
Office of Inspector General

Audit Report

**Federal Agencies' Centralized Trial-Balance
System Data for Fiscal Year 1997**

Department of Transportation

Report Number FE-1998-164

Date Issued: June 30, 1998





Memorandum

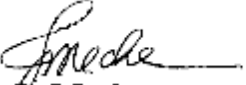
**U.S. Department of
Transportation**

Office of the Secretary
of Transportation

Office of Inspector General

'Subject: **ACTION:** Report on Federal Agencies'
Centralized Trial-Balance System Data
for Fiscal Year 1997, DOT
Report Number: FE-1998-164

Date: June 30, 1998

From: 
John L. Meche
**Deputy Assistant Inspector General for Financial,
Economic, and Information Technology**
To: Deputy Chief Financial Officer

Reply To:
Attn Of:

BACKGROUND AND OBJECTIVE

On January 13, 1998, the Office of Management and Budget (OMB) directed the Chief Financial Officers (CFOs) and the Inspectors General (IGs) of Federal agencies to perform certain procedures to determine the consistency of summarized Federal Agencies' Centralized Trial-Balance System (FACTS) data with agency financial statements. The verification was performed in connection with the preparation, and audit, of the Consolidated Governmentwide Financial Statements. Each government agency, including all Department of Transportation (DOT) Operating Administrations, submitted financial data to the Department of Treasury (Treasury) for preparation of the Consolidated Governmentwide Financial Statements. Treasury summarized the DOT Operating Administrations' data, and transmitted the summarized data to DOT to ensure consistency with the DOT consolidated financial statements. Our objective was to determine whether Treasury's summarized FACTS data were consistent with the DOT audited Fiscal Year (FY) 1997 Consolidated Financial Statements.

SCOPE AND METHODOLOGY

OMB directed the IGs to prepare an agreed-upon procedures report that describes the procedures applied and the results of those procedures for the FACTS verification, and submit the report to the General Accounting Office (GAO) and Treasury. This report contains the results of our "Agreed-Up On Procedures" submitted to the GAO (enclosure). Working closely with representatives from your office, we performed the agreed-upon audit procedures in accordance with Generally Accepted Government Auditing Standards which incorporates the

RESULTS

On April 3, 1998, we completed the FACTS verification. During the verification, we encountered five major problems in reconciling the FACTS data to the financial statements. As a result, Treasury had to make \$20.3 billion in adjustments to the FACTS data submitted by DOT. After Treasury made adjustments and resubmitted the summarized FACTS data to DOT, we certified that the FACTS data were consistent in all material respects with DOT's audited FY 1997 Consolidated Financial Statements. These five problems require Treasury and DOT action. The problems are:

1. The DOT Operating Administrations incurred problems preparing and transmitting the Adjusted Trial Balances. First, Treasury's description of account titles and numbers for FACTS data verification were not consistent with OMB guidance for preparation of the financial statements. For example, Treasury directed the \$1.1 billion of Federal Employees' Compensation Act liabilities be reported as "Other Liabilities," while OMB directed the amount be reported as "Pension and Other Post-Employment Benefits." Second, the Treasury software was not compatible with DOT software. The software was difficult to work with and was cumbersome. The Operating Administrations had to manually enter the information and mistakes were made. For example, Federal Transit Administration omitted \$683 million of revenue from FACTS, and Maritime Administration transposed a Standard General Ledger account resulting in \$99.8 million being recorded in the wrong account.
2. The Operating Administrations did not submit the FACTS data consistently because Treasury guidance was not clear on how to properly report elimination entries. As a result, some Operating Administrations submitted their data "net" of eliminations, while others submitted gross amounts without considering elimination entries. For example, Federal Aviation Administration (FAA) did not exclude \$1.6 billion from FACTS on transactions between DOT entities.
3. DOT needs input from Treasury on combining the Treasury-controlled total activities of the Trust Funds with agency statements. These total activities involve Trust Fund investments, tax revenue collection activity, the transfer of tax revenue to other entities, and other program-related activities. Beginning in FY 1997, Treasury required this Trust

