



Report QC2024013  
January 22, 2024

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# Quality Control Review of the Management Letter for the Surface Transportation Board's Audited Financial Statements for Fiscal Years 2023 and 2022



## Quality Control Review of the Management Letter for the Surface Transportation Board's Audited Financial Statements for Fiscal Years 2023 and 2022

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*Required by the Accountability of Tax Dollars Act of 2002*

QC2024013 | January 22, 2024

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### What We Looked At

This report represents the results of our quality control review (QCR) of Allmond & Company, LLC's (Allmond) management letter regarding the audit conducted, under contract with us, of the Surface Transportation Board's (STB) financial statements as of and for the fiscal years ended September 30, 2023, and September 30, 2022. The management letter discusses internal control matters that Allmond was not required to include in its report on the audit of STB's financial statements.

### What We Found

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

### Our Recommendations

Allmond made three recommendations in its management letter. STB concurred with all three recommendations.



U. S. Department of Transportation  
**Office of Inspector General**

January 22, 2024

The Honorable Martin J. Oberman  
Chairman, Surface Transportation Board  
395 E Street SW  
Washington, DC 20423

Dear Chairman Oberman:

I am pleased to transmit the attached management letter related to the audit of the Surface Transportation Board's (STB) financial statements as of and for the fiscal years ended September 30, 2023, and September 30, 2022. Allmond & Company, LLC (Allmond) completed the audit under contract with us. The contract required Allmond to perform the audit in accordance with generally accepted Government auditing standards and the Office of Management and Budget's Bulletin 24-01, *Audit Requirements for Federal Financial Statements*. Allmond issued an auditor's report that included a clean (unmodified) opinion on STB's financial statements.<sup>1</sup>

Allmond also issued, and is responsible for, a management letter, dated November 6, 2023 (see enclosure), identifying one internal control matter that requires STB management's attention. Allmond was not required to include this matter or the related recommendations in its auditor's report.

We performed a quality control review (QCR) of the letter and related audit documentation.

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## Independent Auditor's Management Letter

In its management letter, Allmond reported the following matter involving STB's internal controls and operations that requires management's attention.

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<sup>1</sup> *Quality Control Review of the Independent Auditor's Report on the Surface Transportation Board's Audited Financial Statements for Fiscal Years 2023 and 2022* (OIG Report No. QC2024004), November 14, 2023. OIG reports can be found on our website at <https://www.oig.dot.gov>.

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## Federal Employees Health Benefits (FEHB) Program Premiums Were Taxed in Error

Allmond found that STB entered an employee's FEHB information incorrectly into the payroll system, and STB did not detect the error during the onboarding process prior to submission. As a result, STB's payroll expenses and related liabilities were overstated, and incorrect amounts were withheld from the employee's pay for Old-Age, Survivors and Disability Insurance, Medicare, and other taxes.

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## Recommendations

Allmond made the following three recommendations to help strengthen STB's internal controls:

1. STB should research the impacted employee's payroll records to confirm the error and determine why the error occurred. Appropriate action should be taken to identify any other affected employees and to correct the root cause of the error.
2. STB should enforce standard operating procedures to require a second Human Resources Specialist or the Human Resources Director to review all employee transfer and onboarding documents to ensure that the documentation is complete and agrees with the information that was entered into the payroll and personnel system before the information is submitted to the payroll service provider.
3. STB should perform and document its assessment of the recoverability of excess taxes that were paid in error by the agency in matching Old-Age, Survivors and Disability Insurance and Medicare contributions and the conclusion that was reached.

STB officials concurred with these recommendations and committed to implementing corrective actions.

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## Quality Control Review

Our QCR disclosed no instances in which Allmond did not comply, in all material respects, with generally accepted Government auditing standards.

We appreciate the cooperation and assistance of STB's representatives and Allmond. If you have any questions about this report, please contact me or Ingrid Harris, Program Director.

Sincerely,

A handwritten signature in black ink, reading "D. Dillard-Christian". The signature is fluid and cursive, with the first name "D." and last name "Dillard-Christian" clearly visible.

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

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**Enclosure.** Independent Auditor's Management Letter

**SURFACE TRANSPORTATION BOARD  
MANAGEMENT LETTER REPORT  
SEPTEMBER 30, 2023**



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**MANAGEMENT LETTER REPORT**

Chairman, Surface Transportation Board  
Inspector General, U.S. Department of Transportation

We audited the Surface Transportation Board (STB) financial statements as of September 30, 2023 and 2022 and for the years then ended and issued our report dated November 6, 2023 under separate cover.

