



U.S. DEPARTMENT OF TRANSPORTATION  
**OFFICE OF INSPECTOR GENERAL**

**Quality Control Review of the  
Management Letter for the Department  
of Transportation's Audited Consolidated  
Financial Statements for Fiscal Years 2017  
and 2016**

**OST**

Report No. QC2018023

February 12, 2018





## Quality Control Review of the Management Letter for the Department of Transportation's Audited Consolidated Financial Statements for Fiscal Years 2017 and 2016

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*Required by the Chief Financial Officer Act of 1990*

Office of the Secretary | QC2018023 | February 12, 2018

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### 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 2017 and 2016. In addition to its audit report on DOT's financial statements, KPMG issued a management letter that discusses two 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 two recommendations in its management letter. DOT concurred with both recommendations.

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# Contents

Memorandum	1
Our QCR	2
Summary of KPMG's Management Letter	2
Recommendations	3
<b>Attachment.</b> Independent Auditors' Management Letter	4



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## Memorandum

Date: February 12, 2018

Subject: INFORMATION: Quality Control Review of the Management Letter for the Department of Transportation's Audited Consolidated Financial Statements for Fiscal Years 2017 and 2016 | Report No. QC2018023

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

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

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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 2017 and 2016. KPMG LLP of Washington, D.C., 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 17-03, *Audit Requirements for Federal Financial Statements*. KPMG issued an auditor's report<sup>1</sup> that included a clean (unmodified) opinion on DOT's financial statements.

KPMG also issued, and is responsible for, a management letter, dated November 30, 2017 (see attached) identifying two 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) 366-1407, or George Banks, Program Director, at (202) 420-1116.

Attachment

cc: The Secretary  
DOT Audit Liaison, M-1

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<sup>1</sup> See *Quality Control Review of the Department of Transportation's Audited Consolidated Financial Statements for Fiscal Years 2017 and 2016* (OIG Report Number QC2018008), November 15, 2017.

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## Our QCR

We performed a QCR 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.

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## Summary of KPMG's Management Letter

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

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### **Weaknesses in Controls Over the Federal Transit Administration's (FTA) Grant Accrual Retrospective Review**

Controls in place over FTA's grant accrual retrospective review for the period ended September 30, 2016, were not properly designed and implemented to ensure the review was performed with the most relevant and reliable data. Specifically, for 487 grantees, FTA included negative accruals totaling \$176 million in the retrospective review. The negative accruals occurred when the Federal share of expenditures, reported by the grantee in the Federal Financial Report, were less than the cumulative disbursements.

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### **Weakness in the Federal Highway Administration's (FHWA) User Profile and Access Control System**

Controls were not operating effectively to ensure timely removal upon user termination of access to FHWA's User Profile and Access Control System (UPACS). Specifically, KPMG compared a listing of terminated employees and contractors to UPACS' active user listing as of June 30, 2017, and found that four employees and one contractor retained access after their termination dates.

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## Recommendations

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

1. FTA enhance its grant accrual retrospective review procedures to include a review and adjustment, if necessary, of grantee expenditures used in the retrospective review to ensure such data is relevant and reliable.
2. FHWA strengthen policies and procedures to ensure that terminated users' access is removed timely from UPACS and the application it supports, in accordance with the DOT Cybersecurity Compendium guidelines.

DOT officials concurred with KPMG's 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.

**Attachment.**

Independent Auditors' Management Letter



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

November 30, 2017

Secretary, U.S. Department of Transportation  
Inspector General, U.S. Department of Transportation

Ladies and Gentlemen:

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, 2017, 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 Office of Management and Budget (OMB) Bulletin No. 17-03, Audit Requirements for Federal Financial Statements, we considered 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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of DOT's internal control. Accordingly, we do not express an opinion on the effectiveness of DOT's internal control.

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. During our audit, we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of DOT management, are intended to improve internal control or result in other operating efficiencies. The topics covered in Exhibit I are: (A) *Financial Reporting* and (B) *Information Technology General and Application Controls*.

In addition, we identified certain deficiencies in internal control that we consider to be significant deficiencies, and communicated these in writing to DOT management and those charged with governance in our report on internal control over financial report within our *Independent Auditors' Report*, dated November 13, 2017.

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.

Our audit procedures are designed primarily to enable us to form an opinion on the consolidated financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of DOT's organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

This communication is intended solely for the information and use of management and others within the Department and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**KPMG LLP**

## **A. Financial Reporting**

### **Federal Transit Administration Grant Accrual Retrospective Review – DOT-2017-01**

#### ***Background/Condition***

The Federal Transit Administration (FTA) provides grants to states, local municipalities, and other entities for public transportation projects. On a monthly basis, FTA records a grant accrual for expenses incurred by the grantees but not yet requested for payment from FTA. The grant accrual is calculated using the following formula:

Grant Accrual = 1 year of disbursements \* (number of days in the billing cycle) /365

Management validates the reasonableness of the grant accrual estimation methodology by performing a retrospective review over the grant accrual for the periods ending June 30 and September 30. The retrospective review calculates an individual accrual for each grant by subtracting the Federal share of expenditures reported by the grantee on each grant project's Federal Financial Report (FFR) less cumulative disbursements for the project. The cumulative disbursements are obtained from TrAMS, FTA's grant award system. The total calculated individual grant accruals for each project is then compared to the estimated financial statement grant accrual for the related reporting period. FTA investigates variances over 10% and, if necessary, adjusts future accrual inputs and assumptions in the methodology.

Controls in place over the grant accrual retrospective review for the period ended September 30, 2016 were not properly designed and implemented to ensure the review was performed with the most relevant and reliable data. Specifically, we noted that for 487 grantees, FTA included negative accruals totaling \$176 million in the retrospective review. The negative accruals occurred when the federal share of expenditures reported by the grantee on the FFR were less than the cumulative disbursements.

#### ***Recommendation***

We recommend that FTA enhance its grant accrual retrospective review procedures to include a review, and adjustment, if necessary, of grantee expenditures used in the retrospective review to ensure such data is relevant and reliable.

## **B. Information Technology General and Application Controls**

### **Federal Highways Administration UPACS - Inactivate Terminated Employee – DOT-2017-FHWA-IT-02**

#### ***Background/Condition***

The Federal Highway Administration (FHWA) utilizes the User Profile and Access Control System (UPACS), an application that manages user access to the in-scope financial system for grants management, Financial Management Information System (FMIS5).

Controls are not operating effectively to ensure timely removal of UPACS access upon termination. Specifically, we compared a listing of FHWA terminated employees and contractors to the UPACS active user listing as of June 30, 2017 and noted 4 employees and 1 contractor retained access after their termination date.

***Recommendation***

We recommend FHWA strengthen policies and procedures to ensure that terminated users' access is removed timely from UPACS and the application it supports, in accordance with the DOT Cybersecurity Compendium guidelines.

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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.

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