Quality Control Review of the Management Letter for the Department of Transportation’s Audited Consolidated Financial Statements for Fiscal Years 2020 and 2019
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Required by the Chief Financial Officer Act of 1990

Office of the Secretary | QC2021015 | January 27, 2021

What We Looked At
This report presents the results of our quality control review (QCR) of KPMG LLP’s management letter related to the audit it conducted, under contract with us, of the Department of Transportation’s (DOT) consolidated financial statements for fiscal years 2020 and 2019. In addition to its audit report on DOT’s financial statements, KPMG issued a management letter that discusses 12 internal control matters that it was not required to include in its audit report.

What We Found
Our QCR of KPMG’s management letter disclosed no instances in which KPMG did not comply, in all material respects, with generally accepted Government auditing standards.

Recommendations
KPMG made 14 recommendations in its management letter. DOT concurred with all 14 recommendations.
Memorandum

Date: January 27, 2021

Subject: INFORMATION: Quality Control Review of the Management Letter for the
Department of Transportation's Audited Consolidated Financial Statements for
Fiscal Years 2020 and 2019 | Report No. QC2021015

From: Louis C. King
Assistant Inspector General for Financial Audits

To: Chief Financial Officer and Assistant Secretary for Budget and Programs

I am pleased to transmit the attached management letter related to the audit of
the Department of Transportation’s (DOT) consolidated financial statements for
fiscal years 2020 and 2019. KPMG LLP completed the audit under contract with
us. The contract required that KPMG perform the audit in accordance with
generally accepted Government auditing standards and Office of Management
and Budget’s Bulletin 19-03, Audit Requirements for Federal Financial Statements.
KPMG issued an auditor’s report1 that included a clean (unmodified) opinion on
DOT’s financial statements.

KPMG also issued, and is responsible for, a management letter, dated November
30, 2020 (see attachment), identifying 12 internal control matters that require
DOT management’s attention. KPMG was not required to include these matters
or the related recommendations in its auditor’s report.

We appreciate the cooperation and assistance of DOT’s representatives and
KPMG. If you have any questions, please contact me at (202) 366-1407.

Attachment

cc: The Secretary
DOT Audit Liaison, M-1

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1 See Quality Control Review of the Independent Auditor’s Report on the Department of Transportation’s Audited
Consolidated Financial Statements for Fiscal Years 2020 and 2019 (OIG Report Number QC2021008), November 16,
2020.
Summary of KPMG’s Management Letter

In its management letter, KPMG reported the following matters regarding DOT’s internal control that require management’s attention.

Information Technology General and Application Controls

KPMG found information technology control weaknesses at the Federal Transit Administration (FTA), Federal Highway Administration (FHWA), and the Enterprise Services Center (ESC).

Weakness in FTA’s Grants Management Systems

FTA’s controls were not properly designed or implemented to facilitate change management procedures, which support source code management. The procedures did not include details for source code access administration and required privileges, source code maintenance and storage, and the process for source code deployment into the production environment. The procedures also lacked documentation regarding the use of version control software that supports the systems.

Weakness in FTA’s Grants Management System User Access Review Process

FTA’s controls were not properly designed or implemented to ensure that user roles were automatically removed when not recertified. Two of one user’s five roles were not recertified but were not automatically removed from the system, as required by the application system security plan.

Weakness in Timely Removal of FTA’s Application Inactive Accounts

FTA’s controls were not designed and implemented or operating effectively to ensure that the application that supports the grants management system disabled users after 60 days of inactivity.

Weakness in FTA’s New User Clearing House System Process

FTA’s controls were designed but not operating effectively to ensure that new users were approved prior to access to the application. One new user was granted system access prior to obtaining the FTA Regional Officer’s approval.
Weakness in FTA’s Monitoring of Service Organization Reports

FTA is a named user of service organization controls (SOC) reports for its service organization. As a user, FTA must have complementary user entity controls in place and operating effectively to validate the conclusions of SOC reports. Furthermore, FTA should properly inspect SOC reports to ensure that there are no material impacts to its grant management procedures and ensure the suitability of the service organization.

FTA management did not demonstrate or document consideration of SOC reports in support of the grants management application. Specifically, FTA management did not have a documented process or established set of procedures for reviewing SOC reports. Additionally, FTA management did not have a documented process or established set of procedures for ensuring the implementation and operating effectiveness of complementary user entity controls.

