



**DOT**

Report QC2025015  
January 29, 2025

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Quality Control Review of the Management Letter for the Department of Transportation’s Audited Consolidated Financial Statements for Fiscal Years 2024 and 2023



# Highlights

## Quality Control Review of the Management Letter for the Department of Transportation's Audited Consolidated Financial Statements for Fiscal Years 2024 and 2023

*Mandated by the Chief Financial Officers Act of 1990*

### Our Objective(s)

To perform a quality control review (QCR) of KPMG LLP's management letter related to the audit of DOT's consolidated financial statements as of and for the fiscal years ended September 30, 2024, and September 30, 2023. We reviewed KPMG's management letter, dated November 27, 2024, and related documentation.

### About This Report

We contracted with the independent public accounting firm KPMG, LLP, to audit DOT's consolidated financial statements. KPMG also issued a management letter discussing internal control matters that KPMG was not required to include in its audit report.

### What We Found

The independent auditor, KPMG, found six internal control matters in DOT's management of operations.

- Federal Highway Administration's (FHWA) weaknesses within the user profile system change management process.
- FHWA's weakness in accounting policies for Federal Lands Highway construction.
- Enterprise Services Center's (ESC) weakness in control over Central Accounting Reporting System Classification, Transactions, and Accountability module reconciliation.
- ESC's weakness in control over quarterly review of the journal voucher control log.
- OST's weakness in control over management legal schedule and management legal letter.
- FHWA's weaknesses in controls over the inputs to the Federal aid grant accrual.

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



# 11

We agree with KPMG's 11 recommendations to strengthen DOT's information system and business process controls.

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## Memorandum

Date: January 29, 2025

Subject: INFORMATION: Quality Control Review of the Management Letter on the Department of Transportation's Audited Consolidated Financial Statements for Fiscal Years 2024 and 2023 | Report No. QC2025015

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

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

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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 2024 and 2023. 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 24-02, Audit Requirements for Federal Financial Statements. KPMG issued an auditors' 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 27, 2024 (see attachment), identifying six 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 performed a quality control review (QCR) of the letter and related audit documentation.

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

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<sup>1</sup> See *Quality Control Review of the Independent Auditors' Report on the Department of Transportation's Audited Consolidated Financial Statements for Fiscal Years 2024 and 2023* (OIG Report No. QC2025010), November 15, 2024. OIG reports are available on our website at <http://www.oig.dot.gov>.

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# Summary of KPMG's Management Letter

In its management letter, KPMG reported the following matters regarding DOT's general information technology controls and business process controls that require management's attention.

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## General Information Technology Controls

### **Federal Highway Administration's (FHWA) Weaknesses Within the User Profile System Change Management Process**

FHWA's control over the user access system application change management process was not operating effectively during fiscal year 2024. Specifically, for one of the five changes selected for testing, management could not provide the testing documentation required by the FHWA Configuration and Change Management Process. Additionally, for two of the five changes selected for testing, program change testing was not approved and change authorizations were not obtained as required by the Configuration and Change Management Process policy.

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## Business Process Controls

KPMG found control weaknesses in FHWA's accounting policies for Federal lands highway construction, Enterprise Services Center's (ESC) reconciliation procedures, ESC's review of the journal voucher control log, Office of Secretary's (OST) review of management schedule and legal letter, and FHWA controls over Federal Aid grant accrual.

### **FHWA's Weakness in Accounting Policies for Federal Lands Highway Construction**

FHWA's controls were not designed and implemented to ensure that appropriate accounting policies and procedures were in place over the Federal Lands Highway (FLH) construction of non-heritage fixed assets on behalf of Federal land management agency (FLMA) partners. Specifically, the FHWA accounting policies and procedures resulted in the recognition of expenses for the construction of non-heritage highway and bridge projects on Federal lands, instead of the necessary capitalization as construction-in-progress and subsequent transfer-out of the completed capital asset to the FLMA.

