
Office of Inspector General

*Highway Trust Fund
Fiscal Year 1996
Financial Statements*

*Federal Highway Administration
Federal Transit Administration
National Highway Traffic Safety Administration*

*Report Number: AS-FH-7-007
Date Issued: March 27, 1997*





U.S. Department of
Transportation

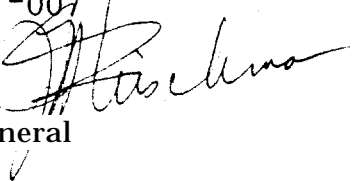
Office of the Secretary
of Transportation

Office of Inspector General

Memorandum

INFORMATION: Report on the Highway Trust
Fund Fiscal Year 1996 Financial Statements
Report No. AS-FH-7-007

Subject: **Fund Fiscal Year 1996 Financial Statements**
Date: **March 27, 1997**

From: **Joyce N. Fleischman** 
Acting Inspector General
Reply to
Attn. of: **Stefani:x60500**

To: **The Secretary**
Thru: The Deputy Secretary

As required by the Chief Financial Officers Act of 1990, I respectfully submit the Office of Inspector General's (OIG) Report on the Highway Trust Fund (HTF) Financial Statements as of September 30, 1996. The Fiscal Year (FY) 1996 HTF financial statements package included the Combined Statement of Financial Position, the Combined Statement of Operations, the Management Overview, and Supplemental Information which accompany the report. The HTF Financial Statements present financial information of the Federal Highway Administration (FHWA), Federal Transit Administration (FTA), and National Highway Traffic Safety Administration (NHTSA).

The report on the HTF Financial Statements audit is the responsibility of the OIG. All other information, such as the Management Overview, Combined Statements, and Combining Statements, are the responsibility of FHWA, FTA, and NHTSA. The FY 1996 Financial Statements and related notes, the Management Overview, and Supplemental Information address all FHWA, FTA, and NHTSA activities associated with the HTF. Our audit, however, was limited to the Combined Statement of Financial Position as of September 30, 1996, and the Combined Statement of Operations for the year ended September 30, 1996.

If I can answer any questions or be of any further assistance, please call me on x61959 or Alexis M. Stefani on x60500.

Attachment

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U.S. Department of
Transportation

Office of Inspector General

Highway Trust Fund FY 1996 Financial Statements

Federal Highway Administration Federal Transit Administration National Highway Traffic Safety Administration

Report No: AS-FH-7-007

March 27, 1997

Objectives

The audit objectives were to (1) determine whether the Combined Statement of Financial Position and Combined Statement of Operations present fairly, in all material respects, the financial position and operations of the Highway Trust Fund (HTF) in accordance with the Office of Management and Budget (OMB) Bulletin No. 94-01; (2) determine whether the Federal Highway Administration (FHWA), Federal Transit Administration (FTA), and National Highway Traffic Safety Administration (NHTSA) have in place an internal accounting and administrative control structure that provides reasonable assurance of achieving established internal control objectives; (3) determine whether FHWA, FTA, and NHTSA have complied with laws and regulations which (a) could have a direct and material effect on the financial statements or (b) have been specified by OMB; (4) assess whether the information and manner of presentation in the Overview of the HTF and Supplemental Financial and Management Information sections of the HTF financial statements package are materially consistent with information in the Combined Statement of Financial Position and Combined Statement of Operations; and (5) assess control risk relative to policies and procedures designed to provide reasonable assurance FHWA, FTA, and NHTSA were achieving internal accounting and administrative control objectives regarding the existence and completeness assertions for performance measures.

Conclusions

In our opinion, the Combined Statement of Financial Position and Combined Statement of Operations present fairly, in all material respects, the consolidated financial position and results of operations for the HTF in conformity with the Chief Financial Officers Act as of September 30, 1996. Internal controls affecting accounting and administrative processes for FHWA, FTA, and NHTSA provide

SYNOPSIS



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reasonable assurance that information reported in the HTF financial statements is reliable. However, internal controls should be strengthened over (1) FHWA's and FTA's computer security programs for the automated systems used to administer grants and make disbursements to grantees, (2) FHWA's and FTA's payment systems to detect duplicate payment requests and FHWA's payment system to preclude project payments in excess of obligated project funds, (3) FHWA's procedures to record procurement contracts as liabilities after receipt of the goods and services, (4) FHWA's, FTA's, and NHTSA's procedures to reconcile general ledger account balances with reported budget information, and (5) FHWA's performance measures to ensure compliance with OMB requirements. FHWA, FTA, and NHTSA complied in all material respects with the laws and regulations directly affecting the Combined Statement of Financial Position and Combined Statement of Operations for the HTF. In addition, the Management Overview and Supplemental Information were materially consistent with information in the Combined Statement of Financial Position and Combined Statement of Operations.

Monetary Impact

Specific monetary savings were not identified for the reportable conditions. However, correcting the internal control weaknesses will help ensure accuracy, timeliness, and reliability of HTF financial information.

Recommendations

We made recommendations that (1) FHWA and FTA strengthen controls over computer security and disbursement systems used to administer grants and make payments to grantees; (2) FHWA establish procedures to record procurement contracts as liabilities only after the goods and services have been received as required by Federal Financial Accounting Standards and establish performance measures consistent with OMB guidelines; and (3) FHWA, FTA, and NHTSA establish procedures to routinely reconcile general ledger account balances with reported budgetary information.

Management Response

FHWA, FTA and NHTSA concurred with the recommendations and initiated or planned corrective actions.



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Corrective actions taken or planned are responsive to the report's recommendations.

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SECTION I
AUDIT REPORT

DEPARTMENT OF TRANSPORTATION
INSPECTOR GENERAL'S REPORT ON THE
HIGHWAY TRUST FUND
FY 1996 FINANCIAL STATEMENTS

To the Federal Highway Administrator,
Federal Transit Administrator, and
National Highway Traffic Safety Administrator

The Department of Transportation (DOT), Office of Inspector General (OIG), has completed an audit of the Highway Trust Fund (HTF) Combined Statement of Financial Position and Combined Statement of Operations as of September 30, 1996. The audit covered the Federal Highway Administration (FHWA), Federal Transit Administration (FTA), and National Highway Traffic Safety Administration (NHTSA) portions of the HTF. The HTF financial statements are the responsibility of FHWA, FTA, and NHTSA. As applicable to the HTF financial statements, we are also reporting on the associated internal control systems, compliance with applicable laws and regulations, and the existence and completeness of performance measures for each of the aforementioned agencies. The audit was performed in accordance with Government Auditing Standards as prescribed by the Comptroller General and the Office of Management and Budget (OMB) Bulletin 93-06, "Audit Requirements for Federal Financial Statements."

The audit objectives were to (1) determine whether the Combined Statement of Financial Position and Combined Statement of Operations present fairly, in all material respects, the financial position and operations of the HTF in accordance with OMB Bulletin No. 94-01; (2) determine whether FHWA, FTA, and NHTSA have in place an internal accounting and administrative control structure that provides reasonable assurance of achieving established internal control objectives; (3) determine whether FHWA, FTA, and NHTSA have complied with laws and regulations which (a) could have a direct and material effect on the financial statements or (b) have been specified by OMB; (4) assess whether the information and manner of presentation in the Overview of the HTF and Supplemental Information sections of the HTF's financial statements package are materially consistent with information in the Combined Statement of Financial Position and Combined Statement of Operations; and (5) assess control risk relative to policies and procedures designed to provide reasonable assurance FHWA, FTA, and NHTSA were achieving internal accounting and administrative control objectives regarding the existence and completeness assertions for performance measures.

In March 1996, DOT requested a waiver from specific requirements of OMB Bulletin 94-01, "Form and Content of Agency Financial Statements," regarding preparation of the Statement of Cash Flows and the Statement of Budgetary Resources and Actual Expenses. OMB approved the waiver and FHWA, FTA, and NHTSA did not prepare these two statements for Fiscal Year (FY) 1996.

