

**SPECIAL-PURPOSE FINANCIAL  
STATEMENTS FOR  
FISCAL YEARS 2007 AND 2006**

*Department of Transportation*

*Report Number: FI-2008-012*

*Date Issued: November 15, 2007*



# Memorandum

**U.S. Department of  
Transportation**

Office of the Secretary  
of Transportation  
Office of Inspector General

Subject: **ACTION:** Report on Special-Purpose  
Financial Statements for Fiscal  
Years 2007 and 2006, DOT  
FI-2008-012

Date: November 15, 2007

From: Rebecca C. Leng   
Assistant Inspector General for Financial  
and Information Technology Audits

Reply to  
Attn. of: JA-20

To: The Secretary

I respectfully submit the Office of Inspector General report on the U.S. Department of Transportation (DOT) Special-Purpose Financial Statements for Fiscal Years 2007 and 2006 (Attachment 1). The Special-Purpose Financial Statements and accompanying notes contained in the closing package (Attachment 2) have been prepared to comply with the requirements of the U.S. Department of the Treasury's Financial Manual Volume I, Part 2, Chapter 4700. Their purpose is solely to provide financial information for the U.S. Department of the Treasury and U.S. Government Accountability Office to use in preparing and auditing the *Financial Report of the U.S. Government*. They are not intended to be a complete presentation of DOT's financial statements.

Our audit concludes that DOT's Special-Purpose Financial Statements present fairly, in all material respects, the financial position of DOT as of September 30, 2007, and September 30, 2006, and its net costs and changes in net position for the years then ended in conformity with accounting principles generally accepted in the United States and the presentation requirements prescribed in the U.S. Department of the Treasury's Financial Manual Volume I, Part 2, Chapter 4700.

Last year we expressed a qualified opinion on the FY 2006 DOT's Special-Purpose Financial Statements because the CIP balance presented by the Federal Aviation Administration (FAA) contained material errors, and FAA was not able to develop a reliable and supportable CIP balance. FAA has completed its review of the CIP balance. Accordingly, our opinion is different from that expressed in our previous report.

We found no material weaknesses in internal controls over the financial reporting process for the special-purpose financial statements, and our tests of compliance with U.S. Department of the Treasury's Financial Manual Volume I, Part 2, Chapter 4700 requirements disclosed no instances of noncompliance that are required to be reported under Generally Accepted Government Auditing Standards and Office of Management and Budget Bulletin No. 07-04.

We have also attached the management representation letter for the DOT fiscal year 2007 financial statements (Attachment 3).

We appreciate the cooperation and assistance of the Office of Financial Management. If we can answer any questions, please call me at (202) 366-1496 or Earl Hedges, Program Director, at (410) 962-3612.

Attachments (3)

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cc: Office of Management and Budget, Office of Federal Financial  
Management  
Department of the Treasury, Financial Management Service  
U.S. Government Accountability Office

**DEPARTMENT OF TRANSPORTATION  
INSPECTOR GENERAL'S REPORT ON SPECIAL-PURPOSE  
FINANCIAL STATEMENTS FOR FISCAL YEARS 2007 AND 2006**

The Department of Transportation (DOT) Office of Inspector General audited the accompanying reclassified balance sheet as of September 30, 2007, and September 30, 2006, and the related reclassified statements of net cost and changes in net position for the years then ended (hereinafter referred to as the special-purpose financial statements) contained in the special-purpose closing package of DOT. These special-purpose financial statements are the responsibility of DOT management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements." These standards require that we plan and perform the audit to obtain reasonable assurance about whether the special-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the special-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall special-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying special-purpose financial statements and accompanying notes (Attachment 2) contained in the special-purpose closing package have been prepared for the purpose of complying with the requirements of the U.S. Department of the Treasury's Financial Manual (TFM) Volume I, Part 2, Chapter 4700. Their purpose is solely to provide financial information to the U.S. Department of the Treasury and U.S. Government Accountability Office to use in preparing and auditing the *Financial Report of the U.S. Government* and are not

intended to be a complete presentation of the Department of Transportation's financial statements.<sup>1</sup>

In our report dated, November 17, 2006, we expressed a qualified opinion on the FY 2006 DOT's Special-Purpose Financial Statements because the CIP balance presented by FAA contained material errors, and FAA was not able to develop a reliable and supportable CIP balance prior to the issuance of the Special-Purpose Financial Statements. Because FAA's Property, Plant, and Equipment balance represented 95 percent of DOT's property as of September 30, 2006, potential errors in FAA's CIP balance could have had a material impact on DOT's consolidated financial statements. FAA has completed its review of the CIP balance (as discussed in FR note 17) and related transactions, and as a result, DOT restated the FY 2006 consolidated financial statements to correct the error in accounting for FAA CIP. Accordingly, our opinion on the DOT Special-Purpose financial statements is different from that expressed in our previous report.

