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# *Office of Inspector General*

# *Audit Report*

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*Fiscal Year 2000*  
*Financial Statements*  
*Highway Trust Fund*

*Report Number: FI-2001-035*  
*Date Issued: February 27, 2001*





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

# Memorandum

Subject: **INFORMATION**: Report on Fiscal Year 2000  
Financial Statements, Highway Trust Fund  
FI-2001-035

Date: February 27, 2001

From: Kenneth M. Mead

Reply To

Attn. of: Meche:x61496

Inspector General *K. M. Mead*

To: The Secretary

I respectfully submit the Office of Inspector General (OIG) report on the Highway Trust Fund (HTF) Financial Statements for the Fiscal Year (FY) 2000 that ended September 30, 2000. This report is required by the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994.

The audit report is the responsibility of the OIG. All other information--including the Management Discussion and Analysis, Financial Statements, Notes, and Supplementary and Stewardship Information--is the responsibility of the Federal Highway Administration (FHWA), Federal Transit Administration (FTA), National Highway Traffic Safety Administration, Federal Motor Carrier Safety Administration, and the Federal Railroad Administration (the HTF agencies).

This report presents our unqualified opinion on the HTF Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing as of, and for the year ended, September 30, 2000.

To assist us, the Department of the Treasury (Treasury) Office of Inspector General audited the schedule of assets and liabilities, and the related schedule of activity for the HTF accounts (referred to as the Corpus account) administered by the Treasury Bureau of Public Debt. The Treasury OIG issued an unqualified opinion on these FY 2000 schedules. The General Accounting Office performed agreed-upon procedures on tax revenue receipts at the Internal Revenue Service and distributions to the HTF Corpus account, and identified no material discrepancies.

Last year, we reported a material weakness because the HTF agencies, primarily FHWA and FTA, had not established procedures to fully accrue liabilities and expenses at yearend. During FY 2000, FHWA and FTA established adequate procedures and produced a fair and reasonable estimate of accrued liabilities and expenses at yearend.

During FY 2000, we also reported that computer security controls in the FTA financial management system were not adequate to ensure operational integrity and continued operations. The financial system also was put into operation without being certified and accredited for adequate controls and security. FTA agreed with our recommendations and took, or is taking, corrective actions.

For the FY 2000 HTF Financial Statements, we identified two issues involving compliance with laws and regulations. While these issues are important, they did not affect our audit opinion.

- The performance measures presented in the Management Discussion and Analysis did not provide information about the cost-effectiveness of programs nor relate to the Statement of Net Cost. The 10 performance measures were based on 1999 rather than 2000 performance data. None of the 10 measures was linked to the cost of achieving targeted results.
- The HTF agencies were not in compliance with the Federal Financial Management Improvement Act of 1996 because the Department's accounting system did not comply with the United States Government standard general ledger, did not provide the data necessary for preparing the HTF Financial Statements, and the HTF agencies have not implemented a managerial cost accounting system. The Department plans to have a compliant accounting system fully operational by December 31, 2001.

We are making no recommendations in this report. Because the compliance issues we identified are common to the HTF and other Department of Transportation (DOT) internal agencies, we will address these issues in our report on the FY 2000 DOT Consolidated Financial Statements.

A draft of this report was provided to the FHWA and DOT Chief Financial Officers on February 23, 2001. They agreed with the report.

We appreciate the cooperation and assistance of representatives of the HTF agencies and DOT. If we can answer questions or be of any further assistance, please call me at (202) 366-1959, or John Meche at (202) 366-1496.

Attachments

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**DEPARTMENT OF TRANSPORTATION**  
**INSPECTOR GENERAL'S INDEPENDENT AUDIT REPORT**  
**ON THE HIGHWAY TRUST FUND**  
**FISCAL YEAR 2000 FINANCIAL STATEMENTS**

To the Federal Highway Administrator,  
Federal Transit Administrator,  
National Highway Traffic Safety Administrator,  
Federal Motor Carrier Safety Administrator, and  
Federal Railroad Administrator

The Department of Transportation (DOT), Office of Inspector General (OIG), audited the Highway Trust Fund (HTF) Financial Statements as of, and for the year ended, September 30, 2000, and issued an unqualified opinion. In our opinion, the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing were fairly presented, in all material respects, in conformance with Generally Accepted Accounting Principles.

We also are reporting on internal controls over the HTF within the HTF agencies, and compliance with laws and regulations applicable to the Fiscal Year (FY) 2000 HTF Financial Statements. We performed audit work in the Headquarters offices of the Federal Highway Administration (FHWA); Federal Transit Administration (FTA); National Highway Traffic Safety Administration (NHTSA); and the Federal Motor Carrier Safety Administration (FMCSA). We examined, on a test basis, evidence supporting the amounts and disclosures in the HTF Financial Statements. We assessed the accounting principles and estimates used by management. We evaluated the overall presentation of the HTF Financial Statements.