### **ESC's Weakness in Control Over Central Accounting Reporting System Classification, Transactions, and Accountability Module Reconciliation**

ESC management's Classification Transactions, and Accountability (CTA) reconciliation control was not designed effectively to ensure that the populations used in reconciliations were complete and accurate, and adequately considered cut-off risks. Specifically, KPMG identified differences in the March 2024 CTA Reconciliation's for the FHWA and the Federal Aviation Administration that were not identified by management related to the completeness of the populations used within the reconciliations, as well as exclusion of certain transactions for the corresponding time period. In addition, KPMG noted that ESC management's control does not include the Treasury-prescribed reconciliation at the Business Event Type Code (BETC) level.

### **ESC's Weakness in Control Over Quarterly Review of the Journal Voucher Control Log**

ESC's controls were not designed effectively to ensure that all journal entries have been recorded and all journal entries have been reviewed and approved with the appropriate segregation of duties. Specifically, KPMG identified a control gap for the risk that an entry is recorded to the general ledger that is not subject to the review and approval controls or a journal entry is requested and is not posted to the general ledger.

### **OST's Weakness in Control Over Management Legal Schedule and Management Legal Letter**

OST's control was not operating effectively at interim to ensure the complete and accurate reporting of legal liabilities. Specifically, KPMG noted that: (1) the number of probable or reasonably possible pending matters on the interim DOT consolidated Legal Letter did not agree to the relevant Operating Administration letter for one Operating Administration, (2) the interim DOT consolidated Legal Letter included the incorrect lower or upper threshold of potential loss for two Operating Administrations when compared to the individual Operating Administration legal letters, (3) the interim DOT consolidated Legal Letter incorrectly included cases with a remote chance of loss in one Operating Administration's range of potential losses, (4) the potential losses per the interim DOT consolidated Legal Letter did not agree to the DOT consolidated Management Schedule, and (5) cases that were closed in the current year and no longer applicable, were included in management's summary of the interim DOT consolidated Legal Letter as well as the Management Schedule.

## FHWA's Weaknesses in Controls Over the Inputs to the Federal Aid Grant Accrual

In fiscal year 2023, FHWA did not identify a need for changes in their grant accrual assumptions or method in response to the increase in grant expenses, as well as the significant variance identified in their fiscal year 2023 quarter 3 Grant Accrual lookback analysis.

In fiscal year 2024, FHWA performed additional analysis over historical spending data, and introduced a year-end adjustment for individual states with a trend of large lookback variances. KPMG noted that while this change improves the accuracy of the grant accrual estimate, it does not fully address the root cause of the condition to account for potential future fluctuations in expenses within their methodology.

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## Recommendations

To strengthen DOT's general information technology controls and business process controls, KPMG recommended that:

1. FHWA management clearly and consistently communicate change management requirements per the FHWA Configuration and Change Management Process policy to the control operators.
2. FHWA management review and update accounting policies and operating procedures to capitalize costs for the construction and procurement of non-heritage fixed assets on behalf of FLH's FLMA partners.
3. FHWA management establish and maintain communications channels with FLMA partners of other ongoing projects and establish protocols for communicating asset-level detail for projects required by each agency's property accountants.
4. FHWA management complete performance of an assessment of costs expensed for completed fixed asset construction projects to determine materiality and record remaining correcting accounting entries as needed.
5. ESC enhance the design of the CTA control procedures to ensure that all information used in the reconciliations are complete and accurate, including adequate consideration of transactions that may impact period-end financial reporting.
6. ESC document in its Standard Operating Procedure and communicate clearly defined objectives and requirements related to compliance with

the Treasury requirement to reconcile all pertinent activity at the BETC level.

7. ESC perform a review of the population of journal entries prior to the finalization of quarterly financials to ensure the complete population of journal entries was subject to the approval control during the period.
8. ESC perform a review of the population of journal entries prior to the finalization of quarterly financials to ensure all journal entries were recorded.
9. OST establish (or revise), communicate, and enforce an internal timeline, inclusive of a deadline(s) for when Operating Administrations need to provide their respective information to OST-B30 and the General Counsel office, that allows for sufficient time to gather, review, and draft the consolidated Legal Letter and Management Schedule.
10. OST perform a more robust review in completing the consolidated Legal Letter and Management Schedule to ensure the process/control is performed accurately and completely.
11. FHWA management develop an estimation methodology responsive to fluctuations in future expenses.

DOT officials concurred with KPMG's 11 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. We agree with KPMG's recommendations to strengthen DOT's information system and business process controls and are not making any additional recommendations.

