




Memorandum

**U.S. Department of
Transportation**

Office of the Secretary
of Transportation
Office of Inspector General

Subject: **ACTION:** Quality Control Review of
Audited Financial Statements for
FY 2004 and FY 2003, Highway Trust Fund
(Reissued June 30, 2005)
QC-2005-007

Date: September 7, 2005

From: Theodore P. Alves 
Principal Assistant Inspector General
for Auditing and Evaluation

Reply to
Attn. of: JA-20

To: The Secretary

The audit of the Highway Trust Fund (HTF) Financial Statements as of and for the years ended September 30, 2004, and September 30, 2003, was completed by Clifton Gunderson LLP, of Calverton, Maryland (see Attachment). 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; Generally Accepted Government Auditing Standards; and the Office of Management and Budget (OMB) Bulletin 01-02, "Audit Requirements for Federal Financial Statements."

The Clifton Gunderson audit report, dated November 8, 2004, concluded that the financial statements including the accompanying notes presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States, HTF's assets, liabilities, and net position as of September 30, 2004 and September 30, 2003 and their related net costs; changes in net position; budgetary resources; and reconciliation of net costs to budgetary obligations for the years then ended.

The report also pointed out that HTF agencies,¹ and the Federal Highway Administration in particular, faced significant challenges in fiscal year 2004. These agencies not only faced the accelerated OMB-mandated deadline of November 15, 2004, for audited financial statements, they also undertook an

¹ The Federal Highway Administration, National Highway Traffic Safety Administration, Federal Transit Administration, Federal Railroad Administration, Federal Motor Carrier Safety Administration, and Bureau of Transportation Statistics.

extensive effort to correct longstanding financial management weaknesses that Clifton Gunderson previously reported. HTF agency executives and financial managers and the Assistant Secretary for Budget and Programs/Chief Financial Officer made a concerted effort to clean up bad data and institute more disciplined management practices. However, because of the severity of the problems that existed and the limited time available to design and implement corrective actions, FHWA was not able to make enough progress to correct the underlying process deficiencies. Continued executive-level attention, backed by skilled resources to implement disciplined processes, will be needed to correct the remaining deficiencies.

The report categorized problems into the following four material weaknesses, one reportable condition, and five instances of noncompliance with laws and regulations.

Material Weaknesses

1. Financial accounting processes do not fully support financial management or facilitate the timely preparation of accurate financial statements,
2. Reconciliation procedures,
3. Grants financial management oversight, and
4. Information technology control weaknesses.

Reportable Condition

1. Federal lands highway program transactions processing and reconciliations.

Noncompliance with Laws and Regulations

1. Single Audit Act of 1984,
2. Federal Managers' Financial Integrity Act of 1982,
3. Anti-Deficiency Act, as amended,
4. Government Performance and Results Act, and
5. Federal Financial Management Improvement Act of 1996

Clifton Gunderson made 24 recommendations for corrective actions. We agreed with those recommendations. In a November 10, 2004 response to the draft report, the Assistant Secretary for Budget and Programs/Chief Financial Officer concurred with the weaknesses, generally agreed with the recommendations, and submitted a detailed action plan to implement the recommendations.

The consequence of the material weaknesses, particularly the deficiencies related to the financial accounting process, became evident after the audit report was issued when the Federal Highway Administration disclosed an error in the Highway Trust Fund Statement of Budgetary Resources as of September 30, 2004. The error resulted in a \$2.966 billion understatement of previously reported Total Budgetary Resources. The FY 2004 Highway Trust Fund financial statements, notes, and supplemental information have been corrected, and Clifton Gunderson reissued and dual dated (November 8, 2004 and June 30, 2005) its audit report. Note 15 of the revised financial statements provides additional details on the restatement. In our opinion, the audit work performed by Clifton Gunderson complied with applicable standards.

We appreciate the cooperation and assistance of the HTF agencies, the Office of Financial Management, and Clifton Gunderson representatives. If I can answer any questions, please call me at (202) 366-1992.

Attachment

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cc: Federal Highway Administrator
National Highway Traffic Safety Administrator
Federal Transit Administrator
Federal Railroad Administrator
Federal Motor Carrier Safety Administrator
Director, Bureau of Transportation Statistics

The attached Clifton Gunderson LLP audit report is an excerpt from the FY 2004 Highway Trust Fund (HTF) Financial Report which can be located at www.fhwa.dot.gov. The Clifton Gunderson LLP audit report makes reference to the HTF financial statements and other information in the FY 2004 HTF Financial Report.