



# Department of Homeland Security Office of Inspector General

## Management Letter for the Transportation Security Administration's Consolidated Balance Sheet as of September 30, 2009





# Homeland Security

APR - 8 2010

## Preface

The Department of Homeland Security (DHS) Office of Inspector General (OIG) was established by the *Homeland Security Act of 2002* (Public Law 107-296) by amendment to the *Inspector General Act of 1978*. This is one of a series of audit, inspection, and special reports prepared as part of our oversight responsibilities to promote economy, efficiency, and effectiveness within the department.

This report presents the management letter for the audit of the Transportation Security Administration's (TSA) consolidated balance sheet as of September 30, 2009. It contains observations and recommendations related to internal controls that did not reach the level required to be reported in the balance sheet report. Other internal control weaknesses which are considered significant deficiencies were reported, as required, in KPMG LLP's (KPMG) Independent Auditors' Report, dated March 17, 2010. The independent public accounting firm KPMG performed the audit and prepared this management letter and is responsible for the attached letter and the conclusions expressed in it. We do not express opinions on TSA's consolidated balance sheet, or conclusions on compliance with laws and regulations.

The recommendations herein have been discussed in draft with those responsible for implementation. We trust this report will result in more effective, efficient, and economical operations. We express our appreciation to all of those who contributed to the preparation of this report.

A handwritten signature in cursive script, reading "Anne L. Richards".

Anne L. Richards  
Assistant Inspector General for Audits



**KPMG LLP**  
2001 M Street, NW  
Washington, DC 20036

March 23, 2010

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

Ladies and Gentlemen:

We have audited the balance sheet of the U.S. Department of Homeland Security, Transportation Security Administration (TSA) as of September 30, 2009, and have issued our report thereon dated December 11, 2009. In planning and performing our audit of the balance sheet of TSA, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the balance sheet but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of TSA's internal control.

During our audit we noted certain matters involving internal control and other operational matters summarized in the Table of Financial Management Comments and presented herein 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 comments are in addition to the significant deficiencies presented in our *Independent Auditors' Report*, dated March 17, 2010, included in the FY 2009 TSA *Annual Financial Report*. A description of each internal control finding and its disposition as either a significant deficiency or a financial management comment is provided in Appendix A. The status of our prior year findings and recommendations are provided in Appendix B. Our findings related to information technology functionality and systems security have been presented in a separate letter to the Office of Inspector General and the TSA Chief Information Officer. TSA's response to the findings identified are presented in Appendix C. We did not audit TSA's response, and accordingly, we express no opinion on it.

Our audit procedures are designed primarily to enable us to form an opinion on the balance sheet, 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.

This report is intended for the information and use of TSA management, the Office of Inspector General, the U.S. Office of Management and Budget, the U.S. Congress, and the Government Accountability Office, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**KPMG LLP**

Transportation Security Administration  
*Table of Financial Management Comments*  
 September 30, 2009

**TABLE OF FINANCIAL MANAGEMENT COMMENTS (FMC)**

<b>Transportation Security Administration (TSA)</b>		<b>Pages</b>
TSA 09-01	Undelivered Order Balances	4
TSA 09-02	Required Supplementary Stewardship Information	4
TSA 09-03	Grant monitoring and compliance with OMB Circular No. A-133	4
TSA 09-04	Ineffectiveness of controls over the time and attendance process	4
TSA 09-05	SAS 70 reviews	5
TSA 09-06	Incorrect Classification of Obligations as Fed or Non-Fed	5
TSA 09-07	Use of the GAO Checklist	5
TSA 09-08	Fund Balance with Treasury Policies and Controls	6
TSA 09-09	Accounts Receivable Policies and Procedures	6
TSA 09-10	Controls over Payroll Process	6
TSA 09-11	Net Position Balances and Deobligation	7

**APPENDIX**

<b>Appendix</b>	<b>Subject</b>	<b>Page(s)</b>
<b>A</b>	<b>Crosswalk – Financial Management Comments to Active Notice of Findings and Recommendations (NFRs)</b>	<b>8</b>
<b>B</b>	<b>Status of Prior Year NFRs</b>	<b>10</b>
<b>C</b>	<b>Management Response</b>	<b>11</b>

***TSA FMC 09-01 (NFR No. TSA 09-05) – Undelivered Order Balances***

TSA has made substantial progress in addressing internal control weaknesses related to undelivered orders since FY 2007. However, during our FY 2009 audit, we noted that certain internal controls related to contract management policies and procedures were not effective. Specifically, we noted 10 instances in a sample of 356 where contract management policies and procedures were not adhered to. As a result, certain expenditures for capitalizable equipment were not properly classified in the financial statements.