The financial statements audit process is intended to foster a collegial and cooperative working relationship between auditors and accounting personnel, and this was accomplished during the audit. Using the results of the audit fieldwork, FHWA, FTA, and NHTSA accounting personnel significantly enhanced the precision and comprehensiveness of the information reported in the FY 1996 HTF financial statements package. The resulting modifications incorporated into the final version of the HTF Financial Statements include \$12 billion in line item adjustments and \$3.4 billion in line item reclassifications. We calculated the amounts for the line item adjustments and reclassifications using the value of only one side of each accounting adjustment, i.e., either debit or credit. The line item modifications incorporated in the audited HTF Financial Statements were not caused by systemic weaknesses in the internal control structures of FHWA, FTA, and NHTSA.

This report presents our unqualified opinion on the HTF Combined Statement of Financial Position as of September 30, 1996, and Combined Statement of Operations for the period ended September 30, 1996. In addition, we are including our reports on consistency of other information, internal control structure, and compliance with laws and regulations.

A. OPINION ON FINANCIAL STATEMENTS

In accordance with the Chief Financial Officers (CFO) Act of 1990, the OIG audited the HTF Financial Statements for FY 1996 (the Combined Statement of Financial Position as of September 30, 1996, and Combined Statement of Operations for the period ended September 30, 1996). The Financial Statements of the HTF are the responsibility of FHWA, FTA, and NHTSA. The financial statements present only the HTF activity and are not intended to represent the overall financial position or results of operations for FHWA, FTA, or NHTSA. The OIG's responsibility is to express an opinion on the financial statements based on the audit.

The auditing standards under which we conducted our work require us to plan and perform the audit to obtain reasonable assurance that the Combined Statement of Financial Position and Combined Statement of Operations are free of material misstatements. Our audit includes

examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. In our view, the audit work performed provides a reasonable basis for our opinion.

The HTF custodial functions performed by the U.S. Treasury (Treasury), Financial Management Service, Funds Accounting Branch (FAB), were audited by an independent public accountant (IPA) engaged by the Treasury OIG. The IPA rendered an unqualified opinion on the HTF Custodial Financial Statements for the year ended September 30, 1996. The financial activity reported in these financial statements was limited to the activities performed by the FAB which provides accounting, investment, and financial reporting services to the HTF. The FAB records receipts, disbursements and transfers related to the HTF based on information submitted by the Treasury Office of Tax Analysis, Internal Revenue Service, other Treasury bureaus, and DOT. As such, these financial statements do not represent a complete accounting for all assets, liabilities, sources and uses of funds for the HTF. Adjustments may result in future years due to events in FY 1996 and prior as Treasury continues to collect tax and other revenues. FAB treats such adjustments as changes in estimates.

As required by OMB Bulletin No. 94-01, Note 1 to the Combined Financial Statements describes the accounting policies used by FHWA, FTA, and NHTSA to prepare the financial statements. Those policies represent a comprehensive basis of accounting other than Generally Accepted Accounting Principles.

In our opinion, the Combined Statement of Financial Position and Combined Statement of Operations present fairly, in all material respects, the consolidated financial position and results of operations for the HTF in conformity with the accounting policies described in Note 1 for the year ended September 30, 1996.

B. CONSISTENCY OF OTHER INFORMATION

The Management Overview provided financial information by program and activity, and Supplemental Information contained a wide range of data, some of which were not directly related to the HTF Financial Statements. We do not express an overall opinion on this information. However, we compared this information for consistency with the HTF Financial Statements and discussed the methods of measurement and presentation with FHWA, FTA, and NHTSA officials. Based on this

limited work, we found no material inconsistencies with the HTF Financial Statements or nonconformance with OMB guidance.

C. REPORT ON INTERNAL CONTROL STRUCTURE

OMB guidance for implementing the audit provisions of the CFO Act requires the auditors to assess the reporting entity's internal control structure. FHWA, FTA, and NHTSA management are responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control mechanisms, policies, and procedures. The objectives of an internal control structure are to (1) provide management with reasonable, but not absolute, assurance that transactions are properly recorded; (2) permit the preparation of reliable financial reports in accordance with applicable accounting policies; (3) maintain accountability over assets, funds, and property and ensure assets are safeguarded against unauthorized use, loss, or disposition; (4) ensure transactions are executed in compliance with laws and regulations; and (5) ensure data supporting reported performance measures are properly recorded.

In planning our audit of the HTF Financial Statements, we considered the internal control structures of FHWA, FTA, and NHTSA to identify appropriate auditing procedures for the purposes of expressing an opinion on the Combined Statement of Financial Position and the Combined Statement of Operations, and determining whether the internal control structures meet the HTF internal control objectives. However, the intent of our internal control review was not to provide an opinion on FHWA's, FTA's, and NHTSA's overall systems of internal controls.

The work we performed included obtaining an understanding of the significant internal control policies and procedures and assessing the level of control risk relevant to all significant activity cycles, classes of transactions, and/or account balances. For those significant internal control policies and procedures found to be properly designed and placed in operation, we performed sufficient tests to assess more fully whether the controls were effective and working as designed. Our evaluation of the controls for reported performance measures was limited to controls to ensure the existence and completeness of the information directly relating to the HTF. We concluded FTA and NHTSA had adequate internal control policies and procedures in place to provide reasonable assurance that the existence and completeness assertions for performance measures were met. However, FHWA's performance measures for fiscal services did not fully meet OMB requirements.

Some of FHWA's, FTA's, and NHTSA's internal controls are dependent on automated information system processing. We engaged the assistance of independent information systems contractors to (1) determine the effectiveness of the general controls in place for selected DOT financial data systems and (2) conduct a penetration evaluation of the network security controls over access to financial systems within the DOT Integrated Telecommunications Network Environment.

An independent contractor evaluated the general controls of the financial systems at the Electronic Data Systems Corporation's computer facility in Plano, Texas, and the Transportation Computer Center (TCC) in Washington, D.C.. The contractor's evaluation included environmental security software controls, operating system integrity controls, physical security controls, operating system change controls and maintenance, reliability-availability-stability controls, and enterprise-wide security program. Based on these reviews, the contractor identified reportable conditions that will be reported to the Secretary of Transportation in DOT's Report on FY 1996 Consolidated Financial Statement and did not materially affect the HTF statements.

Another independent contractor conducted penetration tests to prove the security or vulnerability of the DOT financial systems to compromise via access from public networks (Internet) or internal DOT networks. The objective was to determine the level of exposure to financial risk, such as theft of information, embezzlement, availability and/or destruction of data. DOT's Report to the President and Congress for FY 1996 under the Federal Managers' Financial Integrity Act (FMFIA) reported a new material weakness relating to the lack of security controls over access to DOT's Intermodal Data Network. The reportable conditions identified will be included in DOT's Report on FY 1996 Consolidated Financial Statement and do not affect the HTF Financial Statements.

In addition, we reviewed application controls in the Departmental Accounting and Financial Information System (DAFIS) and selected feeder systems. The evaluation included obtaining an understanding of the significant internal control policies and procedures, and assessing the adequacy of the preventive, detective, and corrective controls over the input, processing, and output of authorized financial data reported to, and processed by, DAFIS and selected feeder systems. The feeder systems were FHWA's Fiscal Management Information System (FMIS), Federal-Aid Payment (PR-20) System, and Federal On-line Xchange (FOX) System (a Maritime Administration (MARAD) managed system used by FHWA for payment disbursements). Also, we evaluated FTA's

Electronic Clearing House Operation (ECHO) System, DAFIS On-line Transaction System (DOTS), and Grants Management Information System (GMIS). The review of the application controls identified a material weakness in the completion of system change requests and a material nonconformance in the use of general ledger adjustments, which will be reported to the Secretary of Transportation in DOT's Report on FY 1996 Consolidated Financial Statement. Based on our audit work, it is unlikely the material weakness and nonconformance have a material effect on the HTF Financial Statements.