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## 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.



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## Exhibit. List of Acronyms

BETC	Business Event Type Code
CTA	Classification Transactions, and Accountability
DOT	Department of Transportation
ESC	Enterprise Services Center
FHWA	Federal Highway Administration
FLH	Federal Lands Highway
FLMA	Federal Land Management Agency
OIG	Office of Inspector General
OST	Office of the Secretary of Transportation
QCR	Quality Control Review

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



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

November 27, 2024

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 U.S. Department of Transportation (Department/DOT) as of and for the year ended September 30, 2024, 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. 24-02, *Audit Requirements for Federal Financial Statements*, we considered the Department'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 Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department'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, 2024 on our consideration of the Department's internal control over financial reporting in which we communicated certain deficiencies in internal control that we consider to be a significant deficiency.

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 deficiency noted above, we identified the following deficiencies in internal control related to general information technical 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. General Information Technology Controls**

### **Weaknesses Exist within the User Profile System Change Management Process (DOT-2024-FHWA-IT-04)**

#### *Background/Condition*

The Federal Highway Administration (FHWA) utilizes Information Technology Shared Services (ITSS) to provide various control environment related capabilities for the user access system database and the related development tool for their grant system. The user access system supports access across various other control environments including the FHWA grant system.

Management's control over the user access system application change management process was not operating effectively during FY 2024. Specifically, for one of the five changes selected for testing, management could not provide the testing documentation required by the FHWA Configuration and Change Management Process. Additionally, for two of the five changes selected for testing, program change testing was not approved and change authorizations were not obtained as required by the Configuration and Change Management Process policy.

#### *Recommendation*

We recommend that FHWA management clearly and consistently communicate change management requirements per the FHWA Configuration and Change Management Process policy to the control operators.

## **B. Business Process Controls**

### **Weakness in Accounting Policies for Federal Lands Highways Construction (DOT-2024-01)**

#### *Background/Condition*

The FHWA Office of Federal Lands (FLH) mission is to administer a coordinated program of Federal public roads and bridges. FLH has programs that provide financial resources and engineering assistance for public roads across the country. FLH works with Federal land management agency (FLMA) partners to design and construct highway and bridge projects on Federal, state, municipal, and tribal-owned lands. FLH has the rights to the assets while constructing and administering the projects. At the completion of a FLH project, a Final Construction Report is completed, which includes acceptance from the FLMA of the completed project and acknowledgment as the maintaining agency – demonstrating that the ownership rights of the completed assets are transferred to the FLMA partner.

Through FY2023, FLH spent \$18.6 billion on fixed assets across 12,001 projects. Of these costs, \$3.4 billion was spent on non-heritage assets on Federal land across 1,315 projects.

Controls were not designed and implemented to ensure that appropriate accounting policies and procedures were in place over the FLH construction of non-heritage fixed assets (i.e., highway and bridge projects) on behalf of FLMA partners. Specifically, the FHWA accounting policies and procedures resulted in the recognition of expenses for the construction of non-heritage highway and bridge projects on Federal lands, instead of the necessary capitalization as construction-in-progress and subsequent transfer-out of the completed capital asset to the FLMA. This results in an overstatement of FHWA expenses and an understatement of FLH Construction in Progress. Further, the lack of capitalized dollars in construction-in-progress prevents FLH from transferring the costs of the fixed asset to the FLMA partner for capitalization when the asset is placed in service and ownership is transferred to the FLMA.

#### *Recommendations*

We recommend that FHWA management:

- Review and update accounting policies and operating procedures to capitalize costs for the construction and procurement of non-heritage fixed assets on behalf of FLH's FLMA partners.
- Establish and maintain communications channels with FLMA partners of other ongoing projects and establish protocols for communicating asset-level detail for projects required by each agency's property accountants.
- Complete performance of an assessment of costs expensed for completed fixed asset construction projects to determine materiality and record remaining correcting accounting entries as needed.

