Department of Homeland Security
Office of Inspector General

Transportation Security Administration's Management Letter for FY 2013 DHS Financial Statements Audit

OIG-14-79

April 2014

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

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

APR 23 2014

MEMORANDUM FOR: David Nicholson
Chief Financial Officer
Transportation Security Administration

FROM: for Anne L. Richards Mark Bell
Assistant Inspector General for Audits

SUBJECT: *Transportation Security Administration's Management Letter for FY 2013 DHS Financial Statements Audit*

Attached for your information is our final report, *Transportation Security Administration's Management Letter for FY 2013 DHS Financial Statements Audit*. This report contains 15 comments and 45 recommendations related to internal control deficiencies that were not required to be reported in the *Independent Auditors' Report on DHS' FY 2013 Financial Statements and Internal Control over Financial Reporting*. Internal control deficiencies which are considered significant deficiencies were reported, as required, in the *Independent Auditors' Report*, dated December 11, 2013, which was included in the Department of Homeland Security's (DHS) fiscal year (FY) 2013 Agency Financial Report. We do not require management's response to the recommendations.

We contracted with the independent public accounting firm KPMG LLP (KPMG) to conduct the audit of the DHS' FY 2013 financial statements and internal control over financial reporting. The contract required that KPMG perform its audit according to generally accepted government auditing standards and guidance from the Office of Management and Budget and the Government Accountability Office. KPMG is responsible for the attached management letter dated January 15, 2014, and the conclusions expressed in it.

Please call me with any questions, or your staff may contact Mark Bell, Deputy Assistant Inspector General for Audits, at (202) 254-4100.

Attachment

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

January 15, 2014

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 have audited the financial statements of the U.S. Department of Homeland Security (DHS or Department) for the year ended September 30, 2013 (referred to herein as the "fiscal year (FY) 2013 financial statements"), and have issued our report thereon dated December 11, 2013. In planning and performing our audit of the financial statements of DHS, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we considered internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements. In conjunction with our audit of the 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 on the following pages. The disposition of each internal control deficiency identified during our FY 2013 audit – as either reported in our *Independent Auditors' Report*, or herein – 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, the TSA Chief Information Officer, and 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

Transportation Security Administration
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September 30, 2013

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FMC 13-01 – Travel Authorization and Expenditure Support ***(Notice of Finding and Recommendation (NFR) No. Transportation Security Administration (TSA) 13-01)***

As a result of our testwork to ensure that travel authorizations and vouchers were properly approved and coded and recorded into the general ledger, we noted controls over the travel authorizations were not operating effectively. Specifically, we noted:

- In two instances out of 33, the travel supervisor did not verify expenses incurred were appropriately supported by receipts.
- In five instances out of 33, TSA failed to provide evidence of a three-way match to ensure the travel expenditures incurred were approved by the supervisor prior to travel, were within the amount authorized, and were properly supported by a receipt.

Recommendations:
We recommend that TSA:

- On a monthly basis, audit a sample of travel vouchers to verify expenses are appropriately supported, and notify travelers and supervisors of findings of non-compliance. Non-compliance identified should be tracked through resolution.
- Modify policies related to Centrally Billed Account (CBA) usage. TSA organizations with CBAs should review and modify procedures related to CBA usage and reconciliation to ensure that all CBA transactions have evidence of authorization and supporting receipts are matched to the credit card statement.

FMC 13-02 – Intra-Governmental Payment and Collection Review Controls and Suspense Clearing ***(NFR No. TSA 13-02)***

Documentation supporting the review of all categories of Intra-Governmental Payment and Collection (IPAC) payments was not maintained. Specifically, we noted in eight instances out of 30, there was no evidence of contracting officers' representative (COR) approval for the IPAC.

Controls were not operating effectively to ensure that adequate documentation was maintained to verify that IPAC transactions were appropriately supported and recorded in the general ledger, including documentation that evidences contract details such as period of performance, contract deliverable requirements, and contract funding sources related to IPAC transactions. Specifically, we noted the following:

- In one instance out of 30, the period of performance was not specified on the Purchase Order and the IPAC.
- In one instance out of 30, a Working Capital Fund invoice was not properly supported by an executed Miscellaneous Obligating Document.
- In one instance out of 30, the invoice amount was improperly short-paid, causing an understatement to expense.

