

**QUALITY CONTROL REVIEW OF  
AUDITED FINANCIAL STATEMENTS FOR  
FY 2005 AND FY 2004**

*Highway Trust Fund*

*Report Number: QC-2006-012*

*Date Issued: November 14, 2005*



# Memorandum

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

Subject: **ACTION:** Quality Control Review of  
Audited Financial Statements for  
FY 2005 and FY 2004  
Highway Trust Fund  
Report No. QC-2006-012

Date: November 14, 2005

From: Kenneth M. Mead  
Inspector General

Reply to  
Attn. of: JA-20

To: The Secretary

The audit of the Highway Trust Fund (HTF) Financial Statements as of and for the years ended September 30, 2005, and September 30, 2004, was completed by Clifton Gunderson LLP, of Calverton, Maryland (see Attachment). We performed a quality control review of the audit work to ensure that it complied with applicable standards. These standards include the Chief Financial Officers Act; Generally Accepted Government Auditing Standards; and the Office of Management and Budget Bulletin 01-02, "Audit Requirements for Federal Financial Statements."

The Clifton Gunderson audit report dated November 8, 2005, concluded that the financial statements including the accompanying notes presented fairly in all material respects, in conformity with accounting principles generally accepted in the United States of America, HTF's assets, liabilities, and net position as of September 30, 2005 and September 30, 2004 and their related net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the years then ended.

HTF agencies,<sup>1</sup> and the Federal Highway Administration (FHWA) in particular, continued to improve the accounting processes used to support financial management and prepare financial statements. During fiscal year (FY) 2005, FHWA management began to refocus its accounting functions at both management and staff levels. However, most of the more significant procedural

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<sup>1</sup> The Federal Highway Administration, National Highway Traffic Safety Administration, Federal Transit Administration, Federal Railroad Administration, and Federal Motor Carrier Safety Administration

and organizational changes were implemented after the third quarter of the year, including the hiring of a new Chief Financial Officer in September 2005. FHWA management did not have enough time to resolve all of the weaknesses identified in the prior year. Continued executive-level attention, backed by adequate resources to implement disciplined processes, will be needed to correct the remaining deficiencies.

The report categorized problems into the following two material weaknesses, two reportable conditions, and four instances of noncompliance with laws and regulations.

### ***Material Weaknesses***

1. Financial accounting processes do not fully support financial management or facilitate the timely preparation of accurate financial statements.
2. Grants financial management oversight at FHWA.

### ***Reportable Conditions***

1. Federal lands highway program transaction processing and reconciliations.
2. Information technology control weaknesses.

### ***Noncompliance With Laws and Regulations***

1. Federal Managers' Financial Integrity Act of 1982 (FMFIA).
2. Anti-Deficiency Act.
3. Government Performance and Results Act of 1993.
4. Federal Financial Management Improvement Act of 1996 (FFMIA).

Clifton Gunderson made 37 recommendations for corrective actions. We agree with the recommendations made by Clifton Gunderson and, therefore, we are not making any additional recommendations. In her November 10, 2005 response to the draft report, the Assistant Secretary for Budget and Programs/Chief Financial Officer concurred with the weaknesses, generally agreed with the recommendations, and planned to submit a detailed action plan to the Office of Inspector General by December 31, 2005. In accordance with Department of Transportation Order 8000.1C, the corrective actions taken in response to the recommendations are subject to follow-up.

In our opinion, the audit work performed by Clifton Gunderson complied with applicable standards.

We appreciate the cooperation and assistance of the HTF agencies, the Office of Financial Management, and Clifton Gunderson representatives. If we can answer any questions, please call me at (202) 366-1959 or Ted Alves, the Principal Assistant Inspector General for Auditing and Evaluations, at (202) 366-1992.

Attachment

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cc: Federal Highway Administrator  
National Highway Traffic Safety Administrator  
Federal Transit Administrator  
Federal Railroad Administrator  
Federal Motor Carrier Safety Administrator