997 included: Highway Trust Fund transactions were properly processed, adjusted, and reported, and weaknesses identified in our prior Fiscal Year 1996 report were corrected. The Federal Aviation Administration (FAA) capitalized $2.6 billion in equipment purchase cost previously expensed, tested the existence of $1.2 billion of real property (buildings, land, and structures), and completed a comprehensive physical inventory of its Logistics Center. The Coast Guard completed a comprehensive physical inventory of equipment reported at $5.1 billion, and the Maritime Administration completed actions to properly value its ships in the National Defense Reserve Fleet at $932 million.

The most significant issues that need to be corrected by DOT in order to receive an unqualified audit opinion concerns its property and inventory reported at $28.5 billion, and the liability for pensions reported at $14 billion. We could not substantiate the existence or valuations of property and inventory, or reasonableness of the estimated pension liability because:

- Comprehensive physical inventories needed to be taken and valued for property reported at $25.2 billion. FAA and Coast Guard also needed to record property transactions correctly. FAA’s “validation” of equipment totaling $2.8 billion only determined the equipment was recorded in two different files, but did not verify its actual existence or value. Neither FAA nor Coast Guard reviewed the recorded property values. Supporting property values is an enormous task for FAA and Coast Guard because much of the property is old, and records supporting historical cost do not exist, or at best, are difficult to locate. Comprehensive inventories are needed to establish accountability for safeguarding DOT assets and to establish accurate property records. Unless DOT can establish a supportable value for its substantial property investments, it will be unable to accurately compute depreciation, which is a new requirement for FY 1998 Financial Statements.
• Comprehensive physical inventories needed to be taken for $566 million of spare parts at field locations, and up-to-date records to account for these parts should be maintained. Based on our observations and analyses, we could only rely on the inventory results supporting $52 million of the $325 million reported for FAA field spares. Coast Guard did not inventory $241 million of its ships parts or onboard spare parts. Without an accurate inventory, it will be difficult for DOT to defend how much inventory it has or needs, and to ensure the inventory is safeguarded and not overstocked. The shortage of, or inability to locate, essential parts could result in repair delays for critical DOT equipment.

• An acceptable estimate of the liability for Coast Guard retirees’ pensions was needed. Our review disclosed the contractor’s preliminary estimate was understated by at least $1.3 billion. The estimated liability changes annually, and is reflected in the financial statement as a current year expense. Any changes based on inaccurate estimates could adversely distort the true cost of operations.

DOT also is required to include tax revenues (revenues) and investments in its financial statements for the Highway, Airport and Airway, Oil Spill Liability, and Aquatic Resources Trust Funds. The revenues, collected by Treasury, totaled $28.4 billion and investments totaled $30.9 billion for FY 1997.

To independently verify revenues, the General Accounting Office (GAO) reviewed Treasury procedures for estimating and certifying revenues for the four DOT trust funds. Accounting standards allow estimates to be used so long as management has a reasonable basis. GAO hired a contractor to review Treasury’s process for estimating FY 1997 revenues. GAO’s contractor was unable to complete the review, and terminated its work because information on how the estimates were made was not available.

For the first three quarters of FY 1997, GAO found errors relating to reporting and certifying total government excise tax revenues. GAO projected these errors potentially overstated revenues by as much as $571 million.

We also obtained, from Treasury, the estimated and certified revenues for two DOT trust funds. Our comparison of certified revenues to estimates for eight quarterly reporting periods found variances for the Highway Trust Fund ranged from an understatement of $903 million to an overstatement of $638 million. For the Airport and Airway Trust Fund, the variances ranged from an understatement of $219 million to an overstatement of $62 million.

In the past, DOT trust funds have been negatively impacted by Treasury’s distribution of revenues. In FY 1994, a clerical error by Treasury resulted in revenues being
understated by $1.59 billion for the Highway Trust Fund. On January 1, 1996, legislation authorizing collection of aviation taxes lapsed, but was subsequently reinstated for the period August 27 to December 31, 1996. During this time, estimated revenues were transferred to the trust fund, although airlines were not required to make deposits. Excess transfers totaled $1.2 billion. In both cases, congressional action was needed to fix the problems created by Treasury.

It is important that the accounting and certifying of trust fund revenues and investments by Treasury produce a high level of confidence for all parties. With this in mind, we recommend the Secretary of Transportation coordinate with the Secretary of the Treasury, GAO, and the Deputy Controller of OMB to require audit coverage of the accounting, estimating, certifying, and investing of trust fund tax revenues, in accordance with audit standards related to auditing estimates and applying specific agreed-upon auditing procedures.

As a result of DOT’s continuing problems with property, inventory, the liability for military retired pay and health care cost, and the Treasury issue, we were unable to express, and we do not express an opinion (commonly called a disclaimer of opinion) on the fairness and reasonableness of DOT’s Consolidated Financial Statements.

To ensure compliance with the Federal Financial Management Improvement Act of 1996, DOT needs to (1) modify its accounting system to be the primary source of financial information to prepare the Consolidated Financial Statements, and (2) complete assessments of Year 2000 computer problems. As of March 30, 1998, Year 2000 assessments were not complete for two systems. Although these issues are important, they would not prevent DOT from receiving an unqualified audit opinion.

To address the compliance issues, we are making two recommendations. First, the Department’s accounting system must be modified, or replaced, to provide sufficient time to review and correct financial records. The Financial Statement Module currently being used had not been modified to prepare the new financial statements required for FY 1998. Second, the Deputy Chief Financial Officer should coordinate with the Department’s Acting Chief Information Officer to ensure Year 2000 assessments are completed expeditiously for all DOT systems.

We appreciate the cooperation and assistance of DOT representatives. If we can answer any questions or be of any further assistance, please feel free to call me on 61959, or John Meche on 61496.

Attachments

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SECTION I
AUDIT REPORT
To the Secretary

The Department of Transportation, Office of Inspector General (OIG), audited the Department’s Consolidated Financial Statements as of, and for the year ended, September 30, 1997. We were unable to express an opinion on the Consolidated Financial Statements because we could not substantiate Property reported at $26.5 billion, Inventory reported at $2 billion, and the liability for Pensions reported at $14 billion. Internal control weaknesses at the Department of Treasury (Treasury) could also affect Trust Fund excise tax revenues (revenues) and investments reported at $28.4 billion and $30.9 billion, respectively.

