

MANAGEMENT ASSURANCES – OMB CIRCULAR A-123

THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590
November 8, 2010

The President
The White House
Washington, DC 20500

Dear Mr. President:

I am pleased to report on the effectiveness of the internal controls and financial management systems for the U.S. Department of Transportation (DOT) during Fiscal Year (FY) 2010. This report is based on our successful implementation under the Federal Managers' Financial Integrity Act of 1982 (FMFIA); Office of Management and Budget (OMB) Circular A-123; *Management's Responsibility for Internal Control*; OMB Office of Federal Procurement Policy's (OFPP) Acquisition Assessment; and the 2009 American Recovery and Reinvestment Act (ARRA).

The FMFIA holds Federal managers accountable for establishing and maintaining effective internal controls and financial systems. All DOT organizations are subject to Sections 2 and 4 of the FMFIA, except the Saint Lawrence Seaway Development Corporation, which reports separately under the Government Corporations Control Act.

With the exception noted for compliance with the Federal Information Security Management Act (FISMA), DOT is able to provide reasonable assurance that the internal controls and financial management systems in effect during the period of October 1, 2009 through September 30, 2010 met the objectives of both Sections 2 and 4 of the FMFIA. During FY 2010, DOT conducted its assessment of internal controls and compliance with applicable laws and regulations in accordance with OMB Circular A-123.

FISMA Compliance

In late 2009, the Inspector General (IG) issued a report on DOT's compliance with FISMA. The purpose of this review was to determine the effectiveness of DOT's security program and practices in the areas of policies and procedures, enterprise-level information security controls, management of information security weaknesses, and system-level security controls. As a result of this review, the IG made 27 specific recommendations. During the

year, corrective actions were underway, but at September 30, 2010, many of these actions had not been completed. As a consequence, the Department's compliance with FISMA during 2010 constituted a material weakness in internal controls. A corrective action plan to complete all outstanding FISMA recommendations is being developed and will be implemented.

FMFIA Internal Control Program

For FY 2010, DOT enhanced its standardized and consistent FMFIA Internal Control Program approach for managing control and compliance activities. The DOT identified and documented meaningful Components and Assessable Units (AU). Inherent risk assessments were conducted to classify and prioritize each AU. Management Control Reviews, leveraging the five standards of internal controls, as prescribed by the Committee of Sponsoring Organizations of the Treadway Commission and the U.S. Government Accountability Office, were conducted to identify, assess, document, and communicate key management and programmatic internal controls and related risks or weaknesses.

OMB Circular A-123, Appendix A Internal Control Program

During FY 2010, DOT conducted an assessment of the effectiveness of internal controls over financial reporting, including safeguarding of assets and compliance with applicable laws and regulations in accordance with the requirements of OMB Circular A-123, Appendix A. During FY 2010, DOT assessed and tested controls over key identified business processes, including Cost Accounting, Credit Reform and Loans, Environmental Liabilities, Financial Reporting, Grants Management, and Revenue and Receivables.

The major OMB Circular A-123, Appendix A activities in FY 2010 included evaluating entity level, process level, and in-depth testing at the transaction level of internal controls over financial reporting for the five identified business processes. All deficiencies were communicated to senior management and mitigated using existing remediation procedures.

OMB A-123 Acquisition Assessment

In accordance with guidance from the Office of Federal Procurement Policy and OMB Circular A-123, the DOT Office of Senior Procurement Executive (OSPE) developed a three year assessment reporting cycle of the DOT's acquisition offices and programs, and in FY 2010, OSPE conducted an entity level top-down assessment of 30 percent of component acquisition offices of the Operating Administrations.

American Recovery and Reinvestment Act (ARRA)

The ARRA was signed into law on February 17, 2009. To ensure that ARRA funds are in compliance and meet the objectives of the program, and to ensure that this spending meets unprecedented standards for transparency and accountability, DOT management devised robust risk mitigation strategies for this program. Additionally, DOT management updated key business process documentation and conducted subsequent testing of ARRA transactions as part of OMB A-123 assessment activities to reflect new or modified business processes.

As a result of our FMFIA reviews in FY 2010, I conclude that the Department has made substantial progress in enhancing its internal controls and financial management program. Additional enhancements are planned and underway in FY 2011.

Respectfully,

A handwritten signature in black ink, appearing to read 'Ray LaHood', with a stylized flourish at the end.

Ray LaHood