In planning and performing our audit, we considered STB's internal controls to determine auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal controls. Though not considered to be a material weakness or significant deficiency, we noted an additional matter involving internal control that is presented in this letter for STB management's attention and consideration. Exhibit I presents the status of prior year findings and recommendations.

The purpose of this report is solely for the information and use of STB management. We appreciate your assistance and cooperation during the audit and look forward to serving you in the near future.

Sincerely,

*Allmond & Company, LLC*

Lanham, MD  
November 6, 2023



Allmond & Company audited the balance sheets of the Surface Transportation Board (STB) as of September 30, 2023 and 2022 and the related statements of net cost, changes in net position, budgetary resources, and custodial activity for the years then ended (the financial statements). We noted one additional matter involving STB's internal controls and/or operations that we believe warrants management's attention; however, this issue was not considered to be a significant deficiency nor a material weakness.

Under standards issued by the American Institute of Certified Public Accountants, 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 to detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit the attention by those charged with governance. There were three significant deficiencies identified during our audit of STB's fiscal year (FY) 2023 financial statements. These matters were included in the FY 2023 Independent Auditor's Report; there were no material weaknesses identified during the FY 2023 audit.

We noted the following control deficiencies during our audit:

1. Federal Employees Health Benefits (FEHB) Program Premiums Were Included in Old-Age, Survivors, and Disability Insurance (OASDI) and Medicare Taxes in Error

The condition for this finding is discussed in detail below:

#### **FINDING 1: Federal Employees Health Benefits (FEHB) Program Premiums Were Included in OASDI and Medicare Taxes in Error**

##### **CONDITION**

Internal controls over the computation and deduction of Old-Age, Survivors, and Disability Insurance (OASDI) and Medicare taxes are not sufficiently designed to prevent, detect, or correct errors in employees' payroll records.

During our review of 113 payroll transactions (93 employees) selected from the population of all employees who were paid during the period of October 1, 2022 through September 30, 2023, we identified the following condition:

- Two (2) instances for the same employee in which the employee's Federal Employees Health Benefits (FEHB) premiums were not deducted from taxable gross pay and were therefore taxed in error.

##### **CRITERIA**

Internal Revenue Code (IRC) § 125 – Cafeteria Plans – Modification of Application of Rule Prohibiting Deferred Compensation Under a Cafeteria Plan, states, “A cafeteria plan is defined in § 125(d)(1) as a written plan maintained by an employer under which all participants are employees, and the participants may choose among two or more benefits consisting of cash and qualified benefits. Section 125(f) defines a “qualified benefit” as any benefit which, with the application of § 125(a), is not includable in the gross income of the employee by reason of an express provision of Chapter I of the Internal Revenue Code (other

than §§ 106(b), 117, 127 or 132). Qualified benefits include employer-provided accident and health plans excludable from gross income under §§ 106 and 105(b), group-term life insurance excludable under § 79, dependent care assistance programs excludable under § 129 and adoption assistance programs excludable under § 137.”

The Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government*, Principle 10.01: Design Control Activities, states, “Management should design control activities to achieve objectives and respond to risks. The following attributes contribute to the design, implementation, and operating effectiveness of this principle:

- Response to Objectives and Risks
- Design of Appropriate Types of Control Activities
- Design of Control Activities at Various Levels
- Segregation of Duties.”

### **CAUSE**

- The affected STB employee’s information was entered incorrectly into the payroll system during the onboarding process and the error was not detected by another Human Resources Specialist or a supervisor prior to submission.
- A signed waiver is required for an employee to opt-out of the default option (i.e., pre-tax status). There was no control in place to prevent or to detect and correct a change from pre-tax to taxable status without the receipt of a signed waiver.

### **EFFECT**

- Overstatement of the agency’s payroll expense and related liabilities; in addition, incorrect amounts were withheld from the employee’s pay for OASDI, Medicare, and other taxes.
- Potential noncompliance with the Internal Revenue Code and Social Security Administration laws and regulations relating to the calculation, withholding, and employer contributions of employees’ OASDI and Medicare taxes.