We also are reporting on the internal accounting and administrative control systems, and compliance with laws and regulations, as applicable to the Department’s Consolidated Financial Statements. The audit was performed in accordance with Government Auditing Standards prescribed by the Comptroller General of the United States, and the Office of Management and Budget (OMB) Bulletin 93-06, Audit Requirements for Federal Financial Statements.

The objectives of our audit of the Fiscal Year (FY) 1997 Consolidated Financial Statements, prepared by the Department of Transportation and its Operating Administrations (DOT), were to determine whether (1) the financial statements present fairly the financial position and results of operations of DOT in accordance with OMB Bulletins 94-01 and 97-01; (2) DOT has an adequate internal accounting and administrative control structure; (3) DOT has complied with the laws and regulations which (a) could have a direct and material effect on the financial statements or (b) have been specified by OMB; (4) the information and manner of presentation in the Overview and Supplemental Information sections are materially consistent with the information in the financial statements; and (5) supporting data for performance measures existed and were properly reported.

Using the results of our audit fieldwork, DOT significantly enhanced the precision and comprehensiveness of the information reported in the FY 1997 Consolidated Financial Statements and accompanying notes, including $63.7 billion in adjustments and $34.3 billion in reclassifications. In our view, the need to make $98 billion in adjustments and reclassifications clearly demonstrates that DOT’s financial operations continue to need improvement.
This report presents our disclaimer of opinion on DOT’s Consolidated Financial Statements as of, and for the year ended, September 30, 1997. The financial information included in the Overview and Supplemental Information was materially consistent with the Consolidated Financial Statements, except for the Consolidated Statement of Budgetary Resources. This statement was prepared based on budgetary accounting requirements which significantly differ from accounting policies used to prepare the financial statements as described in Note 1.

The performance measures included in the Overview were not financial-related. Therefore, we limited our work to determining if the performance measures met the requirements contained in OMB Bulletins and the Government Performance and Results Act, and were consistent with DOT’s Strategic Plan. Except for the Highway Trust Fund performance measures, the information did not constitute performance measures as required by the OMB Form and Content Bulletins, and the Government Performance and Results Act. Except for FAA, performance measures were consistent with DOT’s Strategic Plan. DOT was aware of this problem, and was in process of revising its performance measures to comply.

We also are including our reports on the internal control structure, and compliance with laws and regulations, in Sections B and C of this report.

A. DISCLAIMER OF OPINION ON FINANCIAL STATEMENTS

In accordance with the Chief Financial Officers (CFO) Act of 1990, as amended by the Government Management Reform Act of 1994, the OIG audited DOT’s Consolidated Financial Statements (Balance Sheet and Statement of Operations), as of, and for the year ended, September 30, 1997. The Consolidated Financial Statements are the responsibility of DOT. The OIG's responsibility is to express an opinion on the fairness and reasonableness of the financial statements based on our audit.

As required by OMB Bulletins 94-01 and 97-01, Note 1 to the Consolidated Financial Statements describes the accounting policies used by DOT to prepare the financial statements. These policies represent generally accepted accounting principles for the Federal government.

We were unable to substantiate the existence and valuation of Property reported at $26.5 billion, and Inventory reported at $2 billion, on the Consolidated Balance Sheet because of the lack of comprehensive physical inventories, inadequate general ledger balances and subsidiary records, inadequate supporting documentation, and unreconciled discrepancies between balances maintained in the Departmental Accounting and Financial Information System (DAFIS) and DOT’s subsidiary records. Property and inventory represent 40 percent of DOT’s total assets reported on the Consolidated Balance Sheet.
We also were unable to substantiate the liability for Pensions reported at $14 billion on the Consolidated Balance Sheet because the Coast Guard estimate for military retired pay and health care cost contained significant errors. This represents 68 percent of DOT’s reported liabilities.

DOT is required to include, in its Consolidated Financial Statements, the Department of Treasury’s (Treasury) investments and revenues for the Highway, Airport and Airway, Oil Spill Liability, and Aquatic Resources Trust Funds. DOT has no control over the collecting, investing, and reporting of revenues for these trust funds. Treasury collects and distributes the revenues into government trust funds. Revenues are received daily, while supporting information on how the revenues should be distributed (tax returns) is usually submitted quarterly. Treasury, using economic models, estimates and makes the initial distribution of revenues to the various trust funds.

Subsequently, the Internal Revenue Service (IRS), a component of the Treasury, uses tax returns to certify the amount that should have been transferred to the trust funds, and Treasury makes the appropriate adjustment. Typically, adjustments lag 6 to 9 months behind the distribution made from estimates.

The overall process Treasury used to estimate and make the initial distribution of revenues, and the IRS certification process, had not been audited. To independently verify revenues, we asked the General Accounting Office (GAO) to review the Treasury procedures for estimating and certifying revenues for the four DOT trust funds. GAO hired a contractor to review Treasury’s process for estimating FY 1997 revenues. GAO’s contractor was unable to complete the review, and terminated its work because information, on how the estimates were made, was not available.

For the first three quarters of FY 1997, GAO found errors and internal control weaknesses relating to reporting and certifying total government excise tax revenues. GAO projected that these errors potentially overstated revenues by as much as $571 million.

Our comparison of certified revenues to estimates for two DOT trust funds for eight quarters (September 1995 to June 1997) found significant variances. For the Highway Trust Fund, variances for eight quarterly reporting periods ranged from an understatement of $903 million to an overstatement of $638 million. For the Airport and Airway Trust Fund, variances ranged from an understatement of $219 million to an overstatement of $62 million.

In the past, DOT trust funds have been negatively impacted by Treasury’s distribution of revenues. In FY 1994, a clerical error by Treasury resulted in revenues being understated by $1.59 billion for the Highway Trust Fund. On January 1, 1996, legislation authorizing collection of aviation taxes lapsed, but was subsequently
reinstated for the period August 27 to December 31, 1996. During this time, estimated revenues were transferred to the trust fund, although airlines were not required to make deposits. Excess transfers totaled $1.2 billion.