Controls were not operating effectively to ensure that IPAC related expenses are recorded in the general ledger timely subsequent to IPAC receipt. Specifically, we noted in one instance out of 30, the IPAC transaction was not recorded in the general ledger timely.

Controls were not operating effectively to ensure that capitalizable advance/prepayment transactions were appropriately monitored by the respective program office COR, and that inter/intragovernmental advance balances are liquidated timely for financial reporting. Specifically, we identified one instance where an intergovernmental advance was not timely liquidated for financial reporting. We note management identified and corrected this error as of September 30, 2013.

Recommendations:
We recommend that TSA:

- Financial Management Division (FMD) work with the Office of Acquisitions, the Budget and Performance Division and CORs to:
  - Establish requirements for documenting and filing evidence of receipt of goods and services.
  - Continue training and outreach efforts to increase awareness of the IPAC review and process requirements.
- FMD work with Coast Guard Financial Center (FINCEN) and the CORs to confirm all IPACs are properly reviewed and approved per FMD procedures prior to payment.
- FMD review the monitoring process of the recording of IPAC transactions in the general ledger with validation of timeliness and implement improvement procedures as needed.

FMC 13-03 – Lease Accounting and Disclosure *(NFR No. TSA 13-03)*

Controls over the Master Lease Listing maintained by Chief Administrative Office (CAO) were not operating effectively to ensure leases are appropriately classified as cancellable versus non-cancellable. Specifically, we noted the following:

- Two instances where the lease was incorrectly classified as cancellable in the prior year.
- Three instances where the lease was incorrectly classified as cancellable as of March 31, 2013. Additionally, we noted one instance where the lease was incorrectly classified as non-cancellable as of March 31, 2013.

Controls over the Master Lease Listing maintained by CAO are not designed effectively to ensure supporting documentation (e.g. updated lease agreement) is received timely by FMD to update the schedule of leases to ensure the completeness and accuracy of information used for financial reporting purposes. Specifically, we noted the following:

Interim testwork (performed as of March 31, 2013)

- Four instances where the occupancy agreements were executed prior to fiscal year (FY) 2013; however, were not included in the FMD schedule of leases until FY 2013.
- Two instances where the occupancy agreements were expired prior to FY 2013; however, were not removed from the FMD schedule of leases until FY 2013.
- One instance where the occupancy agreement had rent escalations but was improperly classified as not having rent escalations.
- One instance where a non-cancellable occupancy agreement was designated as cancelled per CAO; however, was active as of March 31, 2013.

Final testwork (performed as of September 30, 2013)

- 11 instances where occupancy agreements, and two instances where direct leases were not fully executed, but were improperly included in the FMD schedule of leases as of March 31, 2013.
- One instance where a direct lease was executed prior to March 31, 2013; however, was not included on the FMD schedule of leases until September 30, 2013.
- One instance where the lease term was incorrectly classified. As a result, the future minimum lease payments disclosure is overstated as of September 30, 2013.

Recommendations:

We recommend that TSA:

- CAO inventory the database supporting the Master Lease Listing (MLL database) and validate all current leases for proper classification of cancellable vs. non-cancellable.
- CAO continue to develop written policies and procedures to ensure:
    - All new leases and occupancy agreements (OA) are evaluated for financial reporting impact, including: cancellable vs. non-cancellable; capital vs. operating; lease term, beginning and end dates; and lease status (active, expired, canceled, holdovers)
    - The MLL database is updated for formally executed changes affecting financial reporting in the month in which the changes occur.
    - Updated lease and OAs documents are uploaded to the SharePoint as support for formally executed changes made to the MLL database.
    - Controls are in place for proper review, validation, and approval of changes made to the MLL database. Validation should include verifying that the proper lease or OA document exists on SharePoint. A standard checklist should be used to verify all financial reporting factors have been validated prior to approval of changes.
    - The current General Services Administration (GSA) OA number, including GSA version, is maintained in the MLL database to match GSA OAs to active OAs included in the MLL database.
- FMD Internal Control Branch (ICB) perform periodic reviews to ensure design and operating effectiveness of CAO's revised Master Lease Listing policies and procedures for financial reporting completeness and accuracy of TSA lease data.

