



# Department of Homeland Security Office of Inspector General

## Management Letter for the Audit of the Transportation Security Administration's Consolidated Balance Sheet as of September 30, 2008



Office of Inspector General

U.S. Department of Homeland Security  
Washington, DC 20528



Homeland  
Security

APR 10 2009

### 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 represents the management letter for the audit of the Transportation Security Administration's (TSA) consolidated balance sheet as of September 30, 2008. It contains observations and recommendations related to internal controls that did not reach the level of materiality to be reported in the financial statement report. Other internal control deficiencies which are considered significant or material were reported, as required, in KPMG LLP's *Independent Auditors' Report*, dated March 6, 2009, that was included in TSA's FY 2008 Performance and Accountability Report. The independent public accounting firm KPMG performed the audit and prepared this management letter, and is responsible for the attached management letter dated March 25, 2009 and the conclusions expressed in it. We do not express opinions on TSA's financial statements, internal controls, or provide 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 that reads "Richard L. Skinner".

Richard L. Skinner  
Inspector General



KPMG LLP  
2001 M Street, NW  
Washington, DC 20036

March 25, 2009

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

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, 2008. We were not engaged to audit the statements of net cost, changes in net position, and budgetary resources, for the year ended September 30, 2008 (referred to herein as "other fiscal year 2008 financial statements"). In our opinion, except for the effects of adjustments, if any, that might have been necessary had we been able to apply sufficient audit procedures to general property and equipment balances, and future minimum lease payments, the consolidated balance sheet referred to above presents fairly, in all material respects, the financial position of TSA as of September 30, 2008, in conformity with U.S. generally accepted accounting principles.

In connection with our fiscal year (FY) 2008 audit, we were also engaged to consider TSA's internal controls over financial reporting, and TSA's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on the balance sheet. Our procedures did not include examining the effectiveness of internal control and do not provide assurance on internal control. We have not considered internal control since the date of our report.

We noted certain matters involving internal control and other operational matters that are summarized in the Table of Financial Management Comments and 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 comments are in addition to the significant deficiencies presented in our *Independent Auditors' Report*, dated March 6, 2009, included in the FY 2008 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 notice of findings and recommendations are provided in Appendix B. Our findings related to information technology systems security have been presented in a separate letter to the Office of Inspector General and the TSA Chief Information Officer.

As described above, TSA was unable to fully support the accuracy and completeness of certain general property and equipment balances and related effects on net position, if any, prior to the completion of TSA's FY 2008 *Annual Financial Report*. We were not engaged to audit the statements of net cost, changes in net position, and budgetary resources for the year ended September 30, 2008. Accordingly, other internal control matters and other instances of non-compliance may have been identified and reported had we been able to perform all procedures necessary to express an unqualified opinion on the fiscal year 2008 balance sheet and had we been engaged to audit the other fiscal year 2008 financial statements. 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. TSA's response to the findings identified in our audit, and reported herein, is presented in Appendix C. We did not audit TSA's response and, accordingly, we express no opinion on it.

Very truly yours,

**KPMG LLP**

Transportation Security Administration  
*Table of Financial Management Comments*  
 September 30, 2008

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

<b>Component</b>	<b>Comment Reference    Subject</b>	<b>Page(s)</b>
<b>Transportation Security Administration (TSA)</b>		<b>4 - 6</b>
	TSA 08-01    Undelivered orders documentation	
	TSA 08-02    Required Supplementary Information	
	TSA 08-03    Grant monitoring and compliance with OMB Circular No. A-133	
	TSA 08-04    Ineffectiveness of controls over the time and attendance process	
	TSA 08-05    Incomplete listing of asset leases	
	TSA 08-06    Unauthorized transfer of assets	
	TSA 08-07    SAS 70 review	

**APPENDIX**

<b>Appendix</b>	<b>Subject</b>	<b>Page(s)</b>
<b>A</b>	<b>Crosswalk – Financial Management Comments to Active NFRs</b>	<b>7</b>
<b>B</b>	<b>Status of Prior Year NFRs</b>	<b>8</b>
<b>C</b>	<b>Management Response</b>	<b>9</b>