We also examined the validity of financial transactions and interviewed financial management officials in FHWA Division and state Department of Transportation offices in Austin, Texas; Raleigh, North Carolina; Dover, Delaware; and Springfield, Illinois. We evaluated internal controls and examined transactions at the FTA Regional Office in Fort Worth, Texas, and the Dallas Area Rapid Transit in Dallas, Texas. Additional internal control evaluations also were performed at the NHTSA Regional Office in Baltimore, Maryland, and the District of Columbia Police Headquarters in Washington, D.C.

Using statistical sampling techniques, we tested 126 expense transactions totaling \$3 billion (from a universe of \$27.5 billion), and 126 obligation transactions totaling \$1.8 billion (from a universe of \$26.4 billion) recorded during FY 2000. We evaluated supporting evidence for these transactions from 54 Federal, state, and local offices.

We performed the audit in accordance with Government Auditing Standards as prescribed by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin 01-02, Audit Requirements for Federal Financial Statements.

Our audit objectives for the FY 2000 HTF Financial Statements were to determine whether: (1) principal HTF Financial Statements are presented fairly, in all material respects, in conformance with Generally Accepted Accounting Principles; (2) HTF agencies have adequate internal controls over financial reporting, including the safeguarding of assets; (3) HTF agencies have complied with laws and regulations that could have a direct and material effect on the HTF Financial Statements or have been specified by OMB, including the Federal Financial Management Improvement Act of 1996; (4) financial information in the Management Discussion and Analysis is materially consistent with the information in the principal HTF Financial Statements; (5) internal controls ensured the existence and completeness of reported data supporting performance measures; and (6) supplementary and stewardship information is consistent with management representations and the HTF Financial Statements.

Except for performance measures, which were based on 1999 performance data (Part C of this report), the financial information in the Management Discussion and Analysis was materially consistent with the FY 2000 HTF Financial Statements. The supplementary and stewardship information also was consistent with management representations and the HTF Financial Statements.

We are including our reports on internal controls and compliance with laws and regulations in Parts B and C of this report.

#### **A. UNQUALIFIED OPINION ON FINANCIAL STATEMENTS**

In our opinion, the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing as of, and for the year ended, September 30, 2000, were fairly presented, in all material respects, in conformance with Generally Accepted Accounting Principles.

#### **B. REPORT ON INTERNAL CONTROLS**

Our objective was not to express, and we do not express, an opinion on internal controls. Our work was limited to applicable internal controls designed to ensure reliable financial reporting, including the safeguarding of assets. We obtained an understanding of the internal controls, determined whether the controls had been placed in operation, assessed control risk relevant to the assertions embodied in the financial statements, and performed tests of controls to determine our auditing procedures for the purpose of expressing our opinion on the FY 2000 HTF Financial Statements.

Because of inherent limitations in internal controls, misstatements and losses may occur and not be detected. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. We noted no matters involving internal controls that we considered to be material weaknesses as defined by standards issued by the American Institute of Certified Public Accountants.

### **C. REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS**

Our objective was not to express, and we do not express, an opinion on compliance with laws and regulations. Our work was limited to selected provisions of laws and regulations that would have a direct and material effect on the FY 2000 HTF Financial Statements or have been specified by OMB, including the Federal Financial Management Improvement Act of 1996, and would not necessarily disclose all material noncompliances. We identified two compliance issues.

#### **Performance Data**

Under OMB Bulletin 01-02, our responsibility is to obtain an understanding of internal controls relating to the existence and completeness of performance data. The HTF agencies are responsible for establishing and maintaining adequate internal controls. The FY 2000 DOT Performance Plan contained 66 performance measures, of which 9 were in the FY 2000 HTF Financial Statements. FHWA reported one additional performance measure (regarding deficient bridges on all roads) in the FY 2000 HTF Financial Statements, but that measure was not in the Department's FY 2000 Performance Plan. The presentation complied with the requirements of OMB Bulletin 97-01 and related technical amendments to report performance measures consistent with goals and objectives from agencies' strategic plans.

#### *Linking to the Statement of Net Cost and Measuring Cost-Effectiveness*

OMB Bulletin 97-01 and related technical amendments state:

Entities should strive to develop and report objective measures that . . . provide information about the cost effectiveness of programs. The reported measures . . . should be linked to the programs featured in the Statement of Net Cost . . . . To further enhance the usefulness of the information, agencies should include an explanation of what needs to be done and what is planned . . . to improve financial or program performance.

As we reported last year, the HTF agencies still did not have systems in place to allocate costs by major program. Consequently, the performance measures could not be linked to the Statement of Net Cost. For example, the NHTSA goal to reduce highway-related fatalities was not linked to the Statement of Net Cost.

The performance measures presented in the HTF Financial Statements also did not provide information about cost-effectiveness. None of the measures was linked to the cost of achieving targeted results, or to the Statement of Net Cost. For example, one FTA goal is to work toward eliminating transit-related deaths, injuries, and property damage. FTA did not report the FY 2000 cost data for its efforts in these areas.