- CAO implement a commercial real property management system that is interfaced with TSA's financial management system. CAO should work with FMD (including their ICB) to develop and update procedures to ensure appropriate management of TSA's real property portfolio.
- CAO assign a dedicated lease reporting coordinator to work with Portfolio Managers, and other lease personnel, to ensure the MLL database is updated timely and accurately in support of TSA's completeness assertion.

FMC 13-04 – Ineffective Controls over the Time and Attendance Process at Airports and Federal Air Marshall Facilities *(NFR No. TSA 13-04)*

During our FY 2013 site visits to airports, we noted that controls over time and attendance were not fully effective at the airports. We noted the following:

- Controls over the review and approval of timesheets are not operating effectively. Specifically, we noted:
  - Lack of evidence of timely supervisor review and approval of timesheets and additional supporting documentation (14 instances):
    - Two instances out of 65 where overtime requests were not approved prior to the employee working the overtime hours.
    - Four instances out of 65 where leave request approval documents (OPM-71 forms) could not be provided.
    - Two instances out of 65 where the employee timesheet was not timely reviewed and signed in support of hours worked.
    - Five instances out of 65 where leave was taken prior to supervisor approval.
    - One instance out of 65 where the employee was paid for 0.5 hour of unauthorized time worked.
  - Lack of policies and procedures to ensure consistent application of time and attendance review requirements at airports utilizing the Electronic Time and Attendance System (eTAS).

During our FY 2013 site visits to Federal Air Marshalls facilities, we noted that controls over time and attendance were not fully effective. We noted the following:

- Controls over the review and approval of timesheets were not operating effectively. Specifically, we noted:
  - Lack of evidence of timely supervisory review and approval of timesheets and additional supporting documentation (one instance):
    - One instance out of 48 where leave was taken prior to supervisor approval.

Recommendations:
We recommend that TSA:

- Develop and provide information and guidance on the governing policies for leave and overtime approvals and procedures for the use of eTAS.

- Remove the outdated Time and Attendance manual and replace it with up-to-date job aids addressing proper time and attendance recordation.
- Conduct 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.
- Provide guidance on the governing policy for appropriate OPM-71 document retention.

FMC 13-05 – Inadequate Review of Personnel Actions *(NFR No. TSA 13-05)*

Controls over review of personnel actions were not fully effective. Specifically, we noted two instances out of 45 where the EmpowHR Personnel Action Request was prepared and reviewed by the same person. We noted proper segregation of duties and adequate review did not exist in these instances.

Recommendations:
We recommend that TSA:
- Provide oversight to ensure that the service provider follows standard operating procedures, PER-031, HRSC Processing of New Hire Personnel Actions in EmpowHR, which indicates that the process and quality assurance (QA) roles are separate and distinct roles in the process.
- Continue oversight of the service provider's QA review of personnel actions to ensure it is operating effectively and in accordance with the Federal regulations, policies, and internal guidelines.

FMC 13-06 – Non-Compliance with the Debt Collection Improvement Act of 1996 *(NFR No. TSA 13-06)*

During FY 2013, TSA revised its internal standard operating procedure manual (ISOP) to ensure compliance with Debt Collection Improvement Act (DCIA) of 1996. Although an ISOP had been adopted and approved, the ISOP had not been in effect for the entire period sampled, and therefore could not ensure full compliance with the provisions of DCIA for FY 2013. Additionally, we noted the following:
- For five of 58 sample items selected, demand letters were not sent to the debtor in a timely fashion.
- As a result of these demand letters not being issued timely, we noted four instances of non-compliance regarding timely referral to Treasury.