Transportation Security Administration  
*Financial Management Comments*  
September 30, 2008

***TSA FMC 08-01 (NFR No. TSA 08-05) – Undelivered orders documentation***

While auditing undelivered orders we noted that:

- TSA lacks sufficient internal controls to ensure contract management policies and procedures are being adhered too. Specifically, we noted the following instances where contract management policies and procedures failed:
  - Two instances where the period of performance of the obligation was not extended until after the expiration of the original period of performance.
  - Three instances of an expenditure's billing period extending beyond or outside the period of performance of the obligation.
  - One instance of an untimely deobligation related to a contract whose period of performance had expired over six months earlier.
- Expenditures were not evaluated to determine if they related to capitalizable activity. Specifically, we noted two instances where assets purchased over the established capitalization threshold of \$50,000 did not appear on the Sunflower Capitalized Asset list as of September 30, 2008.
- Proper adherence to the travel policy did not occur in all instances. Specifically, we noted 36 instances where a travel authorization was not recorded prior to travel.

*Recommendations:*

We recommend that TSA:

1. Implement sufficient internal controls to ensure that contract management policies and procedures are being followed.
2. Implement sufficient internal controls to ensure polices and procedures are followed to ensure that expenditures that relate to capitalizable activity are capitalized.
3. Implement sufficient internal controls to ensure that travel policies and procedures are being followed.

***TSA FMC-08-02 (NFR No. TSA 08-10) – Required Supplementary Information***

We noted that during FY 2008, TSA has made efforts to enhance report outcomes and outputs as required by Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, for Required Supplementary Stewardship Information (RSSI), specifically investments in human capital and research and development. We noted that although efforts have been made, TSA was unable to obtain all necessary support.

*Recommendation:*

We recommend that TSA develop and implement procedures to develop and track relevant outcomes and outputs and report them as part of RSSI.

***TSA FMC-08-03 (NFR No. TSA 08-15) – Grant monitoring and compliance with OMB Circular No. A-133***

We noted that policies and procedures exist to monitor grantees' compliance with OMB Circular No. A-133, *Audits of State, Local Governments, and Non-Profit Organizations*; however, they

Transportation Security Administration  
*Financial Management Comments*  
September 30, 2008

were not fully implemented during FY 2008. KPMG noted the following in our review of TSA's compliance with OMB Circular A-133:

- TSA's tracking database used to track grants, including those subject to the audit requirements in A-133, is incomplete. Specifically, this database does not include all grants which are required to have a Single Audit performed.
- The dates in the grants database used to track the fiscal year end for grantees were incorrect or not included.
- Evidence of TSA's review of all of the grantee's Single Audit reports listed in TSA's database was not noted in the database.

*Recommendations:*

We recommend that TSA continue its efforts started during the last quarter of FY 2008 to review all grants, and monitor the grants on a timely basis, tracking the fiscal year end of the grantee, the award amount, and the status of the most recent Single Audit reports. We also recommend that TSA put processes in place to continually monitor completeness over the listing of grants. This will ensure that all of TSA's grants are included in the grants database and are monitored for compliance.

***TSA FMC-08-04 (NFR No. TSA 08-18) – Ineffectiveness of controls over the time and attendance process***

We noted several instances where the T&A sheets were missing the approval signature of the employee. Upon further inquiry, it was noted that the employees were not available to review and sign their timesheet when it was required to be submitted because of shift conflicts or being on personal leave. Due to this, the supervisors approved the timesheet and the timesheet was entered into the webTA system without proper approval from the employee. Furthermore, even after being entered into webTA, the timesheet was never returned to the employee for review and approval.

*Recommendations:*

We recommend that TSA:

1. Implement and follow an additional policy that requires employees to review and sign all timesheets.
2. Mandate that timekeepers mark timesheets for review if the employee signature is absent and regularly follow up on such items until they are resolved.

***TSA FMC-08-05 (NFR No. TSA 08-20) – Incomplete listing of asset leases***

During our inventory observation procedures, we noted that one asset selected to verify its existence and inclusion in the annual property inventory was excluded from the Sunflower capitalized asset module. Upon inquiry with site management, the asset was identified as leased property, and therefore properly excluded from owned asset listing. However, we also noted that the asset was not included on the leased asset listing.