*Recommendations:*

We recommend that TSA improve internal controls over adherence to contract management policies and procedures. In particular improve the oversight and review of capital expenditures, to ensure proper classification in the general ledger and therefore improve the accuracy of the financial statements.

***TSA FMC-09-02 (NFR No. TSA 09-10) – Required Supplementary Stewardship Information***

TSA has steadily improved its reporting of outcomes and outputs as required by OMB Circular A-136 for Required Supplementary Stewardship Information (RSSI), specifically investments in human capital and research and development. However, we noted that some of the outcomes and outputs for two investments in research and development projects, specifically the Applied Research Projects and the Operation Safe Commerce Project, were not properly reported in the draft financial statements.

*Recommendation:*

While TSA is not required to strictly follow OMB Circular A-136, the usefulness of the financial statements would be improved if TSA implemented procedures to track and report all relevant outcomes and outputs as RSSI.

***TSA FMC-09-03 (NFR No. TSA 09-15) – Grant monitoring and compliance with OMB Circular No. A-133***

When following up on FY 2008 NFR No. TSA 08-15, we noted that certain policies and procedures (to support compliance with OMB Circular No. A-133) that require monitoring of grantee were not fully implemented during FY 2009. Specifically, we noted 8 instances in a sample of 8 items where grantee audit reports were not obtained and reviewed in a timely manner.

*Recommendations:*

We recommend that TSA fully implement its policies and procedures to ensure that grantee audit reports are obtained and reviewed timely.

***TSA FMC-09-04 (NFR No. TSA 09-18) – Ineffectiveness of controls over the time and attendance process***

TSA has improved its payroll process in FY 2009, however, we noted that some time and attendance policies were not consistently followed throughout the year. Additionally, the *Time and Attendance Administration Manual*, issued July 2009, does not include a comprehensive explanation of the review procedures required to ensure timely review of employee time and attendance. Specifically, we noted 12 instances in a sample of 100 items where TSA time and attendance reports were not properly reviewed.

*Recommendations:*

We recommend that TSA improve its time and attendance review procedures to ensure that policies are consistently followed throughout the year and payroll controls are operating effectively. This should include:

- Procedures to ensure employees sign all time sheets;
- Procedures to ensure approvers perform a detailed review of all time sheets and document their reviews; and
- Require that all timekeepers mark time sheets for review if the employee signature is absent and regularly follow up on such items until they are resolved.

***TSA FMC-09-05 (NFR No. TSA 09-25) – SAS 70 Reviews***

TSA lacks policies and procedures to ensure that all of its service providers receive the necessary SAS 70 review, and when the review is performed that the results are evaluated for their impact on TSA's control environment. We noted that control deficiencies at one significant service provider were not evaluated for potential effects on the reliability of services performed and reports received by TSA. In addition, TSA did not consider the gap in time period between the report period covered and TSA's fiscal year.

*Recommendations:*

We recommend that TSA develop policies and procedures to ensure that SAS 70 reports are obtained for each significant service provider; the SAS 70 reports are reviewed timely; the effects of control deficiencies disclosed are considered; and the time-period covered by the report is appropriate for TSA's financial reporting purposes.

***TSA FMC-09-06 (NFR No. TSA 09-26) –Incorrect Classification of Obligations as Fed or Non-Fed***

We noted that the "vendor type" coding of some expenditures was not always completed accurately, or in some cases was not performed. Specifically, we noted 3 instances in a sample of 356 obligations with a federal vendor where expenditure coding was not properly performed.

*Recommendation:*

We recommend that TSA improve training of staff to ensure that proper vendor type coding is identified for all expenditures.

***TSA FMC-09-07 (NFR No. TSA 09-32) – Use of the GAO Checklist***

We noted that TSA's financial statement review process requires the completion of the GAO Checklist, however, the reviews are not always performed thoroughly or accurately to ensure the responses provided are appropriate and relevant to TSA's financial statements, and therefore limiting the usefulness of the review process.

*Recommendation:*

We recommend that TSA implement procedures to ensure that the GAO Checklist is thoroughly reviewed in conjunction with the financial statement preparation process, and that each topic included in the checklists is properly addressed.

***TSA FMC-09-08 (NFR No. TSA 09-34) – Fund Balance with Treasury Policies and Controls***

During our walkthrough of the Fund Balance with Treasury process at TSA, we noted areas where TSA could improve its policies and internal controls. Specifically TSA does not have:

- A policy that requires a detailed review of the matching of IPAC transactions from the suspense account to the related obligations; and
- IT System controls to prevent an individual from entering and approving the posting of a warrant, transfer, or rescission to the general ledger, without documented supervisor approval.