**Weakness in Control over Central Accounting Reporting System Classification, Transactions, and Accountability Module (CTA) Reconciliation (DOT-2024-02)**

*Background/Condition*

Treasury requires that agencies reconcile their Fund Balance with Treasury accounts on a regular and recurring basis to ensure the integrity and accuracy of their internal and government-wide financial report data. Specifically, entities are required to perform the following, as referenced in the Treasury Financial Manual (TFM), Part 2, Chapter 5100 and the Treasury guidance on the "Types of Reconciliations to be Performed by Agencies":

1. Cash (Source) [Activity Reconciliation by Agency Location Code] ALC and by Source/Sending Trading Partner (Mechanism)
2. Treasury Account Symbol and Business Event Type Code (BETC) reconciliation

To comply, DOT's Enterprise Services Center (ESC) completes a monthly reconciliation of their customers' (i.e., DOT's Operating Administrations (OAs) and non-DOT user entities) Classification Transactions, and Accountability (CTA). The control is executed over general ledger account 1010 activity with standard general ledger (SGL) accounts ending in "00" and is performed as of the 4th day of the subsequent month. Any activity arriving after the 3rd day is recorded under an SGL account ending in "99." All data is then reconciled to the recorded amounts in the corresponding United States Standard General Ledger (USSGL) account.

Management's CTA Reconciliation control was not designed effectively to ensure that the populations used in the reconciliations were complete and accurate, and adequately considered cut-off risks. Specifically, in the March 2024 CTA Reconciliation's for the FHWA and the Federal Aviation Administration (FAA), we identified differences that were not identified by management related to the completeness of the populations used within the reconciliations, as well as exclusion of certain transactions for the corresponding time period (cut-off).

Additionally, management's control does not include the Treasury-prescribed reconciliation at the BETC level.

We note that as of June 11, 2024, an update to the Standard Operating Procedure (SOP) (QPM #AMKWI-331-332 00026, Revision 3) was made to require the preparer of the reconciliation to verify/compare the data/population to the financial system balance through the end of the reporting period to verify no additional entries were made that would cause the reconciliation to not balance to the financial system trial balance.

*Recommendations*

We recommend that ESC:

- Enhance the design of the CTA control procedures to ensure that all information used in the reconciliations are complete and accurate, including adequate consideration of transactions that may impact period-end financial reporting.
- Document in its SOP and communicate clearly defined objectives and requirements related to compliance with the Treasury requirement to reconcile all pertinent activity at the BETC level.

### **Weakness in Controls over the Quarterly Review of the Journal Voucher Control Log (DOT-2024-03)**

#### *Background/Condition*

As of December 31st, 2023, ESC Management took corrective action related to NFR DOT-2023-03 and updated the controls that impacted the segregation of duties and review of the journal entry process. The actions management took to address the prior year finding nullified the attributes in the previous control log process that responded to the risks over the completeness and review of manual journal entries.

On a quarterly basis, ESC Financial Reporting management reviews a selection of journal vouchers posted to determine that the journal entries were made accurately and completely and were authorized by the ESC Approving Official. Discrepancies identified during these reviews are resolved as determined appropriate. This control is not completed prior to the completion of quarterly financials.

Controls were not designed effectively to ensure that all journal entries have been recorded and all journal entries have been reviewed and approved with the appropriate segregation of duties. Specifically, we've identified a control gap for the risk that an entry is recorded to the general ledger that is not subject to the review and approval controls or a journal entry is requested and is not posted to the general ledger.

#### *Recommendations*

We recommend that ESC perform a review of the population of journal entries prior to the finalization of quarterly financials to ensure:

- the complete population of journal entries was subject to the approval control during the period.
- all journal entries were recorded.

### **Weakness in Control over Management Legal Schedule and Management Legal Letter (DOT-2024-04)**

#### *Background/Condition*

The Department is a government entity with significant components referred to as OAs which, as a whole, meet the Treasury's definition of a significant entity. At interim (6/30) and year-end (9/30), DOT OAs report any pending or threatened litigation or any probable unasserted claims or assessments against DOT in which an unfavorable outcome could result in liabilities to either DOT funds or the Judgment Fund. Each OA has a General Counsel (GC) that provides guidance and helps determine the likelihood of the outcome of cases. Each GC assists with compiling a listing of their OA-specific cases, whether each case is considered probable, reasonably possible, or remote in terms of outcome, and the related estimated range of losses for those cases. Additionally, each OA creates a corresponding Management Schedule based on the period's Legal Letter. Each OA Legal Letter and Management Schedule is then consolidated into the overall DOT Legal Letter and DOT Management Schedule.