*Recommendations:*

We recommend that TSA develop and implement a policy to reasonably ensure that all leased assets are properly tracked. The policy should include:

1. Guidance to help identify equipment as leased assets and to maintain a listing of the assets;
2. A requirement to perform periodic reviews to ensure completeness, and indicate the disposition of the asset when the lease expires.

Transportation Security Administration  
*Financial Management Comments*  
September 30, 2008

***TSA FMC-08-06 (NFR No. TSA 08-21) – Unauthorized transfer of assets***

TSA personnel did not always adhere to TSA policy requiring authorization and documentation to support all security equipment transfers between locations. We noted one instance where an asset was not in the airport location listed in TSA's records. The asset was listed to be in Jacksonville, FL (JAX), but was located at the Daytona Beach International Airport. TSA informed us that "no transfer documentation was available to support transfer of this asset from JAX to Daytona. The move was unauthorized." As such, in this instance TSA personnel did not adhere to the Office of Property Management's Security Equipment Movement Procedures.

*Recommendation:*

We recommend that TSA implement monitoring controls to ensure the existing policy in place regarding the transfer of assets is followed.

***TSA FMC-08-07 (NFR No. TSA 08-25) – SAS 70 review***

As of September 2008, TSA had not performed a review of its service providers' internal control report or evaluated the implications of the service providers' controls on TSA's control environment for FY 2008. Additionally, the review that was performed over the service organizations' FY 2007 controls did not evaluate the implications of the service providers' controls on TSA's control environment. During October 2008, TSA performed a review of its service providers' draft control report to determine any implications to the financial statements. Based on this review, no additional steps were identified.

*Recommendation:*

We recommend that TSA continue its review of its service providers' current year internal control reports on an annual basis and review updated and finalized reports as necessary.



Transportation Security Administration  
 Crosswalk of Financial Management Comments to NFRs  
 September 30, 2008

Component	NFR No.	Description	Disposition			
			IAR			FMC
			MW	SD	NC	No.
TSA	08-01	Number not used	Not applicable			
TSA	08-02	Number not used	Not applicable			
TSA	08-03	Number not used	Not applicable			
TSA	08-04	Incorrect trading partner codes	A			
TSA	08-05	Undelivered order documentation				08-01
TSA	08-06	Number not used	Not applicable			
TSA	08-07	Number not used	Not applicable			
TSA	08-08	Number not used	Not applicable			
TSA	08-09	Financial reporting deficiencies	A			
TSA	08-10	Required Supplementary Information				08-02
TSA	08-11	Debt Collection Improvement Act (DCIA) compliance			E	
TSA	08-12	Number not used	Not applicable			
TSA	08-13	Non-compliance with FFMIA			A	
TSA	08-14	Non-compliance with FMFIA	Reported at Consolidated			
TSA	08-15	Grant monitoring and compliance with OMB Circular No. A-133				08-03
TSA	08-16	Non-Compliance with human resources related laws			F	
TSA	08-17	Number not used	Not applicable			
TSA	08-18	Ineffectiveness of controls over the time and attendance process				08-04
TSA	08-19	Policies and procedures to ensure compliance with GAAP	A			
TSA	08-20	Incomplete listing of asset leases				08-05
TSA	08-21	Unauthorized transfer of assets				08-06
TSA	08-22	Warehouse property impairment	B			
TSA	08-23	Policies and procedures for evaluating non-GAAP policies	A			
TSA	08-24	Review of journal vouchers	A			
TSA	08-25	SAS 70 review				08-07
TSA	08-26	Incorrect classification of obligations as Fed or non-Fed	A			
TSA	08-27	Accounts payable	A			
TSA	08-28	Reporting of PP&E	A, B			
TSA	08-29	Entity-level controls		D		
TSA	08-30	Accounting for Leases	A			

Transportation Security Administration  
*Status of Prior Year NFRs*  
 September 30, 2008

