



# Department of Homeland Security Office of Inspector General

## Transportation Security Administration's Management Letter for FY 2010 DHS Consolidated Financial Statements Audit





# Homeland Security

MAR 21 2011

## 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 Transportation Security Administration's Management Letter for FY 2010 DHS Consolidated Financial Statements Audit. It contains 15 observations related to internal control that were not required to be reported in the financial statement audit report. The independent public accounting firm KPMG LLP (KPMG) performed the integrated audit of DHS' FY 2010 financial statements and internal control over financial reporting and prepared this management letter. KPMG is responsible for the attached management letter dated February 22, 2011, and the conclusions expressed in it. We do not express opinions on DHS' financial statements or internal control, or provide conclusions on compliance with laws and regulations.

The observations 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 "Anne L. Richards".

Anne L. Richards

Assistant Inspector General for Audits



**KPMG LLP**  
2001 M Street, NW  
Washington, DC 20036-3389

February 22, 2011

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

Ladies and Gentlemen:

We were engaged to audit the balance sheet of the U.S. Department of Homeland Security (DHS or Department) as of September 30, 2010 and the related statement of custodial activity for the year then ended (referred to herein as “financial statements”). We were also engaged to examine the Department’s internal control over financial reporting of the balance sheet as of September 30, 2010, and the statement of custodial activity for the year then ended. We were not engaged to audit the accompanying statements of net cost, changes in net position, and budgetary resources for the year ended September 30, 2010 (referred to herein as other fiscal year (FY) 2010 financial statements), or to examine internal control over financial reporting over the other FY 2010 financial statements.

Because of matters discussed in our *Independent Auditors’ Report*, dated November 12, 2010, the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the FY 2010 financial statements and we were unable to perform procedures necessary to form an opinion on DHS’ internal control over financial reporting of the balance sheet as of September 30, 2010 and the related statement of custodial activity for the year then ended. The Transportation Security Administration (TSA) is a component of DHS. We noted certain matters involving internal control and other operational matters, related to TSA, that are summarized in the Table of Financial Management Comments on the following pages, and presented for your consideration in Section I of this letter. 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 November 12, 2010, included in the FY 2010 DHS *Annual Financial Report*. A description of each internal control finding, not related to information technology, and its disposition as either a significant deficiency or a financial management comment is provided in Appendix A. 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 Financial Officer and Chief Information Officer.



As described above, the scope of our work was not sufficient to express an opinion on the balance sheet as of September 30, 2010 or the statement of custodial activity of DHS for the year then ended, and we were not engaged to audit the statements of net cost, changes in net position, and budgetary resources for the year ended September 30, 2010. Accordingly, other internal control matters may have been identified and reported had we been able to perform all procedures necessary to express an opinion on the FY 2010 financial statements and had we been engaged to audit the other FY 2010 financial statements. We aim, however, to use our knowledge of DHS' organization gained during our work to make comments and suggestions that we hope will be useful to you.

TSA's written response to our comments and recommendations has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

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 DHS' and TSA's management, the DHS 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*  
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**FMC 10-01 – Warehouse Inventory System and Procedures (NFR No. TSA 10-01)**

During our walkthrough of the warehouse inventory system and related processes, we noted that the Transportation Security Administration (TSA) did not have documented policies and procedures to ensure that the warehouse management system, supported by a third party contractor, and related outputs were adequately controlled, monitored, and reconciled to TSA's system of record. Specifically we noted that:

- The third party contractor's inventory system (Warehouse Librarian) password settings did not meet the password requirements required per DHS policy including:
  - Password length;
  - Password strength and complexity;
  - Failed password attempts; and
  - Password expiration.
- The third party contractor was not performing monthly audit log reviews of the Warehouse Librarian system. The Warehouse Librarian has the ability to log the system's activities. However, these logs are not being reviewed by anyone from the third party contractor or TSA.
- The Warehouse Librarian System does not lock out application users after 90 days of inactivity.
- The daily tape back-up of the Warehouse Librarian System's data was stored in the same room as the server that hosts the production data.
- Reconciliations between the third party contractor's system and the Sunflower Asset Management System (SAMS) were not fully implemented to include the following:
  - Reviews to ensure the assets queried from SAMS and the third party contractor for reconciliation is complete and accurate (agrees to the general ledger (GL), includes the correct date fields, assets, etc.).
  - Reviews to ensure the reconciliation is accurate (mathematically, etc.).
  - Processes to ensure any significant reconciling items are resolved, recorded, and reviewed on a timely basis.

