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

DOT

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January 31, 2024

Quality Control Review of the Management Letter for the Department of Transportation's Audited Consolidated Financial Statements for Fiscal Years 2023 and 2022

U.S. Department of Transportation
Office of Inspector General

Highlights

Quality Control Review of the Management Letter for the Department of Transportation's Audited Consolidated Financial Statements for Fiscal Years 2023 and 2022

Required by Chief Financial Officers Act of 1990

Department of Transportation | QC2024016 | January 31, 2024

What We Looked At

This report presents the results of our quality control review 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 2023 and 2022. The management letter discusses four internal control matters that KPMG was not required to include in its audit report.

What We Found

Our quality control review 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.

Contents

U. S. Department of Transportation
Office of Inspector General

Memorandum

Date: January 31, 2024

Subject: INFORMATION: Quality Control Review of the Management Letter for the Department of Transportation's Audited Consolidated Financial Statements for Fiscal Years 2023 and 2022 | Report No. QC2024016

From: Dormayne "Dory" Dillard-Christian
Assistant Inspector General for Financial Audits

D. Dillard-Christian

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 2023 and 2022. 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 24-01, *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, 2023, (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 or Ingrid Harris, Program Director.

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 2023 and 2022* (OIG Report No. QC2024007), November 15, 2023. OIG reports are available on our website at http://www.oig.dot.gov.

Summary of KPMG’s Management Letter

In its management letter, KPMG reported the following matters regarding DOT’s entity level controls and business process controls that require management’s attention.

Entity Level Controls

Office of the Secretary’s Weaknesses in Entity Level Controls

The DOT Office of the Chief Information Officer (OCIO) was unable to update the DOT Cybersecurity Compendium to include two missing National Institute of Standards and Technology (NIST) controls for moderate-impact systems as required by NIST or to ensure tailoring and rational decisions were documented for their removal. Further, OCIO did not define and document control tailoring requirements for the Department and components when controls deviate from NIST or Agency requirements.

Business Process Controls

KPMG found control weaknesses in the Enterprise Services Center’s (ESC) documentation of journal vouchers; ESC’s maintenance and review of the journal voucher control log; and Maritime Administration’s (MARAD) controls over property, plant, and equipment (PP&E) activity and balances.

ESC’s Weakness in Controls Over Documenting Journal Vouchers

ESC’s controls were not operating effectively to ensure that it was documenting the appropriate segregation of duties in accordance with policy. Specifically, KPMG identified one journal voucher in which the poster did not sign the journal voucher coversheet at the time of posting. In addition, controls were not operating effectively to validate if the journal voucher was consistent with the supporting documentation in accordance with policy. Specifically, KPMG identified two journal vouchers in which the supporting documentation referenced a trading partner that was not included within the corresponding attribute field in the approved journal voucher.

ESC’s Weakness in Controls Over the Maintenance and Review of Journal Voucher Control Log

ESC’s controls were not designed effectively to ensure that it documented and remediated discrepancies identified in the journal voucher control logs in accordance with policy. Specifically, KPMG identified a duplicate journal voucher control number in one control log which ESC used when the journal voucher was posted to the financial system. Additionally, KPMG identified two instances in which the Operating Administration approver listed on the control log was not consistent with the approver who signed the journal voucher coversheet.

MARAD’s Weaknesses in Controls Over PP&E Activity and Balances

MARAD’s controls are not designed and implemented to ensure PP&E activity and balances recorded in the subledger reconciles with the general ledger prior to the reporting of PP&E activity in the notes to the financial statements. Specifically, KPMG identified assets that were improperly classified as equipment that resulted in a disclosure misstatement between two major classes of assets. In addition, KPMG found that management does not perform an accurate roll forward of activity in the PP&E accounts.

Recommendations

To strengthen DOT’s entity level controls and business process controls, KPMG recommended that:

1. DOT OCIO management revise the website containing the policy documentation to ensure all documents are consistent and contain the same listing of required controls for moderate-impact systems.
2. DOT OCIO management should document any Departmentwide tailoring decisions within the appropriate security documentation, as required by NIST.
3. DOT OCIO management should define and document control tailoring requirements for the Department and Operating Administrations.
4. ESC management enforce its existing policy and provide additional training to personnel involved in the manual journal voucher process, specifically the appropriate timing and documentation related to segregation of duties in addition to reviewing each journal voucher to ensure its completeness and consistency with the supporting documentation.

