



Memorandum

**U.S. Department of
Transportation**


Office of the Secretary
of Transportation

Office of Inspector General

Subject: **ACTION**: Management Advisory: Accounting and
Financial Reporting of Related Hurricane Costs

Date: October 12, 2005

From:

Theodore Alves 
Principal Assistant Inspector General
for Auditing and Evaluation

Reply to

Attn of: JA-20

To: Assistant Secretary for Budget and
Programs/Chief Financial Officer

We recently performed a preliminary assessment of risk over the accounting, tracking, and financial reporting of the costs of Hurricanes Katrina, Ophelia, and Rita. The purpose of this assessment was to determine if the Operating Administrations (OAs) were establishing adequate procedures and controls, in response to your September 23, 2005 Hurricane Disaster Guidance, to track and report costs they have incurred. This effort is the first review conducted based on our October 6, 2005 announcement that we would perform a series of audits and investigations of the Department of Transportation's (DOT) relief and recovery activities. We also anticipate that the Congress will hold hearings on the Department's oversight of hurricane relief funds.

This assessment addressed the first line of effort identified in our announcement letter—verifying that expenditures of Federal funds are being appropriately tracked by the OAs as required by the Assistant Secretary for Budget and Programs and Chief Financial Officer. The assessment does not address other lines of effort, such as whether OAs are providing adequate oversight of the activities being carried out by states with funds provided by DOT. Our assessment was limited to interviews of senior financial management officials and examination of limited documentation on September 28 to 30, 2005, in the Office of the Secretary (OST), Federal Aviation Administration (FAA), Federal Highway Administration (FHWA), Federal Transit Administration, Maritime Administration, and Pipeline and Hazardous Materials Safety Administration (PHMSA).

Based on this assessment, this management advisory provides several observations and concerns about how best to ensure that all DOT resources related to the response, clean-up, and rebuilding activities are accurately tracked and reported. We raised these issues at the weekly Hurricane Financial Stewardship Work Group meeting on October 6, 2005, and OST officials agreed to address them promptly.

RESULTS

Our assessment concluded the OAs were working to establish procedures and controls to implement your September 23, 2005 Hurricane Disaster Guidance. For example, OST seems to have good controls to track the Mission Assignments DOT has received from the Federal Emergency Management Agency (FEMA). Also, it is clear that all five OAs are being responsive to your direction and are instituting processes to track costs.

However, our assessment identified areas where the OAs need to strengthen implementation of your guidance. For example, all five OAs indicated that they had established procedures to account for overtime and travel costs that they believe will be reimbursed by FEMA. They were not, however, tracking all costs incurred in responding to the hurricanes, as called for in your September 23, 2005 guidance. We identified three issues that need your immediate attention.

- **Inadequate funds control.** It appears that the Department may not have adequate control over the funds used to support transportation-related emergency response activities. Responsibility to provide these activities has been assigned to the FAA's Southern Region. Inadequate funds control may create the risk that violations of appropriations law, including the Anti-deficiency Act, could occur. We found that a lack of clarity regarding roles, responsibilities, and authority, among several components of the Department (including FAA's Southern Region; FAA's Chief Financial Officer; the Office of Intelligence, Security, and Emergency Response; and the Office of Budget) may be contributing to the funds control problems. It appears that all of these organizational units have a role to play in accounting for activities provided by DOT under the National Response Plan. However, the process for accounting for reimbursable authority apportioned by the Office of Management and Budget (OMB), obligating funds, and recording expenses is unclear to participants.

We found that obligations are not being recorded (through the issuance of delivery orders and purchase orders) when taskings (received from FEMA) are issued to Landstar Express America (the contractor responsible for providing emergency response services) by the FAA Southern Region. Under the procedures described to us by responsible officials in OST and FAA's Southern Region, Landstar provides FAA an estimate of the cost of services to be provided, FAA authorizes Landstar to perform the service, and Landstar completes the service and provides FAA the actual cost of the service provided. At that point, the obligation amount is recorded in Delphi. The obligation, however, should cover the estimated total cost of the services and should be recorded when FAA authorizes Landstar to perform the services. Based on information provided by FAA Southern Region, taskings/services totaling about \$289 million had been issued to Landstar through September 30, 2005, but obligations of only \$72 million had been recorded as of that date. Consequently, at the end of the fiscal year, obligations may have been understated by as much as \$217 million.