*Recommendations:*

We recommend that TSA:

- Adopt DHS password security length and complexity requirements for Warehouse Librarian with the exception of special characters since Warehouse Librarian will not accept special characters in a password string.
- Set Warehouse Librarian passwords to expire every 180 days.
- Review Warehouse Librarian logs on a monthly basis, at a minimum.
- Update warehouse operating procedures to require that Warehouse Librarian accounts are manually disabled for any employees following 90 days of inactivity or upon termination of employment at the third party contractor, whichever is sooner.
- Prepare an addendum to the Security Equipment Management Manual (SEMM) to describe the reconciliation process.

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**FMC 10-02 – Compliance with Human Resources Related Laws (NFR No. TSA 10-02)**

TSA did not fully implement processes and controls to ensure that payroll calculations and employee's annual leave balances were properly recorded and supported by available documentation. In performing our compliance procedures over payroll transactions, we identified the following:

- 1 Federal Employees' Group Life Insurance (FEGLI) error as the FEGLI calculation per the payroll did not agree with the FEGLI calculator provided on the Office of Personnel Management (OPM) website.
- 3 instances where updated Federal Employees Health Benefits (FEHB) enrollments were not included in the eOPF as required by policy, however supporting documentation was available once requested.
- 3 Thrift Savings Plan (TSP) errors as the TSP deduction was unsupported by an election form or substitute documentation.
- 1 error where a FEGLI form was not included in the electronic official personnel file (eOPF) and the employee had elected coverage other than standard basic.
- 9 errors where an employee had a discrepancy between the annual and sick leave balances listed per the Statement of Earnings and Leave and the webTA timesheet.

*Recommendations:*

We recommend that TSA:

- Verify all supporting documentation for benefit elections are uploaded in the official personnel file (OPF) in a timely manner for both new hires and employee changes.
- Implement procedures to ensure that payroll calculations, elections, and changes in annual leave are properly calculated and recorded based on retained supporting documentation.
- Through the use of random leave reviews, ensure compliance with record retention, verify proper administration of employee's leave election and validate the accuracy of changes made to employees leave balances.

**FMC 10-03 – Accrued Payroll Controls (NFR No. TSA 10 -03)**

During our walkthrough of the accrued payroll process, we noted that TSA:

- Did not have adequate policies and procedures to ensure that TSA's Human Resources (HR) provider performed a quality assurance over the processing of employee retirements.
- Did not have adequate policies and procedures to ensure that TSA's HR provider performed sufficient quality assurance (QA) over the entry of personnel changes.

*Recommendations:*

We recommend that TSA:

- Work with the service provider to implement a quality review process for retirements
- Continue to implement improvements and monitor Lockheed Martin's QA process and conduct a separate Federal QA process.

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**FMC 10-04 – Accounts Receivable Controls (NFR No. TSA 10 -04)**

During our walkthrough of the accounts receivable process, we noted the following:

- TSA did not have documented policies and procedures in place to ensure a detailed review of the bankruptcy portion of the allowance for doubtful accounts and to ensure that all bankruptcy claims and payments received by TSA were completely and accurately updated in the analysis.
- TSA's air carrier audit procedures were not properly designed to ensure the fees remitted and used for the accounts receivable balance calculation are complete and accurate. Specifically, we noted the selection of carriers for audit is not formally documented based on factors such as risk and adequate coverage. Additionally, procedures were not in place to ensure the results of the carrier audits selected were received and reviewed timely. We noted that the United Airlines audit was not completed timely (the audit was conducted in August of fiscal year (FY) 2009 and was not available in May 2010).

*Recommendations:*

We recommend that TSA:

- Review and update existing procedures to ensure timeliness of the air carrier audits.
- Review and update existing documentation to include risk assessment analysis upon which selection of air carriers for audit will be based.
- Review and update existing procedures to ensure completeness of the bankruptcy portion of the allowance of doubtful accounts analysis.

**FMC 10-05 – Compliance with the Debt Collection Improvement Act of 1996 (DCIA)  
(NFR No. TSA 10-06)**

During FY 2010 TSA developed policies and procedures to address prior year non-compliance with DCIA. We noted however, the policy was not properly designed to ensure full compliance with the provisions of DCIA for FY 2010. Specifically, we noted the policy stated that the Office of Revenue will identify all delinquent debt greater than 180 days old for which demand letters have been sent; however, the policy does not address debts that are past due over 180 days where the demand letters have not been sent. TSA began cleanup activity of transferring debt to Treasury in late FY 2009 that continued into FY 2010. We note that the law specifically applies to past due, legally enforceable non-tax debt over 180 days (regardless of whether a demand letter has been sent).