Our internal control testing identified five deficiencies which we concluded should be considered "reportable conditions" under standards established by the General Accounting Office, the American Institute of Certified Public Accountants, and OMB Bulletin 93-06.

Reportable conditions are matters which have come to our attention involving significant deficiencies in the design or operation of the internal control structure which, in our judgment, could adversely affect the entity's ability to ensure the objectives of the internal control structure are being achieved. A material weakness is a reportable condition where the design or operation of one or more specific internal control mechanisms does not reduce to a relatively low level, the risk of material errors or irregularities occurring and not being detected within a reasonable time by employees in the normal course of performing their assigned functions. We concluded the five deficiencies should not be considered as material weaknesses. In addition, the deficiencies do not meet the DOT materiality criteria under the FMFIA for reporting to the President and Congress.

Our consideration of FHWA's, FTA's, and NHTSA's internal control structures would not necessarily identify all matters which should be considered reportable conditions. Accordingly, the five deficiencies described below do not necessarily constitute all reportable conditions, including material weaknesses, associated with the internal control structures established for FHWA, FTA, and NHTSA.

REPORTABLE CONDITIONS

In their responses to our March 17, 1997, discussion draft report, FHWA, FTA, and NHTSA concurred with each reportable condition presented and either have taken or plan to take appropriate corrective actions on specific recommendations. The responses received from FHWA, FTA and NHTSA are included as attachment 1, attachment 2, and attachment 3, respectively, in this report.

Inadequate Computer Security Programs Over Grant Systems

FHWA and FTA do not have adequate security programs for the automated systems used to administer grants and make disbursements to grantees. We found numerous deficiencies including inadequate or nonexistent (1) security and disaster recovery plans and risk analyses, (2) security awareness and practices training for computer systems personnel, and (3) certification and accreditation of the computer systems. We also found instances in FHWA where (1) former systems users identifications (ID) had not been purged, (2) passwords were not properly protected and established, and (3) prescribed procedures for separation of duties were not followed. In addition, FTA had not adequately established physical security over computer equipment and properly protected confidential Privacy Act information. As a result, FHWA and FTA have limited assurances their respective computer systems and sensitive financial data are protected from loss, misuse, and unauthorized access.

Federal and DOT guidance requires Operating Administrations to establish adequate internal controls over automated systems and sensitive grantee financial information. We evaluated FHWA and FTA policies, plans, procedures, practices, and controls implemented to protect those assets. We focused our review on FHWA's FMIS, PR-20 System, and FOX System. Also, we evaluated FTA's ECHO System, DOTS, and GMIS. These are the primary automated systems used to administer grants and disburse payments to grantees.

FHWA and FTA computer security programs for all the systems reviewed were inadequate and did not comply with established Federal and DOT policies. In FHWA and FTA, we found that (1) security and disaster recovery plans and risk analyses were not prepared for all systems and (2) not all systems personnel were properly trained in computer security awareness and practices. The Computer Security Act of 1987 (Public Law 100-235), dated January 8, 1988, requires Federal agencies to implement a security plan for each sensitive system and provide mandatory periodic training in computer awareness and practices to employees who manage, use, or operate Federal computer systems containing sensitive information. DOT Order H 1350.262, "Office Automation Information Systems Security Handbook," dated May 31, 1994, provides guidance covering risk analysis. Further, DOT Order H 1350.277, "Guide for the Department of Transportation Computer Security Training and Orientation Program," dated April 30, 1994, requires that each Operating Administration provide periodic security awareness training to employees involved with Federal computer systems.

Also, FHWA and FTA have not obtained required certification and accreditation for all the systems reviewed. DOT Order H 1350.250, "DOT Information Systems Security Guide," dated October 31, 1994, requires certification and accreditation of sensitive Federal computer systems. Security certification determines whether the systems controls are actually working to provide the intended protection. Accreditation determines whether the systems meet all applicable Federal policies, regulations, and standards; and that the installed security safeguards are adequate for the networks being used.

FHWA had not established adequate internal controls over the grant systems reviewed. Specifically, FHWA had not (1) purged former users' IDs from the systems databases, (2) established adequate password protection, and (3) followed established separation of duties procedures.

During our audit, we reviewed 109 user IDs from the FMIS (71), PR-20 System (15), and FOX System (23) databases in Headquarters, and found 11 IDs (6 FMIS, 3 PR-20, and 2 FOX) that belonged to former users and should have been purged from the systems. Further, we identified the existence of a visible password on the computer screen in the PR-20 System. Also, the alpha-numeric password requirement (combination of six letters and numbers) was not established for the FMIS and PR-20 System. Employees were permitted to create any combination of letters and/or numbers to access the systems. DOT Order H 1350.261, "DOT Mainframe Security Software Standards," dated February 28, 1995, provide guidance covering password administration and protection.

In addition, we found FHWA employees responsible for sending payment requests to the Federal Reserve Bank were at times also creating or verifying the same requests. MARAD's FOX user instructions require the function of sending, creating, and verifying payment requests be performed by different personnel. Further guidance on separation of duties for sensitive computer systems is specified in DOT Order H 1350.262.

FTA should improve the physical security of the ECHO System and DOTS computer equipment and access to sensitive information. During our review, we routinely obtained easy access to the computer equipment area because doors were left open or unlocked making the computer systems assessable to anyone. In addition, FTA's DOTS displayed confidential Privacy Act information (e.g. name, social security number, and home address) on a screen. The Privacy Act of 1974 (Public Law 93-579), requires Federal agencies to establish

appropriate administrative, technical, and physical safeguards to insure the security and confidentiality of records and to protect against unanticipated threats or hazards to the security or integrity of the records maintained. OMB Circular A-130, "Management of Federal Information Resources," Appendix III, "Security of Federal Automated Information Resources," dated February 6, 1996, requires Federal agencies to implement and maintain a program to assure adequate security is provided for all agency information collected, processed, transmitted, stored, or disseminated in general support systems and major applications.

While no instances of impropriety were detected, without adequate security programs, FHWA and FTA have limited assurances that their respective computer systems and sensitive financial data are protected from loss, misuse, and unauthorized access.

In an effort to correct these deficiencies, FHWA and FTA management agreed to prepare adequate security and disaster recovery plans and risk analyses and to obtain required certification and accreditation for automated systems. In addition, FHWA agreed to improve existing password requirements and follow required separation of duties procedures. Further, FTA has installed a cipher lock to the computer room door which limits access and has submitted a system change request to FTA systems support staff that will modify and correct the DOTS privacy violation.

Recommendations

We recommend that:

1. FHWA and FTA (a) prepare adequate security and disaster recovery plans and risk analyses for all automated systems used to administer grants and make disbursements to grantees, (b) provide computer systems personnel with required periodic training in computer security awareness and practices, and (c) perform required tests/reviews necessary to obtain certification and accreditation for these computer systems.
2. FHWA (a) improve existing password procedures to assure (i) timely purging of all former systems users' IDs, (ii) proper protection of all PR-20 System passwords, and (iii) use of only proper alpha-numeric passwords for access to the FMIS and PR-20 System and (b) adhere to established separation of duties procedures for the wire transfer process as outlined in MARAD's FOX User's Manual.