Fund information to be included in the FACTS Adjusted Trial Balances for completeness and consistency of reporting. Treasury Financial Manual Part 2, Chapter 4030.60 “Trust Fund Accounts” was not specific on how to submit data pertaining to the Trust Fund balances maintained by Treasury, and transfers between entities. The GAO, Office of Inspector General, and DOT officials responsible for program reporting and auditing met and developed a format for financial statement reporting. The format developed was different from the Treasury Standard General Ledger crosswalk for FACTS. Documentation provided by Treasury to the Operating Administrations responsible for reporting Trust Fund activity also was not consistent for the four DOT Trust Funds. To make the Adjusted Trial Balances consistent, we had to reclassify \$5.9 billion of FAA taxes to “Other Revenue and Financing Sources.”

4. Treasury provided general guidance to all Federal Departments and agencies on FACTS submission. Treasury also provided specific advice to DOT Operating Administrations to clarify the general guidance. The DOT Office of Financial Management was not always made aware of advice given by Treasury to the Operating Administrations about FACTS. We suggest Treasury use a single contact point in your office to convey such guidance, to ensure consistency of reporting and reduce reconciliation issues between the FACTS submission and the Consolidated Financial Statements.
5. Treasury did not provide the consolidated Adjusted Trial Balances for each Operating Administration. We obtained the consolidated Adjusted Trial Balances from Treasury, and they provided an excellent tool for reconciliation to the financial statements.

RECOMMENDATIONS

We recommend the Chief Financial Officer:

1. Before the next FACTS submission, work with Treasury and OMB to reduce or eliminate the problems caused by Treasury’s and DOT’s incompatible software.
2. Provide supplementary guidance, as necessary, to the Operating Administrations for submitting FACTS data on a consistent basis.
3. Request Treasury review its guidance on combining the Treasury-controlled total activities of the Trust Funds to ensure all entities responsible for Trust Fund reporting receive the same

documentation, and its FACTS guidance is consistent, or does not conflict, with OMB's guidance for financial statement presentation.

4. Ensure that all guidance given by Treasury to the Operating Administrations is centrally coordinated through the DOT Office of Financial Management.
5. Request Treasury to provide each Operating Administration with its Adjusted Trial Balances upon completion of the consolidation.

MANGEMENT COMMENTS

A draft of this report was reviewed by the Deputy Chief Financial Officer on June 19, 1998. We considered his comments in preparing this report. He agreed with the report and recommendations.

ACTION REQUIRED

Please provide written comments, within 30 days, on specific actions taken or planned.

We appreciate the courtesies and assistance of DOT representatives. If you have any questions, please feel free to contact me or James Childers on 366-1496.

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June 30, 1998

Mr. Robert Dacey, Director
Consolidated Audit and Computer Security Issues
Accounting and Information Management Division
General Accounting Office
441 G Street, NW
Washington, DC 20548

We performed the audit procedures specified by the Office of Management and Budget (OMB) in its January 13, 1998, memorandum to Chief Financial Officers' and Inspectors General concerning Federal Agencies' Centralized Trial-Balance System (FACTS) data verification. These audit procedures were designed to assist the General Accounting Office's (GAO) audit, and Department of Treasury (Treasury) preparation, of the consolidated financial statements of the United States for the year ended September 30, 1997.

The results of our review are provided in the enclosure. We had previously provided our report on the Department of Transportation (DOT) Fiscal Year (FY) 1997 Consolidated Financial Statements as of, and for the year ended, September 30, 1997. The report included our disclaimer of opinion.

We encountered major problems in reconciling FACTS data to DOT's FY 1997 Consolidated Financial Statements. Treasury's description of account titles and numbers for FACTS data verification were not consistent with OMB guidance for preparation of the financial statements. As a result, Treasury had to make \$20.3 billion in adjustments to FACTS data submitted by DOT.

Working with DOT financial management representatives, we performed the agreed-upon audit procedures in accordance with standards established by the American Institute of Certified Public Accountants in Statement on Auditing Standards AU Section 622. This standard is incorporated by reference into the Generally Accepted Government Auditing Standards.

This report is intended for the use of GAO and Treasury. It should not be used by others who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures.

If you have any questions, please feel free to contact me or James Childers on 366-1496.

