



Memorandum

**U.S. Department of
Transportation**

Office of the Secretary
of Transportation
Office of Inspector General

Subject: **ACTION:** Quality Control Review of Audited
Consolidated Financial Statements for Fiscal Years
2010 and 2009, Department of Transportation
Report Number: QC-2011-021

Date: November 15, 2010

From: Calvin L. Scovel III
Inspector General

Reply to
Attn. of: JA-20

To: The Secretary

I respectfully submit our report on the Quality Control Review of the Department of Transportation's (DOT) audited Consolidated Financial Statements for Fiscal Years (FY) 2010 and 2009.

The audit of DOT's Consolidated Financial Statements as of and for the years ended September 30, 2010, and September 30, 2009, was completed by Clifton Gunderson LLP (Clifton Gunderson), of Calverton, Maryland (see Attachment), under contract to the Office of Inspector General (OIG). We performed a quality control review of the audit work to ensure that it complied with applicable standards. These standards include the Chief Financial Officers Act, as amended; generally accepted government auditing standards prescribed by the Comptroller General of the United States; and Office of Management and Budget Bulletin 07-04, "Audit Requirements for Federal Financial Statements," as amended.

Clifton Gunderson concluded that the consolidated financial statements present fairly, in all material respects, DOT's financial position as of September 30, 2010, and September 30, 2009, and its net costs, changes in net position, and budgetary resources, for the years then ended.

We congratulate DOT for obtaining clean audit opinions with no material weaknesses for 3 consecutive years. Your senior leadership team, including the Chief Financial Officer and Modal Administrators, should be commended for its commitment to improving DOT financial management.

DOT substantially corrected two of the five significant deficiencies in internal control reported in Clifton Gunderson's FY 2009 audit report, but the remaining three significant deficiencies in internal control are again included in this year's report. In addition, there are two new significant deficiencies in internal control presented for FY 2010.

Clifton Gunderson FY 2010 Audit Report

Clifton Gunderson reported five significant deficiencies in internal control and four potential instances of reportable noncompliance with laws and regulations.

Significant Deficiencies

1. **Financial Accounting, Reporting and Analysis** - DOT must continue to reduce the use of journal entries and properly record reclassification and adjustment transactions in the Delphi general ledger system. Furthermore, DOT Operating Administrations (OAs) should follow a formalized systematic fund control process throughout the year to monitor fund status.
2. **Undelivered Orders** - DOT needs to strengthen controls for monitoring inactive obligations and de-obligate an estimated \$1.5 billion no longer needed as of September 30, 2010. These funds could potentially be made available for other DOT requirements.
3. **Grant Accruals** - The Federal Highway Administration (FHWA) needs to enhance its review and analysis of grant accruals in order to more reliably measure the cost of grants programs and outstanding liabilities.
4. **Implementation of GrantSolutions Grants Management System** - The Federal Railroad Administration (FRA) needs to improve the effectiveness and functionality of its grants management processes and systems in order to strengthen controls and safeguard obligations.
5. **Controls over Financial Systems and Applications** - DOT's Enterprise Services Center must migrate the Department's accounting application to a new operation system supported by the database vendor, develop a lifecycle plan, and enhance communications with the Department and its OAs. Furthermore, DOT needs to implement effective security controls to protect its financial information from unauthorized access, modification, and disclosure throughout the year.

Noncompliance with Laws and Regulations

Anti-Deficiency Act - DOT management needs to complete its assessment of four potential violations of the Anti-Deficiency Act reported at the Maritime Administration, the Federal Motor Carrier Safety Administration, and FHWA (two potential violations), and report confirmed violations as required by law. These OAs should also enhance their internal control systems for monitoring fund balances.

Clifton Gunderson made 30 recommendations to strengthen financial, accounting, and system controls. We agree with all, and therefore, are making no additional recommendations. DOT officials concurred with Clifton Gunderson's findings on the significant deficiencies and potential instances of noncompliance. The Department also committed to submitting to OIG, no later than December 31, 2010, a detailed action plan to address the findings contained in the audit report. In accordance with DOT Order 8000.1C, the corrective actions taken in response to the findings are subject to follow up. Accordingly, please provide us with quarterly progress reports on the actions taken to reduce the approximately \$1.5 billion in unneeded obligations discussed in Clifton Gunderson's "Undelivered Orders" significant deficiency.

Our review disclosed no instances in which Clifton Gunderson did not comply, in all material respects, with applicable auditing standards.

We appreciate the cooperation and assistance of DOT and Clifton Gunderson representatives. If we can answer any questions, please call me at (202) 366-1959; Lou Dixon, Principal Assistant Inspector General for Auditing and Evaluation, at (202) 366-1427; or Earl Hedges, Acting Assistant Inspector General for Financial and Information Technology Audits, at (410) 962-1729.

Attachment

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