



MANAGEMENT CONTROLS

The Department of Transportation (DOT) is dedicated to incorporating performance and accountability in all programs and operations. DOT is pleased that except for the material weaknesses identified in this section of the report, the objectives of Section two and four of the Federal Managers Financial Integrity Act are met in FY 2002. Strategic planning and management have been developed to ensure that DOT's programs and operations produce their intended results, and that the information is reliable, timely and accurate. The audit recommendations received by the Department are essential to its mission of having organizational excellence and accountable financial management of DOT's programs.

Federal Managers Financial Integrity Act (FMFIA)

The 1950 Budget and Accounting Procedures Act (64 Stat. 832) requires Federal managers to establish and maintain adequate systems of management control, but because of numerous instances of fraud, waste, abuse, and mismanagement, Congress passed the Federal Managers Financial Integrity Act (FMFIA) of 1982. This Act requires the Head of each Federal Agency to conduct an annual evaluation of its management controls (Section 2), financial management systems (Section 4) and report the results to the President and Congress. OMB Circulars A-123 on Management Accountability and Control, and A-127 on Financial Management Systems, furnish guidance on complying with Sections 2 and 4, respectively.

At DOT, each of the Operating Administrations (OAs) submit to OST's Office of Financial Management an annual statement of assurance representing the Administrator's informed judgment for the overall adequacy of management controls within their OA, and reporting other details. Each year, the OST Office of Financial Management updates and issues specific guidance for completing the end-of-year assurance statement and report on material deficiencies. The OAs report any significant weaknesses of safeguards (controls) against waste, loss, and misappropriation of funds or property. The OAs also report activities that violate statutory authority, result in a conflict of interest or cause adverse effects on the credibility of the agency, or significantly impair the fulfillment of the agency's mission. The Office of Financial Management consolidates the OA reporting into one overall report for the entire Department.

OMB Circular A-123 contains guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on management controls. In accordance with OMB's Circular A-127 of 1993 on Financial Management Systems, DOT is encouraging the OAs to develop, evaluate, and report on financial management systems. The Department makes sure that financial transactions are executed in accordance with authorization records; that the reports are reliable; that the applicable laws, regulations, and policies are observed; and that the resources are efficiently and effectively managed. The OAs are moving forward to automate and consolidate systems in a cost-effective manner based on requirements that meet the minimum needed for field implementation and certification.

For FMFIA, DOT had one beginning and three new Section 2 (evaluation of management controls) material weaknesses, resulting in four ending weaknesses. DOT has material weaknesses for: information technology (IT) security within the Department, contract closeout processes in the Federal Aviation Administration (FAA), administration of support screener contracts in the Transportation Security Administration (TSA), and insufficient separation of duties and other controls over financial operations at the Federal Transit Administration (FTA).

DOT's material weakness in its Information Security Program is a critical component of the overall infrastructure protection of the Department. Program policy is managed by OST's Office of the Chief Information Officer (CIO) and is integrated throughout the Department through the DOT CIO Council and the IT Security Committee of that Council. Numerous audit reports, including the recently released FI-

2002-115 on DOT Information Security Program, have highlighted IT security vulnerabilities throughout DOT. These vulnerabilities could adversely affect the confidentiality, availability, and integrity of DOT IT Systems. DOT will develop and implement a coordinated approach to securing the Department's IT systems. This activity will be done by completing a Department-wide assessment and associated corrective action plan. To help with this effort, in FY2002, the CIO implemented a Performance Measurement Program that required commitment from all OAs.

TSA has a material weakness in the contract administration of the Contract Screener Program. There were not adequate procedures in place to prevent payments for inappropriate contractor charges. TSA is taking steps to negotiate and definitize contracts, obtain final cost and pricing data, establish processes to prioritize and review cost and pricing data, audit overhead rates, expand the oversight of contractors to perform site inspections, and recoup improper payments based on finalized overhead rates or payment for hours not worked.

The Department's FMFIA Report to the President and the Congress discussed the lack of adequate internal management controls over financial processes within TSA. After the report was issued, however, more information was developed to specifically identify the shortcomings of the financial management environment within TSA as a material weakness, reportable under the FMFIA. A material weakness in the controls over financial management policies and procedures resulting in inaccurate reporting on the financial statements will be reported in 2003.

On November 19, 2001, the President signed the Aviation and Transportation Security Act that created TSA. From the first day of its existence, DOT and TSA were faced with many significant challenges and short statutory milestones. TSA's books and accounts were created in the general ledger in Delphi. The Project Accounting and Fixed Assets modules of Delphi were used to immediately provide TSA with cost accounting and property management capabilities. However, because TSA's focus was to move forward as quickly as possible, internal controls over financial and other processes suffered. Policies establishing an effective internal control environment still need to be developed where necessary. Procedures and practices need to be implemented and strengthened to ensure that internal controls adequately protect against fraud, waste, abuse, mismanagement, and misappropriation.