In our opinion, the special-purpose financial statements referred to above present fairly, in all material respects, the financial position of DOT as of September 30, 2007, and September 30, 2006; its net costs and changes in net position for the years then ended in conformity with accounting principles generally accepted in the United States; and the presentation requirements prescribed in TFM Chapter 4700.

The supplementary information required by TFM Chapter 4700 and included in Other Data is presented for the purpose of additional analysis only and is not a required part of the special-purpose financial statements. We have applied certain limited procedures, consisting principally of inquiries of management regarding methodology and presentation of this information. We also reviewed such information for consistency with related information presented in DOT's financial statements. However, we did not audit this information, and, accordingly, we express no opinion on it.

In accordance with Generally Accepted Government Auditing Standards and OMB Bulletin No. 07-04, we have also issued a report on DOT's consolidated

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<sup>1</sup> The Budget and Accounting Procedures Act of 1950 allows the Secretary of the Treasury to stipulate the format and requirements of executive agencies in furnishing financial and operational information to the President and the Congress to comply with the Government Management Reform Act of 1994 (GMRA). The Secretary of the Treasury developed guidance in TFM Chapter 4700 to provide agencies with instructions to meet the requirements of GMRA. TFM Chapter 4700 requires agencies to reclassify all items and amounts on the comparative audited financial statements to the closing statement financial statements, list closing package line item amounts identified as Federal by trading partner and amount, report footnotes required by Balance Sheet line items and other footnotes required in the Financial Report of the U.S. Government, and disclose other information not contained in the primary Financial Report of the U.S. Government financial statement and footnotes required to meet generally accepted accounting principles requirements.

financial statements for fiscal years 2007 and 2006, which included our reports on DOT's internal controls over financial reporting and its compliance with certain provisions of laws and regulations.<sup>2</sup> These reports are an integral part of the audit of general-purpose financial statement reporting performed in accordance with Generally Accepted Government Auditing Standards and OMB Bulletin No. 07-04, and should be read in conjunction with this report in considering the results of our audit.

In planning and performing our audit of the special-purpose financial statements, we also considered DOT's internal controls over the financial reporting process for the special-purpose financial statements and compliance with TFM Chapter 4700. Management is responsible for establishing and maintaining internal control over financial reporting, including Other Data, and for complying with laws and regulations, including the requirements of TFM Chapter 4700.

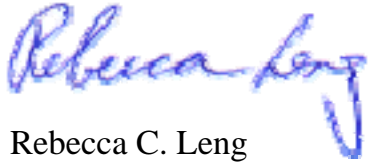
Our consideration of internal control over the financial reporting process for the special-purpose financial statements would not necessarily disclose all matters in the internal control over the financial reporting process that might be significant deficiencies. Under standards issued by the American Institute of Certified Public Accountants, significant deficiencies are deficiencies in internal control, or a combination of deficiencies, that adversely affects DOT's ability to initiate, authorize, record, process, or report financial data reliably and in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the special-purpose financial statements being audited that is more than inconsequential will not be prevented or detected. Material weaknesses are significant deficiencies or a combination of significant deficiencies, that result in a more than remote likelihood that material misstatements in relation to the special-purpose financial statements being audited will not be prevented or detected.

We found no material weaknesses in internal control over the financial reporting process for the special-purpose financial statements, and our tests of compliance with TFM Chapter 4700 requirements disclosed no instances of noncompliance that are required to be reported under Generally Accepted Government Auditing Standards or OMB Bulletin No. 07-04. However, providing an opinion on (1) internal controls over the special-purpose financial statement reporting process and (2) compliance with TFM Chapter 4700 requirements were not objectives of our audit of the special-purpose financial statements, and, accordingly, we do not express any such opinion.

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<sup>2</sup> DOT Report on Consolidated Financial Statements for Fiscal Years 2007 and 2006, Report No. FI-2008-011 November 13, 2007.

This report is intended solely for the information and use of DOT, the Department of the Treasury, the Office of Management and Budget, and the Government Accountability Office in connection with the preparation and audit of the *Financial Report of the U.S. Government* and is not intended to be and should not be used by anyone other than these specified parties.



Rebecca C. Leng  
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and Information Technology Audits