Weakness in FHWA’s Financial Management Information System Inactivity

FHWA’s controls were not designed and implemented to automatically lock inactive user accounts and the related system security plan did not reflect control activities in place. FHWA management did not have an automated process to disable inactive accounts directly from the application and relied on compensating controls that did not operate at a precision necessary to adequately address the control requirement of the system security plan.

Weakness in ESC’s Financial Management System Contractor Termination Process

ESC’s controls were not operating effectively to ensure that contractor access was revoked upon separation from ESC. Two contractors separated from ESC but ESC management did not revoke their system access in accordance with ESC requirements.

Controls Over Financial Reporting

In its management letter, KPMG reported control weaknesses in the process to identify and evaluate subsequent events pertaining to the Transportation, Infrastructure, Finance and Innovation Act (TIFIA) direct loan program; the accounting for the Maritime Administration’s (MARAD) donated property, plant and equipment (PP&E); reconciliations of monthly journal voucher control logs; and control weaknesses pertaining to management review and approval of journal entries.
Weakness in the Office of the Secretary’s Process for Identifying TIFIA Loan Events Subsequent to Re-Estimates

The Office of the Secretary’s (OST) controls were not properly designed and implemented to ensure that significant loan events that occurred after re-estimate dates but prior to annual report issuance, were evaluated for financial reporting purposes. The September 30, 2019 financial statements did not disclose the subsequent collection of a significant full loan prepayment from the borrower of a TIFIA loan. The full prepayment was not anticipated in the loan’s projected cash flows used to determine the subsidy re-estimate as of the date of the financial statements.

Weakness in MARAD’s Accounting for Donated PP&E

MARAD’s controls were not designed and implemented to ensure that donated PP&E was accounted for accurately based on the source of the acquisition. MARAD recorded a donated ship at the cost held by the transferring entity instead of the net book value.

Weakness Due to ESC’s Inconclusive Documentation of Variances in Journal Voucher Control Log Reconciliation

ESC’s controls were not properly designed and implemented to ensure that all discrepancies identified in monthly journal voucher control log reconciliations were resolved and documented in a timely manner. KPMG found no evidence of resolution for a variance noted in the December 2019 journal voucher control log reconciliation.

Weakness in ESC’s Controls Over Management Review and Approval of Journal Entries

ESC’s controls were not operating effectively to ensure that posted manual journal entries were complete and accurate. Two journal entries did not reflect the intended financial statement impact documented in the support.

Weakness Due to Discrepancies Regarding FHWA’s Undelivered Orders

FHWA’s and ESC’s controls were not designed and implemented at a level of precision to ensure that identified discrepancies between the expected and actual recorded undelivered order (UDO) balances were resolved by the end of the fiscal year for financial reporting purposes. One recorded UDO had a balance that exceeded the executed agreement.
Recommendations

To strengthen DOT’s financial, accounting, and system controls, KPMG recommended that:

1. FTA management revise the existing configuration management plans for the grant financial management application and the clearing house system to include procedures for source code access administration and required privileges, source code maintenance and storage, the process for source code deployment into the production, and any version control software utilized to support the systems.

2. FTA management reconfigure the grants management application to automatically remove roles that are not recertified annually.

3. FTA management reconfigure the application that supports the grants management system to automatically disable accounts after 60 days of inactivity.

4. FTA management update the grants management system platform’s system security plan to reflect the configuration considerations in place.

5. FTA management ensure that new users are properly authorized by all required parties prior to the administration of access to FTA systems.

6. FTA management design and implement policies and procedures that establish a formal process to assess applicable third-party SOC reports that includes reviewing the SOC 1, 2, 3 reports, reviewing and comparing reporting updates year-over-year, and reviewing findings and their impact on the grants management system.

7. FTA management design and implement policies and procedures that establish a formal process to assess applicable third-party SOC reports that includes implementing the service organization’s recommended complimentary user entity controls and monitoring these controls for proper implementation and operating effectiveness.

8. FHWA management update its security documentation and system security plan, in accordance with Department requirements, to capture any control deviations and compensating controls used in lieu of automatically disabling inactive accounts.

9. ESC management should provide a training refresher to contracting program managers and access control officers related to the separation process for contractors.
10. OST management design and implement policies and procedures to evaluate the impact of known changes in TIFIA loan cash flow projections between the re-estimate date and the issuance of the financial statements on the subsidy re-estimate to then be considered for subsequent event disclosure.

11. MARAD management design and implement a process for recording donated PP&E from other federal entities to ensure these transactions are accurately recorded and in accordance with generally accepted accounting principles.