3. FTA establish a process to protect confidential Privacy Act information when displayed on the DOTS computer screens.

Management Response

FHWA and FTA recognized the need to prepare formalized security programs for their automated systems used to administer grants and make disbursements to grantees. In regard to Recommendation 1, FHWA plans to prepare written disaster and recovery plans and develop a computer security training program with periodic updates by September 30, 1997. Also, FHWA will obtain the required certification and accreditation as part of the project to revise the FMIS and PR-20 System by December 1999. FTA plans to reestablish their disaster recovery plan, develop guidelines and implement a plan for in-house and external computer security training, and revise and update the computer security plan to obtain the proper certification and accreditation for the ECHO System by September 30, 1997.

Concerning Recommendation 2, FHWA (1) will improve the password administration, including the issuance of guidelines for use of proper alpha-numeric password schemes, as part of the project to revise the FMIS and PR-20 System by December 1999, (2) will revise the PR-20 System to ensure proper protection of all passwords by June 1, 1997, and (3) has instituted procedures to ensure the proper separation of duties for the wire transfer process.

For Recommendation 3, FTA submitted on January 15, 1997, a system change request to correct the program that retrieves privacy act data from DOTS. As of March 19, 1997, the program has been corrected, tested, verified, and moved into production.

Audit Comments

Corrective actions taken or planned are responsive to the report's recommendations.

Insufficient Automated Controls for Duplicate Payments and Project Overpayments for Grant Systems

FHWA's PR-20 and FTA's ECHO systems controls to detect duplicate payments are not adequate. Also, FHWA's PR-20 payment system cannot preclude project payments in excess of obligated project funds. As a result, FHWA and FTA have limited assurances that duplicate

payments are not being made, and FHWA has limited assurance obligated project funding levels will not be exceeded.

OMB Circular A-130 provides policy for the management of Federal information resources and requires that technical security controls (e.g. tests to filter invalid entries) be established within each application. In addition, OMB Bulletin 90-08, "Guidance for Preparation of Security Plans for Federal Computer Systems that Contain Sensitive Information," dated July 9, 1990, states that sensitive systems should include data integrity controls to protect data from accidental or malicious alterations and destruction and provide assurances that the data meet an expected level of quality.

FHWA's PR-20 and FTA's ECHO payment systems enable State Highway Agencies (SHA) and transit organizations (grantees) to electronically transmit requests for payment directly to FHWA and FTA Headquarters Offices for processing. Once authorized by Headquarters, disbursements are made to the SHAs by the Federal Reserve Bank through the FOX System for FHWA and by the U.S. Treasury through the Treasury Automated Clearing House for FTA. Each payment process allows SHAs and grantees to (1) receive reimbursement for their Federal share of costs incurred, and (2) submit payment requests to ensure adequate time to process the payments as required by the Cash Management Improvement Act.

We found that FHWA and FTA did not have adequate automated controls programmed into the PR-20 and ECHO payment systems to detect duplicate payments. The existing duplicate payment control within FHWA's PR-20 System is inadequate to fully detect all possible duplicate payment submissions processed by the system. The control only detects duplicate control numbers; not duplicate claim amounts. The occurrence of either condition is an indication of a possible improper claim. The PR-20 System's ability to detect duplicate payment amounts is further limited since we found duplicate control numbers can only exist for manual payment requests processed through the FHWA Divisions (2 percent of all FHWA requests). Direct SHA payment requests processed electronically through the PR-20 System (98 percent) automatically receive a unique control number at the time of submission. Therefore, duplicate control numbers would not occur.

FHWA officials stated that duplicate payments can be detected by existing compensating manual controls. Detection would be made by SHA and FHWA Division offices during their processing and approval of the payment requests. However, FHWA officials agree that the PR-20

System would benefit from the inclusion of a duplicate payment amount control and that such a control would not be difficult to install.

FTA's ECHO System does not include any automated controls to detect duplicate payments. Each individual request for payment specifies the project number and dollar amount to be paid, but no unique control number is assigned. After passing an initial series of ECHO System edits, a certifying officer at FTA Headquarters reviews the payment request, contacting the regional office if necessary, and either pays or rejects the request.

FTA officials believe their existing payment approval and project management practices are sufficient to detect duplicate payments. FTA stated that regional office reviews provide an opportunity to identify duplicate payments. However, in four of five FTA regional offices contacted, we found reviews for duplicate payments were not performed. To protect against duplicate payments, FTA officials agreed to establish additional manual compensating controls by periodically querying the ECHO System to identify duplicate payments.

Further, FHWA's PR-20 System cannot determine whether project obligations will be exceeded with the approval of the payment amounts requested. Approved projects are maintained in the FMIS. The PR-20 System does not interface with the FMIS to compare obligated project funds with requested project payments. Consequently, no checks are made of the available obligation balances when payment request are received.

Two days after the payments are made to the SHAs, payment request information is automatically transferred to DAFIS from the PR-20 system. The expenditure information is compared to the FMIS project obligations and any payments made to SHAs exceeding project obligations are included in the FMIS produced FHWA Project Error Listing. The error listing is produced monthly; however, by the time the process is completed, actual payments to the SHAs have already occurred. Our review of a recent FHWA project error listing identified 714 payments exceeding project obligations. Implementation of an automated control to detect potential project obligation overpayments before they occur would reduce the level of effort necessary by FHWA Headquarters, FHWA divisions, and the SHAs to review, coordinate, and correct payment amounts.

FHWA agreed to establish automated controls to preclude project payments in excess of obligated project funds. However, FHWA officials

do not anticipate implementation of such controls until planned revisions to the PR-20 System and FMIS are completed in 1999.

Recommendations

We recommend that:

1. FHWA and FTA establish necessary controls for their PR-20 and ECHO Systems to detect duplicate payments.
2. FHWA establish automated controls for the PR-20 System to preclude payments in excess of obligated project funds.

Management Response

FHWA and FTA concurred with Recommendation 1. FHWA will modify the PR-20 System to include an automated duplicate payment control process by September 30, 1997. As of March 21, 1997, FTA has established an automated process to compare project payment amounts and generate a report for review by accounting and program/regional office staff.

For Recommendation 2, FHWA has agreed to include this edit to preclude excess payments in the revision of the PR-20 System, which is anticipated to be completed by December 1999.

Audit Comments

Corrective actions taken or planned are responsive to the report's recommendations.

Procedures to Record Only Valid Liabilities are Inadequate

FHWA recorded procurement contracts as liabilities before goods and services were received. This occurred because FHWA did not have adequate procedures and controls in place consistent with the Federal Financial Accounting Standards on recognizing accounts payable. As a result, FHWA overstated Accounts Payable and understated Unexpended Appropriation balances by at least \$2.4 million.

The Statement of Federal Financial Accounting Standards No. 1, "Accounting for Selected Assets and Liabilities," requires agencies to recognize accounts payable only for ". . . goods and services received from, progress in contract performance made by, and rents due to other

entities.” Also, as stated in Appendix A, the standard intended to keep clear distinction between recording obligations for budget purposes and recognizing a liability for financial accounting purposes.

As of September 30, 1996, FHWA recorded 9,063 accounts payable records, totaling \$16 million, in one of the key DAFIS subsidiary ledger files--the Open Document File. We selected for review a sample of 155 records valued at \$3.7 million. After an initial analysis of the sample, we focused our review on 23 records with a balance of \$10,000 or greater, totaling \$2.6 million. This amount represented approximately 16 percent of the \$16 million accounts payable recorded in the Open Document File as of September 30, 1996. Among the 23 records, 15 (\$2.4 million) were for procurement contracts and the other 8 (\$202,000) were for Permanent Change of Station activities.

Our review showed that for the 15 procurement contracts, obligations and accounts payable were recorded simultaneously when the contracts were awarded. We requested FHWA to research the 15 procurement contracts and determine whether they were valid liabilities. Based on their limited review, FHWA concluded the \$2.4 million in accounts payable were not valid liabilities because goods and services had not been delivered. Consequently, FHWA overstated the Accounts Payable and understated the Unexpended Appropriations line items on their draft financial statement. FHWA agreed to adjust the Accounts Payable and Unexpended Appropriations line items by \$2.4 million for the procurement contracts on the final version of their financial statement and research the remaining \$13.6 million of accounts payable in the Open Document File.