The DOT Office of Financial Management (OST-B30) and GC office perform a series of reconciliations and reviews of the OA legal submissions. OST-B30 and the GC office each perform a review comparing the consolidated DOT Legal Letter to the consolidated DOT Management Schedule noting the total potential loss for each of the potential outcomes (e.g., probable, reasonably possible, or remote). Additionally, a reconciliation is performed by each party to ensure there are no material differences when comparing the total liability reported via the general ledger to the legal liability reported by each OA. OST-B30 creates the DOT Summary Legal Claims file to document the reconciliation between the Letter and the Schedule, which is used between OST-B30 and GC to verify summary amounts reported by each OA. This includes both the quantity of cases along with the amounts reported.

Management is required to complete this process in a manner that satisfies the requirement communicated by the Treasury Financial Manual (TFM) *Chapter 4700 Federal Entity Reporting Requirements For The Financial Report Of The United States Government* (section 4745.10 – Legal Letter Reporting Requirements) and TFM Bulletin No. 2024-05 (Attachment 13). The latter provides the timeframe for when the Office of Inspector General (OIG) of a significant entity must submit the Legal Letters and Management Schedules to Fiscal Service, the Department of Justice (DOJ), and the Government Accountability Office (GAO). Note that the FY24 OIG submission deadlines for interim and final information are August 20th, 2024 and November 15th, 2024, respectively.

Management's control was not operating effectively at interim to ensure the complete and accurate reporting of legal liabilities.

Specifically, when reviewing the DOT and related OA's Interim Legal Letters and Interim Management Schedules, the following differences were identified:

- The number of probable or reasonably possible pending matters on the interim DOT consolidated Legal Letter did not agree to the relevant OA letter for one OA.
- The interim DOT consolidated Legal Letter included the incorrect lower or upper threshold of potential loss for two OAs when compared to the individual OA legal letters.
- The interim DOT consolidated Legal Letter incorrectly included cases with a remote chance of loss in one OA's range of potential losses.
- The potential losses per the interim DOT consolidated Legal Letter did not agree to the DOT consolidated Management Schedule.
- Cases that were closed in the current year and no longer applicable, were included in management's summary of the interim DOT consolidated Legal Letter as well as the Management Schedule.

#### *Recommendations*

We recommend that OST-B30 and the GC office:

- Establish (or revise), communicate, and enforce an internal timeline, inclusive of a deadline(s) for when OAs need to provide their respective information to OST-B30 and the GC office, that allows for sufficient time to gather, review, and draft the consolidated Legal Letter and Management Schedule.
- Perform a more robust review in completing the consolidated Legal Letter and Management Schedule to ensure the process/control is performed accurately and completely.

#### **Weaknesses in Controls over the Inputs to the Federal Aid Grant Accrual (DOT-2024-05)**

##### *Background/Condition*

The FHWA maintains various grant programs and Trust Funds, with the Federal-aid Highway Program Trust Fund making up the majority of this funding. FHWA records a quarterly grant accrual for Federal-aid, which is calculated using annual survey responses from states and 3 years of historical outlays information. FHWA performs a trend analysis at year-end of the quarterly grant accruals to determine if an adjustment is required. In fiscal year (FY) 2022, Federal-aid received \$52.5 billion in additional funding over five years through the Infrastructure Investment and Jobs Act (IIJA) to support transportation infrastructure projects. FHWA will receive additional annual funding through IIJA through 2026.



In FY 2023, FHWA did not identify the need for changes in their grant accrual assumptions or method in response to the increase in grant expenses, as well as the significant variance identified in their FY 2023 Q3 Grant Accrual lookback analysis.

In fiscal year 2024, FHWA performed additional analysis over historical spending data, and introduced a year-end adjustment for individual states with a trend of large lookback variances. While this change improves the accuracy of the grant accrual estimate it does not fully address the root cause of the condition to account for potential future fluctuations in expenses within their methodology.

*Recommendation*

We recommend that FHWA management develop an estimation methodology responsive to fluctuations in future expenses.

U.S. Department of Transportation  
Office of Inspector General

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# Fraud & Safety Hotline

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(800) 424-9071

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