In both cases, congressional action was needed to fix the problems created by Treasury. To correct the clerical error, Congress, in the FY 1997 Emergency Supplemental Appropriations Act, provided the Highway Trust Fund with $695 million in additional funding to the states, including a shift of $318 million among the states. Congressional reauthorization of the Airport and Airway Trust Fund included specific language to allow the trust fund to retain the $1.2 billion.

Concerning a disclaimer of opinion, the American Institute of Certified Public Accountants’ Statements on Auditing Standards describes it this way: “A disclaimer of opinion states that the auditor does not express an opinion on the financial statements.” A disclaimer of opinion is appropriate when the auditor has been unable to form, or has not formed, an opinion as to the fairness of presentation of the financial statements in conformity with generally accepted accounting principles, or when there are material uncertainties.

We could not substantiate Property reported at $26.5 billion, Inventory reported at $2 billion, and the liability for Pensions reported at $14 billion. Treasury weaknesses also could affect DOT trust fund revenues and investments reported at $28.4 billion and $30.9 billion, respectively. Therefore, we were unable to express, and we do not express an opinion (disclaimer of opinion) on DOT’s Consolidated Financial Statements as of, and for the year ended, September 30, 1997. In our view, these limitations provide a reasonable basis for our disclaimer of opinion.

B. REPORT ON INTERNAL CONTROL STRUCTURE

OMB guidance for implementing the audit provisions of the CFO Act requires the auditors to assess the reporting entity's internal control structure. DOT management is responsible for establishing and maintaining an internal control structure. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that (1) transactions are properly recorded and accounted for, to permit preparation of reliable financial reports in accordance with applicable accounting policies; (2) funds, property, and other assets are safeguarded against unauthorized use, loss, or disposition; (3) transactions are executed in compliance with laws and regulations; and (4) data supporting reported performance measures existed and were properly recorded.

In planning our financial statement audit, we considered the internal control structure of DOT to identify appropriate auditing procedures for the purpose of expressing an opinion on the Consolidated Financial Statements, and to determine whether the
internal control structure met DOT’s internal control objectives. However, the intent of our review was not to provide an opinion on DOT’s overall system of internal controls.

For the Highway Trust Fund’s significant internal control policies and procedures, found to be properly designed and placed in operation, we performed sufficient tests to assess whether controls were effective and working as designed. Our internal control work in other DOT Operating Administrations focused on assessing corrective actions taken on the 26 deficiencies, presented in our prior report on the FY 1996 Consolidated Financial Statements, which we considered “reportable conditions” under standards established by GAO, the American Institute of Certified Public Accountants, and OMB Bulletin 93-06. We made 77 recommendations in our prior report to strengthen internal controls and establish the correctness of financial statement balances.

Reportable conditions are matters coming to our attention involving significant deficiencies in the design or operation of the internal control structure which, in our judgment, could adversely affect the entity's ability to ensure the objectives of the internal control structure are being achieved. A material weakness is a reportable condition where the design or operation of one or more specific internal control mechanisms does not reduce, to a relatively low level, the risk of material errors or irregularities occurring and not being detected within a reasonable time by employees in the normal course of performing their assigned functions.

As a result of our internal control assessments, we concluded DOT completed corrective actions to resolve five material internal control weaknesses (Findings D, E, F, J & K) and six reportable conditions (Findings P, Q, R, U, V, & X) identified in our prior audit report on DOT’s FY 1996 Consolidated Financial Statements. For example, DOT successfully reconciled budget execution information and established methods for estimating yearend liabilities. However, corrective actions on 15 internal control weaknesses, and 33 recommendations, had not been completed.

FAA, Coast Guard, and the Maritime Administration (MARAD) worked hard to address deficiencies in their financial reporting for Property, Inventory, and properly recording property transactions. During FY 1997, FAA capitalized $2.6 billion in equipment purchase cost that had previously been erroneously expensed and completed a comprehensive physical inventory of its Logistics Center. Coast Guard completed comprehensive physical inventories of personal property reported at $5.1 billion, and hired a contractor to assist in identifying documentation to support the value of its real property.

Coast Guard also completed a comprehensive physical inventory of its aviation parts inventory, reported at $654 million, and researched the price of aviation parts for the 200 highest dollar value items, and certified the reasonableness of the value for these items. MARAD completed actions to properly value its ships in the National Defense
Reserve Fleet at $932 million, completed a comprehensive physical count, and developed a pricing methodology to substantiate the existence and value of its inventory reported at $303 million. DOT also modified DAFIS to assist in preventing Property from being incorrectly expensed.

**Federal Financial Accounting Standards** required all Federal departments to have the capability in place, for FY 1998 beginning October 1, 1997, to meet the requirements of the managerial cost accounting standards. Cost accounting is needed in the Federal Government to provide reliable and timely information on the full cost of Federal programs. DOT is considering several options. For example, FAA is currently developing a cost accounting system. The National Civil Aviation Review Commission called for strong financial controls, including a reliable cost accounting system by October 1998, so that FAA can manage its resources in a businesslike manner, and allocate its cost correctly and fairly as the basis for a cost-based user fee system. We are reviewing FAA’s new cost accounting system, and we will address our observations in a separate report to be issued later.

Until the financial control issues discussed in this report are resolved and DOT receives an unqualified audit opinion on its financial statements, DOT’s new cost accounting systems, when implemented, will not produce accurate, and defensible, cost data. This is essential for FAA if it is to move to a Performance Based Organization, and eventually provide services paid directly by user fees.

Four of the 15 uncorrected internal control weaknesses must be eliminated before DOT can receive an unqualified opinion on its financial statements. These four material weaknesses apply primarily to FAA and Coast Guard, and involve Property; Inventory; Capitalization of Property; and the estimate of future liabilities for military retired pay and health care cost. FAA’s material weaknesses are discussed in a separate report.

