

**Transportation Security
Administration's
Management Letter for
DHS' Fiscal Year 2016
Financial Statements
Audit**





DHS OIG HIGHLIGHTS

Transportation Security Administration's Management Letter for DHS' Fiscal Year 2016 Financial Statements Audit

June 13, 2017

Why We Did This Report

The *Chief Financial Officers Act of 1990* (Public Law 101-576) and the *Department Of Homeland Security Financial Accountability Act* (Public Law 108-330) require us to conduct an annual audit of the Department of Homeland Security's (DHS) consolidated financial statements and internal control over financial reporting.

During the fiscal year (FY) 2016 audit of DHS' consolidated financial statements and internal control over financial reporting, KPMG LLP noted certain matters involving the Transportation Security Administration's internal control and other operational matters, which are presented in this report for management's consideration.

For Further Information:

Contact our Office of Public Affairs at (202) 254-4100, or email us at DHS-OIG.OfficePublicAffairs@oig.dhs.gov

What We Found

KPMG LLP, under contract with the DHS Office of Inspector General, audited the Transportation Security Administration's financial statements and internal control over financial reporting for FY 2016. The resulting management letter contains 15 observations related to internal controls and other operational matters for management's consideration. KPMG LLP identified internal control deficiencies and the need for improvement in several processes including personnel actions; property, plant, and equipment; Time and Attendance Process and Financial Disclosure Forms; and the Accounts Receivable Estimate. These deficiencies are not considered significant and were not required to be reported in the *Independent Auditors' Report on DHS' FY 2016 Financial Statements and Internal Control over Financial Reporting*, dated November 14, 2016, included in the DHS FY 2016 *Agency Financial Report*. These observations are intended to improve internal control or result in other operating efficiencies.



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

Washington, DC 20528 / www.oig.dhs.gov

June 13, 2017

MEMORANDUM FOR: Pat Rose
Assistant Administrator and Chief Financial Officer
Transportation Security Administration

FROM: John V. Kelly 
Deputy Inspector General

SUBJECT: *Transportation Security Administration's Management
Letter for DHS' Fiscal Year 2016 Financial Statements
Audit*

Attached for your action is our final report, *Transportation Security Administration's Management Letter for DHS' Fiscal Year 2016 Financial Statements Audit*. This report contains 15 observations related to internal control deficiencies that were not required to be reported in our *Independent Auditors' Report on DHS' FY 2016 Financial Statements and Internal Control over Financial Reporting*, dated November 14, 2016, which was included in the Department of Homeland Security's (DHS) fiscal year (FY) 2016 *Agency Financial Report*. We do not require management's response to the recommendations.

The independent public accounting firm KPMG LLP conducted the audit of DHS' FY 2016 financial statements and is responsible for the attached management letter and the conclusions expressed in it.

Consistent with our responsibility under the *Inspector General Act*, we will provide copies of our report to congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. We will post the report on our website for public dissemination.

Please call me with any questions, or your staff may contact Maureen Duddy, Deputy Assistant Inspector General for Audits, at (617) 565-8723.

Attachment



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

December 8, 2016

Office of Inspector General
U.S. Department of Homeland Security, and
Chief Financial Officer
U.S. Department of Homeland Security, Transportation Security Administration
Washington, DC

Ladies and Gentlemen:

We planned and performed our audit of the consolidated financial statements (hereinafter referred to as the "financial statements") of the U.S. Department of Homeland Security (DHS or Department), as of and for the year ended September 30, 2016, 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. 15-02, *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. In conjunction with our audit of the consolidated financial statements, we also performed an audit of internal control over financial reporting in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the internal control requirements included in OMB Bulletin No. 15-02.

During our audits we noted certain matters involving the Transportation Security Administration's (TSA) 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 management, are intended to improve internal control or result in other operating efficiencies. These observations and recommendations are summarized in Exhibit I of this letter and are not considered significant deficiencies or material weaknesses in internal control over financial reporting. Significant deficiencies and material weaknesses in internal control over financial reporting have been previously communicated to the DHS Office of Inspector General (OIG) and management in our *Independent Auditors' Report*, dated November 14, 2016, included in the fiscal year 2016 DHS *Agency Financial Report*.

Deficiencies related to TSA information technology (IT) controls will be presented in a separate letter to the DHS Office of Inspector General, TSA Chief Information Officer, and TSA Chief Financial Officer.

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

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



The purpose of this letter is solely to describe comments and recommendations intended to improve internal control or result in other operating efficiencies. Accordingly, this letter is not suitable for any other purpose.

