

**FINANCIAL STATEMENTS FOR
FISCAL YEARS 2001 AND 2000**

Highway Trust Fund

*Report Number: FI-2002-081
Date Issued: February 26, 2002*



Memorandum

U.S. Department of
Transportation

Office of the Secretary
of Transportation

Office of Inspector General

Subject: INFORMATION: Report on Financial Statements
for Fiscal Years 2001 and 2000, Highway Trust Fund
FI-2002-081

Date: February 26, 2002

From: Kenneth M. Mead
Inspector General

Reply To
Attn. of: Meche:x61496

To: The Secretary

I respectfully submit the Office of Inspector General (OIG) report on the Highway Trust Fund (HTF) Financial Statements for Fiscal Years (FY) 2001 and 2000. For the first time starting with FY 2001, the Office of Management and Budget requires comparative financial statements to be presented covering 2 years. This report is required by the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994.

This report presents our unqualified opinion on the HTF Consolidated Balance Sheets, Statements of Net Cost, and Statements of Changes in Net Position, and Combined Statements of Budgetary Resources and Statements of Financing as of, and for the years ended, September 30, 2001, and September 30, 2000.

The HTF Financial Statements are the responsibility of the Federal Highway Administration (FHWA), Federal Transit Administration (FTA), National Highway Traffic Safety Administration (NHTSA), Federal Railroad Administration (FRA), and the Federal Motor Carrier Safety Administration (FMCSA). FHWA is the lead agency for preparing the HTF Financial Statements.

During FY 2001, high gasoline prices and a slow-down in the economy resulted in a dramatic drop in HTF revenues. FY 2001 revenues in the FHWA account from gasoline and diesel tax and from truck and trailer sales were down from FY 2000 levels by about \$1.3 billion and \$1.8 billion, respectively. Although revenues were lower than expected, the amounts collected for FY 2001 were fairly presented in the HTF Financial Statements. The lower than expected revenues for FY 2001 and FY 2002 will reduce the HTF uncommitted balance.

More important, the revenue declines in FY 2001 have a direct impact on obligation authority available to fund state highway projects during FY 2003. For example, based on FY 2001 revenues and FY 2003 projections using the revenue aligned budgetary

authority (RABA) provision, the President's FY 2003 budget shows highway funding dropping by about \$9 billion, or about 29 percent from the FY 2002 level. Unless legislative action is taken, FHWA and the states will need to significantly adjust the planned projects for FY 2003.

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 schedules. The General Accounting Office (GAO) 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.

For FY 2001, we identified four issues involving internal control weaknesses and compliance with laws and regulations. While they are important, they did not affect our audit opinion.

- An interface problem existed between FHWA's grant management system and the Department of Transportation (DOT) accounting system, which underreported valid obligations in the accounting system by about \$195 million. FHWA immediately corrected its financial records and adjusted the financial statements accordingly.
- During FY 2001, we reported that FHWA needed to do more to determine whether obligations on inactive projects were needed. FHWA and the states agreed that about \$238 million should be used for other essential projects or returned to the U.S. Treasury. Because we made recommendations in a separate report, we are making no recommendations in this report.
- The HTF agencies were not in compliance with the Federal Financial Management Improvement Act of 1996 because DOT's accounting system did not provide the data for preparing the HTF Financial Statements, did not comply with the U.S. Government standard general ledger, and did not comply with requirements for implementing managerial cost accounting standards. The HTF agencies also need to enhance security over financial information systems. DOT and the HTF agencies plan to have compliant and secure financial systems by January 2003.
- 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 FY 2001 performance measures were based on FY 2000 rather than FY 2001 performance data. None of the measures was linked to the cost of achieving targeted results.

We are making one recommendation in this report. Issues that are common to HTF and other DOT agencies will be addressed in our report on the DOT Consolidated Financial Statements for FYs 2001 and 2000.

A draft of this report was provided to the FHWA and DOT Chief Financial Officers on February 22, 2002. They agreed with the report.

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

Attachments

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Due to the volume of information contained in this document, please call 202-366-1496 to obtain a copy of the attachments to this report.