Recommendations:
We recommend that TSA:
- Perform a thorough gap analysis of current processes and new service provider processes and system to streamline and automate existing manual processes.

    - To the extent possible, utilize the integration offered by the new service provider system through the use of the subsidiary system to minimize manual processes and reconciliations.
- Revenue office review ISOP for continued compliance.
- Revenue office review DCIA for continued compliance.

FMC 13-07 – Controls over Internal Use Software *(NFR No. TSA 13-07)*

TSA lacked effective controls at the program office level to ensure capitalizable internal use software (IUS) transactions were properly supported, documented and communicated timely for recording in the general ledger. Specifically, we noted:
- For two of the projects tested at interim, program managers were not able to provide sufficient support for cost capitalization criteria.
- For three of the projects tested at final, program managers were not able to provide sufficient support for cost capitalization criteria.
- One instance in which the program manager did not report cost estimates for services that had been performed but not yet invoiced by the vendor, resulting in prior period errors related to costs that should have been capitalized as of September 30, 2012.

Controls were not operating effectively to ensure that IUS phase shifts were communicated timely for financial reporting. We noted one instance where project enhancements were not transferred to the amortizable IUS account (United States Standard General Ledger (USSGL) Account 1830) timely based on the release deployment date.

Controls were not operating effectively to ensure project impairment checklists were completed timely by program managers for financial reporting considerations. We noted one instance where the project impairment checklist was not signed timely.

Controls were not operating effectively, when applying alternative valuation methodologies, to ensure that management appropriately:
- Quantified the impact to all relevant financial statement items of assumptions deemed to be immaterial.
- Maintained sufficient documentation to support subject matter expert (SME) cost capitalization allocations, particularly when allocations are not discernible from the contract/statement of work.
- Considered prior period impact of the methodology.

Recommendations:
We recommend that TSA:
- Chief Financial Officer work with the Office of Acquisitions and program offices to obtain and document the IUS data item description at the time of invoicing. This requirement should

be implemented for all existing contracts that have IUS, and all future contracts that could potentially result in IUS.

- Office of Acquisition obtain the IUS data item description for all new contracts where software is developed or licenses are purchased (when included in the purchase requisition package). Also, obtain IUS data item description on contracts for the largest IUS programs (those with a net book value greater than $5 million).
- Program offices submit impairment checklists quarterly to FMD in addition to submitting the impairment checklist in the month the actual impairment occurs.
- FMD review and update existing policies and procedures to improve the management review and approval process to ensure cost is properly supported, the review/approval of phase shifts in programs is documented, and the review of completed impairment checklists.
- FMD perform an assessment of OASIS Cohort program to address approach and methodology for applying alternative methodology assessment considering:
    - Documenting the prior period impact in adopting new methodology.
    - Documenting the criteria for establishing alternative methodology, programs benefitted for the program and basis for capitalization.
    - Quantifying the impact to all relevant financial statement items of assumptions deemed to be immaterial; including developing test for reasonableness and documented criteria for capitalization and useful life.
    - Establishing procedures and methodology to maintain sufficient documentation to support SME cost capitalization allocations, particularly when allocations are not discernible from the contract/statement of work.
    - Developing and publishing procedures related to establishing and maintaining an alternative assessment methodology for IUS.
    - Testing results quarterly to ensure consistency in applying methodology and adequacy of supporting documentation.

FMC 13-08 – Undelivered Orders Controls – Validation and Verification *(NFR No. TSA 13-09)*

TSA's policies and procedures were not designed effectively to ensure liquidation of remaining stale obligation balances is completed timely. Specifically:

- During our interim undelivered order (UDO) verification and validation control testwork, we noted five instances in which the liquidation of the remaining funding was not completed timely based on the contract period of performance expiration date.
- During our final UDO validity and recoveries of prior year unpaid obligations substantive testwork, we noted four instances in which the liquidation of the remaining funding was not completed timely based on the contract period of performance expiration date.