12. ESC management update the Journal Voucher Processing Standard Operating Procedures to explicitly document and define the responsibility of the control operator to annotate any variances identified in the journal voucher control log reconciliation with the action taken and resolution obtained.

13. ESC management update procedures surrounding management’s review of journal entries at ESC to ensure that journal entries are reviewed at an appropriate level of precision to determine that all posted manual entries are complete, accurate, and adequately supported by documentation.

14. FHWA and ESC management design and implement a control that is sufficiently precise to detect and correct UDO reconciliation discrepancies in the correct fiscal year in which they occur.

DOT officials concurred with KPMG’s 14 recommendations and provided a detailed action plan to address the findings in the management letter. In accordance with DOT Order 8000.1C, the corrective actions taken in response to the findings are subject to follow up.

Results of Quality Control Review

We performed a quality control review of KPMG’s management letter and related documentation. Our review disclosed no instances in which KPMG did not comply, in all material respects, with generally accepted Government auditing standards.
# Exhibit. List of Acronyms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Definition</th>
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<tbody>
<tr>
<td>DOT</td>
<td>U.S. Department of Transportation</td>
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<td>ESC</td>
<td>Enterprise Services Center</td>
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<td>FHWA</td>
<td>Federal Highway Administration</td>
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<td>FTA</td>
<td>Federal Transit Administration</td>
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<td>MARAD</td>
<td>Maritime Administration</td>
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<td>OIG</td>
<td>Office of Inspector General</td>
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<tr>
<td>OST</td>
<td>Office of the Secretary</td>
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<tr>
<td>PP&amp;E</td>
<td>property, plant, and equipment</td>
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<td>QCR</td>
<td>quality control review</td>
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<tr>
<td>SOC</td>
<td>service organization controls</td>
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<td>TIFIA</td>
<td>Transportation Infrastructure Finance and Innovation Act</td>
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<td>UDO</td>
<td>undelivered order</td>
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Attachment. Independent Auditor’s Management Letter
November 30, 2020

Secretary, U.S. Department of Transportation
Inspector General, U.S. Department of Transportation
Washington, D.C.

Ladies and Gentlemen:

In planning and performing our audit of the financial statements of the U.S. Department of Transportation (DOT) as of and for the year ended September 30, 2020, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and Office of Management and Budget Bulletin 19-03, Audit Requirements for Federal Financial Statements, we considered the DOT's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the DOT's internal control. Accordingly, we do not express an opinion on the effectiveness of the DOT's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and/or significant deficiencies and, therefore, material weaknesses and/or significant deficiencies may exist that were not identified. In accordance with Government Auditing Standards, we issued our report dated November 13, 2020 on our consideration of the DOT's internal control over financial reporting in which we communicated certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. In addition to the significant deficiencies noted above, we identified the following other deficiencies in internal control related to financial reporting and information technology general and application controls that are presented in Exhibit I for your consideration.

Matters specific to our separate audit of the Federal Aviation Administration (FAA) have been communicated to the Inspector General and the FAA Administrator in a separate letter.

The purpose of this letter is solely to describe the deficiencies in internal control identified during our audit. Accordingly, this letter is not suitable for any other purpose.

Very truly yours,

KPMG LLP
A. Information Technology General and Application Controls

A.1 Controls Over the Federal Transit Administration Grant Systems

The Federal Transit Administration (FTA) utilizes several systems to manage grant funding, including a grant financial management application that utilized by internal FTA users to query, view, and print financial records and reports and a clearing house system that is utilized by FTA grant recipients to request payments against federal grants awarded to them. The application, database, and operating system of both the clearing house and grant financial management systems are managed by a third-party contractor or third-party service provider.


**Background/Condition**

Controls are not properly designed or implemented to facilitate change management procedures, which support source code management. Specifically, the procedures do not include details for source code access administration and required privileges, source code maintenance and storage, and the process for source code deployment into the production environment. Additionally, current procedures lack documentation regarding the use of version control software that support the systems.

**Recommendation**

We recommend that management revise the existing configuration management plans for both of the systems to include procedures for source code access administration and required privileges, source code maintenance and storage, the process for source code deployment into the production, and any version control software utilized to support the systems.


**Background/Condition**

Controls are not properly designed or implemented to ensure that user roles were systematically removed upon failure to obtain recertification for those roles. There was one user who had five roles; however, two of those roles were not recertified and automatically removed, as required by the application system security plan (SSP).

**Recommendation**

We recommend that management reconfigure the application to automatically remove roles that are not recertified annually.

