



Memorandum

U.S. Department of
Transportation
Office of the Secretary
of Transportation
Office of Inspector General

Subject: **INFORMATION:** Quality Control Review of
Single Audit on the New Mexico
Department of Transportation
Report No. QC-2012-147

Date: June 20, 2012

From: *Earl C. Hedges*
Earl C. Hedges
Program Director for Single Audit

Reply To JA-20

Attn Of:

To: See Distribution

The U. S. Department of Transportation (DOT) is the cognizant Federal single audit agency for the New Mexico Department of Transportation (New Mexico DOT). This report presents the results of our Quality Control Review (QCR) of a single audit performed by Moss Adams LLP (Moss Adams) on New Mexico DOT for the fiscal year ended June 30, 2010. During this period, New Mexico DOT expended approximately \$452 million from DOT grant programs, as shown on the attached Schedule of Expenditures of Federal Awards. The DOT programs determined to be major by Moss Adams were: (1) the Highway Planning and Construction Program, (2) the Federal Transit Cluster, (3) the Nonurbanized Area Formula Program, (4) the Highway Safety Cluster, and (5) the Minimum Penalties for Repeat Offenders for Driving While Intoxicated Program.

The Office of Management and Budget's (OMB) Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," requires the auditor to render an opinion on the entity's financial statements, identify inappropriate use of Federal funds, and report internal control and compliance deficiencies that affect Federal grant programs.

Moss Adams rendered an unqualified (clean) opinion on New Mexico DOT's financial statements and did not question any costs concerning DOT's grant programs. Moss Adams rendered an unqualified opinion on DOT's major programs, but made recommendations to correct internal control and compliance deficiencies that directly affect Federal Highway Administration (FHWA), Federal Transit Authority (FTA), and National Highway Traffic Safety Administration (NHTSA) Programs.¹

¹ We advised FHWA, FTA and NHTSA about these deficiencies in a separate memorandum. The single audit report issued by Moss Adams LLP is available upon request sent to singleauditrequest@oig.dot.gov.

SCOPE

The purpose of our QCR was to determine: (1) whether the audit work complied with generally accepted Government auditing standards, the Single Audit Act of 1984, as amended (the Act), and OMB Circular A-133, and (2) the extent to which we can rely on the auditor's work.

RESULTS

During our initial review, performed in June 2011, we determined that Moss Adams's audit work was *Technically Deficient*. An audit that is *Technically Deficient* includes documentation that contains quality deficiencies that affect the reliability of the audit results, and requires corrective actions for the audit under review. The most significant deficiencies in Moss Adams' audit work were:

1. **Identification of Direct and Material Compliance Requirements for FTA and NHTSA Major Programs** - Moss Adams did not adequately identify the direct and material compliance requirements for FTA and NHTSA's major programs.
2. **Insufficient Compliance Testing of Allowable Activities/Allowable Costs on Highway Planning and Construction Program** - Moss Adams did not select a sufficient amount of ARRA and construction related expenditures as part of its allowable activities and allowable cost compliance testing to meet OMB's Compliance Supplement requirements.
3. **Compliance Testing of Major Program ARRA Requirements** - Moss Adams' audit documentation did not adequately evidence compliance testing of major programs' ARRA requirements prescribed in OMB's Compliance Supplement.
4. **Subrecipient Monitoring and Eligibility** - Moss Adams' audit documentation did not evidence the testing of internal controls and compliance related to subrecipient monitoring and eligibility on FTA's Nonurbanized Area Formula Program.
5. **Special Tests and Provisions/Quality Assurance Plan** - Moss Adams' audit documentation did not evidence the testing of internal controls and compliance related to New Mexico DOT's Quality Assurance Plan on the Highway Planning and Construction Program.
6. **Compliance Testing of Cash Management and Matching** - Moss Adams' did not adequately document its compliance testing of cash management and matching prescribed in the OMB Compliance Supplement.

We recommended that Moss Adams perform additional internal control and compliance testing and reissue its Single Audit Report on New Mexico DOT. Moss Adams concurred with our recommendation and requested that we perform a follow-up review of its additional audit work.

In February 2012, we performed a follow-up review and determined that the audit work was *Acceptable with Deficiencies*, and therefore generally met the requirements of generally accepted Government auditing standards, the Act, and OMB Circular A-133. We found nothing to indicate that Moss Adams' reports on New Mexico DOT's internal control and compliance were inappropriate or unreliable.

However, we identified deficiencies in audit documentation that Moss Adams needs to correct in future audits. Based on Moss Adams' explanations, we determined that these deficiencies did not alter the overall results of the audit. These deficiencies are related to the following areas:

Internal Controls Testing Related to Eligibility and Matching - Moss Adams needs to improve its audit documentation to show how it tests key internal controls related to eligibility and matching requirements (affecting FHWA, FTA's Cluster, and FTA's Nonurbanized Area Formula Programs). Moss Adams prepared internal control narratives, performed system walkthroughs, and relied on compliance testing to test internal controls related to eligibility and matching. However, in future audits, Moss Adams has agreed to better document its testing of key internal controls related to eligibility and matching.

Consideration of Non-Compliance on Each Major Program Opinion - Moss Adams needs to improve its audit documentation to show how it considers non-compliance, both individually and in the aggregate, when it determines the overall opinion for each major program. Based on review of the audit documentation, we agreed with Moss Adams' rendered opinion on each major program. However, Moss Adams has agreed to improve its documentation on opinion determinations for each major program in future audits.

If you have any questions concerning this report, please call me at (410) 962-1729, or John R. Sysak, DOT National Single Audit Coordinator, at (410) 962-2630.

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