Sincerely,

A handwritten signature in black ink, appearing to read "J. Meche", with a horizontal line extending to the right.

John L. Meche
Deputy Assistant Inspector General for
Financial, Economic, and Information Technology

Enclosure

cc: Manager
Financial Reports Branch
Financial Management Service
Department of the Treasury

Office of Federal Financial Management
Office of Management and Budget

**Verification of Federal Agencies' Centralized Trial-Balance
System (FACTS) Data
For The Fiscal Year Ending September 30, 1997
Report Number: FE-1998-164**

AGREED-UPON PROCEDURES

Procedures

1. Compare Treasury's Schedule of Summarized FACTS Data for the Statements of Financial Position and Operations to the line items on DOT's Consolidated Financial Statements.

Findings

1. We noted inconsistencies in the composition of line items for account numbers and account titles because the "SGL Crosswalk for FACTS Data Verification Reports" (Treasury crosswalk) and the OMB Circular 97-01 crosswalk were not compatible. Specifically:

(a). OMB 97-01 crosswalk had categories for "Entity Assets", "Non-Entity Assets," "Liabilities Covered By Budgetary Resources" and "Liabilities Not Covered By Budgetary Resources" while the Treasury crosswalk had no such categories.

(b). The Treasury crosswalk had account designators G and N affixed to each account to denote Intragovernmental and Governmental (Accounts 1310G and 1310N). OMB 97-01 did not use these designators.

(c). The Treasury crosswalk had a line entitled "Loans Receivable" under Intragovernmental Assets. OMB 97-01 crosswalk had no such line.

(d). The Treasury crosswalk had a line entitled "Loans Receivable" under Governmental Assets which included accounts 1350N, 1359N, and 1399. OMB 97-01 crosswalk had a line entitled "Credit Program Receivables" under Governmental Assets which included these three accounts plus two others.

(e). The Treasury crosswalk directed "Land" be recorded in account 1710, while the OMB 97-01 crosswalk directed it be recorded in account 1711.

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AGREED-UPON PROCEDURES

Procedures

Findings

(f). The Treasury crosswalk directs "Other Actuarial Liabilities" in account 2690 be reported on the line entitled "Governmental Other Liabilities." The OMB 97-01 crosswalk directs the activity in account 2690 be reported on the line entitled "Pension and Other Post-Employment Benefits".

(g). The Treasury crosswalk directs "Prior Liens Outstanding on Acquired Collateral" in account 2910 be reported on the line entitled "Governmental Liabilities for Loan Guarantees". The OMB 97-01 crosswalk directs the activity in account 2910 be reported on the line entitled "Other Governmental Liabilities".

(h). The Treasury crosswalk directs "Contra Bad Debts Expense – Governmental and NonGovernmental" be reported on the line entitled "Other Expenses". The OMB 97-01 crosswalk directs the activity in account 6190 be reported on the line entitled "Program or Operating Expenses". The Contra Bad Debts relate to DOT collection activity for direct deposit to Treasury.

(i). The Treasury crosswalk directs "Applied Overhead – Governmental and NonGovernmental" be reported on the line entitled "Program and Operating Expenses". The OMB 97-01 crosswalk directs this activity be reported on the line entitled "Cost of Goods Sold To The Public".

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AGREED-UPON PROCEDURES

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2. Determine if DOT's Balance Sheet contains any line items not included on Treasury's Schedule of Summarized FACTS Data.

(j). We noted large differences for each line between the FACTS submission and the DOT Consolidated Financial Statements. The financial data for the Saint Lawrence Seaway Development Corporation (SLSDC) was included in Treasury's Schedule of Summarized FACTS data for the Statements of Financial Position and Operations, but was not reported in DOT's Consolidated Financial Statements.

(k). We made significant reclassifications between line items to reconcile the data. For example we made a \$3.8 billion reclassification to reconcile the line item "Other Expenses". The reclassification was necessary because Coast Guard decreased their actuarial liability by \$3.8 billion and credited "Changes in Actuarial Liabilities". However Coast Guard reflected this decrease on the Financial Statements as an adjustment to "Change in Net Position".