According to FHWA, written procedures did not differentiate when funds should be obligated for budget purposes and when they should be recognized as a liability for financial accounting. In 1994, FHWA's financial staff was verbally instructed to recognize accounts payable for procurement contracts when goods and services were received or when work was completed under a contract or agreement. However, FHWA personnel are not always adhering to the verbal guidance and are still erroneously recording the obligations and accounts payable simultaneously when the procurement contracts are awarded.

Recommendations

We recommend that FHWA:

1. Establish written procedures to ensure compliance with the Federal Financial Accounting Standards when recording liabilities for procurement contracts.
2. Research all liabilities recorded in the Open Document File and eliminate any which are found to be invalid.

Management Response

FHWA concurred with both recommendations and stated that written procedures to ensure compliance with Federal Financial Accounting Standards and the research to eliminate any invalid liabilities from the Open Document File will be completed by September 30, 1997.

Audit Comments

Corrective actions planned are responsive to the report's recommendations.

Procedures to Reconcile General Ledger Account Balances and Budget Information Were Not Adequate

FHWA, FTA, and NHTSA had not established adequate reconciliation procedures to identify and timely resolve differences between balances reported to OMB on the "SF-133 Report on Budget Execution" (SF-133) and corresponding general ledger accounts. As a result, the Operating Administrations are increasing their risk that inaccuracies exist in the amounts reported to OMB for unobligated budget authority and undelivered orders.

The goal of both the CFO Act and OMB Circular A-127, "Financial Management System," is for agencies to develop and maintain financial management systems which provide complete, reliable, consistent, and timely information for management decisionmaking. OMB Bulletin 94-01 and its replacement 97-01, "Form and Content of Agency Financial Statements," require Unexpended Appropriations to represent unobligated authority and undelivered orders for the reporting entity's appropriation accounts. The Treasury also requires agencies to report these balances on the SF-133 based on general ledger accounts.

During our audit, we found the Unexpended Appropriations account to be materially consistent with the SF-133. However, when comparing the SF-133's submitted by FHWA, FTA, and NHTSA to the related budgetary general ledger accounts for unobligated budget authority and undelivered orders, we found inconsistencies. FHWA, FTA, NHTSA had not detected and resolved these inconsistencies, which, were due in part, to the absence of procedures for reconciling budget authority accounts in the general ledger to the reported balances on the SF-133.

At our request, FHWA, FTA, and NHTSA analyzed their budgetary general ledger accounts to establish the reasons for the inconsistencies with the SF-133. FHWA and FTA were able to establish that the variances existed primarily due to (1) yearend adjustments, (2) nonapplicability of certain appropriation accounts for SF-133 reporting, and (3) conversion errors. FHWA and FTA further reconciled their differences to zero with documentation to support the adjustments. NHTSA advised us that conversion and posting errors were key factors

for their inconsistencies. However, NHTSA has developed a work plan to correct the inconsistencies by the end of FY 1997.

Recommendations

We recommend that:

1. FHWA, FTA, and NHTSA establish procedures to ensure budget execution results reported on the monthly SF-133 are routinely reconciled to budgetary account balances recorded in DAFIS.
2. NHTSA carry out its work plan to identify and correct causes for the discrepancy between the SF-133 and corresponding budgetary accounts in DAFIS by the end of FY 1997.

Management Response

FHWA, FTA, and NHTSA concurred with Recommendation 1 and will establish or improve procedures to reconcile SF-133s with budgetary account records in DAFIS by September 30, 1997.

In regards to Recommendation 2, NHTSA has prepared a work plan to identify and correct any discrepancies between the SF-133 and corresponding budgetary accounts in DAFIS by September 30, 1997.

Audit Comments

Corrective actions planned are responsive to the report's recommendations.

Performance Measures for Fiscal Services Were Not Adequate

FHWA's eight performance measures for fiscal services did not meet OMB requirements. These requirements include (1) setting program goals, (2) collecting performance information, (3) reporting on performance results, and (4) comparing current year achievements to program goals. Consequently, FHWA has no assurance the present performance measures will adequately assess the efficiency and effectiveness of the fiscal services activities.

OMB Bulletin 94-01 and an OMB memorandum to chief financial officers, "Financial Statements and Performance Measures," dated February 5, 1992, require agencies to develop, collect information, and report on measures of program and financial performance. The

measures must include significant results achieved by the agency in comparison to established program goals and should assist program managers in assessing the efficiency and effectiveness of their programs and designing actions to correct problems.

FHWA's performance measures for financial services did not meet all the elements specified by OMB. We reviewed FHWA's eight FY 1996 performance measures for fiscal services and found they were all deficient in meeting one or more of the requirements established by OMB. Four performance measures were reported with no stated program goals for FHWA to determine whether costs savings, or fiscal services efficiency and effectiveness were achieved.

Additionally, three performance measures were questionable because insufficient or inappropriate performance information was collected which contributed to faulty analyses. First, FHWA has a performance measure to track increases in the number of credit cards issued to the field and headquarters locations for acquiring small purchases and reductions in the number of individual purchase order requests. However, FHWA conducted no evaluation to determine whether individual purchase order requests were increased, decreased, or unchanged due to credit card use. Secondly, FHWA has a performance measure to track the timeliness of travel voucher processing. However, timeliness is being measured from the date of voucher approval to the date of voucher payment, instead of the date the voucher is received in the payment office to the date the voucher is actually paid. A third performance measure concerns the comparison of total penalty dollars collected to the amount assessed during FY 1996. However, data compiled on penalty dollars collected during FY 1996 did not clearly identify the corresponding year(s) of assessment. Without such information, the value of comparing dollars collected to dollars assessed for a given fiscal year is limited.

Also, FHWA's FY 1996 report of results on the fiscal services performance measures lacked sufficient supporting documentation. Of the eight performance measures reviewed, none have sufficient documentation to support the reported results. For example, on the performance measure to "reduce the average posting time in recording interagency charges," FHWA reported the average time from receiving interagency agreement transactions to posting them in the accounting system as 13 days, 1 day fewer than the 14 days reported in FY 1995. However, in response to our request for supporting documentation, we found that FHWA did not use the actual FY 1996 data showing the average posting time to be 100 days.

Finally, FHWA's performance measures for fiscal services did not always compare FY 1996 achievements to program goals. Four performance measures designed to determine whether operational improvements had been made over the prior years were reported with no comparison to previous years' results.

FHWA's performance measures are not sufficient to adequately assess the efficiency and effectiveness of the fiscal services activities. In an effort to correct these deficiencies, FHWA officials agreed to reevaluate the present performance measures and improve the collection, reporting, and analyses of the data necessary to adequately assess the efficiency and effectiveness of the fiscal services activities.

Recommendation

We recommend that FHWA improve the performance measures for fiscal services by (1) incorporating program goals in all performance measures, (2) collecting sufficient and appropriate performance data to measure results, (3) ensuring the performance measure results are supported by sufficient documentation, and (4) comparing the current year achievements with previous years' results.

Management Response

FHWA concurred with the recommendation and during the course of the audit, worked together with the OIG audit staff to improve the wording in the performance measures and the narrative portion of the management overview.

Audit Comments

Corrective actions taken fully satisfy the report's recommendation and no further action is required.

D. REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

OMB guidance for implementing the audit provisions of the CFO Act requires auditors to assess the reporting entity's compliance with applicable laws and regulations. Compliance with laws and regulations applicable to the HTF is the responsibility of FHWA, FTA, and NHTSA.