In an agreement with OIG, Coast Guard management represented that it had not corrected internal control weaknesses involving Property, Inventory, and Capitalization of Property as of September 30, 1997. Coast Guard plans to complete its corrective actions by the end of FY 1999. The following paragraphs represent examples of corrective actions DOT needs to complete.

**Property**

DOT did not complete corrective actions for us to substantiate the existence and value of its Property reported at $26.5 billion on the Consolidated Balance Sheet. About 95 percent is owned by FAA ($11.6 billion) and Coast Guard ($13.6 billion).

identified problems with FAA’s validation of $4 billion of its property. For example, FAA “validated” equipment totaling $2.8 billion with a computer match of two different files. This approach only determined the equipment was recorded on both records, but did not verify its actual existence or value. Coast Guard had not completed a comprehensive physical inventory of its buildings and structures reported at $8.3 billion. Comprehensive inventories are needed to establish accountability for safeguarding DOT assets and establishing accurate property records. Coast Guard plans to complete a physical inventory and value its property at historic cost during FY 1998.

DOT did not address the valuation for $25.2 billion of its property. Neither FAA nor Coast Guard reviewed the recorded property values. Supporting property values is an enormous task for FAA and Coast Guard because much of the property is old, and records supporting historical cost do not exist, or at best, are difficult to locate. Coast Guard’s property value for its buildings and structures ($8.5 billion) is based on estimated replacement cost, not historical cost. Unless DOT can establish a supportable value for its substantial property investments, it will be unable to accurately compute depreciation, which is a new requirement for FY 1998.

Inventory

DOT did not complete corrective actions for us to substantiate the existence and value of Inventory reported at $2 billion on the Consolidated Balance Sheet. About 86 percent is owned by FAA ($764 million) and Coast Guard ($949 million). We identified problems with FAA’s “validation” of field spares. Based on our observations and analyses, we could only rely on the inventory results supporting $52 million of the $325 million reported for FAA field spares. Coast Guard did not verify $241 million of spare parts at the Engineering Logistics Center and onboard ships. Coast Guard plans to complete physical counts of its remaining inventory, and will complete its price certification for ship parts during FY 1998. Without an accurate inventory, it will be difficult for DOT to defend how much it has or needs, and to ensure inventory is safeguarded and not overstocked. The shortage of, or inability to locate, essential parts could result in repair delays for critical DOT equipment.

Capitalization of Property

DOT continued to incorrectly expense property during FY 1997. FAA and Coast Guard had to manually review their financial expense records to identify

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3 Ibid.
property and inventory that should have been recorded as assets. FAA identified $2.6 billion and Coast Guard identified $172 million. Our report on Coast Guard projects funded with Operating Expenses\(^4\), identified 32 of 45 projects (totaling about $22 million) which represented property that should have been capitalized. For example, a modular office complex, constructed at a cost of $811,000, was expensed. This manual process is time-consuming and labor intensive, and would be unnecessary if the transactions were recorded in the accounting system at the time of occurrence.

**Estimate of Future Liabilities for Military Retired Pay and Health Care Cost**

Coast Guard used a contractor to develop its FY 1997 estimated future liability for military retired pay and health care cost. The contract for the FY 1997 estimate incorporated the five recommendations contained in our prior report\(^5\). Although required by the contract, the contractor did not compare active and retired populations of the Coast Guard to the Department of Defense (DOD) before using DOD’s assumptions. Without this comparison, use of DOD’s assumptions could materially distort the estimate.

Our review of the contractor’s preliminary estimate disclosed significant errors. To illustrate, for Coast Guard members having 18- and 19-years of service, the contractor improperly assumed these members would leave service before achieving 20 years of service, and therefore excluded them from the calculation to estimate military retired pay. Correction of errors increased the liability by about $1.3 billion. Our review of the Coast Guard’s estimate was still in process at the time of this report. We will issue a separate report to the Coast Guard upon completion of our work.

An acceptable estimate of the liability for military retired pay and health care cost is essential to properly report current year cost of operations. The estimate for this liability can change from year to year. These changes are reflected in the financial statement as a current year expense. Any changes based on unacceptable estimates could adversely distort the true cost of operations.

Our internal control testing identified one additional deficiency which we consider to be a reportable condition under standards established by GAO, the American Institute of Certified Public Accountants, and OMB Bulletin 93-06. However, this issue is beyond the control of DOT.


Trust Fund Tax Revenues

DOT is required to include tax revenues (revenues) for four trust funds (Highway; Airport and Airway; Oil Spill Liability; and Aquatic Resources) in its Consolidated Financial Statements. DOT has no control over the collecting and reporting of revenues for these trust funds. Treasury collects and distributes the revenues into government trust funds. Revenues are received daily, while supporting information on how the revenues should be distributed (tax returns) is usually submitted quarterly. Therefore, Treasury uses economic models to estimate the revenues and make an initial distribution to the various trust funds.

Subsequently, the Internal Revenue Service (IRS), a component of the Treasury, uses tax returns to certify the amount that should have been distributed to the trust funds, and Treasury makes the appropriate adjustment. Typically, adjustments lag 6 to 9 months behind the distribution made from estimates. Treasury processes accounting transactions associated with distribution and investment of the revenues and transfers to DOT, and reports Revenues and Investments to DOT.

OMB Bulletin 93-06 and Government Auditing Standards require the OIG to determine whether FY 1997 revenues and investments reported at $28.4 billion and $30.9 billion, respectively, are fair and reasonable. Treasury OIG and GAO have the authority to conduct audits of Treasury activities. Treasury OIG hired an independent public accounting firm to audit the accounting transactions recorded by Treasury’s Bureau of Public Debt. However, the contract audit did not include coverage of procedures for estimating or certifying revenues distributed to the individual trust funds.

Weaknesses existed with Treasury’s estimates of trust fund revenues. GAO hired a contractor to evaluate Treasury’s process for estimating FY 1997 revenues. Accounting standards allow estimates to be used in financial statements if management has a reasonable basis for the estimate. Treasury was unable to provide a basis for its estimate. Consequently, GAO’s contractor was unable to complete the review, and terminated its work because Treasury did not (1) maintain documentation supporting the estimates, (2) document internal controls, and (3) make key personnel available to explain the estimating process.