FTA Process to Remove Grants Management Application Inactive Accounts Timely – (NFR DOT-2020-FTA-IT-11)

**Background/Condition**

Controls are not designed and implemented or operating effectively to ensure that the application that supports the grants management system disables users after 60 days of inactivity.
Recommendation

We recommend that management

- Reconfigure the application that supports the grants management system to automatically disable accounts after 60 days of inactivity; and
- Update the grants management system platform’s SSP to reflect the configuration considerations in place.

New User Clearing House System Process – (NFR DOT-2020-FTA-IT-03)

Background/Condition

The FTA Regional Office staff provides the grantee with the registration package and user manual. The grantee (usually the Authorizing Official) will complete the initial access form and the request will be submitted to the FTA Regional Officer and System Administrator for review and approval.

Controls are designed but not operating effectively to ensure that new users are approved prior to obtaining access to the application. Specifically, one new user was granted system access prior to obtaining the FTA Regional Officer approval.

Recommendation

We recommend that management ensure that new users are properly authorized by all required parties prior to the administration of access to FTA systems.

FTA Monitoring of Service Organization Reports (NFR DOT-2020-FTA-IT-10)

Background/Condition

FTA is a named user of the Service Organization Controls Reports 1, 2 and 3 (SOC reports) for its service organization and as a user entity, FTA should have Complementary User Entity Controls (CUECs) in place and operating effectively to validate the conclusions of the SOC reports. Further, FTA should properly inspect the SOC reports to ensure that there are no material impacts to its grant management procedures and to ensure the suitability of the service organization.

FTA management did not demonstrate or document consideration of the SOC reports in support of the grants management application as follows:

- FTA management does not have a documented process or established set of procedures for the review of the SOC reports; and
- FTA does not have a documented process or established set of procedures related to ensuring the implementation and operating effectiveness of CUECs.

Recommendation

We recommend that FTA management design and implement policies and procedures that establish a formal process to assess applicable third-party SOC reports that includes:

- Reviewing the SOC 1, 2, and 3 reports, reviewing and comparing reporting updates year-over-year, and reviewing findings and their impact on the grants management system; and
• Implementing the service organization’s recommended CUECS and monitoring these controls for proper implementation and operating effectiveness.

A.2 Controls Over the Federal Highways Administration’s Financial Management System

The Federal Highway Administration (FHWA) manages a financial management system and a user profile and access control system that serve as a financial management subsystem and a general support system that facilitates the transmission of data from agency specific systems to the general ledger.

FHWA Financial Management Information System Inactivity Control (NFR DOT-2020-FHWA-IT-04)

Background/Condition

Controls are not designed and implemented to automatically lock inactive user accounts and the related SSP does not reflect the control activities in place. Specifically, management does not have an automated process to disable inactive accounts from the application directly and relies on compensating controls that do not operate at a precision necessary to adequately address the control requirement of the system’s SSP.

Recommendation

We recommend that management update its security documentation and SSP, in accordance with Department requirements, to capture any control deviations and compensating controls used in lieu of automatically disabling inactive accounts.

A.3 Controls Over the General Ledger System

The general ledger system is the core accounting and financial information system used to process accounting transactions and prepare financial statements. Application administrators are responsible for administering access to the general ledger system application.

Financial Management System Contractor Termination Process (NFR DOT-2020-IT-ESC-04)

Background/Condition

The Contracting Officer's Representative/Access Control Officers (ACO) is responsible for submitting a remedy request to the application administrator as the formal notification for removal of separated contractors.

Controls were not operating effectively to ensure that contractor access was revoked upon separation from Enterprise Service Center (ESC). Specifically, we identified two contractors who separated from ESC; however, ESC management did not revoke their system access in accordance with ESC requirements.

Recommendation

ESC management should provide a training refresher to contracting program managers and ACOs related to the separation process for contractors.

B. Controls Over Financial Reporting

Process for the Identification of TIFIA Re-estimate Subsequent Events – (NFR DOT-2020-01)

Background/Condition

The Office of the Secretary (OST) administers and manages the Transportation Infrastructure Finance and Innovation Act (TIFIA) direct loan program under the Federal Credit Reform Act. OST management re-
estimates the projected subsidy costs associated with each outstanding loan using the best available information as of the date of the financial statements.

Controls are not properly designed and implemented to ensure that significant TIFIA loan subsequent events after the re-estimate date but prior to issuing the Annual Report, such as a prepayment and changes in credit quality, are evaluated for financial reporting purposes. Specifically, the September 30, 2019 financial statements did not disclose the subsequent collection of a significant full loan prepayment from a TIFIA direct loan borrower that was not anticipated in the related loan’s projected cash flows utilized to determine the subsidy re-estimate as of the date of the financial statements.