Very truly yours,

KPMG LLP

Transportation Security Administration
Table of Financial Management Comments
 September 30, 2016

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FMC 16-01 – Ineffective Design of Communication of Relevant Accounting Literature and Ineffective Operating Effectiveness of Employee Performance Assessment Reviews (NFR No. TSA 16-01)

Controls over the communication and distribution of accounting literature updates were not designed effectively to ensure all Branch Chiefs receive the Flash Notice update emails. Specifically, during our testing of the design and implementation, we noted three Branch Chiefs were omitted from Flash Notice 16-011 sent on December 18, 2015.

Controls over the review and approval of employee performance plan and appraisal forms were not operating effectively. Specifically, during our testwork over 15 performance plans and appraisal samples, we noted one instance in which the Financial Policy and Travel Branch Chief was designated as both the Rating and Reviewing Official for a Travel Services Section employee.

Recommendation:
TSA should:

- Establish policies and procedures to verify that all accounting policies and literature updates are distributed to all appropriate individuals.
- Review all performance plans at the start of the rating cycle to ensure that the correct rating and reviewing officials are listed for each employee's plan.

FMC 16-02 – Insufficient Quality Review of Personnel Actions (NFR No. TSA 16-02)

Controls over the review of completed personnel actions were not operating effectively. Specifically, we noted that for two of five pay periods selected for testing, Lockheed Martin did not receive sample size approval from TSA prior to performing the review.

Recommendation:
TSA should take measures to improve its monitoring of the service provider's quality assurance process in a consistent and documented method to confirm it is operating effectively.

FMC 16-03 – Ineffective Controls over Invoice Three-Way Match (NFR No. TSA 16-03)

Controls over the invoice three-way match were not operating effectively. Specifically, during our testwork over 14 samples, we noted one instance in which the amount invoiced did not match the amount due per the obligating document. As a result, TSA overpaid \$16.22 for 12 months, summing to an overpayment of \$194.64.

Recommendation:
TSA should implement additional procedures to ensure that invoice amounts and other relevant data are matched appropriately to supporting documentation prior to payment.

FMC 16-04 – Ineffective Design of Controls over the Review and Approval of Direct and Material Laws and Regulations (NFR No. TSA 16-04)

Controls over the review and approval of the direct and material laws and regulations listing were not designed effectively. Specifically, we noted that the Audit Policy Branch made updates to the listing subsequent to the Office of Chief Counsel review and approval. The Office of Chief Counsel did not review and approve the subsequent changes prior to submission to the Department. Additionally, the Audit Policy Branch did not include the Department's edits to the listing in the TSA submission.

Recommendation:

TSA should design and implement procedures to ensure the completeness and accuracy of the direct and material laws and regulations listing, prior to submission to the Department.

FMC 16-05 – Ineffective Controls over Depreciation of Transportation Security Equipment (NFR No. TSA 16-05)

Controls over the depreciation of transportation security equipment assets were not operating effectively. During our testing of 25 transportation security equipment retirement transactions, we noted that depreciation expense was recorded in the month following the physical retirement of an asset.

Recommendation:

TSA should implement controls to ensure that depreciation expense and accumulated depreciation calculated for asset retirements are accurate.

FMC 16-06 – Ineffective Controls over Property, Plant & Equipment Retirements (NFR No. TSA 16-06)

Controls over the review and approval of transportation security equipment asset retirements were not operating effectively. Specifically, during our testing of 25 asset retirement transactions, we noted that an asset was removed from the fixed asset module prior to the U.S. Coast Guard Finance Center (FINCEN) property manager's approval.

Recommendation:

TSA should enforce existing policies and procedures to ensure asset retirements are appropriately approved prior to removal from service.

FMC 16-07 – Ineffective Controls over the Review and Approval of the Payment Update Database (NFR No. TSA 16-07)

Controls over the completeness and accuracy of the Payment Update Database were not operating effectively. During our testwork over the June 2016 Payment Update Database, we noted the individual airline detail was not included in the database provided to the Financial Management Division Director and the Revenue Director for review. The Financial Management Director and Director of Revenue then approved the database with missing detail.

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Recommendation:

TSA should clarify the policies and procedures over the Payment Update Database to indicate documentation and review requirements for all users of the database.

FMC 16-08 – Ineffective Controls over the Property Inventory Counts (NFR No. TSA 16-08)

During control testwork over 25 inventory counts, we identified the following:

- One Inventory Certification in which the Accountable Property Officer's digital signature date was manually altered.
- Four Inventory Certifications in which the Deputy Property Management Official's digital signature was dated prior to the inventory start date.