Since GAO was not able to evaluate Treasury’s estimates, we obtained information, from Treasury, to compare revenues, certified by IRS, to estimates for eight quarterly reporting periods (September 1995 through June 1997) for two DOT trust funds--Highway, and Airport and Airway. For the Highway Trust Fund, our comparison found variances between the estimates and IRS-certified revenues ranged from an understatement of $903 million to an overstatement of $638 million. For the Airport and Airway Trust Fund, the variances ranged from an understatement of $219 million to an overstatement of $62 million.
In the past, DOT trust funds have been negatively impacted by Treasury’s distribution of revenues. In FY 1994, a clerical error by Treasury resulted in revenues being understated by $1.59 billion for the Highway Trust Fund. On January 1, 1996, legislation authorizing collection of aviation taxes lapsed, but was subsequently reinstated for the period August 27 to December 31, 1996. During this time, estimated revenues were transferred to the trust fund, although airlines were not required to make deposits. Excess transfers totaled $1.2 billion.

In both cases, congressional action was needed to fix the problems created by Treasury. To correct the clerical error, Congress, in the FY 1997 Emergency Supplemental Appropriations Act, provided the Highway Trust Fund with $695 million in additional funding to the states. Congressional reauthorization of the Airport and Airway Trust Fund included specific language to allow the trust fund to retain the $1.2 billion.

Weaknesses also existed with Treasury’s certification of revenues. GAO performed specific audit procedures to evaluate the process for certifying actual revenues. This work identified significant internal control weaknesses, and errors, in the certification process. GAO estimated the distribution of FY 1997 governmentwide excise tax revenues was potentially overstated by as much as $571 million, but was not able to quantify the impact on DOT’s trust funds.

Treasury’s weaknesses in estimating and certifying trust fund revenues could affect DOT trust fund revenues and investments, reported at $28.4 billion and $30.9 billion, respectively. As a result, we issued a qualified opinion on the Highway Trust Fund’s FY 1997 Financial Statements, and trust fund revenues also contributed to our disclaimers of opinion on FAA’s FY 1997 Financial Statements, and DOT’s FY 1997 Consolidated Financial Statements.

These weaknesses and issues concerning trust fund revenues and investments are beyond DOT’s control. Accordingly, DOT alone cannot resolve this problem. The successful resolution will involve the collective collaboration of high-level officials in OMB, GAO, Treasury, and DOT. When conducting audits of financial statements, reliance on the work of others is an accepted practice, recognized by the American Institute of Certified Public Accountants. In conducting our audits of DOT’s Consolidated Financial Statements, we rely on the work of others such as the Department of Labor Inspector General regarding projected liabilities under the Federal Employee Compensation Act.

To fulfill our responsibilities under generally accepted government auditing standards and OMB Bulletin 93-06, we also must rely on the work of the Treasury Inspector General and GAO to provide audit coverage of the estimating, certifying, investing, and accounting for tax revenues. Within Treasury, there are four organizations involved in this process. The Office of Tax Analysis estimates, using economic models, the
amount of tax revenues which is the basis for the initial distribution of revenues to the various trust funds. The IRS certifies the amount of tax revenues on a quarterly basis. The Financial Management Service compares the IRS-certified revenues to the estimates, and makes the appropriate adjustment to the initial distribution. The Bureau of Public Debt performs the accounting functions, to include preparation of a monthly Income Statement and Balance Sheet.

For us to rely on the accuracy of reported revenues and investments, the entire process at all four Treasury organizations needs to be audited. The American Institute of Certified Public Accountants’ Statements on Auditing Standards (SAS) provide specific guidance for adequate audit coverage. These standards include (1) SAS 57, Auditing Accounting Estimates, (2) SAS 70, Reports on the Processing of Transactions by Service Organizations, and (3) SAS 75, Engagements to Apply Agreed-Upon Procedures.

Recommendation 1

We recommend the Secretary of Transportation, in coordination with the Secretary of the Treasury, GAO, and the Deputy Controller of OMB, require audit coverage of the accounting, estimating, certifying, and investing of trust fund revenues, in accordance with audit standards related to auditing estimates, and applying specific agreed-upon auditing procedures.

Our consideration of DOT’s internal control structure would not necessarily identify all matters which should be considered reportable conditions. Accordingly, the deficiencies described above do not necessarily constitute all reportable conditions, including material weaknesses, associated with DOT’s internal control structure.

C. REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

OMB guidance for implementing the audit provisions of the CFO Act, as amended by the Government Management Reform Act, requires auditors to assess the entity’s compliance with applicable laws and regulations. Compliance with laws and regulations is the responsibility of DOT.

To obtain reasonable assurance on whether DOT’s Consolidated Financial Statements are free of material misstatements, we tested compliance with the laws and regulations directly affecting the financial statements and certain other laws and regulations designated by OMB. Our objective was not to provide an opinion on overall compliance with these provisions.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions contained in laws or regulations which cause us to conclude that the aggregation of the misstatements, resulting from those failures or violations, is material
to the principal statements, or the sensitivity of the matters would cause them to be perceived as significant by others.

Except as described in the following paragraphs, DOT complied, in all material respects, with the provisions of the laws and regulations directly affecting the Consolidated Financial Statements as of, and for the year ended, September 30, 1997.

The Federal Financial Management Improvement Act (FFMIA) of 1996, Title 31, U.S. Code, Section 3512, established certain financial management system requirements in statute that had already been established by policies, and established requirements for auditors to report on compliance. Under FFMIA, the OIG is required to report whether an entity’s financial management systems substantially comply with:

- Federal Financial Management Systems Requirements,
- Federal Accounting Standards, and
- The U. S. Standard General Ledger at the transaction level.

To meet these requirements, we performed tests of compliance using FFMIA implementation guidance issued by OMB on September 9, 1997. The results of our tests disclosed instances where DOT’s financial management systems did not substantially comply.

DOT was not in substantial compliance with FFMIA because (1) DAFIS was not the only source of financial information used for preparation of the financial statements, (2) four of the 15 prior year uncorrected internal control weaknesses (related to $28.5 billion of assets and $14 billion of liabilities) are considered material because they must be corrected before DOT can receive an unqualified opinion on its Consolidated Financial Statements, and (3) Year 2000 computer issues were not timely identified and assessed during FY 1997.