5. ESC management review and update the journal voucher control log reconciliation process to ensure it is properly designed to identify all potential deviations from policy throughout the fiscal year.

6. ESC management create monitoring procedures over the journal voucher control log to ensure complete and accurate documentation over manual journal vouchers is maintained.

7. MARAD management, in conjunction with their accounting service provider, ESC, develop a PP&E roll forward control that contains all activity within the relevant PP&E accounts by disclosure category, including additions, annual cost adjustments, year to date depreciation, capitalizations from construction in progress to other categories, and retirements.

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 of KPMG’s management letter and related documentation. Our quality control review 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
NIST	National Institute of Standards and Technology
OCIO	Office of the Chief Information Officer
OIG	Office of Inspector General
PP&E	property, plant & equipment

Attachment. Independent Auditors' Management Letter

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

November 30, 2023

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 consolidated financial statements of the U.S. Department of Transportation (DOT) as of and for the year ended September 30, 2023, 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 the Office of Management and Budget (OMB) Bulletin No. 24-01, *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, 2023 on our consideration of the Company'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 deficiencies in internal control related to entity level 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.

This 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. Entity Level Controls

Weaknesses exist in Entity Level Controls (NFR DOT-2023-OCIO-IT-01)

Background/Condition

The Office of the Chief Information Officer (OCIO) developed the Departmental Cybersecurity Compendium, supplement to DOT Order 1351.77 Departmental Cybersecurity Policy. The policy was last updated in March 2018. The Departmental Cybersecurity Policy guidance is required to be implemented by all operating administrations within DOT.

During Fiscal Year (FY) 2023, The DOT Office of the CIO (OCIO) was unable to update the DOT Cybersecurity Compendium to include two missing National Institute of Standards and Technology (NIST) controls for moderate-impact systems, specifically, control System and Communications Protection (SC) Process Isolation SC-39, and control enhancement Contingency Planning (CP) Contingency Plan CP-2(8) as required by NIST or ensure tailoring and rational decisions were documented for their removal. Further, the OCIO did not define and document control tailoring requirements for the Department and components when controls deviate from NIST or Agency requirements.

Recommendations

We recommend the OCIO:

1. Revise the website containing the policy documentation to ensure all documents are consistent and contain the same listing of required controls for moderate-impact systems.

2. Additionally, the OCIO should document any Department-wide tailoring decisions within the appropriate security documentation, as required by NIST.

3. Finally, the OCIO should define and document control tailoring requirements for the Department and Operating Adminstrations (OAs).

B. Business Process Controls

Weakness in Controls Over Documenting Journal Vouchers (NFR DOT-2023-02)

Background/Condition

Each of the DOT operating administrations (OAs) have Interagency Agreements with the Enterprise Service Center (ESC), in which the ESC prepares, approves, and posts various journal vouchers (JV) for the OAs. ESC policy requires that all such entries go through an appropriate level of review and each step is performed by a different individual. Approvers review each journal voucher to ensure that the entry is appropriate. This review includes ensuring the entry is complete, accurate, and supported by adequate documentation. Approvers and posters are required to sign the related JV Coversheet at the time of their involvement to evidence the appropriate segregation of duties occurs.

Controls were not operating effectively to:

a. Ensure the appropriate segregation of duties is documented in accordance with policy. Specifically, we identified one journal voucher in which the AMK-330 poster did not sign the JV Coversheet at the time of posting.

b. Validate the journal voucher is consistent with the supporting documentation in accordance with policy. Specifically, we identified two journal vouchers in which the supporting documentation referenced a trading partner that was not included within the corresponding attribute field in the approved journal voucher.

Recommendation

We recommend that the ESC enforce its existing policy and provide additional training to personnel involved in the manual JV process, specifically the appropriate timing and documentation related to segregation of duties in addition to reviewing each JV to ensure its completeness and consistency with the supporting documentation.