FAA officials informed us that, in addition to the \$72 million of obligations recorded on FAA's books, FAA has incurred obligations of about \$157 million as of September 30, 2005, that have not been recorded. Thus, according to FAA officials, obligations as of September 30, 2005, should total \$229 million. The \$60 million difference between the taskings/services given to Landstar (\$289 million) as of September 30, 2005, and the amount FAA believes should be recorded as obligations (\$229 million) appears to be due to FAA actions to separate FY 2006 activities from FY 2005 activities. If so, FAA would obligate the \$60 million in FY 2006.

FAA officials also told us that they have identified about \$93 million of additional expenses that were not recorded in FAA's records as of September 30, 2005. Finally, the officials told us that they are unsure whether FAA or the Department has received sufficient apportionments of reimbursable authority from OMB to cover these obligations and expenditures.

Clearly, circumstances exist that require the Department to better understand the accounting process used for hurricane emergency response activities, institute effective funds control, and determine whether any violations of appropriations law, including the Anti-deficiency Act, have occurred. FAA officials have told us they are coordinating with OST Budget to resolve these issues.

- **Tracking all administrative costs.** With the exception of FAA, the OAs do not yet have procedures and controls in place to track *all* administrative costs

(primarily salary, travel, and supplies) related to Hurricanes Katrina, Ophelia, and Rita. Instead, the OAs told us they were only attempting to track and account for the overtime and travel costs that they expect FEMA to reimburse. Your guidance, however, calls for OAs to track all costs, including costs that will not be reimbursed.

The OAs were not attempting to track all direct costs, such as straight time, or indirect costs. The OAs told us that straight time is a normal program cost that would have been incurred without the recent hurricanes and will not be reimbursed by FEMA. Regarding indirect costs, the OAs (except FAA) do not have procedures and controls in place to track indirect costs, such as an allocated share of overhead, and are waiting further guidance on this. Unlike the other OAs, FAA can allocate its indirect costs to specific Katrina and Rita projects.

- **Accumulating administrative costs associated with the initial response.** The Department will need to develop a methodology to identify administrative costs incurred prior to your September 23, 2005 guidance. Before then, OAs generally did not track all hurricane-related costs even though DOT began preparing to respond to Katrina on August 24, 2005. For example, FHWA officials told us that at one time, about 119 FHWA employees nationwide were deployed to the Gulf Coast area working on Katrina and Rita activities. However, FHWA did not track in the payroll system the time spent by these employees. Similarly, PHMSA officials said that 30 to 35 PHMSA employees worked on Katrina and Rita activities, but only their overtime was tracked in the payroll system.

Your September 23, 2005 guidance called for OAs to track the full costs of responding to the hurricanes. Given the high level of attention being paid to accurately reporting hurricane-related costs, as well as the fact that Generally Accepted Accounting Principles for Federal agencies require the ability to accumulate the “full costs” of operations, we agree that the Department should be able to track and report all hurricane relief and recovery activities. We believe the Department should establish a reasonable way to estimate costs incurred since late August 2005, regardless of whether they will be reimbursed.

To ensure that DOT accurately tracks and reports its hurricane-related resources, we recommend that you:

- Clarify roles, responsibilities, and authority for controlling and accounting for emergency response activities provided by the Southern Region,
- Assemble a quick-response team to visit the FAA Southern Region to validate all reimbursable authority, obligations, and expenditures incurred to date related to the hurricane activities and to institute effective funds control procedures,
- Determine whether any violations of appropriations law, including Anti-deficiency Act violations, occurred and if so, take immediate action to rectify and report the violations,
- Direct the FAA Southern Region to issue delivery orders and purchase orders when authorizing Landstar to perform taskings and promptly record obligations in Delphi before any services are performed by Landstar,
- Work with the OAs to establish procedures and controls to ensure that all direct costs, including straight time, are tracked and recorded in Delphi,
- Work with the OAs to establish procedures and controls to ensure that a reasonable share of indirect costs are allocated to the hurricane activities and are recorded in Delphi, and
- Ensure that all costs incurred by the Department related to hurricane activities since August 24, 2005, are accumulated.

In addition, our audits of the FY 2005 DOT financial statements (including the audits by KPMG and Clifton Gunderson) will include procedures to determine whether hurricane-related activities have been accurately reported as of September 30, 2005.

We look forward to continuing to work with your office to ensure that OAs effectively implement your direction to appropriately account and report hurricane-related activities. If you have any questions, please contact me at (202) 366-1992 or Earl Hedges, Program Director for Financial Audits, at (410) 962-1729.

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cc: Deputy Secretary
Chief of Staff
Operating Administrators
Secretarial Officers