Specifically we noted the following instances of non-compliance:

- For 58 of 65 sample items selected, we noted that the demand letters were not sent to the debtor in a timely fashion.
- For 18 of 65 sample items selected, we noted that TSA did not refer debt outstanding 180 days or greater to the Department of the Treasury in a timely manner.
- For 26 of 65 sample items selected, we noted that TSA did not refer debt outstanding 180 days or greater to the Department of the Treasury.

*Recommendation:*

We recommend that TSA review and update existing policies to identify all debt past due and issue demand letters in full compliance with DCIA.

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**FMC 10-06 – Ineffective Controls over the Time and Attendance Process (NFR No. TSA 10-08)**

During our testwork over the time and attendance process, and our review of the related supporting documentation we noted the following conditions:

- Controls over the review, approval, and retention of annual leave request forms were not operating effectively. Specifically:
  - 7 of 8 airports maintained the WebTA leave request submission, TSA’s equivalent of OPM Form-71, *Request for Leave or Approved Absence*, with time sheet documentation, rather than destroying this form once reviewed and approved by the employee and supervisor as noted in TSA’s policy.
  - 1 leave request was not dated by the supervising approver evidencing timely review and approval of the leave.
- Controls over the review and approval of timesheets were not operating effectively. Specifically, we noted:
  - Supervisor review and approval of timesheet was not dated (5 Instances):
    - 1 of 80 overtime requests was not dated by the approver evidencing timely review and approval.
    - 4 of 80 timesheets were not dated by the approver evidencing timely review and approval.
  - Timesheet was not signed by the employee (1 Instance):
    - 1 of 80 instances where the timesheet was not signed by the employee, despite leave taken.
  - Untimely approval (2 Instances):
    - 1 of 80 instances when the timesheet was approved on March 13, 2010. However the employee did not sign their timesheet until July 27, 2010.
    - 1 of 80 instances where the timesheet was signed 8 days prior to period end.
  - Discrepancies between timesheet and supporting documentation (1 Instance):
    - 1 of 80 instances where the supervisor approved overtime totaling 11 hours, however, the timesheet submitted only showed 10 hours of overtime worked.
- Policies and procedures were not properly implemented at the airport sites to ensure data entered into WebTA by timekeepers, once the supervisor had reviewed and approved the employee’s timesheet was accurate. Specifically we noted that a review of the employee’s timesheet was not performed by certifiers to ensure time is entered accurately into the system at all locations.

*Recommendations:*

We recommend that TSA:

- HRAccess personnel train appropriate personnel on time and attendance processing and proper retention of payroll related documents.
- Supplement online training for timekeepers and supervisors to sufficiently document prerequisite knowledge required to perform job functions in accordance with TSA Office of Human Capital Time and Attendance Administration Manual.

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**FMC 10-07 – Fund Balance with Treasury Controls (NFR No. TSA 10-10)**

During our walkthrough of the fund balance with Treasury process, we noted there were no formal documented procedures and controls in place throughout the year to ensure that the Segregation of Duties query included all entries processed throughout the fiscal year. The Segregation of Duties query was used by TSA personnel to determine the individuals who enter and approve warrants, transfers, and rescissions into the Budget Execution Module were properly segregated. As a result, there was the potential for an individual to both enter and approve a warrant, transfer, or rescission into the Budget Execution Module without it being detected and corrected in a timely manner.

*Recommendations:*

We recommend that TSA:

- Perform a monthly review of budget execution transactions to ensure separation of duties between the approver and preparer.
- Expand the monthly review to include a quarterly reconciliation of warrant, transfer, and rescission transactions from the budget execution query report to the Core Accounting System (CAS) to ensure completeness of the budget execution query report.