FAA has a material weakness in the administration of close-out and payment of cost-reimbursable contracts. Serious deficiencies in the controls over the close-out of cost-reimbursable contracts resulted in poor oversight and inadequate protection against fraud, waste, and abuse. FAA is improving the procedures and processes over which cost-reimbursable contracts are awarded and monitored to ensure that all incurred cost audits are complete for all

Performance years of contracts, final invoices are submitted timely by contractors, Government property is properly accounted for, contract costs are reconciled, and contract funds are appropriately and timely de-obligated.

As of the end of FY 2002, DOT had one material nonconformance of financial systems requirements pending. The material nonconformance relates to FAA property systems that did not provide the data necessary for preparation of the DOT Consolidated Financial Statements. FAA's material nonconformance has been largely due to the manual and intensive efforts required to generate depreciation and net book values of FAA assets, and the existing method resulted in some errors. These nonintegrated and manual processes increase the risk of misstatements to the Consolidated Financial Statements.

To resolve the material nonconformance, FAA installed an Integrated Financial/Fixed Asset System (IFAS). IFAS has controls to accurately track property data for financial purposes and generates depreciation and asset net book values automatically. The software being used for both IFAS and Delphi is Oracle, thereby minimizing the impact of conversion to the new accounting system. The problem will be officially resolved when IFAS is converted and integrated with Delphi.

DOT is continuing to work with the Office of Inspector General (OIG) to ensure that these material deficiencies are effectively corrected and effectively maintain the integrity of the Department's financial

management information. DOT continues to improve management and financial accountability of the Department.

Federal Financial Management Improvement Act (FFMIA)

The Department's FY 2001 and FY 2002 Consolidation Financial Statements received unqualified audit opinions from the OIG. However, the OIG determined that the Department was not in full compliance with the Federal Financial Improvement Act (FFMIA) because:

- DOT's legacy accounting system, the Departmental Accounting and Financial Information System (DAFIS), could not produce auditable financial statements;
- interface deficiencies existed between DAFIS and the FHWA Financial Management Information System, and between Delphi and the FTA's financial feeder systems;
- DAFIS did not use the U.S. Government Standard General Ledger;
- DOT has not implemented managerial cost accounting standards, and
- material weaknesses existed for DOT's financial, accounting, and information security programs.

FFMIA builds on the foundation laid by the Chief Financial Officers (CFO) Act of 1990 by emphasizing the need for agencies to have financial management systems that can generate timely, accurate, and useful information with which to make informed decisions and to ensure accountability on an ongoing basis. Full compliance with FFMIA hinges on the continued success of implementing Delphi throughout the Department.

As part of central processing, DAFIS revised and updated the Financial Statements Module to electronically process information into the Standard General Ledger and automate the preparation of the Adjusted Trial Balance for each OA within DOT. The module also contains a detailed audit trail so that all adjustments can be easily identified and audited.

In addition, FAA is continuing its implementation of a broad ranging cost accounting system and implemented IFAS (see above), further tightening the integration of DOT's financial systems. IFAS computes the depreciation for FAA's owned assets that meet or exceed the Department's capitalization criteria, and provides detailed depreciation expense data for cost accounting.

Finally, as the elements of the Department continue to migrate to Delphi, they will have enhanced cost accounting capabilities based on the best practices of the sector. Although programs within the Department that operate in a business type environment already use cost accounting processes, all Delphi users will have the software infrastructure necessary to fulfill this objective. The results of these remedial and progressive actions address the OIG findings and will bring the Departments into substantial compliance with the FFMIA, when successfully implemented.

DOT has five violations of laws or regulations whose effects should be considered for disclosure in financial statements or as a basis for recording a loss contingency, with the exception of unresolved audit recommendations.

They are: noncompliance with FFMIA, Treasury miscellaneous receipts, intragovernmental balances, performance measures tied to cost, and inappropriate combination of programs with goals.

Consolidated Financial Statements

There are four material weaknesses affecting the Consolidated Financial Statements. The four material weaknesses include two anti-deficiency act violations, both of which occurred prior to the current Administration. The first anti-deficiency act violations is in FTA and originated 19 years ago but was recently revealed while using the new accounting system, Delphi. The second violation was immediately halted when the IG notified DOT's CFO that some funds may not be legally available to the Department.

Both violations will be reported to OMB and Congress in accordance with OMB Circular A-11. Administrative changes have been implemented to avoid any recurrence. The remaining two material weaknesses include network security, FAA's deficiencies in controls over cost-reimbursable contracts, and TSA's obligation, and

In addition, there are four internal control weaknesses for financial statements: grants management system and accounting system interface deficiency, accounting for FAA property, legal liabilities, information technology system security.

Limitations of the Consolidated Financial Statements

The principal financial statements have been prepared to report DOT's financial position and results of operations, pursuant to the requirements of 31 USC 3515(b). The statements have been prepared from DOT's records in accordance with the generally accepted accounting principles for Federal entities and the formats prescribed by the Office of Management and Budget. They are additional to the financial reports used to monitor and control DOT's budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that they are a component of the United States, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides the resources to do so.