During our site visit testing, we identified the following:

- One asset in which the serial number on the asset did not correspond to the serial number listed in the Sunflower Asset Management System.
- Three assets in which the serial number was not legible on the asset tag or the asset was not tagged with a unique barcode.
- One asset in which the asset tag was replaced subsequent to our sample request as the original asset tag was not legible.
- One asset in which the asset was not listed in the Sunflower Asset Management System.
- Two assets in which the asset tag was not attached to the asset.

Recommendation:

TSA should:

- Provide training to Accountable Property Officers and Deputy Property Management Officials to address inventory management and the preparation of inventory certification forms.
- Develop or update relevant policies and procedures to help provide clarification to Accountable Property Officers and Deputy Property Management Officials on the inventory process.

FMC 16-09 – Failure to Design and Implement Controls over National Finance Center (NFC) Payroll and Benefits Calculations (NFR No. TSA 16-09)

TSA does not have controls in place to assess the completeness and accuracy of the NFC's manual benefit calculations. Specifically, we noted in our testing of payroll and benefits expenses that the NFC did not accurately calculate the Federal Employees Retirement System and Thrift Savings Plan benefits for two employees' lump sum settlement payments that each spanned multiple fiscal years. The benefits were calculated using FY 2016 rates for the entire settlement when portions of the settlements should have been calculated using prior year rates.

Recommendation:

TSA should implement a quality control process of the NFC manual payments for benefits expenses.

FMC 16-10 – Ineffective Controls over WebTA and the Time and Attendance Process (NFR No. TSA 16-10)

Controls over the time and attendance process were not operating effectively to ensure that approvals for timesheets, leave and overtime were accurately and properly recorded on a timely basis. Specifically, during testing of 117 payroll transactions, we identified the following:

- Two instances where an error was missed in the initial review and certifying process and was reviewed and certified in a subsequent pay period. As such, we noted the supervisor did not sufficiently review and approve the employee's timesheet.
- Seven instances where the supervisors did not approve the overtime request prior to the employee working overtime hours.
- Five instances where a supervisor did not approve the leave request prior to the employee taking leave.
- One instance where TSA was not able to provide a leave approval for leave taken on a timesheet that was subsequently certified and paid.
- One instance where the days requested for leave on the approved Office of Personnel Management (OPM) Form 71 did not match the actual days taken per the employee's certified timecard.

Recommendation:
TSA should:

- Continue to provide guidance, job aids and refresher training on governing policies for leave and overtime approvals and procedures for the use of WebTA.
- Continue to conduct, communicate, provide training, and emphasize awareness on maintaining effective controls with the payroll user community.

FMC 16-11 – Lack of Manual Compensating Controls over the Personnel Action Process (NFR No. TSA 16-11)

Controls over Requests for Personnel Actions were not properly designed and implemented to ensure that the proper personnel submitted and reviewed all personnel action requests within HRAccess. TSA relies solely on electronic submissions and signatures within the HRAccess application to evidence approval of personnel actions prior to the effective date of the action. However, General Information Technology Controls supporting this application were not effective. Due to the risk of inappropriate access to the application, manual compensating controls were necessary to attain assurance that appropriate personnel submitted and approved Requests for Personnel Actions.

Recommendation:
TSA should develop and implement manual compensating controls to restrict the review and approval of personnel actions within the system to appropriate personnel.

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FMC 16-12 – Ineffective Controls Over the Federal Employees’ Compensation Act (FECA) (NFR No. TSA 16-12)

During our testing of TSA’s review of the Department of Labor chargeback report, we identified the following:

- One instance where TSA was unable to provide supporting documentation (e.g., employee timecard, Statement of Earnings and Leave, etc.) evidencing that the employee was a Federal Air Marshal Service employee at the time of injury.
- One instance where a claimant incorrectly filled out his/her date of birth on the signed and reviewed Claim for Continuation of Pay/Compensation (CA-1) form, which is a required field per the Department of Labor’s CA-1 instructions. The review process did not detect and correct the error.

Recommendation:

TSA should:

- Continue to conduct training sessions with the Workers’ Compensation Coordinators to provide focused training on FECA policies over validating the quarterly chargebacks.
- Continue to enforce policies and procedures for compliance with the FECA, including completing quality checks of all CA-1 forms prior to submission to Department of Labor, Office of Workers’ Compensation.

FMC 16-13 – Ineffective Controls over Financial Disclosure Forms (NFR No. TSA 16-13)

Controls over the submission and review of Office of Government Ethics (OGE) 278 and 450, public and confidential financial disclosure forms, were not operating effectively. Specifically, we identified the following:

- During testing of OGE-278 filings, we noted one instance where the form was submitted and the ethics official’s initial review was not completed timely, within 60 days of submission.
- During our testing of OGE-450 filings, we noted one instance where a filer did not submit the report by the submission deadline. The filer did not receive the notification to file or the subsequent late notices sent out by the Office of Chief Counsel because the office did not have the correct email address on file.