Component	NFR No.	Description	Disposition	
			Closed	Repeat (08 NFR No.)
TSA	07-01	Letters of intent accrual for June 30, 2007	X	
TSA	07-02	Accrued leave balances	X	
TSA	07-03	PP&E depreciation	X	
TSA	07-04	Incorrect trading partner codes		TSA 08-04
TSA	07-05	Undelivered order balances		TSA 08-05
TSA	07-06	Construction in Progress (CIP)	X	
TSA	07-07	Reconciliation of property, plant, and equipment	X	
TSA	07-08	Use of USSGL account 1890	X	
TSA	07-09	Financial reporting deficiencies		TSA 08-09
TSA	07-10	Required Supplementary Stewardship Information		TSA 08-10
TSA	07-11	Debt Collection Improvement Act (DCIA) compliance		TSA 08-11
TSA	07-12	Allowance for Doubtful Accounts and Related Accounts Receivable Methodology	X	
TSA	07-13	Non-compliance with FFMIA		TSA 08-13
TSA	07-14	Non-compliance with FMFIA		TSA 08-14
TSA	07-15	Grant monitoring and compliance with OMB Circular No. A-133		TSA 08-15
TSA	07-16	Non-Compliance with Human Resources Related Laws		TSA 08-16
TSA	07-17	Core Accounting System (CAS) Generated Accounts Payable	X	

**Transportation Security Administration**  
*Management Response to the Draft*  
*Management Letter*

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U.S. Department of Homeland Security

Office of Finance and Administration  
601 South 12<sup>th</sup> Street, TSA-14  
Arlington, VA 20598-6014

MAR 19 2009



Transportation  
Security  
Administration

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

Dear Ms. Richards:

Thank you for the opportunity to respond to comments addressed in the Financial Management Comment (FMC) Letter pertaining to the FY 2008 TSA Balance Sheet audit. We appreciate your staff and KPMG's efforts in assisting TSA in improving internal control and other operating efficiencies.

As directed by DHS CFO, we have developed comprehensive Mission Action Plans (MAPs) in the areas of Financial Reporting, Property Management, Information Technology General Controls, Budgetary Accounting, and Human Capital. Corrective actions have been developed in response to your recommendations and have been included in our MAPs.

Our actions for each of the recommendations are described below.

***TSA FMC 08-01 (NFR No. TSA 08-05) – Undelivered orders documentation.***

**Recommendations:**

- Implement sufficient internal controls to ensure that contract management policies and procedures are being followed.

**TSA Response:** Concur. The Office of Acquisition has hired a Policy Director and two federal employees who are actively reviewing and updating TSA's acquisition policies. The Office of Acquisition has begun offering policy workshops to educate agency staff and re-enforce the policies.

- Implement sufficient internal controls to ensure policies and procedures are followed to ensure that expenditures that relate to capitalizable activity are capitalized.

**TSA Response:** Concur. TSA, through the Property Integrated Project Team, is revising the policies and procedures for inputting capitalized assets into Sunflower to ensure costs are entered as part of the asset data. This is Critical Milestone # 10.0 in our Property Management MAP.

- Implement sufficient internal controls to ensure that travel policies and procedures are being followed.

File Code: 1000.0.1

www.tsa.gov

**TSA Response:** Concur. TSA's Office of Financial Management, Financial Policy, Travel, and Procedures (FPT&P) Branch is developing a report to identify travelers whose authorization was approved after travel began. They are developing a process to notify the appropriate personnel of the occurrence. The FPT&P Branch has also put in place a contract to perform travel voucher post-payment audits. These audits began in November 2008. An average of 670 vouchers per month (approximately 8000 per year) will be audited. The Internal Control Branch will also be performing audits on the post-payment audit process. In addition, all TSA employees will be reminded through a TSA-wide broadcast message concerning compliance with the travel policy requirements. The FPT&P Branch will also be re-enforcing the travel policy requirements during their periodic Policy Round Table and TeServ Point of Contact conference calls. A newsletter article concerning compliance with travel policies will be in the next Financial Management newsletter.

***TSA FMC-08-02 (NFR No. TSA 08-10) – Required Supplementary Information.***

**Recommendation:**

- We recommend that TSA develop and implement procedures to develop and track relevant outcomes and outputs and report them as part of RSSI.