### **RECOMMENDATION**

We recommend that:

- STB should research the impacted employee’s payroll records to confirm the error and determine why the error occurred. Appropriate action should then be taken to identify any other affected employees and to correct the root cause of the error.
- STB should enforce standard operating procedures to require a second Human Resources Specialist or the Human Resources Director to review all employee transfer and onboarding documents to ensure that the documentation is complete and agrees with the information that was entered into the payroll and personnel system before the information is submitted to the payroll service provider.
- Perform and document STB’s assessment of the recoverability of excess taxes that were paid in error by the agency in matching OASDI and Medicare contributions and the conclusion that was reached.

**MANAGEMENT RESPONSE**

Management concurs with the condition and will consider the recommendation provided when determining if a corrective action plan should be developed once the audit concludes.

***General Comments***

Human Resources (HR) will address recommendations in Fiscal Year (FY) 2024.

**AUDITOR'S RESPONSE**

We will conduct follow-up procedures in FY 2024 to determine whether corrective actions have been developed and implemented.

The following table provides the fiscal year (FY) 2023 status of all recommendations included in the Management Letter Report on the STB's FY 2022 and FY 2021 Financial Statements (November 6, 2022).

Finding	Finding Year	Recommendation	FY 2023 Status
Leave Carryover Balances Were Not Properly Calculated or Reviewed (2022-03)	FY 2022	<p><b>Recommendations:</b></p> <p>Improve controls relating to the transfer and maintenance of employees' personnel records relating to annual leave carryover balances to ensure accuracy and compliance with regulatory requirements.</p> <p>Specifically, we recommended that management:</p> <ol style="list-style-type: none"> <li>1. STB perform a review of all employees' leave balances to ensure they are accurate and comply with 5 U.S.C. § 6304 requirements.</li> <li>2. STB work with its payroll service provider to determine and address the cause of the error.</li> <li>3. STB perform a review of the identified employee's leave balances (i.e., beginning balance, leave accrued/taken, and ending balance) for each year since the error first occurred in order to recalculate the employee's corrected leave balance.</li> </ol>	<p>Open</p> <p>Open</p> <p>Open</p>
Improvements Needed in Internal Controls Relating to Property Additions (2022-04)	FY 2022	<p>Improve controls relating to the valuation and classification of capitalized assets.</p> <p>Specifically, we recommended that management:</p> <ol style="list-style-type: none"> <li>1. Record all equipment purchases that meet its capitalization thresholds as capitalized assets. If the acquired property is not ready to be placed into service, then that property should be classified as Construction in Progress or Other General Property, Plant and Equipment, depending on the circumstances that apply to the purchased items at that time.</li> <li>2. Regularly assess all capitalized property and identify assets that require reclassification, such as when assets are being placed into, or taken out of, service.</li> <li>3. Update the reporting and property management policies and procedures to include the recording of new capitalized purchases in accordance with generally accepted accounting principles.</li> </ol>	<p>Open</p> <p>Open</p> <p>Open</p>

Lack of Sufficient Internal Control Over Financial Reporting Relating to Upward and Downward Adjustments of Prior Year Obligations (2021-03)	FY 2021	<p>Improve controls relating to recording of upward and downward adjustments of prior year obligations in order to identify and eliminate offsetting entries.</p> <p>Specifically, we recommended that management:</p> <ol style="list-style-type: none"> <li>1. Work with the service provider to identify, at least quarterly, upward adjustments that have been offset by downward adjustments in the general ledger or perform an independent review of the general ledger activity of both accounts so that manual adjustments can be recorded to properly state the ending balances of both accounts, if needed.</li> <li>2. Design and implement policies and procedures which enhance the internal review process for upward and downward adjustment transactions and include a reconciliation of the undelivered orders (UDO) balances with the supporting documentation to ensure that transactions have been recorded correctly.</li> </ol>	<p>Open</p> <p>Open</p>
Improvement Needed in the Review and Approval of Journal Vouchers (2021-04)	FY 2021	<p>Improve controls relating to the preparation and review of journal vouchers and other adjusting entries to the general ledger.</p> <p>Specifically, we recommended that management:</p> <ol style="list-style-type: none"> <li>1. STB should amend its existing policy regarding the review and approval of journal vouchers to include a review of all non-reversing entries recorded during the fiscal year and a review of all year-end journal vouchers before they are recorded in the agency's general ledger.</li> </ol>	Open

U.S. Department of Transportation  
Office of Inspector General

# Fraud & Safety Hotline

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(800) 424-9071

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