(l). We also made adjustments for errors and omissions by DOT entities in submitting FACTS data to Treasury. For example Federal Transit Administration omitted \$683 million of revenue from FACTS and Maritime Administration transmitted \$99.8 million in account 2190G that should have been transmitted in account 2910G.

2. DOT's Balance Sheet did not contain any line items not included on Treasury's Schedule of Summarized FACTS Data.

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AGREED-UPON PROCEDURES

Procedures

3. Determine if DOT's Statement of Operations contains any line items not included on Treasury's Schedule of Summarized FACTS Data.

4. Compare intra-departmental balances on the Adjusted Trial Balances with all intra-departmental balances eliminated in DOT financial statements.

5. Compare FACTS footnote information with footnote disclosures in agency financial statements.

6. Compare all information on the Schedule of Summarized FACTS Data to supporting documents.

Findings

3. DOT's Consolidated Statement of Operations contained two line items (Depreciation and Amortization and Bad Debt Expense) per the OMB 97-01 which were not reflected on Treasury's Schedule of Summarized FACTS Data. We determined Treasury included the costs for these two line items in Program and Operating Expenses.

4. Several DOT entities transmitted their Adjusted Trial Balances net of intra-departmental eliminations while other entities transmitted the gross amounts. As a result we made several large reclassifications to reconcile the data. For example we reclassified \$5.9 billion of FAA taxes to "Other Revenues and Financing Sources."

5. FACTS footnote information was consistent with note disclosures in DOT's Consolidated Financial Statements.

6. We identified \$20.3 billion of adjustments and significant reclassifications to reconcile the FACTS Data to DOT's Consolidated Financial Statements. Treasury made these adjustments to the FACTS data. These adjustments were due to inconsistent Treasury guidance, the reporting of intragovernmental transactions to Treasury, and errors and omissions by DOT entities in submitting FACTS data. After Treasury's adjustments, differences were not material.

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OTHER PROBLEMS

Treasury Action Needed:

(1) Treasury software was not compatible with DOT software. The Operating Administrations incurred problems preparing and submitting the Adjusted Trial Balances. Large files cannot be transmitted and users cannot input data from "scratch" on the FACTS/NOTES software. As a result, Operating Administrations had to manually enter the data for FACTS submission. This labor intensive process resulted in errors being made. Treasury should reduce or eliminate the problems caused by its outdated software.

(2) After completion of the transmission of the Adjusted Trial Balances by each Operating Administration, Treasury should provide copies of the consolidated Adjusted Trial Balances, as well as subsequent updates, back to each of these organizations. The consolidated Adjusted Trial Balances will serve as an excellent tool for comparison/reconciliation to the financial statements.

DOT Action Needed:

(1) Elimination data are not being reported consistently. Some of the DOT Operating Administrations transmitted their Adjusted Trial Balances "net" of eliminations while others simply transmitted the "gross" amounts. In DOT, there was no consistency in reporting. To ensure consistency, the Chief Financial Officer needs to provide specific guidance to the Operating Administrations on reporting elimination data.

(2) DOT, as well as other Departments and Agencies, were required in FY 1997 to include the "Total" activities of the trust funds in FACTS submissions for the first time. Total activities include Treasury's responsibility for the control and processing of tax collections, investments, and transfer of funds to the designated accounts. At the end of FY 1997, DOT received a "Report on Budget Execution and a Trial Balance" from Treasury to incorporate into DOT's Consolidated Financial Statements. GAO, OIG, and DOT officials responsible for program reporting met and developed a format for financial statement presentation. However, the format developed was different than FACTS requirements. Therefore, DOT needs to coordinate with Treasury and OMB to ensure DOT can achieve the proper results from combining the Treasury-controlled activity with agency statements.

(3) Treasury provided general guidance to all Federal departments and agencies on FACTS submissions. Treasury also provided specific advice to DOT Operating Administrations to clarify the general guidance. Advice given to the DOT Operating Administrations by Treasury needs to be centrally coordinated through the Department's Office of Financial Management. This will ensure consistency of reporting and reduce reconciliation issues. This will be critical with the new statements required for FY 1998 and their related crosswalks.