First, DAFIS was not the only source of financial information used to prepare DOT’s Consolidated Financial Statements. OMB implementation guidance states that to be in substantial compliance with the Federal Financial Management Systems Requirements, the “agency core financial system, supported by other systems containing detail data summarized in the core financial system, is the source of information used in the preparation of the annual financial statements. . . .” Because DAFIS did not contain the most current financial information, DOT made over 2,300 adjusting entries outside DAFIS to prepare the Consolidated Financial Statements. For example:

- DOT reported (1) Other Governmental Liabilities (Not Covered by Budgetary Resources) on the Consolidated Balance Sheet was $2.1 billion, while DAFIS reflected only $248.6 million; and, (2) Program and Operating Expenses on the
Consolidated Statement of Operations was $38.8 billion, but DAFIS reported $42.8 billion.

- Coast Guard made $300 million in adjustments to its property and equipment accounts outside DAFIS. These adjustments were made because Coast Guard did not record all property transactions in DAFIS during the year. OMB Circular A-127 requires financial management systems to provide complete and timely information to management officials, which cannot be accomplished unless transactions are recorded when they occur.

- DOT did not record in DAFIS transactions related to $9.8 billion of Appropriated Capital Used as reported on the Consolidated Statement of Operations. This revenue reflects the amount of expenses financed by appropriations. To record these amounts, DOT must record a yearend adjustment, outside DAFIS, equal to expenses.

The 2,300 adjustments were recorded in the Financial Statement Module (module), a tool used to generate the financial statements. These adjustments, at a minimum, should be recorded in DAFIS at the summary level. However, DOT cannot record these adjustments in DAFIS because FY 1997 records were closed within 5 days after yearend.

The accuracy and completeness of financial records is a major contributing factor causing these adjustments. However, the lack of sufficient time to review, record, and correct FY 1997 transactions in DAFIS after yearend further impacts the accuracy of recorded data. The Joint Financial Management System Requirements for Core Financial Systems states the core financial system must “Provide the capability for multiple preliminary year-end closings before final year-end closing, while maintaining the capability to post current period data.” This capability would allow accounting personnel to review the financial records and correct errors before financial statements are prepared, while still recording financial information for the current year.

DAFIS produced only one preliminary trial balance and provided only 5 days to review and correct FY 1997 transactions after yearend. As a result, DOT does not have sufficient time to review and correct balances in DAFIS. The limited 5-day period also does not allow DOT to record, in its FY 1997 records, any adjustments resulting from our audit work. Our prior audits have found many module adjustments were not recorded in DAFIS. Since access to the module is limited to accounting personnel who prepare the financial statements, DOT decisionmakers do not have correct information. Federal Financial Accounting Standards required all Federal departments to have the capability in place, for FY 1998 beginning October 1, 1997, to meet the requirements of the managerial cost accounting standards. Cost accounting systems are needed to provide cost information to assist managers in evaluating program accomplishments.
DOT needs to modify DAFIS, or any replacement system, to remain open until financial statements are prepared. This would ensure that subsequent adjustments are recorded in DAFIS and reliable financial data is provided. Further, the module currently cannot be used for preparing the FY 1998 Financial Statements because it has not been modified to incorporate changes required by OMB Bulletin 97-01. Without the module, it is even more important that the yearend closing process be extended to ensure an adequate audit trail is maintained. Until the information related to the 2,300 adjustments is properly recorded in DAFIS, managers will not have current, timely, and reliable information to use in evaluating program accomplishments.

Second, as discussed in Section A of this report, four material weaknesses, previously reported in our audit report on DOT’s FY 1996 Consolidated Financial Statements, continue to exist for $28.5 billion of assets and $14 billion of liabilities presented on the Consolidated Balance Sheet. OMB implementation guidance indicates that, to be in substantial compliance with the Federal Accounting Standards, there should be “No material weakness in internal controls that affect the agency’s ability to prepare auditable financial statements. . . .”

Three material weaknesses relate to FAA’s and Coast Guard’s Property, Inventory, and Capitalization of Property, which we could not substantiate through audit testing because of lack of comprehensive physical inventories, inadequate supporting documentation for property valuation, and proper recording of property transactions. The fourth material weakness impacts the Coast Guard’s $14 billion estimate of future liabilities for military retired pay and health care cost, representing 68 percent of DOT’s reported liabilities. Management’s estimate contained errors, so we could not substantiate the amount reported.

Finally, the OMB implementation guidance specifically requires Year 2000 computer problems to be considered when evaluating compliance with FFMIA. The guidance states that to be in substantial compliance, the agency should have completed the majority of work required for governmentwide milestones. OMB’s milestone for completing assessments was June 30, 1997. As of March 30, 1998, assessments were not completed for two systems. These systems are the Bureau of Transportation Statistics’ Airline Statistics System and MARAD’s Ready Reserve Fleet System.

GAO and OIG have both reported concerns about DOT’s Year 2000 computer problems. DOT was informed that its systems inventory was not complete, assessment

of Year 2000 problems were behind schedule based on OMB milestones, and estimates to fix Year 2000 problems were not reliable. Specific recommendations to correct Year 2000 computer problems have already been made. Notwithstanding these reports and recommendations, DOT needs to ensure Year 2000 assessments are completed expeditiously for the remaining systems.

**Recommendations 2 and 3**

We recommend the Department’s Deputy Chief Financial Officer:

- Ensure that DAFIS, or its replacement, is the primary source for preparing the financial statements and provide sufficient time to review and correct financial records prior to preparing financial statements.

- Coordinate with the Department’s Acting Chief Information Officer to ensure Year 2000 assessments are completed expeditiously for all DOT systems.

**D. CONSISTENCY OF INFORMATION**

DOT prepared a Consolidated Balance Sheet and Consolidated Statement of Operations for its programs and activities. DOT prepared the Consolidated Statement of Operations in accordance with the requirements of OMB Bulletin 94-01. Effective for FY 1998, Federal agencies must prepare financial statements in accordance with OMB Bulletin 97-01. This bulletin makes widespread changes to the form and content of government financial statements.