**FMC 10-08 – Accounts Payable Process (NFR No. TSA 10-12)**

During our walkthrough of the accounts payable (AP) process, we noted:

- In the March 31, 2010 Financial Reporting Certification, TSA qualified its certification as the process for accruing for Other Transaction Agreements (OTAs) was being modified. As a result, TSA did not send confirmations for OTA's and did not record a full accrual. Specifically, TSA stated: "Accounts Payable: TSA did not record a full accrual for accounts payable related to OTAs. TSA has modified its process for performing this accrual but did not send out confirmations to the vendors for the March reporting period."
- The contracting officer's technical representative's (COTR) or contracting officer's (CO) review of intragovernmental payment and collection (IPAC) transactions was not properly designed to ensure documented timely review.
- The AP subledger to GL reconciliation was not properly designed to ensure documented timely review.
- A lack of documented policies that ensure the results of the annual look-back analyses of the prior year balances are reviewed by management, discussed with management and appropriate adjustments taken, if appropriate

*Recommendations:*

We recommend TSA:

- Prepare quarterly OTA AP accruals.
- Develop timelines for the AP accrual process during the first quarter of FY 2011 for the entire year, communicate to staff involved, and monitor through completion.
- Require management to note its approval of the AP subsidiary to GL reconciliation by either signature or email.

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- Conduct an annual look back analysis at the prior year OTA accrual and require management to note its review of the look back by either signature or email.
- Develop processes and procedures for the COTR to review IPACs.
- Review existing Internal Standard Operating Procedures (ISOP) and policies regarding AP accruals and update to reflect the recommendations as needed.

**FMC 10-09 – Untimely Update of Asset Transfers (NFR No. TSA 10-15)**

TSA personnel did not consistently adhere to its policy requiring the timely update of the Sunflower Asset Management System and retention of supporting documentation.

Specifically, we noted the following instances where assets were not physically located at the location listed in TSA's SAMS and TSA was unable to provide supporting documentation evidencing the transfer of the asset:

- 5 instances where assets were transferred from Seattle airport prior to the date of the site visit. TSA was unable to provide transfer documentation and noted SAMS was not updated timely to reflect these transfers.
- 2 instances where assets were transferred from the Houston airport to the warehouse and TSA was unable to provide documentation to track the movement of the equipment.

*Recommendations:*

We recommend that TSA:

- Update its policies and procedures to ensure proper timing of the recording of property transfers between locations in SAMS.
- Develop policies and procedures for adequate documentation of the pick-up and delivery of TSA property to include training of all required personnel.
- Ensure transactions only occur upon the physical movement and receipt of TSA property.
- Develop and monitor metrics to ensure transactions are being completed timely and properly and the proper documentation is completed as necessary.

**FMC 10-10 – Undelivered Orders (UDO) Documentation (NFR No. TSA 10-16)**

TSA lacked sufficient internal controls to ensure proper adherence to contract management policies, procedures, and controls.

Specifically, we noted the following instances where the balance or general ledger activity was recorded improperly:

As of June 30, 2010:

- One IPAC return was applied to the wrong contract thus overstating the selected purchase order balance by \$17,525.
- One UDO where the period of performance (POP) for this contract expired on March 10, 2008. KPMG noted that a modification to de-obligate the remaining funds was executed in September 2008 but was never recorded in the General Ledger. As such, we noted that the balance was overstated by \$6,949,250.
- One item where the balance per the obligating document was \$3,829,480; however the balance per the GL was \$4,429,480.

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As of August 31, 2010:

- One sample item where the transaction line of obligation activity was \$23 understated.

As of September 30, 2010:

- One item where the transaction line of obligation activity was \$5,383 understated.
- One item where the transaction line of obligation activity was \$18,483 overstated.
- One item where the transaction line of obligation activity was \$370 overstated.
- One item where the obligation balance was not initiated for deobligation timely.

Additionally, we noted controls were not always operating effectively or according to policies. Specifically, we noted instances where:

- Obligations were recorded in the GL prior to execution.
  - 8 instances in June 30, 2010 testwork
  - 1 instance in August 31, 2010 testwork
  - 2 instances in September 30, 2010 testwork
- The obligating document was not posted to the GL timely.
  - 3 instances in June 30, 2010 testwork
  - 2 instances in August 31, 2010 testwork
  - 3 instances in September 30, 2010 testwork
- The object class is incorrectly coded.
  - 30 instances in June 30, 2010 testwork
  - 1 instance in August 31, 2010 testwork
  - 1 instance in September 30, 2010 testwork
- TSA incurred and paid charges related to services provided outside of the POP for the contract.
  - 1 instance in September 30, 2010 testwork
- TSA recorded transactions which resulted in the obligation having a negative balance.
  - 1 instance in the amount of \$131,426 in September 30, 2010 testwork.