*Recommendations:*

We recommend TSA:

- Implement a policy to perform a detailed review of the matching of IPAC transactions from the suspense account to the related obligation; and
- Improve IT System controls to prevent an individual from entering and approving the posting of a warrant, transfer or rescission to the general ledger, without supervisory review.

***TSA FMC-09-09 (NFR No. TSA 09-35) – Accounts Receivable Policies and Procedures***

During our walkthrough of the accounts receivable process we noted that TSA does not have policies and procedures in place or documented to (1) ensure completeness of the bankruptcy portion of the allowance for doubtful accounts analysis, and (2) ensure a regular review of the allowance for doubtful accounts methodology. In addition, TSA's air carrier audit procedures are not designed to provide timely review of air carrier payments. Specifically, we noted that a number of planned audits were not completed timely.

*Recommendations:*

We recommend that TSA:

- Implement policies and procedures to perform a completeness review of the bankruptcy portion of the allowance for doubtful accounts analysis;
- Implement policies and procedures to perform a regular review of the allowance for doubtful accounts methodology; and
- Perform audits of the air carriers on a timely basis.

***TSA FMC-09-10 (NFR No. TSA 09-36) – Controls over Payroll Process***

We noted that policies and procedures over payroll could be improved. Specifically, we noted that TSA does not have:

- Effective review and approval controls over personnel actions. Specifically, TSA was unable to provide evidence of review and approval of some personnel actions;
- Documented policies and procedures to ensure that fringe benefit and tax portions of annual leave are properly accrued;
- Documented policies and procedures to ensure a review of the completeness and accuracy of aggregate payroll expense is performed prior to processing; and

Transportation Security Administration  
*Financial Management Comments*  
September 30, 2009

- Documented policies and procedures to ensure that WebTA and the National Finance Center (NFC) unfunded leave balances are reconciled and adjusted for quarterly reporting.

*Recommendation:*

We recommend that TSA:

- Improve internal controls over personnel actions, including the design and implementation of a policy requiring timely review and approval of personnel actions, and retention of appropriate documents;
- Document its policies over the accrual of fringe benefit and taxes portions of annual leave;
- Document policies and procedures to ensure a review of the completeness and accuracy of aggregate payroll expense prior to processing; and
- Document policies and procedures to ensure that WebTA and NFC unfunded leave balances are reconciled and adjusted for quarterly reporting.

***TSA FMC-09-11 (NFR No. TSA 09-42) – Net Position Balances and Deobligations***

We noted that TSA's internal controls over the accuracy of net position balances are not designed to ensure the timely deobligation of open obligations. Specifically we noted that the quarterly review of undelivered orders was performed and documented by TSA during FY 2009, however, appropriate follow-up action to determine if the obligation was valid or should be deobligated was either not performed or not documented in 19 of 37 items selected for audit in the second quarter review. Further, of the 19 items 15 were open for follow up since the prior quarter.

*Recommendation:*

We recommend TSA improve its controls over the monitoring of the status of its obligations as part of the normal business process. Ensure that personnel consistently perform and follow-up on the results of the quarterly obligation reviews to determine whether the remaining balance on of an obligation is valid or should be deobligated.



Transportation Security Administration  
 Crosswalk of Financial Management Comments to NFRs  
 September 30, 2009

Component	NFR No.	Description	Disposition			
			IAR			FMC
			MW	SD	NC	No.
TSA	09-01	<i>Number not used</i>	Not applicable			
TSA	09-02	<i>Number not used</i>	Not applicable			
TSA	09-03	<i>Number not used</i>	Not applicable			
TSA	09-04	Incorrect trading partner codes	A			
TSA	09-05	Undelivered order documentation				09-01
TSA	09-06	<i>Number not used</i>	Not applicable			
TSA	09-07	<i>Number not used</i>	Not applicable			
TSA	09-08	<i>Number not used</i>	Not applicable			
TSA	09-09	Financial reporting deficiencies	A			
TSA	09-10	Required Supplementary Information				09-02
TSA	09-11	Debt Collection Improvement Act (DCIA) compliance			E	
TSA	09-12	<i>Number not used</i>	Not applicable			
TSA	09-13	Non-compliance with FFMIA	A			
TSA	09-14	Non-compliance with FMFIA	Reported at Consolidated			
TSA	09-15	Grant monitoring and compliance with OMB Circular No. A-133				09-03
TSA	09-16	Non-Compliance with human resources related laws			F	
TSA	09-17	<i>Number not used</i>	Not applicable			
TSA	09-18	Ineffectiveness of controls over the time and attendance process				09-04

Transportation Security Administration  
 Crosswalk of Financial Management Comments to NFRs  
 September 30, 2009