Recommendation:
We recommend that TSA:

- Office of Acquisition lead an organization wide assessment, in conjunction with other stakeholders, of the procedures and training required to implement a timely closeout process for TSA. This assessment can include the following interim steps:
    - Office of Acquisition and Office of Finance and Administration (FMD and Budget and Performance Division) to identify possible improvements to incentive programs to closeout contracts timely.
    - Provide training and guidelines to COR community for the initiation of timely closeout.

FMC 13-09 – Property, Plant, and Equipment Controls *(NFR No. TSA 13-10)*

TSA lacked fully effective preventative controls to ensure that capitalizable transactions are recorded in the general ledger timely and at the proper cost. We noted detective controls at the FMD level were relied upon to ensure complete and accurate financial reporting as of year-end. Specifically, we noted:

- Existing controls were not operating effectively at the program office level to ensure that the full cost is entered into Sunflower Asset Management System. We noted one instance where a prior period error was not detected and corrected until April of the current year.
- Existing controls were not operating effectively at the program office level to ensure the proper documentation is available for assets to be timely reviewed and approved for addition into Fixed Asset (FA) Module. Specifically, we noted one asset was not approved for addition into FA until two months after TSA took ownership of the asset.
- Existing controls were not operating effectively to ensure that capitalizable costs related to Transportation Security Equipment (TSE) are completely and accurately recorded. Specifically, we noted:
    - Five upgrade kits for which the unit cost exceeded the capitalization threshold but was not included in the TSE capitalized balance.
    - Six transferred assets were not recorded appropriately at either the net book value (NBV) of the transferring agency or asset fair market value on the date of transfer.

Controls were not operating effectively to document the quantification of the impact of managerial decisions to not capitalize certain other direct costs (ODCs).

Controls were not operating effectively to ensure that sufficient, appropriate documentation is maintained to support the completeness and accuracy of the year-end TSE accounts payable accrual. Specifically, while no significant discrepancies were identified, we noted that deviations from third-party vendor confirmations were not properly reconciled to supporting documentation to demonstrate that an accrual was not necessary.

Controls to verify that the complete TSE balance is reviewed on an annual basis for impairment considerations were not designed effectively to ensure that (a) checklists are sent to the Office of Security Capabilities for all manufacturers/models of TSE or (b) that the determination made to not send checklists is sufficiently documented (e.g. remaining NBV is inconsequential).

Recommendations:
We recommend that TSA:

- Work with the Office of Acquisitions to ensure all contracts for purchased equipment require TSA Form 251, *Vendor Shipping and Receiving Report*.
- Perform an analysis to document capitalization decisions that differ from standard capitalization determinations.
- Review and utilize the TSALC reports as a completeness step to ensure that upgrades are properly tracked and recorded.
- Program offices that purchase equipment provide the actual cost to be recorded in Sunflower in the month the equipment passes factory acceptance testing for TSE, and for non-TSE in the month the equipment was acquired and placed in service.

FMC 13-10 – Gross Cost Deficiencies *(NFR No. TSA 13-11)*

TSA lacked fully effective controls to ensure all capitalizable transactions are recorded timely in the general ledger. Specifically, we noted:

- TSA lacked policies and procedures to reconcile transactions that have been cleared as expense in USSGL account 1890 to the results of other process level reviews used to identify capitalizable transactions to ensure that the transactions have been properly capitalized and recorded timely in the general ledger. We noted one instance where expenses recorded through the USSGL account 1890 clearing process for capitalizable IT equipment were not applied to assets timely.
- While controls were designed and operating effectively to analyze transactions at year-end during manual review processes that result in re-classifications of account balances, TSA lacked documented policies and procedures to analyze and assess the financial reporting impact of gap periods at quarter-ends for such processes. We noted:
    - Two invoices for which an advance was properly identified but not recorded timely in the proper quarterly reporting period.
    - One invoice for which an ODC was properly identified but not recorded timely in the proper quarterly reporting period.

Controls were not operating effectively at the program office level to ensure transactions are recorded using the proper object class code. We noted three instances out of 118 where the object class for the transaction line item was coded incorrectly.

