

**Transportation Security
Administration's Management
Letter for DHS' FY 2015
Financial Statements Audit**





DHS OIG HIGHLIGHTS

Transportation Security Administration's Management Letter for DHS' FY 2015 Financial Statements Audit

May 16, 2016

Why We Did This Audit

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.

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 fiscal year (FY) 2015. The resulting management letter contains 11 observations related to internal controls and other operational matters for management's consideration. KPMG LLP noted internal control deficiencies and the need for improvement in several processes including personnel actions; property, plant, and equipment; intra-governmental payments and collections; and the funded accrued payroll reconciliation. These deficiencies are not considered significant and were not required to be reported in the *Independent Auditors' Report on DHS' FY 2015 Financial Statements and Internal Control over Financial Reporting*, dated November 13, 2015, included in the DHS FY 2015 *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

MAY 16 2016

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

FROM: Mark Bell *Mark Bell*
Assistant Inspector General for Audits

SUBJECT: *Transportation Security Administration's Management
Letter for DHS' FY 2015 Financial Statements Audit*

Attached for your action is our final report, *Transportation Security Administration's Management Letter for DHS' FY 2015 Financial Statements Audit*. This report contains 11 observations related to internal control deficiencies that were not required to be reported in our *Independent Auditors' Report on DHS' FY 2015 Financial Statements and Internal Control over Financial Reporting*, dated November 13, 2015, which was included in the Department of Homeland Security's (DHS) fiscal year (FY) 2015 *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 2015 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 18, 2015

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:

In planning and performing our audit of the consolidated financial statements of the U.S. Department of Homeland Security (DHS or Department), as of and for the year ended September 30, 2015, in accordance with auditing standards generally accepted in the United States of America and *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 financial statements. In conjunction with our audit of the general purpose 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 Transportation Security Administration (TSA) is a component of DHS. During our audit we noted certain matters involving internal control and other operational matters, related to TSA, 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 matters are summarized in the Table of Financial Management Comments. The disposition of each internal control deficiency identified during our FY 2015 audits – as either reported in our *Independent Auditors' Report*, or herein as a financial management letter comment – is presented in Appendix A. Our findings related to information technology systems have been 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 we hope will 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

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September 30, 2015

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FMC 15-01 – Ineffective Controls over the Time and Attendance Process (NFR No. TSA 15-01)

During our FY 2015 site visits to four airports, we noted that controls over time and attendance were not fully effective. Specifically, we noted two of 20 instances in which the employee used accrued annual leave prior to supervisory approval.

Recommendations:

We recommend that TSA:

- Continue to provide guidance and updated job aids and refresher training on governing policies for leave and overtime approvals and procedures for the use of WebTA.
- Continue to conduct bi-monthly meetings with the Payroll user community to gather concerns and issues and to provide training focusing awareness on maintaining effective controls over time and attendance processes and proper time and attendance recordation.
- Remind supervisors to adhere to local guidelines established for the minimum time frame to submit and approve leave requests.

FMC 15-02 – Inadequate Approval of Personnel Actions (NFR No. TSA 15-02)

Controls over the review and approval of personnel actions were not effective. Specifically, we reviewed 25 personnel actions related to one Transportation Officer Performance System award, and noted that 10 of them did not have evidence of TSA Office of Human Capital approval.

Recommendation:

TSA should develop and implement a quality assurance process that documents the review and approval of the group awards. Written notification should be given to the service provider indicating the results of the review and the authorization to proceed with the processing of the transactions associated with the Transportation Officer Performance System payout.

FMC 15-03 – Insufficient Review of Personnel Actions (NFR No. TSA 15-03)

Controls over the review of completed personnel actions were not effective. Specifically, we noted one pay period out of five in which all personnel actions were not subject to a completeness and accuracy review, subsequent to being processed at the National Finance Center. One “Nature of Action” code was inadvertently not included in the population subject to sampling, and the resulting sample size did not meet the established threshold.

Recommendations:

We recommend that TSA:

- Provide oversight to ensure that the service provider follows the agreed upon methodology as outlined in contract as part of the Performance Evaluation Plan. Metric 2.1. states that transactions are processed according to Federal Regulations and Guidelines and calls for a compliance sample size of

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two percent for each personnel, payroll, benefits areas of nature of action codes to measure the average timeliness and compliance (i.e., accuracy) of transactions.

- Monitor the service provider's quality assurance review of personnel actions to ensure it is operating effectively.