**TSA Response:** Concur. TSA has developed MAP milestones to determine the TSA managed programs that are applicable to OMB A-136. TSA also has developed milestones to develop the process and procedures for determining the RSSI information requirements and to ensure compliance. This is Critical Milestone # 7.0 in our Financial Reporting MAP.

***TSA FMC-08-03 (NFR No. TSA 08-15) – Grant monitoring and compliance with OMB Circular No. A-133.***

**Recommendations:**

- We recommend that TSA continue its efforts started during the last quarter of FY 2008 to review all grants, and monitor the grants on a timely basis, tracking the fiscal year end of the grantee, the award amount, and the status of the most recent Single Audit reports. We also recommend that TSA put processes in place to continually monitor completeness over the listing of grants. This will ensure that all of TSA's grants are included in the grants database and are monitored for compliance.

**TSA Response:** Concur. TSA's Office of Acquisition has hired an additional federal employee to assist in the monitoring and tracking of the grants. Also, additional verification audits by the Office of Acquisition and the Internal Control Branch have been put in place to ensure compliance with policies and procedures.

***TSA FMC-08-04 (NFR No. TSA 08-18) – Ineffectiveness of controls over the time and attendance process.***

**Recommendations:**

- Implement and follow an additional policy that requires employees to review and sign all timesheets.
- Mandate that timekeepers mark timesheets for review if the employee signature is absent and regularly follow up on such items until they are resolved.

**TSA Response:** Non-concur. The Office of Human Capital has determined that due to operational and scheduling issues in some locations and due to the administrative office not being open during some employees' work hours, that the employees' signature would not be required. The Office of Human Capital has modified their Time and Attendance Handbook to reflect that employees do not have to sign the T&A sheets if unavailable to sign. The Handbook is in the final approval stages with distribution and notification to timekeepers to be made by the end of March 2009. This is Critical Milestone # 4.0 in our Human Capital MAP.

***TSA FMC-08-05 (NFR No. TSA 08-20) – Incomplete listing of asset leases.***

**Recommendations:**

- We recommend that TSA develop and implement a policy to reasonably ensure that all leased assets are properly tracked. The policy should include:
  - Guidance to help identify equipment as leased assets and to maintain a listing of the assets;
  - A requirement to perform periodic reviews to ensure completeness, and indicate the disposition of the asset when the lease expires.

**TSA Response:** Concur. TSA will be reviewing and revising the policy for accounting for future minimum lease commitments to ensure compliance with FASB 13 requirements. A new Financial Reporting MAP milestone will be developed to address the recommendations.

***TSA FMC-08-06 (NFR No. TSA 08-21) – Unauthorized transfer of assets.***

**Recommendation:**

- We recommend that TSA implement monitoring controls to ensure the existing policy in place regarding the transfer of assets is followed.

**TSA Response:** Concur. TSA, through the Property Integrated Project Team, is revising the policies and procedures for field initiated transfers of equipment between field locations. Performance of a gap analysis of the equipment transfer process to include Sunflower update process is being performed. Update of the current process, including roles and responsibilities and Sunflower required transactions will be made. All appropriate TSA personnel will be trained on the new policies and procedures. The development of a periodic audit made by the Internal Control Branch will also be developed and implemented. This is Critical Milestone # 13.0 in the Property Management MAP.

***TSA FMC-08-07 (NFR No. TSA 08-25) – SAS 70 review.***

**Recommendation:**

- We recommend that TSA continue its review of its service providers' current year internal control reports on an annual basis and review updated and finalized reports as necessary.

**TSA Response:** Concur. TSA will be developing an annual SAS 70 review process and procedure. This procedure will include the identification of service providers which will require SAS 70. The procedure also includes the review and analysis of the SAS 70 or other assurances. If any weaknesses are identified, the procedure will require development of compensating controls. This is Critical Milestone # 4.0 in the Information Technology General Controls MAP.

If you have any questions concerning this response, please contact Jeffrey Bobich, Director, Office of Financial Management at 571-227-2118 or [jeffrey.bobich@dhs.gov](mailto:jeffrey.bobich@dhs.gov).

Sincerely,

*David R. Nicholson* 3/19/09

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

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