To facilitate the transition and be better prepared to implement these changes, DOT prepared a Consolidated Balance Sheet and a Consolidated Statement of Budgetary Resources (Budget Statement) according to OMB Bulletin 97-01. The Budget Statement is shown in this report as supplemental information, and is not part of the principal statements. Financial information included in the Overview and Supplemental Information was materially consistent with the Consolidated Financial Statements, except for the Budget Statement. This statement, based on budgetary accounting requirements, significantly differed from accounting policies used to prepare the Consolidated Financial Statements as described in Note 1.

DOT made appropriate adjustments to the principal Consolidated Financial Statements when we identified the discrepancies discussed in the following paragraphs.

FAA and the Federal Highway Administration had not reported all budget information in the Consolidated Budget Statement. Total budgetary resources for the Highway Trust Fund and FAA were understated by $22 billion and $6.4 billion, respectively. This omission occurred because Treasury prepared budgetary reports reflecting the total amount of funds available at yearend, but did not provide these reports to DOT. We, in
conjunction with FAA and Federal Highway Administration representatives, contacted Treasury and obtained the budgetary reports. The Consolidated Budget Statement was adjusted accordingly.

DOT had included only the Boating Safety portion of the Aquatic Resources Trust Fund in the Consolidated Financial Statements. DOT was not aware that, in July 1997, Treasury established a requirement that DOT report all financial activity of the Aquatic Resources Trust Fund. When we notified DOT of the Treasury requirement, the following adjustments were made to the Consolidated Financial Statements:

- Increased investments and interest receivable by $865 million on DOT’s Consolidated Balance Sheet,
- Increased Tax Collected and Interest by $372 million and Taxes Transferred by $253 million on DOT’s Consolidated Statement of Operations, and
- Increased Total budgetary resources by $861 million on DOT’s Consolidated Budget Statement.

We identified other inconsistencies that will require explanations in the notes to the financial statements next year, when the Consolidated Budget Statement will be one of the principal Financial Statements. For example, the Consolidated Budget Statement reported total DOT resources of $82 billion, while the Consolidated Statement of Operations included total revenues of $39.7 billion. Although these amounts should not be equal, a difference of $42.3 billion is significant, and should be clearly explained in the Notes to the Financial Statements. This difference existed because not all budgetary authority is used during the current reporting period, and is not reported as Revenues on the Consolidated Statement of Operations until future reporting periods.

In another example, unfunded liabilities, such as Federal employee annual leave, worker’s compensation cost, and Coast Guard’s estimate of future military retired pay and related health care, are not shown in the Budget Statement. The Consolidated Budget Statement does not report these resources until they are provided. OMB Bulletin 97-01 acknowledges that differences will exist between the Budget Statement and other statements and states:

> In order to understand these differences, information is needed to reconcile financial (proprietary) net cost of operations with obligations of budget authority. This reconciliation also insures that there is a proper relationship between proprietary and budgetary accounts in the reporting entity’s financial

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management system. The Statement of Financing is designed to report those differences and facilitate the reconciliation.

These problems occurred, in part, because this is the first time DOT prepared the Consolidated Budget Statement. DOT’s Office of Financial Management recognized that problems would occur. To its credit, DOT’s early implementation of a portion of OMB Bulletin 97-01 will be helpful in resolving problems before preparing the FY 1998 Consolidated Financial Statements.

Recommendation 4

We recommend the Department’s Deputy Chief Financial Officer, based on the lessons learned, include clear instructions in the guidance for preparing FY 1998 Financial Statements to address inconsistencies of information between the principal statements.

E. PRIOR AUDIT COVERAGE

DOT prepared its first Consolidated Financial Statement for FY 1996. The OIG’s audit report on DOT’s FY 1996 Consolidated Financial Statements contained a disclaimer of opinion. The audit report contained 11 material internal control weaknesses, 15 reportable conditions, and included 77 recommendations to strengthen internal controls and establish the correctness of financial statement balances. Efforts are still in process to complete action on 33 recommendations (see exhibit).

This report is intended for the information of DOT management. However, this report is a matter of public record, and its distribution is not limited.

Kenneth M. Mead
Inspector General
## Status of Corrective Actions on DOT’s FY 1996 Consolidated Financial Statement Audit

<table>
<thead>
<tr>
<th>Property and Equipment</th>
<th>Actions Completed</th>
<th>Actions In Process*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implement a plan to reconcile and adjust accounts to subsidiary records</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Explore alternatives if property records cannot satisfy reporting requirements</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Develop procedures to value property when documentation is not available</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Perform quarterly reconciliations between subsidiary records and asset accounts</td>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Operating Materials and Supplies</th>
<th>Actions Completed</th>
<th>Actions In Process*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implement a plan to correct deficiencies</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Reconcile accounts with subsidiary records</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Report assets at historical cost and maintain support for unit cost</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Establish a group to estimate the cost of current assets acquired in previous years</td>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Capitalization of Property and Equipment</th>
<th>Actions Completed</th>
<th>Actions In Process*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implement policies in Federal accounting standards and DOT Order 2700.8A</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Strengthen controls associated with posting property transactions</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Implement a plan to correct costs improperly expensed in prior years</td>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Invested Capital</th>
<th>Actions Completed</th>
<th>Actions In Process*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide training on recording invested capital, initial investments, and loans</td>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities not Covered by Budgetary Resources</th>
<th>Actions Completed</th>
<th>Actions In Process*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revise guidance on liabilities, future funding requirements, and contract authority</td>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Budget and Financial Statement Reconciliation</th>
<th>Actions Completed</th>
<th>Actions In Process*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide guidance for reconciling the SF-133 to DAFIS balances</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Provide a plan to complete reconciliations and correct account balances</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Adjust current SF-133 reports based on reconciliation results</td>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Actuarial Model for Estimating Liabilities for Military Pay and Health Care**</th>
<th>Actions Completed</th>
<th>Actions In Process*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Review all actuarial assumptions</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Recognize all offsets to retired benefit payments and the liability for former spouses</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Change the assumptions to those used by the Department of Defense</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Change the salary growth assumptions to represent the actual increases received</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Ensure a valid actuarial estimate for retiree health care is completed for FY 1997</td>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>

*For the Actions In Process, DOT has initiated, but not completed, corrective actions on these recommendations.