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Recommendation:

We recommend:

- TSA implement policies and procedures to ensure that reviewers monitor the status of report submissions and complete the initial reviews within the statutory timeframes.
- The Office of Chief Counsel should continue to work with the Office of Human Capital so that accurate and timely information, including e-mail and other contact information, is provided to the Office of Chief Counsel.

FMC 16-14 – Ineffective Controls over Accounts Receivable Estimate Review (NFR No. TSA 16-14)

Controls over the review and approval of the accounts receivable estimate were not operating effectively. Specifically, during our testing over the year end accounts receivable estimate, we identified the following:

- To calculate the average passenger fee adjustment factor to be used in the accounts receivable estimate, TSA used an average of passenger fee adjustment factors from August 2014 through August 2016, which was inconsistent with their policy.
- TSA was unable to provide documentation for the methodology used to determine the individual passenger fee adjustment factors to be used for airlines with a variance of \$500K or greater.
- TSA was unable to provide support for the August 2014 and September 2014 passenger fee adjustment factors used in the September 2016 accounts receivable estimate calculation.

Recommendation:

TSA should update their documented policies and procedures to accurately calculate and report the accounts receivable accrual.

FMC 16-15 – Ineffective Design of Controls over the Review and Approval of Journal Entries (NFR No. TSA 16-15)

Controls over the review and approval of year end journal entries were not designed effectively. Specifically, during our journal entry testwork, we noted one manual journal entry that was not reviewed prior to posting. This journal entry related to year end suspense clearing entries, which do not require review, approval or supporting documentation.

Recommendation:

TSA should implement or update processes to address the approval requirements of the year end suspense clearing journal entry.

Transportation Security Administration
 Crosswalk – Financial Management Comments to Active NFRs
 September 30, 2016

NFR No.	Description	Disposition ¹			FMC No.
		IAR			
		MW	SD	NC	
16-01	Ineffective Design of Communication of Relevant Accounting Literature and Ineffective Operating Effectiveness of Employee Performance Assessment Reviews				16-01
16-02	Insufficient Quality Review of Personnel Actions				16-02
16-03	Ineffective Controls over Invoice Three-Way Match				16-03
16-04	Ineffective Design of Controls over the Review and Approval of Direct and Material Laws and Regulations				16-04
16-05	Ineffective Controls over Depreciation of Transportation Security Equipment				16-05
16-06	Ineffective Controls over Property, Plant & Equipment Retirements				16-06
16-07	Ineffective Controls over the Review and Approval of the Payment Update Database				16-07
16-08	Ineffective Controls over the Property Inventory Counts				16-08
16-09	Failure to Design and Implement Controls over National Finance Center Payroll/Benefits Calculations				16-09
16-10	Ineffective Controls over WebTA and the Time and Attendance Process	B			16-10
16-11	Lack of Manual Compensating Controls over the Personnel Action Process				16-11
16-12	Ineffective Controls over the Federal Employees' Compensation Act				16-12
16-13	Ineffective Controls over Financial Disclosure Forms				16-13
16-14	Ineffective Controls over Accounts Receivable Estimate Review				16-14
16-15	Ineffective Design of Controls over the Review and Approval of Journal Entries				16-15
16-16	Non-Compliance with the Federal Financial Management Improvement Act of 1996			J	

Transportation Security Administration
Crosswalk – Financial Management Comments to Active NFRs
 September 30, 2016

¹Disposition Legend:

IAR	Independent Auditors' Report dated November 14, 2016
FMC	Financial Management Comment
MW	Contributed to a Material Weakness at the Department-level when combined with the results of all other components
SD	Contributed to a Significant Deficiency at the Department-level when combined with the results of all other components
NC	Contributed to Non-Compliance with laws, regulations, contracts, and grant agreements at the Department-level when combined with the results of all other components
NFR	Notice of Finding and Recommendation

Cross-reference to the applicable sections of the IAR:

A	Information Technology Controls and Financial System Functionality
B	Financial Reporting
C	Property, Plant, and Equipment
D	Entity-Level Controls
E	Grants Management
F	Custodial Revenue and Refunds and Drawback
G	<i>Federal Managers' Financial Integrity Act of 1982</i>
H	<i>Single Audit Act Amendments of 1996</i>
I	<i>Antideficiency Act, as amended</i>
J	<i>Federal Financial Management Improvement Act of 1996</i>



OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Appendix B
Report Distribution

Department of Homeland Security

Secretary
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