MANAGEMENT CONTROLS

Federal Manager's Financial Integrity Act (FMFIA)

The objectives of Section 2 and Section 4 of the Federal Managers' Financial Integrity Act (FMFIA) of 1982 are in the process of being met at the U.S. Department of Transportation

(DOT) in FY 2003. All departmental organizations are subject to Sections 2 and 4 of the FMFIA except the St. Lawrence Seaway Development Corporation which reports under the Government Corporations Control Act.

Each year we report on areas of concern over the internal controls and financial systems within the department. For FY 2002, DOT had five material weaknesses. Four were related to Section 2 and one was associated with Section 4. The five material weaknesses were:

· DOT's information systems security;

· Federal Aviation Administration's (FAA) cost reimburseable contracts;

· Transportation Security Administration (TSA) administration of airport screener contracts;

· FAA Property Systems;

· Federal Transit Administration's (FTA) controls over financial operations.

Of the FY 2002 weaknesses, the one related to TSA was transferred to the Department of Homeland Security with open recommendations. In addition, we were able to resolve the weaknesses reported on FTA's controls over financial operations and FAA Property Systems.

For FY 2003, DOT has four material weaknesses. Two are repeated from

FY 2002 and two are new. The repeated material weaknesses are the FAA's oversight of cost reimburseable contracts and DOT's information systems security. In addition, we are reporting new material weaknesses in the Federal Highway Administration's (FHWA) controls over financial operations and DOT's intragovernmental account balances.

Department-wide

There are two material weaknesses that have Department-wide impact. They are:

· DOT's information system security—This material weakness on DOT's information systems security from FY 2002 remains a material weakness in FY 2003. Numerous audit reports, including the recently released FI-2003-086, have highlighted information systems security shortfalls throughout DOT. These shortfalls could adversely affect the confidentiality, availability, and integrity of DOT information systems. As part of our resolution approach, DOT will continue its Certification/ Accreditation of DOT Mission Critical Systems. In addition, the DOT Chief Information Officer will work with the Operating Administrations to improve reporting in the areas of security incidents, dial-up access security, security cost estimating, contractor background checks, and contracts security language.

· Reconciliation of intragovernmental balance was a reportable condition in FY 2002 and is being reported as a Department-wide material weakness in FY 2003. OMB Bulletin 01-09, Form and Content of Agency Financial Statements, requires that reporting entities reconcile intragovernmental asset, liability, and revenue balances with their trading partners. During FY 2003, several DOT agencies only partially confirmed or reconciled their intragovernmental balances, but most did not. DOT intragovernmental asset, liability, and revenue amounts totaling more than $5 billion during FY 2003 were not confirmed or reconciled with their trading partners. The General Accounting Office (GAO) has reported that the accurate accounting of billions of dollars of transactions among Federal agencies is a major impediment to a clean audit opinion on the Consolidated Financial Report of the United States.

Federal Aviation Administration

· FAA's material weakness on the oversight of cost reimbursable contracts from FY 2002 is again being reported as a material weakness in FY 2003. FAA made significant progress in the closeout of cost reimbursable contracts. To resolve this material weakness, FAA needs to complete the close out of old contracts and increase the use of cost incurred audits. Additionally, FAA needs to ensure that appropriate audits are obtained for all active contracts. These steps will help reduce the likelihood of cost-overruns or improper payments for unallowable costs.

Federal Highway Administration

· FHWA has a new material weakness related to financial operations in FY 2003. Financial management and reporting deficiencies occurred as a result of inadequate financial statement preparation and analysis procedures, lack of timely reconciliation of subsidiary records to the Department's accounting system, including Fund Balance with Treasury, failure to adequately prepare for conversion to a new financial management system, and insufficient financial management personnel.

In November 2003, DOT completed converting the last agency in the Department, FAA, to a single financial management system. The modernization of our Department-wide financial accounting system has recently been completed. The use of this system will further strengthen our internal controls and provide significant improvements in our financial management capabilities. This was one of our major milestones in our efforts to achieve "green" on the President's Management Agenda (PMA). Our new financial system, with its stong internal controls, along with improved policies and procedures will further strengthen our accountability and oversight of the Highway and Aviation Trust Funds. We will continue our efforts toward "getting to green" in support of the President's Management Agenda, strengthening our transportation programs, and improving our stewardship of the taxpayer's dollars.

In addition, we are currently identifying additional policies and procedures to strengthen our accountability and oversight of our Highway and Aviation Trust Funds. We are enhancing the use of budgetary controls in the accounting and grant systems, improving reconciliation of fund balance with Treasury, and ensuring that we clear suspense accounts on a timely basis for our Highway Trust Funds. DOT is requesting our Operating Administrations to implement workforce plans to improve the quality of staff members operating DOT's financial systems.

Federal Financial Management Improvement Act (FFMIA)

The Department's FY 2001, FY 2002, and FY 2003 Consolidated 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 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.

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 violations of laws or regulations whose effects have been disclosed in the audit of the consolidated financial statements.

Consolidated

Financial Statements

There are three material weaknesses affecting the Consolidated Financial Statements. The three material weaknesses include reconciliation of intragovernmental balance, network security, and FAA's deficiencies in administration of cost-reimbursable contracts.

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.