FMC 15-04 – Ineffective Controls over Depreciation of Property, Plant, and Equipment (NFR No. TSA 15-04)

Controls over the depreciation of capitalized assets were not effective. During our testwork over Transportation Security Equipment additions, we noted depreciation expense for capitalized assets was not recorded in a timely manner. Specifically, we noted the 'depreciation flag' for seven of 25 assets was not selected in the Core Accounting System Fixed Asset module (FA) when the asset was placed in service.

In each of these instances, the depreciation flag was set two or more months after the asset was placed in service and journal entries were later recorded to correctly state the depreciation expense.

Recommendations:

We recommend that TSA:

- Perform a monthly test of the depreciation flag as presented in the TSA End of Month FA Report to determine if there are any assets with a date placed in service recorded in the Sunflower Asset Management System. If any assets are identified with a recorded date placed in service where the flag has not yet been updated, TSA should start depreciation on these assets to ensure timely and accurate recording of depreciation. Additionally, TSA should provide the finance center with the list of assets that require depreciation flag updates.
- Work with the finance center to update the desk guide for end of month procedures to add the process to turn the depreciation flag on within FA during the month the asset is placed into service.

FMC 15-05 – Ineffective Controls over Property, Plant, and Equipment Retirements (NFR No. TSA 15-05)

Controls over the retirement of capitalized assets were not effective. During our testwork over Transportation Security Equipment retirements, we noted that retired assets were not removed from the Core Accounting System FA module in a timely manner. Specifically, we noted that two of 25 assets were removed from FA more than 30 days after the retirement date in the property management system.

Both assets identified were fully depreciated prior to being taken out of service.

Recommendation:

TSA should establish policies and procedures to ensure property management staff follow up on outstanding retirement documentation in order to retire assets in a timely manner.

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FMC 15-06 – Ineffective Controls over the Completeness and Accuracy of the Accounts Payable Look-Back Analysis (NFR No. TSA 15-06)

Controls were not designed and implemented to ensure the completeness and accuracy of the subsequent disbursements listing used to validate the year-end accounts payable accrual.

TSA's Financial Management Analysis Branch identified that the look-back for the Other Transactional Agreements related to non American Reinvestment and Recovery Act accrual category utilized inaccurate data. A specific transaction that was disbursed in the prior year was incorrectly included in the subsequent disbursements population and, after testing, was erroneously included in the final analysis used to compare the prior year estimate with the actual result.

Recommendation:

TSA should further implement policies and procedures to ensure the completeness and accuracy of all relevant data fields of the disbursement reports used in the accounts payable accrual look-back analysis.

FMC 15-07 – Ineffective Controls over the Review of Intra-Governmental Payments and Collections (IPACs) (NFR No. TSA 15-09)

Controls were not operating effectively to document review of all categories of expenses prior to payment. Specifically, one of the 15 expense samples we tested was an IPAC payment to the DHS working capital fund, but did not have evidence that the invoice was reviewed prior to payment.

Recommendation:

TSA should create and execute an internal standard operating procedure to ensure working capital fund transactions are recorded, reviewed and documented properly and in a timely manner.

FMC 15-08 – Control Deficiencies related to OGE-278 and OGE-450 Forms (NFR No. TSA 15-11)

Controls over the submission and review of public financial disclosure forms (Office of Government Ethics (OGE) Form 278s) and confidential financial disclosure forms (OGE-450 forms) were not operating effectively. Specifically, during our testwork over OGE-278 filings, we noted:

- One instance in which an individual was granted an extension to file by July 5, 2015, and subsequently filed one day late on July 6, 2015.

During our testwork over OGE-450 filings, we noted:

- Two instances in which the filer submitted the form timely prior to the February 15, 2015, submission deadline. However, the Office of Chief Counsel misplaced the forms and subsequently located and reviewed them on July 7, 2015 and August 4, 2015, respectively.
- One instance in which an incumbent filer did not submit the form prior to the February 15, 2015, submission deadline and did not receive a timely notification to file due to an administrative error. The

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error was discovered by TSA on August 3, 2015, and a notification to file was sent to the filer, who submitted the form on the same day.

- Sixteen instances in which filers submitted the required form after the February 15, 2015, deadline for OGE-450 filers. TSA sent late notices to these filers on June 29, 2015, and August 3, 2015.

Recommendation:

TSA should update notifications to filers to send additional reminders to filers after the initial notification, remind filers of the proper e-mail address for submissions, and specify the filer's responsibility to inform the Office of Chief Counsel Ethics and General Legal Services division of any changes to their contact information (e.g., email address).