Controls were not operating effectively at the program level to ensure vendor type for transactions are properly coded as NONGOV or OSDOT. Specifically, we noted 71 instances in which a Federal vendor, primarily related to one vendor, was improperly coded as NONGOV.

Recommendations:
We recommend that TSA:

- Continue to execute the compensating controls in place to minimize the likelihood of material errors in the USSGL account 1890, including reviews several times a year through the management control objective plans implemented in the Property Plant and Equipment Accounting Branch.
- Update the ISOP for Advances and Prepayments to include procedures to analyze and assess the financial reporting impact of gap periods at quarter-end. TSA should implement the procedures outlined in the memorandum for the record titled *"Accounting for Prepayments at 2013 Fiscal Year-End,"* signed October 23, 2013, for all future March 31, June 30, and September 30 reporting periods. Specifically;
    - Adjust the formula used to calculate the liquidation of prepayments to be current for the reporting period.
    - Review and substantiate contract and purchase order obligations posted to the general ledger during the reporting period for prepayments.
    - Perform invoice validation for potential prepayments.
    - Record a Treasury Information Executive Repository (TIER) entry if validated prepayments exceed documented thresholds.
- Update the ISOP for ODCs to include procedures to analyze and assess the financial reporting impact of gap periods at quarter-end. Year-end procedures exist, but procedures for March 31 and June 30 reporting should be implemented as follows:
    - Determine the amount of ODCs identified in invoices processed in the financial system during the gap period of the reporting period. TSA should follow the normal invoice review procedures for this period.
    - Record this amount in a TIER entry. The amount should then be included in the following month's general ledger journal entry.
- Work with FINCEN to correct the vendor type. Review security, controls, and set-up of the vendor table during the requirements phase of the transition to the new financial system.
- FMD provide training to Business Managers and COR's on use of object class codes to include providing list of frequently used object class codes.
- FMD develop metrics utilizing results from PO review to track object class code errors impacting financial reporting.

FMC 13-11 – Review of Manual Adjustments (Journal Vouchers and TIER Adjustments) ***(NFR No. TSA 13-12)***

Controls related to journal entry reviews were not fully effective during the current year. Specifically we noted:

- One sample item out of 25 that was recorded for the incorrect amount.
- One sample item out of 25 that was recorded to the incorrect line of accounting.

Recommendations:
We recommend TSA:

- Ensure that Journal Entry and TIER adjustment preparers and reviewers follow stated procedures for review and approval.
- Branch Chiefs train their staff on all applicable accounting standards and procedures for their areas of responsibility. This training should include where and how the staff are to obtain all the required elements of a Journal Voucher.

FMC 13-12 – Contract Administration ***(NFR No. TSA 13-13)***

Controls were not operating effectively to ensure contracts are effectively administered, including executing modifications timely to extend contract periods of performance (POP) when services are still actively being received from the vendor. Specifically, in our testwork performed over UDOs, we noted the following:

- Two obligations for which the contract POP had expired and a contract modification was not executed to extend the POP.
- One obligation for which the contract POP had been extended, but the contract modification was not properly approved by a contracting officer prior to execution.

Recommendations:
We recommend that TSA:

- Office of Acquisitions review existing policies, procedures, and Federal Acquisition Regulations guidance related to invoicing instructions. Determine if changes to invoicing requirements are needed and when they should be applied.
- Office of Acquisitions review existing policies and procedures related to contract period of performance extensions. Determine if changes to documentation or training are needed. Provide guidance to contracting officers regarding processing extensions prior to the POP ending.

FMC 13-13 – Adjustments to Prior Year Obligations ***(NFR No. TSA 13-14)***

Controls were not operating effectively to ensure upward and downward adjustments are properly and timely reviewed and correctly recorded. Specifically, in our testwork performed over UDOs, we noted the following:

- Two instances where downward adjustments of prior year unpaid UDOs were not recorded timely, as recoveries, based on the de-obligating document date.
- Two instances where upward adjustments of prior year UDOs were not recorded timely, based on the obligating document date.