In order to obtain reasonable assurance on whether the HTF Combined Statement of Financial Position and Combined Statement of Operations are free of material misstatements, we tested compliance with the laws and regulations directly affecting the HTF Financial Statements and certain other laws and regulations designated by OMB, FHWA, FTA, and NHTSA. Our objective was not to provide an opinion on overall compliance with these provisions.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in laws or regulations which cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the HTF Combined Financial Statements, or the sensitivity of the matters would cause them to be perceived as significant by others.

FHWA, FTA, and NHTSA complied, in all material respects, with the provisions of the laws and regulations directly affecting the HTF Combined Statement of Financial Position as of September 30, 1996, and Combined Statement of Operations for the year ended September 30, 1996.

E. PRIOR AUDIT COVERAGE

The OIG issued audit reports on HTF Financial Statement for FYs 1992, 1993, 1994, and 1995. All recommendations included in the FYs 1992 and 1993 audit reports are considered closed, and no further action is required.

The FY 1994 audit report included three recommendations, all of which are considered resolved. Two of the recommendations are considered closed. However, the recommendation to develop and implement procedures to review NHTSA's Governmental Advances and Prepayments requires further action to fully implement the audit recommendation.

The FY 1995 audit report included nine recommendations, all of which are considered resolved. However, the recommendation to strengthen existing controls and institute written policy and procedures covering Governmental Accounts Receivable, Net (FHWA) and the recommendation to complete the reconciliation of subsidiary records to the states' outstanding balances and institute procedures to continually ensure support for Governmental Advances and Prepayments (NHTSA) still require further action to fully implement the audit recommendations.

This report is intended to inform Congress, OMB, and those with management responsibility for the HTF. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Joyce N. Fleischman
Acting Inspector General

SECTION II
COMBINED FINANCIAL STATEMENTS

A Message from FHWA's Chief Financial Officer

This report is prepared in accordance with the requirements of the Chief Financial Officers Act of 1990, Office of Management and Budget (OMB) Bulletin 94-01, Form and Content of Agencies Financial Statements, along with Guidance for the Preparation of FY 1996 Financial Statements issued by the Office of the Secretary of Transportation. This report includes information, both financial and programmatic, that may be useful to the public, OMB, and Congressional committees responsible for oversight of programs funded from the Highway Trust Fund.

The following financial statements for FY 1996 reflect the operations and status of the Highway Trust Fund (HTF). In presenting these financial statements, this report goes beyond the operations of FHWA to include information on the programs and operations of the National Highway Traffic Safety Administration and the Federal Transit Administration which are also financed from the HTF.

For the FY 1996 report, FHWA emphasized the development of enhanced performance indicators and measurements as well as the benchmarking processes required to determine our progress in attaining goals designated in the Department of Transportation and the FHWA National Strategic Plans. Refinements in the development of these financial statements were highlighted during FY 1996 and will provide the framework for a more efficient development of future financial statements and more effective and improved methods in serving FHWA customers.

The continuing process of enhancing performance measurements, improving benchmarking processes, and providing high quality service to FHWA customers will continue to be emphasized during FY 1997.

George S. Moore, Jr.

U.S. Department of Transportation
HIGHWAY TRUST FUND
COMBINED STATEMENT OF FINANCIAL POSITION
 AS OF SEPTEMBER 30, 1996
 (Dollars in Thousands)

	<u>Consolidated</u> <u>Total</u>
Assets	
Entity Assets:	
Intragovernmental Assets:	
Fund Balance With Treasury (Note 2)	\$ 436,402
Investments (Note 3)	21,183,660
Accounts Receivable, Net (Note 4)	14,683
Interest Receivable	289,554
Advance and Prepayments	6,032
Governmental Assets:	
Accounts Receivable, Net (Note 5)	4,234
Advances and Prepayments (Note 6)	184,665
Property and Equipment, Net (Note 7)	37,575
Total Entity Assets	\$ 22,156,805
Total Assets	\$ 22,156,805

U.S. Department of Transportation
HIGHWAY TRUST FUND
COMBINED STATEMENT OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 1996
(Dollars in Thousands)

	<u>Consolidated Total</u>
Liabilities	
Liabilities Covered by Budgetary Resources:	
Intragovernmental Liabilities:	
Accounts Payable	\$ 1,317
Other Intragovernmental Liabilities	201
Governmental Liabilities:	
Accounts Payable (Note 8)	627,467
Other Governmental Liabilities	<u>12,922</u>
Total Liabilities Covered by Budgetary Resources	<u>\$ 641,907</u>
Liabilities not Covered by Budgetary Resources:	
Governmental Liabilities:	
Pensions and Other Actuarial Liabilities	\$ 10,068
Other Governmental Liabilities	<u>31,815,870</u>
Total Liabilities not Covered by Budgetary Resources	<u>\$ 31,825,938</u>
Total Liabilities	<u><u>\$ 32,467,845</u></u>
Net Position	
Balances:	
Unexpended Appropriations (Note 9)	\$ 2,836,649
Invested Capital	302,057
Cumulative Results of Operations	18,376,192
Future Funding Requirements	<u>(31,825,938)</u>
Total Net Position	<u>\$ (10,311,040)</u>
Total Liabilities and Net Position	<u><u>\$ 22,156,805</u></u>

The accompanying notes are an integral part of these statements

U.S. Department of Transportation
HIGHWAY TRUST FUND
COMBINED STATEMENT OF OPERATIONS
 FOR THE PERIOD ENDED SEPTEMBER 30, 1996
 (Dollars in Thousands)

	<u>Consolidated</u> <u>Total</u>
Revenues and Financing Sources	\$ 23,478,857
Appropriated Capital Used	
Revenues from Sales of Goods and Services:	
To the Public	6,896
Intragovernmental	47,194
Interest, Federal	1,337,009
Taxes	24,650,893
Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	(23,321,628)
Total Revenues and Financing Sources	\$ 26,199,221
 Expenses	 \$ 23,483,085
Program or Operating Expenses (Note 10)	
Cost of Goods Sold	50,604
Intragovernmental	587
Depreciation and Amortization	69
Bad Debts and Writeoffs	
Interest	39
Other	1
Other Expenses	\$ 23,534,385
Total Expenses	\$ 23,534,385
Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	2,664,836
Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	\$ 2,664,836

U.S. Department of Transportation
HIGHWAY TRUST FUND
COMBINED STATEMENT OF OPERATIONS
 FOR THE PERIOD ENDED SEPTEMBER 30, 1996
 (Dollars in Thousands)

	<u>Consolidated</u> <u>Total</u>
Change in	
Net Position	
Net Position, Beginning Balance, as Previously Stated	\$ 19,086,917
Adjustments	(4,121,429)
Net Position, Beginning Balance, as Restated	14,965,488
Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	2,664,836
Plus (Minus) Non Operating Changes	<u>(27,941,364)</u>
Net Position, Ending Balance	<u><u>\$ (10,311,040)</u></u>

The accompanying notes are an integral part of these statements

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NOTES TO THE PRINCIPAL
FINANCIAL STATEMENTS FY 96

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The principal statements have been prepared to report the financial position and results of operations of the Highway Trust Fund, as required by the Chief Financial Officers Act of 1990. They have been prepared from the books and records of the FHWA, NHTSA and FTA in accordance with the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in OMB Bulletin 94-01, DOT Guidelines, and accounting policies summarized in this note. These statements may be different from those reports prepared pursuant to other OMB directives, that are used to monitor and control the use of budgetary resources.

B. Reporting Entity

For purposes of this financial statement the principal reporting entity is the Highway Trust Fund, not the performing agencies. The Highway Trust Fund was created in 1956 with the Highway Revenue Act of 1956 with the main objective of funding the construction of the Dwight D. Eisenhower System of Interstate and Defense Highways. Over the years use of the fund has been expanded to embrace highway safety and mass transit programs.