FMC 15-09 – Ineffective Controls over the Review of the Accounts Receivable Accrual (NFR No. TSA 15-12)

Controls over the review of the accounts receivable accrual were not effective. Specifically, we noted the following errors in the quarterly accrual calculation:

- As of March 31, 2015, the accrual did not include the amount related to carrier fees.
- As of June 30, 2015, the accrual did not use the individual percentage rate average for air carriers with variances greater than \$500,000 for passenger fees.

Recommendations:

We recommend that TSA Financial Management Division Accounting Branch:

- Develop an accounts receivable accrual review checklist for DHS Treasury Information Executive Repository (DHSTIER) to ensure that the calculation formulas for the accrual amount include all necessary components, including the residual air carrier fee accrual amount and individual percentage rate averages for the air carriers with a greater than \$500,000 variance. The checklist should include the DHSTIER adjustment preparer and the reviewer's approval.
- Perform a reasonableness check on a quarterly basis to ensure the accounts receivable accrual amount is not materially under or overstated.
- Update the current internal standard operating procedure for the accounts receivable accrual to include the DHSTIER adjustment checklist and the quarterly reasonableness check.

FMC 15-10 – Ineffective Controls over Federal Employees' Compensation Act (FECA) Claims (NFR No. TSA 15-13)

During our testwork over FECA claims filed in FY 2015, we noted four instances in which the Federal Notice of Traumatic Injury and Claim for Continuation of Pay/Compensation (CA-1) form was not submitted to the Department of Labor within the 10 business day deadline, as established in the CA-1 form instructions.

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Additionally, during our testwork over the review of the FECA Department of Labor chargeback report, we noted one additional instance in which a CA-1 form filed in FY 2015 was not signed by the employee. While we note that this does not indicate a control failure of the Department of Labor chargeback review, it does contribute to non-compliance with FECA laws and regulations.

Recommendations:

We recommend that TSA:

- Enforce policies and procedures for compliance with FECA.
- Continue to conduct monthly training sessions with the Airport Workers Compensation Coordinators to provide focused training on FECA topics, including requirements for completion of case files prior to submission to the Department of Labor.

FMC 15-11 – Ineffective Controls over the Funded Accrued Payroll Reconciliation (NFR No. TSA 15-14)

Controls over the funded accrued payroll reconciliation were not effective. Specifically, in preparing the September reconciliation, payroll personnel erroneously populated \$2,130 in the FY 2015 payroll accrual as budget year 2014 activity. The prior budget year appropriations are excluded from comparison between actual payroll expense and accrued payroll expense, thus the FY 2015 payroll payments were inappropriately excluded from the analysis.

Recommendation:

TSA should implement further procedures to ensure the completeness and accuracy of all relevant data fields of the funded payroll accrual reconciliation.

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Crosswalk – Financial Management Comments to Active NFRs
 September 30, 2015

Component	NFR No.	Description	Disposition			
			IAR			FMC
			MW	SD	NC	No.
TSA	15-01	Ineffective Controls over the Time and Attendance Process				15-01
TSA	15-02	Inadequate Approval of Personnel Actions				15-02
TSA	15-03	Insufficient Review of Personnel Actions				15-03
TSA	15-04	Ineffective Controls over Depreciation of Property, Plant, and Equipment				15-04
TSA	15-05	Ineffective Controls over Property, Plant, and Equipment Retirements				15-05
TSA	15-06	Ineffective Controls over the Completeness and Accuracy of the Accounts Payable Look-Back Analysis				15-06
TSA	15-07	Inadequate Approval of Undelivered Orders		D		
TSA	15-08	Ineffective Controls over Adjustments to Prior Year Obligations		D		
TSA	15-09	Ineffective Controls over the Review of Intra-Governmental Payments and Collections				15-07
TSA	15-10	Ineffective Controls over the Undelivered Orders Validation and Verification		D		
TSA	15-11	Control Deficiencies related to OGE-278 and OGE-450 Forms				15-08
TSA	15-12	Ineffective Controls over the Review of the Accounts Receivable Accrual				15-09
TSA	15-13	Ineffective Controls Over Federal Employees' Compensation Act Claims				15-10
TSA	15-14	Ineffective Controls over the Funded Accrued Payroll Reconciliation				15-11
TSA	15-15	Non-Compliance with the Federal Financial Management Improvement Act of 1996			K	

¹Disposition Legend:

IAR Independent Auditors' Report dated November 13, 2015

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

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Cross-reference to the applicable sections of the IAR:

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



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Department of Homeland Security

Appendix B

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Department of Homeland Security
Office of Inspector General, Mail Stop 0305
Attention: Hotline
245 Murray Drive, SW
Washington, DC 20528-0305