OFFICE OF INSPECTOR GENERAL
U.S. DEPARTMENT OF TRANSPORTATION

DOT

Report No. QC2022017
January 31, 2022

Quality Control Review of the Management Letter for the Department of Transportation's Audited Consolidated Financial Statements for Fiscal Years 2021 and 2020

Quality Control Review of the Management Letter for the Department of Transportation's Audited Consolidated Financial Statements for Fiscal Years 2021 and 2020

Required by Chief Financial Officers Act of 1990

Department of Transportation | QC2022017 | January 31, 2022

What We Looked At

This report presents the results of our quality control review (QCR) of KPMG LLP's management letter for its audit, conducted under contract with us, of the Department of Transportation's (DOT) consolidated financial statements for fiscal years 2021 and 2020. The management letter discusses four internal control matters that KPMG was not required to include in its audit report.

What We Found

Our QCR of the management letter disclosed no instances in which KPMG did not comply, in all material respects, with U.S. generally accepted Government auditing standards.

Our Recommendations

KPMG made seven recommendations in its management letter. DOT concurred with all seven recommendations.

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U.S. Department of Transportation
Office of Inspector General

Memorandum

Date: January 31, 2022

Subject: INFORMATION: Quality Control Review of the Management Letter for the Department of Transportation's Audited Consolidated Financial Statements for Fiscal Years 2021 and 2020 | Report No. QC2022017

From: Dormayne "Dory" Dillard-Christian
Acting 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 for the audit of the Department of Transportation's (DOT) consolidated financial statements for fiscal years 2021 and 2020. 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 21-04, *Audit Requirements for Federal Financial Statements*. KPMG issued an auditors' report[1] that included a clean (unmodified) opinion on DOT's financial statements.

KPMG also issued, and is responsible for, a management letter, dated November 30, 2021 (see attachment), identifying four internal control matters that require DOT management's attention. KPMG was not required to include these matters or the related recommendations in its auditors' report.

We appreciate the cooperation and assistance of DOT's representatives and KPMG. If you have any questions, please contact me at (202) 570 6381, or Ingrid Harris, Program Director, at (202) 450-7637.

cc: The Secretary
DOT Audit Liaison, M-1

[1] See *Quality Control Review of the Independent Auditors' Report on the Department of Transportation's Audited Consolidated Financial Statements for Fiscal Years 2021 and 2020* (OIG Report Number QC2022015), November 15, 2021.

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

Enterprise Services Center's Semiannual Review of the Operating System Administrator Access Process

The Enterprise Services Center's (ESC) controls were not operating effectively to ensure that its semiannual review of privileged operating system users was completed in accordance with policy. Two operating system servers were not included in the semiannual server administrator access review. As a result, ESC management did not review, reauthorize, or remove the administrator accounts assigned to these two servers. After being notified of this condition, ESC management retroactively completed the access reviews.

Business Process Controls

KPMG found control weaknesses in the accounting for Maritime Administration's (MARAD) capitalized costs; ESC's management review and approval of journal entries; and review and validation of inputs to the Transportation, Infrastructure, Finance and Innovation Act (TIFIA) direct loan program.

MARAD's Accounting for Capitalized Costs

MARAD's Office of Financial Operations' controls were not operating effectively to ensure capitalizable costs related to the construction of vessels were accurately and timely recorded. KPMG identified costs related to the construction and acquisition of four vessels expensed during fiscal year 2021 and prior years that were not corrected as of June 30, 2021.

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. One journal entry did not reflect the intended financial statement impact documented in the support.

Office of the Secretary’s Process for Review and Validation of Inputs to the TIFIA Loan Subsidy Reestimate Model

The Office of the Secretary’s (OST) controls were not operating effectively to ensure that reestimates of direct loan subsidies made under TIFIA were appropriately calculated based on valid inputs. KPMG found that two reestimates incorporated reductions in the total expected cash flows due to no further anticipated borrower disbursements. No documentation existed to support the assumption and one reestimate incorporated a current year principal repayment that was not supported by documentation.

Recommendations

To strengthen DOT’s information system and business process controls, KPMG recommended that:

1. ESC management correct the ESC server inventory list to ensure that all production servers are correctly categorized.
2. ESC management implement a quality assurance process to confirm that all servers and systems are included during the semiannual review process.
3. MARAD management develop and implement policies and procedures to timely evaluate and respond to changes in MARAD’s programs or activities prompted by public law or DOT directives that could impact financial reporting objectives and cause revision to its accounting treatment.
4. MARAD management should design and implement processes to timely correct identified errors or account for changes in accounting policies.
5. ESC management update procedures surrounding management’s review of journal entries to ensure journal entries are reviewed at an appropriate level of precision to determine that all manually posted entries are complete, accurate, and adequately supported by documentation.
6. OST management obtain documentation from external borrowers to support the input assumption that the remaining loan value will not be disbursed.
7. OST management maintain a documentation trail that includes support for each current year input in accordance with the TIFIA Loan Subsidy Re-estimates Standard Operating Procedures.

