Independent Auditors’ Management Letter on the Saint Lawrence Seaway Development Corporation’s Audited Financial Statements for Fiscal Years 2018 and 2017

Report No. FI2019042
March 27, 2019
Independent Auditors’ Management Letter for the Saint Lawrence Seaway Development Corporation’s Audited Financial Statements for Fiscal Years 2018 and 2017

Required by the Government Corporation Control Act of 1945

Saint Lawrence Seaway Development Corporation | FI2019042 | March 27, 2019

What We Looked At
In accordance with the Government Corporation Control Act of 1945, we audited the financial statements of the Saint Lawrence Seaway Development Corporation (SLSDC), a U.S. Government Corporation, as of and for the years ended September 30, 2018 and September 30, 2017. In addition to our audit report on SLSDC’s financial statements, we are issuing a management letter that discusses one internal control matter that we were not required to include in our report.

What We Found
We statistically sampled 30 inventory items as of June 30, 2018. We attempted to physically locate and confirm quantity levels or other units of measure, such as linear feet, for each inventory line item in our sample. We were able to reconcile our physical unit counts with SLSDC inventory records for 25 of our 30 sample items. We noted count differences for the remaining five line items.

Recommendations
We made two recommendations in our management letter. SLSDC concurred with both of our recommendations.

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For inquiries about this report, please contact our Office of Congressional and External Affairs at (202) 366-8751.
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Memorandum

Date: March 27, 2019

Subject: INFORMATION: Independent Auditors’ Management Letter for the Saint Lawrence Seaway Development Corporation’s Audited Financial Statements for Fiscal Years 2018 and 2017 | Report No. FI2019042

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

To: Saint Lawrence Seaway Development Corporation Administrator

In accordance with the Government Corporation Control Act of 1945, we audited the Saint Lawrence Seaway Development Corporation’s (SLSDC) financial statements for the year ended September 30, 2018 and 2017, and issued our audit report dated November 13, 2018. We conducted this audit in accordance with generally accepted Government auditing standards. These standards required that we consider SLSDC’s internal control over financial reporting as a basis for designing audit procedures appropriate to the circumstances and for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the SLSDC’s internal control over financial reporting. Accordingly, we did not express an opinion on the SLSDC’s internal control over financial reporting.

We identified one significant deficiency pertaining to controls over property, plant, and equipment that, as required by standards, we included in our audit report. We identified another deficiency in internal control pertaining to inventory. We did not consider this matter to be a significant deficiency or a

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1 31 U.S.C. §§ 9101 through 9110
3 A significant deficiency is comprised of a deficiency or a combination of deficiencies in internal control over financial reporting that is less severe than a material weakness but important enough to merit attention by those charged with governance.
4 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.
material weakness. Accordingly, we did not include it in our audit report. However, we believe it should be addressed, and are therefore issuing this management letter and making two recommendations.

Because our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control, it is possible that deficiencies, including significant ones and material weaknesses, may exist that were not identified. Furthermore, this management letter is only intended to describe the deficiency pertaining to inventory and is not suitable for any other purpose.

If you have any questions, please contact me at 202-366-1407, or George Banks, Program Director, at 202-420-1116,

cc: The Secretary
DOT Audit Liaison, M-1
SLSDC Audit Liaison

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5 A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting that creates a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, in a timely manner.
Financial Reporting Deficiency: Inventory Count Discrepancies

According to SLSDC, its inventories consist primarily of supplies that are consumed in operations. SLSDC uses EPAC, a commercial software package, to manage inventory. The Government Accountability Office’s (GAO) *Standards for Internal Controls in the Federal Government* (Federal Control Standards) states that management establishes physical control to secure and safeguard vulnerable assets. Examples include security for and limited access to assets such as inventories. The Federal Control Standards further state that management should periodically count and compare such assets to control records.

We statistically sampled 30 inventory line items recorded in EPAC as of June 30, 2018. We attempted to physically locate and confirm quantity levels or other units of measure, such as linear feet, for each inventory line item in our sample. For 25 of the 30 line items, we were able to reconcile our physical unit counts with SLSDC inventory records. We noted count discrepancies for the remaining five line items. SLSDC could not explain one of the discrepancies. The remaining four were due to system issues, a misclassification, and a data entry error. Based on our statistical sample, we estimate that inventory is understated by $3,088.93 or 0.3 percent. Our $3,088.93 estimate has a 100-percent lower confidence limit of $2,820.16 and a 90-percent upper confidence limit of $15,454.67.

Recommendations

We recommend the Saint Lawrence Seaway Development Corporation Administrator:

1. Provide training to warehouse staff to reinforce the proper procedures for processing and recording inventory transactions.

2. Continue to work with the service provider to correct system deficiencies that are causing processing errors for returned items.

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Agency Comments and OIG Response

On October 29, 2018, SLSDC concurred with our recommendations and stated that corrective actions were completed.

Actions Required

We consider both recommendations resolved but open pending our review of documentation that supports the completion of the actions.
**Exhibit.** List of Acronyms

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<thead>
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<th>Acronym</th>
<th>Description</th>
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<td>DOT</td>
<td>U.S. Department of Transportation</td>
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<tr>
<td>OIG</td>
<td>Office of Inspector General</td>
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<td>SLSDC</td>
<td>Saint Lawrence Seaway Development Corporation</td>
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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.