FHWA

NHTSA

FTA

Federal Aid Highways
Program
69X8083
Other Trust Funds
Discretionary
(29 Symbols)

Safety Grants
69X8020
Operations and
Research
69 8016

Transit
69X8350
69X8191

C. Budgets and Budgetary Accounting

The Federal Aid Highway program is financed from authorizations enacted in highway authorizing legislation and codified in Title 23 United States Code. Funds apportioned to States under Title 23 U.S.C. by the Secretary of Transportation for highway construction activities in advance of liquidating appropriations are available for a specific time period. Annual appropriation acts establish the level of obligations which States can obligate against their Federal Aid funds in any single year. Obligations are incurred based on these annual limitations under allotment control procedures. Liquidating appropriations enable Federal aid payments to be made to states as claims are submitted and approved for payment.

D. Basis of Accounting

Transactions are recorded on a accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds.

E. Revenue and Other Financing Sources

All programs and activities covered by this financial statement are financed from the Highway Trust Fund through direct appropriations by the Congress with a small portion financed from reimbursable authority apportioned by OMB.

Appropriations are recognized as revenues at the time the related program or administrative expenses are incurred.

F. Funds with the U. S. Treasury and Cash

Funds appropriated for Federal Aid Highways remain invested in securities by the U. S. Treasury. As approved claims are submitted and approved for payment, requests for cash are made to treasury, securities are divested and funds made available for payment of claims. Small amounts of cash receipts are deposited daily through a commercial lockbox bank. No cash is held outside the U.S. in foreign currency, gold or other monetary assets.

G. Accounts Receivable

Accounts receivables consist principally of services performed for other Federal agencies under general working agreement with Federal agencies responsible for designated Federal domain areas such as Park Roads and Parkways, Forest Highways, etc. Administrative reimbursable receivables represent technical services billed, Motor Carrier fines and penalties and miscellaneous refunds.

H. Inventories

Inventories consist of supplies and small amounts of materials held and applied through Federal Land Highway's reimbursable operations in furnishing technical and testing services to other federal agencies.

I. Investments in U. S. Government Securities

It is the responsibility of the Secretary of the Treasury to invest such portions of the trust fund that exceed current needs. Such investments may only be made in non-marketable interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States.

J. Property and Equipment

The reporting agencies do not recognize depreciation over the life of fixed assets except for FHWA's Federal Lands Highway Program--Equipment Depot operation. Depreciation expense is recouped through

rates assessed against Federal Lands Highway projects.

Personal property is capitalized and inventoried when acquisition costs exceed \$5,000.

Acquisitions with a cost of less than \$5,000 are charged to operating expense when purchased. An inventory of "sensitive" personal property (e.g. computers, calculators, etc.) is maintained outside the accounting system by a property manager without regard to capitalization criteria.

K. Prepaid and Deferred Charges

Payments in advance of the receipt of goods and services are recorded as prepaid charges at the time of prepayment and recognized as expenditures/expenses when the related goods and services are received.

L. Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid from appropriated balances as a result of a transaction or events that have already occurred.

M. Contingencies

FHWA is a party in various administrative proceedings, legal actions, environmental suits, and claims brought against it. In the opinion of FHWA management and legal counsel, the ultimate resolution of these proceedings, actions and claims, will not materially affect the financial position or results of the Highway Trust Fund operations.

N. Annual, Sick and Other Leave

Annual leave is accrued as it is earned and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates. To the extent current or prior year appropriations are not available to fund annual leave earned but not taken,

funding will be obtained from future financing sources.

Sick leave and other types of non-vested leave are expended as taken.

c. Retirement Plan

The majority of employees whose salaries are paid from the trust fund participate in the Federal Employees Retirement System (FERS). This system went into effect pursuant to Public Law 99-335 on January 1, 1984. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, can elect to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which the agencies automatically contributes 1 percent of pay and matches any employee contribution up to an additional 4 percent of pay. The remaining forty-five percent (45%) of employees whose salaries are paid from the trust fund participate in the Civil Service Retirement System (CSRS), to which agencies make matching contribution equal to seven percent (7%) of their pay.

For most employees hired since December 31, 1983, agencies also contribute the employer's matching share for Social Security. Agencies do not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any applicable to it employees. Reporting such amounts is the responsibility of the Office of Personnel Management and the Federal Employees Retirement System.

NOTE 2. FUND BALANCES WITH THE TREASURY

FHWA:

On or about the 8th and 18th day of each month, Treasury transfers to the trust fund from its general fund the estimated amounts of gasoline and certain excise taxes expected to be deposited in the U.S. Treasury. Amounts which exceed current cash requirements are invested in

U.S. Government securities. Interest earned is credited to the trust fund monthly. Cash required for reimbursements to States and related administrative expenses are made available by Treasury liquidating securities as necessary to provide cash needs.

(in thousands)

Fund/Account	Available	Restrict	Balance
Federal-aid Highways	\$385,105	-0-	\$385,105
Other Highway Trust Funds	\$33,451	-0-	\$33,451
Corpus Trust Fund	\$106	-0-	\$106
Total	\$418,662	-0-	\$418,662

Fund balances included deposits in transit of \$16 thousand and cash on hand at allocation agencies of \$23,177,000.

(in thousands)

Fund/Account	Available	Restricted	Balance
Highway Safety Grants	\$16,878	-0-	\$16,878

Contract authority without liquidating appropriations is identified by Treasury as account 69X8020.941, and is not being reported as an asset because Congress limits safety grant obligations not to exceed the limits shown as funded contract authority.

FTA:

(in thousands)

Fund/Account	Available	Restricted	Balance
Discretionary Grants	\$862	-0-	\$862

NOTE 3. INVESTMENTS

(in thousands)

	Cost	Market Value	Amortization Method	Amortized (Premium) Discount	Investments (Net)
Intragovernmental Securities:					
Marketable					
Non-Marketable: Par Value					
Non-Marketable Market-Based	21,183,660	21,183,660			21,183,660
Subtotal	21,183,660	21,183,660			21,183,660
Governmental Securities:					
Subtotal					
Total	21,183,660	21,183,660			21,183,660

Securities reported represent non-marketable market-based U.S. Treasury Certificates of Indebtedness in the amount of \$21,183,660,000. These certificates earn interest at a rate of 6-5/8% and mature on June 30, 1997. The reported amount of \$21,183,660,000 represents the total investments held by the United States Treasury for the Highway Trust Fund. Of this amount, \$384,648,000 has been appropriated to the Miscellaneous Highway Trust Funds, but not expended and \$2,505,300,000, has been appropriated to the Highway Trust Fund, but not expended, \$150,000,000 has been appropriated to Federal Transit Administration, but not expended and \$62,481,000 has been appropriated to Highway Safety, but not expended.

NOTE 4. ACCOUNTS RECEIVABLE - FEDERAL

(in thousands)

Federal Aid Highways	\$ 13,426
FTA Discretionary Grants	\$ 1,257
Total Due From Other Federal Agencies	\$ 14,683

Accounts Receivable of \$13,426,000 consists of reimbursable work performed for other federal agencies by FHWA. FTA Discretionary Grants in the amount of \$1,257,000 consists of reimbursable work performed for other Federal agencies by FTA.

NOTE 5. ACCOUNTS RECEIVABLE Non Federal

Accounts Receivable Non Federal reflects Civil Fines and Forfeitures assessed against Motor Carriers for citations issued in accordance with motor carrier statutes in the amount of \$2,928. Amounts due from states for training provided and other miscellaneous activities amount to \$1,306.

NOTE 6. ADVANCES AND PREPAYMENTS Non Federal

(in thousands)

Other Trust Funds	\$ 182,557
Federal Aid Highways	\$ 2,108
Total	\$ 184,665

Other Trust Fund amount includes Advanced Right of Way Revolving Fund advances outstanding with State Highway Agencies for \$182,540,000. Other advances of \$2,108,000 for Federal Aid Highways and \$17,000 for Other Trust Funds represent advances to other public entities.