Weakness in Controls Over the Maintenance and Review of the JV Control Log (NFR DOT-2023-03)

Background/Condition

The Enterprise Services Center AMK section managers perform a monthly review of the journal voucher control log of all manual journal entries posted by ESC. During this review the monthly control log is compared to a complete listing of JV batch names posted during the same period. The control operator will identify and resolve any variance identified during the performance of the control, including instances where JVs per the control log are excluded from the financial system, manual journal entries in the financial system are excluded from the control log, and duplicate sequential JV control numbers are used.

Controls were not designed effectively to ensure that discrepancies are identified in the JV Control Logs and are documented and remediated in accordance with policy. Specifically, we identified a duplicate JV control number in one JV Control Log and these duplicate JV numbers were subsequently used when the JV was posted to the financial system. Additionally, we identified 2 instances in which the OA Approver per the Control Log was not consistent with the approver who signed the JV Coversheet.

Recommendations

We recommend that ESC:

1. Review and update the JV Control Log reconciliation process to ensure it is properly designed to identify all potential deviations from policy throughout the fiscal year.

2. Create monitoring procedures over the JV Control Log to ensure complete and accurate documentation over manual JVs is maintained.

Weaknesses in Controls Over MARAD PP&E Activity and Balances (NFR DOT-2023-04)

Background/Condition

The Maritime Administration (MARAD) maintains the second largest portion of the DOT's property, plant, and equipment (PPE). In order to ensure the PPE balances disclosed in DOT's financial statements are complete and accurate, MARAD periodically performs procedures to validate that the fixed asset subsidiary ledger agrees to the general ledger. To complete these procedures, MARAD utilizes the 600a and 600b schedules that are manually prepared by an ESC Fixed Asset Accountant. The 600a report is the cumulative asset listing, which MARAD uses as a rollforward. The information on the report is manually updated by the Fixed Asset accountant each month and should agree with the Fixed Asset subledger. The 600b report uses pivot tables of the 600a report and the trial balance to verify the Fixed Asset subledger and the general ledger tie. These reports are used to verify each category of PPE agrees between the subledger to the general ledger.

Controls are not designed and implemented to ensure property, plant, and equipment activity and balances recorded in the subledger reconcile with the general ledger prior to the reporting of PPE activity in the notes to the financial statements.

We identified assets that were improperly classified as 'Equipment' that should have been classified as 'National Defense Reserve Fleet Ships', resulting in a disclosure misstatement between two major classes of assets of $85 million as of 9/30/2022. This misclassification was corrected during FY2023.

We also found that management does not perform an accurate rollforward of activity in the PPE accounts. The Original Cost, Additions, and Cost Adjustment columns on the rollforward are used to calculate the Acquisition Value of each asset category. This Acquisition Value is then disclosed in the PPE note. In review of management's rollforward, we found:

- Assets placed in service during FY23 were included in 'Original Cost' but should be included in 'Additions', resulting in a $298 million understatement of current year additions.
- Assets placed in service prior to FY23 were included in 'Additions' but should be included in 'Original Cost', resulting in an $87 million overstatement to additions.
- Capitalized vessels and buildings included 'Cost Adjustments' from FY22 and FY23, but should only include the FY23 adjustments, resulting in a $192 million overstatement to current year cost adjustments.
- The 600a cumulative schedule used by management for the rollforward does not present all activity within the PPE accounts. Specifically, amounts capitalized from Construction in Process (CIP) to other categories (e.g. equipment, buildings, etc.) is not displayed in the schedule.
- The information contained in the schedule does not allow for the beginning balance of each asset class to be recalculated.

These observations were made as of 6/30/2023. The 9/30/2023 PPE footnote disclosure was not materially misstated.

Recommendation

We recommend MARAD management, in conjunction with their accounting service provider, ESC, develop a PPE rollforward control that contains all activity within the relevant PPE accounts by disclosure category, including additions, annual cost adjustments, year to date depreciation, capitalizations from CIP to other categories, and retirements.

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