Component	NFR No.	Description	Disposition			
			IAR			FMC
			MW	SD	NC	No.
TSA	09-19	Policies and procedures to ensure compliance with GAAP	A			
TSA	09-20	<i>Number not used</i>	Not applicable			
TSA	09-21	Untimely Update of Asset Transfers	B			
TSA	09-22	Warehouse property impairment	B			
TSA	09-23	<i>Number not used</i>	Not applicable			
TSA	09-24	Review of journal vouchers	A			
TSA	09-25	Review of Service Organization's Internal Control				09-05
TSA	09-26	Incorrect classification of obligations as Federal or Non-Federal				09-06
TSA	09-27	Accounts payable	C			
TSA	09-28	Reporting of PP&E	A, B			
TSA	09-29	Entity-level controls	A			
TSA	09-30	Accounting for Leases	A			
TSA	09-31	Ineffective controls over the warehouse	B			
TSA	09-32	Ineffectiveness of controls over the GAO Checklist				09-07
TSA	09-33	Site Visit Controls	B			
TSA	09-34	Fund Balance with Treasury Controls				09-08
TSA	09-35	Ineffective controls over the Accounts Receivable Process				09-09
TSA	09-36	Controls over Payroll Process				09-10

Transportation Security Administration  
 Crosswalk of Financial Management Comments to NFRs  
 September 30, 2009

Component	NFR No.	Description	Disposition			
			IAR			FMC
			MW	SD	NC	No.
TSA	09-37	Procurement Controls	C			
TSA	09-38	Ineffective PPE Controls	B			
TSA	09-39	Ineffective controls over the Accrued Liabilities Process	C			
TSA	09-40	Ineffective Monitoring of IUS	B			
TSA	09-41	Supporting Documentation of Property Records	B			
TSA	09-42	Ineffective controls over Net Position				09-11
<b>Key</b>						
IAR – Independent Auditors Report						
FMC – Financial Management Comments						
MW – Material Weakness						
NFR – Notice of Findings and Recommendations						
SD – Significant Deficiency						
NC – Non-Compliance with Laws and Regulations						
No. – Financial Management Comment Number						

Transportation Security Administration  
*Status of Prior Year NFRs*  
 September 30, 2009

Component	NFR No.	Description	Disposition	
			Closed	Repeat (09 NFR No.)
TSA	08-04	Incorrect trading partner codes		09-04
TSA	08-05	Undelivered order documentation		09-05
TSA	08-09	Financial reporting deficiencies		09-09
TSA	08-10	Required Supplementary Information		09-10
TSA	08-11	Debt Collection Improvement Act (DCIA) compliance		09-11
TSA	08-13	Non-compliance with FFMIA		09-13
TSA	08-14	Non-compliance with FMFIA		09-14
TSA	08-15	Grant monitoring and compliance with OMB Circular No. A-133		09-15
TSA	08-16	Non-Compliance with human resources related laws		09-16
TSA	08-18	Ineffectiveness of controls over the time and attendance process		09-18
TSA	08-19	Policies and procedures to ensure compliance with GAAP		09-19
TSA	08-20	Incomplete Listing of Asset Leases	X	
TSA	08-21	Unauthorized transfer of assets		09-21
TSA	08-22	Warehouse property impairment		09-22
TSA	08-23	Policies and Procedures for Evaluating Non-GAAP Policies	X	
TSA	08-24	Review of journal vouchers		09-24
TSA	08-25	SAS 70 review		09-25
TSA	08-26	Incorrect classification of obligations as Fed or non-Fed		09-26

Transportation Security Administration  
*Status of Prior Year NFRs*  
 September 30, 2009

Component	NFR No.	Description	Disposition	
			Closed	Repeat (09 NFR No.)
TSA	08-27	Accounts payable		09-27
TSA	08-28	Reporting of PP&E		09-28
TSA	08-29	Entity-level controls		09-29
TSA	08-30	Accounting for Leases		09-30

**Transportation Security Administration**  
*Management Response to the  
Financial Management Comments*

MAR 10 2010



U.S. Department of Homeland Security

Office of Finance and Administration  
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**Transportation  
Security  
Administration**

Anne L. Richards  
Assistant Inspector General for Audits  
Department of Homeland Security  
Office of Inspector General  
245 Murray Lane, SW  
Building 410  
Washington, DC 20528

Dear Ms. Richards:

Thank you for the opportunity to comment on the *Draft Report: Management Letter for the Transportation Security Administration's Consolidated Balance Sheet as of September 30, 2009*. We generally concur with the report and are taking action to address your recommendations. We look forward to working with your team during the upcoming FY 2010 audit.

Sincerely,

A handwritten signature in black ink, appearing to read "David R. Nicholson".

David R. Nicholson  
Assistant Administrator and Chief Financial Officer  
Office of Finance and Administration

**Appendix A**  
**Report Distribution**

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