The Departmental Accounting and Financial Information System (DAFIS) does not have the capability to track program costs. However, DOT is in the process of replacing DAFIS, and plans to have the new accounting system in full operation by December 31, 2001.

### Assessing Internal Controls

We performed various procedures to assess the internal controls relating to performance data. While our work disclosed no material internal control weaknesses, we were not required to, and we did not, test the validity or accuracy of performance data as part of the HTF Financial Statement audit. However, the HTF agencies are facing a significant management challenge to ensure the incoming data are accurate and complete.

The HTF agencies are relying on third-party organizations outside the Federal Government, such as states, grantees and transit authorities, for most of their performance data. HTF agencies also used 1999 performance data. States report on a calendar-year basis, and the HTF agencies usually receive the performance information too late to incorporate in the FY 2000 HTF Financial Statements. Although HTF agencies have some FY 2000 data, the Department instructed the agencies to present 1999 data for consistency across DOT.

Although not part of the Financial Statement audits, the OIG performed audits in FYs 1999 and 2000 addressing selected performance measures and data. OIG will continue to address performance measures as part of program audits. For example, OIG conducted a performance audit and found the FMCSA Safety Status Measurement System (SafeStat) cannot target motor carriers with the worst records because the SafeStat database is incomplete and inaccurate. FMCSA is in the process of implementing our recommendations to improve its data. Furthermore, the Department is continuing its efforts to further enhance the quality of all performance data.

### Reporting of Planned Actions

To enhance the usefulness of performance information, OMB Bulletin 97-01 and related technical amendments encourage entities to include an explanation of what is planned to improve financial or program performance. As we reported last year, the Management Discussion and Analysis overview of the FY 2000 HTF Financial Statements included general comments on how to improve performance; however, specific plans to improve financial performance through performance measures were not included. For example, planned action to improve the quality of pavement in the National Highway System was not addressed.

### **Federal Financial Management Improvement Act of 1996**

The Federal Financial Management Improvement Act (FFMIA) of 1996 requires auditors to report whether the agencies' financial management systems comply substantially with the requirements of Federal financial management systems, Federal accounting standards, and the United States Government standard general ledger at the transaction level. On January 4, 2001, OMB issued revised guidance to be used for determining compliance with FFMIA for financial reports and audits of the FY 2000 Financial Statements.

The HTF agencies were not in compliance with FFMIA because DAFIS did not comply with the standard general ledger and did not provide the data necessary for preparing the HTF Financial Statements, and the HTF agencies have not implemented a managerial cost accounting system. The HTF agencies made 338 adjustments, totaling about \$13 billion, outside DAFIS to prepare the financial statements. These adjustments were recorded in the financial statement module, a tool used to process the adjustments. However, the HTF agencies did not use the financial statement module to prepare the financial statements and the adjustments were not recorded in DAFIS. The Department plans to have a compliant accounting system fully operational by December 31, 2001.

One recommendation from our report on the FY 1996 HTF Financial Statements relating to data processing controls and safeguards has not been fully implemented. FHWA still needs to prepare a security plan for its financial management system and perform required certification and accreditation reviews. FHWA officials stated that corrective actions would be completed by September 30, 2001.

On May 23, 2000, we issued Report Number FE-2000-098 on FTA computer security controls. We reported that computer security controls in the FTA financial management system were not adequate to ensure operational integrity and continued operations. The financial system also was placed into operation without being certified and accredited for adequate controls and security as required by OMB Circular A-130. FTA agreed with our recommendations and took, or is taking, corrective actions.

On December 27, 2000, as required by the Federal Managers' Financial Integrity Act of 1982, the Secretary of Transportation reported that the Department was taking remedial and progressive actions to bring the Department into substantial compliance with FFMIA.

#### **D. PRIOR AUDIT COVERAGE**

Our report on the FY 1999 HTF Financial Statements contained no recommendations. However, our report on the FY 1999 DOT Consolidated Financial Statements recommended that the DOT Chief Financial Officer establish procedures requiring the DOT internal agencies to accrue liabilities for goods and services received at yearend, including those received by states and transit authorities under the Department's grant programs. During FY 2000, FHWA and FTA established adequate procedures and produced a fair and reasonable estimate of accrued liabilities and expenses at FY 2000 yearend.

We also issued an audit report during FY 2000 that affects the HTF Financial Statements. On February 14, 2000, we issued Report Number FE-2000-053 on duplicate payments. We reported that the State of Georgia received 42 duplicate payments, totaling \$1.6 million, for highway maintenance and construction costs between July 12 and November 23, 1999. FHWA has recovered the duplicate payments and the State of Georgia has taken corrective actions to prevent additional duplicate payments.

This report is intended for the information and use of the HTF agencies, DOT, OMB, and Congress. However, this report is a matter of public record, and its distribution is not limited.



Kenneth M. Mead  
Inspector General

If you would like to view, or obtain copies of, SECTION II – FINANCIAL STATEMENTS, or SECTION III – SUPPLEMENTARY INFORMATION, of this audit report, please call 202-366-1496.