

# **FTA PROCEDURES TO PREVENT ANTIDEFICIENCY ACT VIOLATIONS**

*Federal Transit Administration*

*Report Number: FI-2007-047  
Date Issued: May 15, 2007*



# Memorandum

U.S. Department of  
Transportation

Office of the Secretary  
of Transportation  
Office of Inspector General

Subject: **ACTION:** Report on the Audit of  
Procedures to Prevent Antideficiency Act  
Violations, Federal Transit Administration  
Report Number: FI-2007-047

Date: May 15, 2007

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

Reply to  
Attn. of: JA-20

To: Federal Transit Administrator

This final report presents the results of our review of Federal Transit Administration (FTA) actions to prevent Antideficiency Act violations of grants funds. We first reported that the mass transit account of the Highway Trust Fund, which is used to fund transit formula and discretionary grants, had a negative balance of \$77 million in fiscal year (FY) 2001.

A detailed review the following year identified significant internal control weaknesses that allowed former FTA employees to use inappropriate accounting procedures to conceal overobligations, such as off-setting overobligations against available funding in other appropriations accounts and manipulating fund liquidation information in the Budget Execution Reports (SF-133) sent to the Department of the Treasury and the Office of Management and Budget (OMB).<sup>1</sup>

In June 2003, the Department reported to OMB and Congress that FTA committed a violation of the Antideficiency Act. In the Department's FY 2005 appropriation, the House Appropriations Committee directed FTA to report how the agency had modified its accounting procedures and practices to prevent recurrence of Antideficiency Act violations. The Committee also directed our office to review FTA's new procedures and report to the House and Senate Committees on Appropriations on the sufficiency of these new procedures.<sup>2</sup>

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<sup>1</sup> OIG report on "Highway Trust Fund Financial Statements for Fiscal Years 2002 and 2001," FI-2003-015, January 24, 2003.

<sup>2</sup> House Report 108-671 accompanying the Departments of Transportation and Treasury and Independent Agencies Appropriations Bill, 2005.

Our objective was to determine whether FTA has implemented sufficient accounting procedures and internal controls to prevent future Antideficiency Act violations in the grants program. We conducted this program audit in compliance with Generally Accepted Government Auditing Standards as prescribed by the Comptroller General of the United States, and conducted such tests as we considered necessary to uncover waste, fraud, or abuse. Our scope and methodology are described in Exhibit A.

## RESULTS

We reviewed and tested the controls implemented by FTA to prevent and detect overobligations in the mass transit account for the grants program and concluded that these controls were properly implemented. FTA obligates grants funding through its grants management system, called the Transportation Electronic Award and Management (TEAM) system. TEAM has built-in automated controls to prevent overobligation by not allowing obligation transactions to be processed unless the account contains sufficient funds.

FTA utilizes TEAM for budget execution, control of program funds, and tracking grants to transit agencies; and uses a wire transfer system—the Electronic Clearing House Operation (ECHO)—for making payments to grantees. An OIG contractor, KPMG LLP, tested the effectiveness of the controls in TEAM and ECHO. KPMG tested the following controls and concluded that they were effective in preventing and detecting overobligations:

- Fund authority (apportionment, allotments) and obligations were accurately recorded in TEAM.
- TEAM contained built-in edit checks that prevented obligations from exceeding available funds (allotment or suballotment).
- TEAM automatically reduced available funds for the obligated amounts. New obligation requests were checked against the reduced fund balance to prevent future overobligation.
- Payments made in the ECHO system were properly authorized and accurately recorded in both ECHO and the departmental accounting system.

FTA also corrected interface problems between TEAM/ECHO and the departmental accounting system, called Delphi, for financial reporting. In 2003 we reported that FTA could not electronically process grants transactions into Delphi and had to manually enter hundreds of millions of dollars of adjustments into the system. Today, all grants obligation and payment transactions are

automatically entered into Delphi from TEAM/ECHO without manual intervention.

Further, FTA and the Office of the Secretary of Transportation (OST) have implemented multiple review and reconciliation procedures to ensure that the Report on Budget Execution (SF-133) submitted to the Department of the Treasury and OMB accurately reflect fund usage activities. In addition to submitting the reports to OMB and Treasury on a quarterly basis, FTA prepares monthly budget execution reports for review by OST and reconciliation to authorized funds in the Apportionment and Reapportionment Schedule (SF-132). This monthly review helps identify potential overobligation between the quarterly submissions to OMB and Treasury.

Based on our review and test results, we concluded that FTA has implemented sufficient controls to prevent and detect overobligations in the mass transit account for the grants program, as prescribed in its submission to the Congress.<sup>3</sup> FTA must remain vigilant in exercising these controls.

This concludes our review and we are not making any recommendations. We appreciate the courtesies and cooperation of FTA and OST representatives during this audit. If you have any questions concerning this report, please call me at (202) 366-1496, or Earl Hedges, Program Director, at (410) 962-1729.

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<sup>3</sup> On April 25, 2005, FTA sent a letter to the House and Senate Appropriations Committees stating that it had implemented multiple review and reconciliation procedures and automated system controls to prevent the recurrence of overobligations.

## **EXHIBIT A. SCOPE AND METHODOLOGY**

To determine the effectiveness of accounting procedures and controls established by FTA to prevent violations of the Antideficiency Act, we conducted interviews, observed the daily processes, and tested documentation in the FTA Accounting, Budget, and Financial Systems Offices. We focused on the procedures and controls designed to prevent overobligation of agency program funds. We evaluated the policies and procedures implemented by FTA for its grants management system Transportation Electronic Award and Management (TEAM), Electronic Clearing House Operation (ECHO), and the Department's Budget Execution Module. We contacted FTA Accounting, Budget, and Financial Systems Offices and OST's Office of Financial Management and requested documentation on any system problems that would prevent full implementation of its policies.

As part of the audit of the FY 2006 Highway Trust Fund financial statements, the OIG contractor—KPMG LLP—evaluated the effectiveness of controls for FTA's TEAM and ECHO system operations. KPMG met with FTA officials, observed and tested the apportionments, allotments, reservations/obligations, and adjustments entered in TEAM and the apportionment values from the approved SF-132s to ensure that the allotments did not exceed the apportionment value(s) from the SF-132s. Each process was reviewed and documented.

We conducted this review between June 2005 and April 2007, in accordance with Generally Accepted Government Auditing Standards prescribed by the Comptroller General of the United States, and included such tests as we considered necessary to provide reasonable assurance of detecting abuse or illegal acts.

**EXHIBIT B. ACTIVITIES VISITED OR CONTACTED**

**FTA**

Office of Accounting, Washington, D.C.

Office of Budget, Washington, D.C.

Office of Financial Systems, Washington, D.C.

**OST**

Office of Financial Management, Washington, D.C.

**EXHIBIT C. MAJOR CONTRIBUTORS TO THIS REPORT**

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