**Management Advisory on Actuarial Estimates for U.S. Coast Guard Retired Pay and Health Care Cost, OIG Report Number AD-CG-7-003, April 4, 1997.
## Status of Corrective Actions on DOT’s FY 1996 Consolidated Financial Statement Audit

<table>
<thead>
<tr>
<th>Action Description</th>
<th>Completed</th>
<th>In Process*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Intradepartmental Eliminations</strong></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Modify DAFIS to identify intradepartmental data requiring elimination at yearend</td>
<td>✓</td>
<td>✓ ***</td>
</tr>
<tr>
<td>Improve the yearend closing process for eliminations to the consolidated statement</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Improve management oversight and technical review for future yearend closings</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td><strong>Accounts Payable Liability</strong></td>
<td>✓</td>
<td>✓ ***</td>
</tr>
<tr>
<td>Provide a plan to review the Open Document File and adjust records</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Provide departmental policy on proper recognition of liabilities</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Establish procedures to monitor the validity of accounts payable</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td><strong>Year end Accrued Liabilities</strong></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Establish methods to be used for estimating yearend accruals</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td><strong>DAFIS System Change Requests</strong></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Determine all financial reporting deficiencies that warrant system change requests</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Evaluate and prioritize the requests and implement a plan to complete them</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td><strong>General Controls for DOT Data Centers</strong></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Follow established computer security policies and procedures</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Change reporting responsibilities to ensure management functions are independent</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Remove and investigate undocumented and unauthorized entries</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Prohibit multiple logons in the same region</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Remove global entry that provides read access to FAA’s security databases</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Identify all FAA operating system utilities and implement protections over them</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Implement a security monitoring program for FAA’s operating system utilities</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Evaluate USCG’s user access privileges and develop written approvals</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Identify and implement alternate commercial software products at USCG</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Implement password controls at USCG</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Develop procedures for USCG’s operating system changes</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td><strong>Penetration Review of Integrated Telecommunications Network Environment</strong></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Implement the recommendations contained in the contractor’s April 1997 report</td>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>

***DOT has deferred corrective actions related to these recommendations until a replacement system is in place.
### Status of Corrective Actions on DOT’s FY 1996 Consolidated Financial Statement Audit

<table>
<thead>
<tr>
<th>Applications Computer Security</th>
<th>Actions Completed</th>
<th>Actions In Process*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepare a computer security plan for the Consolidated Uniform Payroll System</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Certify and accredit the payroll system and re-certify and re-accredit DAFIS</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Implement a corrective action computer security plan for USCG and MARAD</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Verify that MARAD computer users are periodically trained in computer security</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Increase USCG’s password controls for the Retired Pay and Personnel System</td>
<td></td>
<td>✓</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>DAFIS Batch Controls</th>
<th>Actions Completed</th>
<th>Actions In Process*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authorize and implement DAFIS system changes to:</td>
<td></td>
<td>***</td>
</tr>
<tr>
<td>Mask batch control totals from data entry personnel</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Reduce the field size or require a confirmation when limits are exceeded</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Modify controls over potential duplicate payments</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Establish controls to prevent the recording of excesses in budgetary accounts</td>
<td>✓</td>
<td>***</td>
</tr>
<tr>
<td>Establish a pre-month-end processing error or suspense file</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Establish controls to capture agency code discrepancies</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Establish controls to prevent the batch creator from certifying the batch</td>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Payroll Systems Change Controls</th>
<th>Actions Completed</th>
<th>Actions In Process*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issue a formal software maintenance policy for making payroll system changes</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Implement a plan to establish target dates for USCG’s System Change Proposals</td>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Separation of Duties Over Pay Systems</th>
<th>Actions Completed</th>
<th>Actions In Process*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reemphasize that approval of own attendance requires prior written authority</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Revise DOT Order 2730.10 to incorporate GAO Title 6 requirements</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Provide a plan to properly separate duties at USCG personnel reporting units</td>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Retired and Military Pay Edits</th>
<th>Actions Completed</th>
<th>Actions In Process*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implement a plan to ensure USCG’s timely processing of monthly Death Files</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Provide a plan to automate USCG’s edits for unusual pay status</td>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>
## Consolidated Financial Statement Audit

![Actions Completed](ky.png) ![Actions In Process*](ky.png)

### Capital Leases
- Revise DOT Order 2700.8A to incorporate procedures for capital leases ✓
- Adjust the financial records for any additional leases that should be capitalized ✓

### Accounting and Reporting of Department of Labor Chargeback Costs
- Issue procedures to ensure employee compensation costs are properly recorded ✓

### Post Employment Benefits
- Provide guidance for reporting military post employment benefit costs ✓

### Federal Workforce Restructuring Act of 1994
- Issue detailed instructions on reporting Federal Workforce Restructuring Act costs ✓

### Contingent Liabilities for Legal Claims
- Work with the Treasury to identify Judgment Fund payments ✓
- Issue guidance on contingencies and costs paid by the Treasury Judgment Fund ✓

### Canceled Appropriations
- Reemphasize the instructions for reclassifying balances in expired appropriations ✓
- Develop a report listing the deletions from canceled appropriations ✓

### General Ledger Adjustments
- Strengthen controls over the use of non-routine general ledger adjustments ✓
- Implement a plan to comply with requirements for use of standardized transactions and transaction control ✓***

### Performance Measures
- Provide guidelines to ensure reporting is consistent with requirements ✓
- Ensure that the reported measures provide sufficient information to measure results ✓

### RECOMMENDATIONS COMPLETED
- 44
- 57%

### RECOMMENDATIONS IN PROCESS
- 33
- 43%

### TOTAL RECOMMENDATIONS
- 77
- 100%
Sections II and III are available from:

Jeff Nelligan  
Communications Director  
(202) 366-6872