NOTE 7. PROPERTY, PLANT AND EQUIPMENT

(in thousands)

Class of Fixed Assets	Depreciation Method	Service Life	Acquisition Value	Accum. Depreciation	Net Book Value
A. Land	Production (Hours)	Various	\$36	-0-	\$36
B. Structure			16,280	-0-	16,280
C. Equipment			27,919	6,660	21,259
Totals			44,235	6,660	37,575

FHWA does not recognize amortization of costs (depreciation) over the life of fixed assets for assets other than Federal Lands Highway activity. Capital expenditures for property are recognized as expenses when applied to projects and/or upon disposal of assets.

Road construction equipment used on Federal Lands Highway supervised projects account for the largest portion of equipment. Depreciation expense for the recorded construction equipment is based on the number of hours of total useful operating life.

Office furniture and equipment is recorded if the stand-alone item exceeds \$5,000; furniture and equipment with an acquisition cost of less than \$5,000 is expensed when purchased. However, FHWA maintains a separate inventory of "sensitive items" (lap-top computers, hand levels, etc.) outside the accounting system.

Buildings consist of the Turner Fairbank Research Station located in Langley, Virginia, and a historically designated "Mule Barn" located in Vancouver, Washington.

NOTE 8. LIABILITIES-NON FEDERAL-ACCOUNTS PAYABLE

Accrued unbilled program related costs have been recorded on the basis of reports from each of the States. These costs meet the eligibility criteria for billing and are accrued mainly due to the established billing cycle of the States. The reported accruals exclude amounts incurred on advance construction projects, unconverted bond issue projects or amounts in excess of the established project agreement amounts. The States reported accrued unbilled program claims of \$403,286,000 and unpaid program claims of \$168,127,000. The remaining accruals of \$56,054,000 represent disbursements in transit, warehouse payments pending disbursements and miscellaneous liabilities for FHWA in the amount of \$39,866,000, FTA in the amount of \$8,778,000 and NHTSA in the amount of \$7,410,000. Of the FHWA amount, \$2.6 million was identified in the audit for cancellation. However, to keep previously reported amounts to Treasury in agreement for FY 96, these amounts will be researched and adjusted in FY 97 business as appropriate.

NOTE 9. NET POSITION

(In thousands)

Description	Other Trust Funds	Federal Aid Highways	NHTSA	FTA Disc. Grants	Corpus Trust Fund	Consolidated Totals
A. Unexpended Approps.						
(1) Unoblig.	155,753	68,031	72,181	143,621	-0-	339,586
a. Avail.	155,753	68,031	72,181	143,621	-0-	339,586
b. Unavail.	-0-	-0-	-0-	-0-	-0-	-0-
(2) Undeliv. Ords	166,014	2,231,049	-0-	-0-	-0-	2,397,063
B. Invested Capital	277,835	24,222	-0-	-0-	-0-	302,057
C. Cum. Res. of Ops	-0-	2,373	-0-	-0-	18,373,819	18,376,192
E. Future Fund Req.	-39,799	-27,518,329	-146,381	-4,121,429	-0-	-31,825,938
F. Total	559,803	-25,192,654	-74,200	-3,977,808	18,373,819	-10,311,040

Net Position consist of the following components:

- a. Unexpended Appropriations of \$2,836,649,000. This amount represents appropriations to liquidate obligations which are unobligated available, unobligated unavailable or obligated for which performance has not yet been delivered (undelivered orders).
- b. Invested Capital of \$302,057,000;
- c. Cumulative Results of Operations of \$18,376,192,000;
- e. Future Funding Requirements of \$31,825,938,000 reflects amounts of unfunded contract authority enacted by law for which agreements have been executed with States but appropriations to pay have not been enacted by Congress and liabilities which have not been funded.

The actual undelivered orders for Other Highway Trust Funds are \$399,218,000 in Budget Authority and \$70,026,000 in Contract Authority. Of this amount, \$265,594,000 is reflected in Invested Capital for the capitalization of the Right of Way

Revolving fund; \$39,799,000 is contract authority covered in Future Funding Requirements and \$2,163,000 are miscellaneous items in transit. The actual undelivered orders for Federal Aid Highways are \$29,027,532,000 contract authority and \$776,257,000 for budget authority. FTA undelivered orders (net of unfilled orders) is \$4,265,049,000. The actual unobligated balance of Other Highway Trust Funds is \$171,686,000. Of this amount \$14,402,000 is the Right of Way Revolving fund capitalized in Invested Capital and \$1,531,000 of Contract Authority. The actual unobligated balance of Federal Aid Highways consist of \$11,404,545,000 in contract authority and \$68,031,000 in budget authority. The actual unobligated balances for FTA Discretionary Grants is \$440,425,000 and NHTSA's Trust Fund is \$72,181,000.

NOTE 10. PROGRAM OR OPERATING EXPENSE, FUNDED

(in thousands)

Federal Aid Highways	\$19,694,481
FHWA Other	\$168,584
NHTSA	\$296,221
FTA Transit Programs	\$1,110,000
FTA Discretionary Grants	\$2,213,799
Total Program or Operating Expenses	\$23,483,085

Program expenses represent payments to states, metropolitan transit authorities and safety offices of the Federal share on selected highway programs, transit and safety projects under agreement with the respective Federal entity. Federal Aid Highway expenses includes salaries and miscellaneous administrative items. OMB Circular A-34, Report on Budget Execution dated December 1995, requires payments between fund groups be

recorded as obligations and an expenditure from the transferring account. In DOT, this involves expenditure transfers from Trust Funds to General Funds. The amount of \$23,483,085,000 includes \$1,110,000,000 that represents expenditure transfers from the Trust Fund Share of Transit Expenses to the Formula Account which is General Fund.

The revenue sources on the Statement of Operations include Appropriated Capital Used of \$23,478,857,000. This revenue represents appropriations which identify expenditure accounts within the Highway Trust Fund. Taxes represent receipts into the Corpus Trust Fund i.e. gasoline and other excise taxes of \$24,650,893,000. From these receipts - non expenditure transfers effect the movement of funds from the Corpus account into the individual expenditure accounts for eventual payment to grantees. This non expenditure amount is \$23,321,628,000.

Contingencies

In fiscal year 1994, Treasury understated the Highway Trust Fund revenue by approximately \$1.59 billion. In fiscal year 1995, the unrecorded revenue was reported as current year revenue, thus overstating FY 95 revenue. Based on the opinion of Treasury counsel and the Comptroller General (dated December 5, 1996), Treasury corrected and reissued both FY 94 and FY 95 Corpus Highway Trust Fund statements.

Since FHWA uses revenues reported by the Corpus as a factor in computing apportionment of "90 Percent of Equity" funds, the FY 96 apportionment was made on the FY 94 statement "most recently available" and the FY 97 apportionment was made based on the revised FY 95 Corpus revenue. Consequently, a large number states received an apportionment amount which was less had the apportionment been based on revenue properly recorded. The resolution of this issue may result in appropriations from

Treasury for FHWA to use Trust Fund monies to increase the distribution to adversely affected states. The final amount of any such additional appropriations has not yet been determined.

SECTION III
SUPPLEMENTAL INFORMATION

SECTION III

SUPPLEMENTAL INFORMATION INCLUDES THE FOLLOWING:

MESSAGE FROM THE ACTING ADMINISTRATOR

MANAGEMENT OVERVIEW

COMBINING STATEMENT OF FINANCIAL POSITION

COMBINING STATEMENT OF OPERATIONS

FOR FURTHER INFORMATION, PLEASE CONTACT BOB KINGAN OF
FHWA ON (202) 366-2865.