Controls were not fully implemented throughout FY 2013 to ensure obligations of expired authority are properly reviewed and approved to verify that the use of expired funds is appropriate, prior to recording as an upward adjustment.

Recommendations:
We recommend that TSA:

- Establish controls to prevent the use of prior year budget lines of accounting for new obligations and commitments.
- Establish a process that includes Budget and Performance Division review and certification if the use of prior budget year lines of accounting is requested.

FMC 13-14 – Entity Level Controls ***(NFR No. TSA 13-15)***

Entity-level controls were not fully effective throughout FY 2013. We noted:

- TSA lacked a documented policy requiring FMD employees to complete technical training in accounting related subjects to ensure compliance with the curriculum.
- TSA lacked effective controls to ensure performance reviews are signed off timely. Specifically, we noted eight instances out of 15 where there was insufficient evidence to support why the initial performance plan goal setting was not performed timely.

Recommendations:
We recommend that TSA:

- Continue implementing its training curriculum guide to foster employees' individual and career development. Additionally, individual and career development should be addressed in performance plans.
- Ensure compliance with Enterprise Performance Management Platform performance plan deadlines:
    - FY 2014 performance plans should be in place by January 31, 2014.
    - New hire plans should be in place within 30 days of their entry on duty.
    - Completion of mid-cycle performance assessments by the date specified by the Office of Human Capital.

FMC 13-15 – Imputed Costs *(NFR No. TSA 13-16)*

Controls were not fully effective to ensure completeness of imputed costs for FY 2013.

Recommendations:
We recommend that TSA:

- Work with Office of Chief Counsel to create and maintain a list of all cases submitted to the Judgment Fund and track each case's status against the Judgment Fund reports.
- Run the Judgment Fund reports for all months in which cases have been submitted to ensure they capture the whole population of payments each fiscal year.

Appendix A

Transportation Security Administration

Crosswalk – Financial Management Comments to Active NFRs

September 30, 2013

			Disposition[1]			
			IAR			FMC
Component	**NFR No.**	**Description**	**MW**	**SD**	**NC**	**No.**
TSA	13-01	Travel Authorization and Expenditure Support				13-01
TSA	13-02	Intra-Governmental Payment and Collection (IPAC) Review Controls and Suspense Clearing				13-02
TSA	13-03	Lease Accounting and Disclosure				13-03
TSA	13-04	Ineffective Controls over the Time and Attendance Process at Airports and Federal Air Marshal Facilities				13-04
TSA	13-05	Inadequate Review of Personnel Actions				13-05
TSA	13-06	Non-Compliance with the Debt Collection Improvement Act of 1996				13-06
TSA	13-07	Controls over Internal Use Software				13-07
TSA	13-08	Non-Compliance with the Federal Financial Management Improvement Act of 1996			J	
TSA	13-09	Undelivered Orders Controls – Validation and Verification				13-08
TSA	13-10	Property, Plant, & Equipment Controls				13-09
TSA	13-11	Gross Cost Deficiencies				13-10
TSA	13-12	Review of Manual Adjustments (Journal Vouchers and TIER Adjustments)				13-11
TSA	13-13	Contract Administration				13-12
TSA	13-14	Adjustments to Prior Year Obligations				13-13
TSA	13-15	Entity Level Controls				13-14
TSA	13-16	Imputed Costs				13-15

[1]Disposition Legend:

IAR Independent Auditors' Report dated December 11, 2013
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 Financial Reporting
B Information Technology Controls and Financial Systems Functionality
C Property, Plant, and Equipment
D Budgetary Accounting
E Entity-Level Controls
F Liabilities
G Grants Management
H Custodial Revenue and Drawback

Transportation Security Administration
Crosswalk – Financial Management Comments to Active NFRs
September 30, 2013

I	*Federal Managers' Financial Integrity Act of 1982* (FMFIA)
J	*Federal Financial Management Improvement Act of 1996* (FFMIA)
K	*Single Audit Act Amendments of 1996*
L	*Antideficiency Act,* as amended (ADA)

Appendix A
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