



Memorandum

U.S. Department of
Transportation

Office of the Secretary
of Transportation

Office of Inspector General

Subject: ACTION: Quality Control Review
of Audited Financial Statements
for Fiscal Years 2003 and 2002,
Highway Trust Fund
QC-2004-029

Date: January 23, 2004

From: Kenneth M. Mead
Inspector General

Reply To JA-20:x61496
Attn Of:

To: The Secretary

The audit of the Highway Trust Fund (HTF) Financial Statements as of and for the year ended September 30, 2003, (see attachment) was completed by Clifton Gunderson LLP, of Calverton, Maryland. We performed a quality control review of the audit work to confirm that it complied with applicable standards. These standards include the Chief Financial Officers Act; Government Auditing Standards; and Office of Management and Budget (OMB) Bulletin 01-02, Audit Requirements for Federal Financial Statements. The Office of Inspector General (OIG) audited the Highway Trust Fund Financial Statements as of and for the year ended September 30, 2002, and issued a report dated January 24, 2003.

The Clifton Gunderson audit report concluded that the HTF financial statements were presented fairly, in all material respects, in conformity with generally accepted accounting principles. We concur with this unqualified or “clean” opinion.

The HTF agencies,¹ the Office of the Secretary of Transportation, and Clifton Gunderson, had to overcome significant financial management and accounting deficiencies in order to generate auditable financial information and complete the audit on time. Problems caused by these long-standing deficiencies were compounded this year because two major HTF agencies (FHWA and FMCSA) had not adequately planned or implemented their conversions to the Department’s new accounting system, called Delphi. The audit report categorized these problems

¹ Federal Highway Administration (FHWA), National Highway Traffic Safety Administration (NHTSA), Federal Transit Administration (FTA), Federal Railroad Administration (FRA), Federal Motor Carrier Safety Administration (FMCSA), and the Bureau of Transportation Statistics (BTS).

into 4 material internal control weaknesses and 1 reportable internal control condition and made 23 recommendations to correct the problems. In her January 20, 2004 response to the draft report, the Acting Assistant Secretary for Budget and Programs / Chief Financial Officer concurred with the weaknesses, generally agreed with the recommendations, and committed to submit a detailed Action Plan to the OIG by February 15, 2004.

Material Weaknesses

1. Financial Statement Preparation and Analysis. Even though the audit of the Fiscal Year (FY) 2003 financial statements was completed before the January 30, 2004 OMB deadline, the HTF agencies expended a tremendous amount of effort to “clean up” their accounting records in order to prepare auditable financial statements at September 30, 2003. Required accounting procedures, including reconciling accounts, tracking intragovernmental transactions, and conducting related analysis were not performed throughout the year. These problems were compounded at FHWA and FMSCA because they had not adequately prepared for their February 2003 conversion to a new accounting system. Unless major improvements are made in accounting policies and procedures at all HTF agencies, the financial statements for FY 2004 may not be completed by the accelerated OMB deadline of November 15, 2004. Clifton Gunderson made seven recommendations to the HTF agencies to improve their financial statement preparation and analysis procedures.

2. Reconciliation Procedures. Even though most accounts were eventually reconciled as of September 30, 2003, many account reconciliations were not performed during the year. Certain account reconciliations (such as Fund Balance with Treasury, Grants, and Non-Exchange Revenue) also contained significant differences at September 30, 2003, that needed adjustment. Other accounts (such as advances to other agencies, budgetary accounts, and trading partner information) did not have required subsidiary records. The lack of reconciliation procedures and subsidiary records required the HTF agencies to expend substantial amounts of resources researching differences between the core accounting system and subsidiary records, and unusual transactions identified at yearend. In addition, many adjustments made as a result of the yearend reconciliations could only be performed at the summary rather than the detail level. The heavy focus on completing yearend reconciliations, which continued into January 2004, has also diverted resources from accounting for FY 2004 transactions, which may make it more difficult to meet OMB’s accelerated FY 2004 reporting date. Clifton Gunderson made four recommendations to the HTF agencies to improve their reconciliation and analysis procedures.

3. *Conversion to New Accounting System.* FHWA and FMCSA converted to the Delphi accounting system in February 2003. However, because they had not adequately planned or implemented the conversion, it was not successful. The problems encountered included the following: balances from the old system did not accurately convert to the new system, many new transactions were not processed accurately, and resulting subsidiary reports did not reconcile to the new general ledger system. In addition, errors in processing new transactions after the conversion were not fully corrected until 3 months after yearend, and many corrections were not performed at the detail level in Delphi. Because FHWA and FMCSA were so focused on fixing FY 2003 conversion problems, it is likely that similar problems exist in FY 2004 transactions. Clifton Gunderson made three recommendations to FHWA and FMCSA to complete conversion to the new accounting system.

4. *Computer Security Weaknesses.* Weaknesses in security planning and management, access controls, change controls and business continuity planning were noted in the grant management and payment systems used by FHWA and FTA. For example, employees separated from agencies could still access these systems because their user accounts were not timely removed. Changes made to these systems were not properly documented for management review, testing, and approval. Backup sites for these systems were too close to the primary processing sites to ensure business continuity in case of disasters. Because of the sensitivity of the computer security issues discussed, Clifton Gunderson made recommendations to the HTF agencies in a separate report to management.

Reportable Condition

Grants Financial Management Oversight, FHWA. During internal control testing of 45 grant files, Clifton Gunderson noted 25 instances where FHWA Division Offices had not performed required financial management reviews of grantees. In addition, an ongoing OIG audit identified inactive obligations totaling about \$300 million that were unneeded and, therefore, should have been deobligated and put to use on other projects. Clifton Gunderson made four recommendations to FHWA to improve grants financial management and oversight.

The report also identified instances of noncompliance with the following accounting laws and regulations:

1. Single Audit Act of 1984,
2. Federal Managers' Financial Integrity Act of 1982,
3. Anti-Deficiency Act,
4. Managerial Cost Accounting and Performance Measurement, and

5. Federal Financial Management Improvement Act of 1996.

Clifton Gunderson made four recommendations to improve compliance with the Single Audit Act of 1984.

In our opinion, the audit work performed by Clifton Gunderson complied with applicable standards and we agree with the recommendations made by Clifton Gunderson. Therefore, we are not making any additional recommendations. In accordance with DOT Order 8000.1C, the corrective actions taken in response to the recommendations are subject to follow-up.

We appreciate the cooperation and assistance of the HTF agencies, the Office of Financial Management, and Clifton Gunderson representatives. If we can answer any questions, please call me at (202) 366-1959, or Ted Alves at (202) 366-1496.

Attachment

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