DOT officials concurred with KPMG's seven recommendations and provided a detailed action plan to address the findings issued to it 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.

Quality Control Review

We performed a quality control review (QCR) of KPMG's management letter and related documentation. Our QCR disclosed no instances in which KPMG did not comply, in all material respects, with U.S. generally accepted Government auditing standards.

Exhibit. List of Acronyms

DOT	U.S. Department of Transportation
ESC	Enterprise Services Center
MARAD	Maritime Administration
OIG	Office of Inspector General
OST	Office of the Secretary
QCR	quality control review
TIFIA	Transportation Infrastructure Finance and Innovation Act

Attachment 1. Independent Auditors' Management Letter

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

November 30, 2021

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

In planning and performing our audit of the consolidated financial statements of the U.S. Department of Transportation (DOT) as of and for the year ended September 30, 2021, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and OMB Bulletin 21-04, *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 12, 2021 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 general information technology and application controls and business process controls that are summarized in Exhibit I for your consideration.

Matters specific to our audit of the Federal Aviation Administration (FAA) consolidated financial statements 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.

Respectfully,

KPMG LLP

A. Information Technology General and Application Controls

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.

Semiannual review of the operating system administrator access was incomplete (NFR ESC-2021-02)

Background/Condition

Controls over the semiannual review of privileged operating system users were not operating effectively. The Enterprise Services Center (ESC) management did not complete its review according to policy. Specifically, two of the operating system servers were not included in the semiannual server administrator access review. Therefore, ESC management did not initially review, reauthorize, or remove the administrator accounts assigned to these two servers. After being notified of this condition, ESC management retroactively completed the access reviews.

Recommendation

We recommend ESC management correct the ESC server inventory list to ensure that all production servers are correctly categorized and implement a quality assurance process to confirm that all servers and systems are included during the semiannual review process.

B. Business Process Controls

Improper Accounting for Maritime Administration (MARAD) Capitalizable Costs (NFR DOT-2021-01)

Background/Condition

MARAD manages the National Defense Reserve Fleet (NDRF) to provide a reserve of mission-critical ships for national emergencies. MARAD capitalizes such ships when costs exceed its capitalization threshold while noncapitalizable items or costs are treated as current operating expenses.

The MARAD Office of Financial Operations controls were not operating effectively to ensure capitalizable costs related to the construction of vessels were accurately and timely recorded. Specifically, we identified costs related to the construction and acquisition of four vessels that management expensed during FY 2021 and prior years and did not correct as of June 30, 2021.

Recommendation

We recommend MARAD management develop and implement policies and procedures to timely evaluate and respond to changes in MARAD's programs or activities prompted by public law or DOT directives that could impact financial reporting objectives and cause revision to its accounting treatment. Additionally, MARAD management should design and implement processes to timely correct identified errors or account for changes in accounting policies.

Weakness in Controls Over Management Review and Approval of Journal Entries (NFR DOT-2021-02)

Background/Condition

Each of the DOT operating administrations (OAs) have Interagency Agreements with the ESC, in which the ESC receives supporting documentation for the journal entry from the OAs, prepares the journal voucher (JV), completes a peer review process before sending the JV to the OA for approval. Once the OA reviews and approves the JV, ESC posts the entry to the general ledger. 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 were not operating effectively to ensure manual journal entries posted by the ESC are complete and accurate. Specifically, we identified one journal entry that did not reflect the intended financial statement impact stated in the supporting documentation.

Recommendation

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

Ineffective Review and Validation of Inputs to the Subsidy Re-estimate Model (NFR DOT-2021-04)

Background/Condition

The Office of the Secretary (OST) manages the Transportation Infrastructure Finance and Innovation Act (TIFIA) programs, which provide direct loans, loan guarantees, and lines of credit for major transportation investments. In order to estimate the long-term costs of such loans, an estimate (technical re-estimate) is developed to determine the subsidy costs associated with the direct loans. In order to ensure that the data inputs used in the re-estimate model are complete and accurate, an internal review process is defined in the TIFIA Loan Subsidy Re-estimates Standard Operating Procedures (SOP).

As part of the internal review process related to the TIFIA technical re-estimates, controls to ensure the direct loan subsidy re-estimates are appropriately calculated based on valid inputs were not operating effectively. Specifically, we noted two re-estimates incorporated reductions in the total expected cashflows due to no further anticipated borrower disbursements; however, no documentation existed to support this assumption and one re-estimate incorporated a current year principal repayment that was not supported by documentation.

Recommendation

We recommend OST management obtain documentation from external borrowers to support the input assumption that the remaining loan value will not be disbursed and also maintain a documentation trail that includes support for each current year input in accordance with the TIFIA Loan Subsidy Re-estimates SOP.

U.S. Department of Transportation
Office of Inspector General

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