Recommendation
We recommend that OST management design and implement policies and procedures to evaluate the impact of known changes in TIFIA loan cash flow projections between the re-estimate date and the issuance of the financial statements on the subsidy re-estimate to then be considered for subsequent event disclosure.

Maritime Administration Accounting for Donated Property, Plant, and Equipment – (NFR DOT-2020-02)

Background/Condition
Maritime Administration (MARAD) owns a variety of property, plant, and equipment (PP&E), including National Defense Reserve Fleet (NDRF) ships. On September 30, 2019, MARAD was transferred an NDRF ship, Lawrence H Gianella, from the United States Navy. In MARAD’s history of donations, this was only the second time that the Department of Defense transferred and donated a PP&E asset.

Controls were not designed and implemented to ensure donated PP&E is accounted for accurately based on the source of the acquisition. Specifically, MARAD recorded the donated ship at the cost held by the transferring entity instead of the net book value.

Recommendation
We recommend that management design and implement a process for recording donated PP&E from other federal entities to ensure these transactions are accurately recorded and in accordance with generally accepted accounting principles.

Inconclusive Documentation of Journal Voucher Control Log Reconciliation Variances – (NFR DOT-2020-03)

Background/Condition
The ESC section managers perform a monthly review for unposted manual Journal Vouchers (JVs) to ensure completeness of journal entries posted to the financial management system, as well as the completeness of the JV control logs. Each month, the ESC section managers run a query for all manual journal entries in the financial management system for the period, compare the query results to the journal entries included in the JV control logs, and vice versa. The control operator considers and resolves any instances the control identifies where JVs per the control log are not included in the financial management system, manual journal entries in the financial management system are not included in the control log, and duplicate sequential JV control numbers are used.

Controls are not properly designed and implemented to ensure that all discrepancies identified in the monthly JV control log reconciliation are resolved and documented timely. Specifically, there was no evidence of resolution for a variance noted in the December 2019 JV control log reconciliation.
Recommendation

We recommend that the ESC update the Journal Voucher Processing Standard Operating Procedures to explicitly document and define the responsibility of the control operator to annotate any variances identified in the JV control log reconciliation with the actions taken and resolution obtained.

Weakness in Controls Over Management Review and Approval of Journal Entries – (NFR DOT-2020-04)

Background/Condition

Each of the DOT OAs has Interagency Agreements with the ESC, whereby the ESC receives supporting documentation for the journal entry from the OAs, prepares JV, completes a peer review process, and then sends the JV to the OA for approval (for MARAD, only in cases in which the JV is greater than $1 million). Once the OA reviews and approves the JV, ESC posts the entry to the financial management system. ESC policy requires that all such entries be reviewed by an appropriate member of the ESC accounting department within four business days of posting, to ensure that the entry is appropriate. Further, this review includes ensuring the entry is complete, accurate, and supported by adequate documentation.

Controls are not operating effectively to ensure that manual journal entries posted by the ESC are complete and accurate. Specifically, two journal entries did not reflect the intended financial statement impact documented in the support.

Recommendation

We recommend that the ESC update procedures surrounding management’s review of journal entries at ESC to ensure that journal entries are reviewed at an appropriate level of precision to determine that all posted manual entries are complete, accurate, and adequately supported by documentation.

Federal Highways Administration (FHWA) Undelivered Order Duplication – (NFR DOT-2020-05)

Background/Condition

FHWA utilizes a federal grant management application to support the financial reporting, operations, accounting, and compliance objectives. In the process of initiating obligations for the Federal Lands program, FHWA utilizes the ESC rather than creating obligations through the automated system interface. The Office of Federal Lands performs a quality control review and reconciliation each month to identify any discrepancies between the expected and actual recorded undelivered orders (UDO) balance.

Controls are not designed and implemented at a level of precision to ensure all identified errors are resolved as of the end of the fiscal year for financial reporting purposes. Specifically, one UDO was recorded in which the balance exceeded the executed agreement.

Recommendation

We recommend that FHWA and ESC management design and implement a control that is sufficiently precise to detect and correct errors in the correct fiscal year in which they occur.
Our Mission

OIG conducts audits and investigations on behalf of the American public to improve the performance and integrity of DOT’s programs to ensure a safe, efficient, and effective national transportation system.