*Recommendations:*

We recommend that TSA:

- Review existing policies and procedures to ensure that modifications for de-obligation of funds that pertain to expired option periods for active contracts are put into place.
- Review existing policies and procedures for contracting actions released by the CO in the Contract Information Management System to ensure they are adhered to and properly documented.
- Review existing policies and procedures for object classes to ensure TSA program business management offices are utilizing the proper object class codes on purchase requisitions and provide training to the user community.
- Review reclassification procedures to ensure sufficient controls are implemented to ensure that reclassifications are properly recorded.
- Review policies and procedures for entering manual obligations in the general ledger to ensure timely posting of obligations.

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**FMC 10-11 – Grant Monitoring and Compliance with the Single Audit Act (NFR No. TSA 10-23)**

As a result of audit follow up on prior-year finding, TSA developed written policies and procedures for monitoring certain types of grants and grant expenditures. However, we noted that formal written policies, procedures, and controls for the monitoring of expenditures associated with the Canine and Law Enforcement Officer (LEO) programs along with OTAs and Letters of Intent (LOIs) were not in place throughout the year or documented in a centralized comprehensive manner.

*Recommendation:*

We recommend that TSA develop policies and procedures to monitor expenditures and work performed related to other transaction agreements for the Canine and LEO programs as well as OTAs and LOIs.

**FMC 10-12 – Review of Journal Entries (NFR No. TSA 10-26)**

TSA's controls were not fully effective in FY 2010 to ensure that journal entry reviews were effective and supporting documentation was readily available. Specifically, we noted two instances related to property entries where supporting documentation used during the review of the journal entry was not filed and as such, was not readily available upon request. Additionally, we noted both entries were approved as reversing, however, they should not have been reversing entries. A subsequent entry had to be posted to correct the error. The specific entries are as follows:

- One item did not have a supporting memorandum of record readily available that tied to the entry. Additionally, this entry was incorrectly coded as a reversing entry and was not corrected via the review and approval process prior to posting the initial entry. We noted a subsequent entry (in a different reporting month) had to be posted to correct the reversal.
- One item did not have appropriate supporting documentation readily available that tied to the entry. Additionally, this entry was incorrectly coded as a reversing entry and was not corrected via the review and approval process prior to posting the initial entry. We noted a subsequent entry (in a different reporting month) had to be posted to correct the reversal.

*Recommendations:*

We recommend that TSA:

- Review and update ISOP as necessary.
- Provide training on journal entry procedures to new hires as well as refresher training for current employees.
- Have the Internal Control Branch continue to perform reviews of the journal entry process.

**FMC 10-13 – Review of Service Organizations' Internal Controls (NFR No. TSA 10-27)**

During FY 2010, TSA was unable to fully demonstrate the impact of its service providers' control environment on TSA's control environment. Specifically, Lockheed Martin's control environment was not evaluated for the impact on TSA's environment. In addition, a period update from the Statement on Auditing Standards (SAS) 70 report issuance date to the DHS

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balance sheet date was not documented for United States Department of Agriculture's (USDA) National Finance Center's (NFC) control environment.

*Recommendations:*

We recommend that:

- The Office of Financial Management, Internal Control Branch continue to work with the Office of Human Capital to evaluate Lockheed Martin's control environment.
- The Office of Financial Management, Internal Control Branch continue to follow the DHS issued policy and work with DHS to receive and review the period update for the NFC SAS 70 report.

**FMC 10-14 – Accounts Payable Balance (NFR No. TSA 10-29)**

Controls over the accounts payable accrual process were not fully effective, which resulted in errors to the balance sheet as of September 30, 2010. For example we noted that:

- The property accrual was understated in the draft financial statements due to unconfirmed or estimated vendors being excluded from analysis. Once identified, TSA reevaluated the need for an additional accrual related to incurred but unreported expenditures.
- The non-Federal accounts payable accrual was overstated in the draft financial statements. Data collected for the statistical calculation of the non-Fed accounts payable accrual inappropriately included and excluded certain vendors.

*Recommendations:*

We recommend that TSA:

- Review and update the property accounts payable accrual ISOP.
- Perform look backs on general non-Federal accounts payable to determine reasonableness of the accrual estimate.
- Review and update the general non-Federal accounts payable procedures ISOP as necessary.
- Develop and record accounts payable accruals on a quarterly basis.
- Have the Internal Control Branch continue to perform reviews of the accounts payable accrual process.

**FMC 10-15 – Lease Accounting and Disclosure (NFR No. TSA 10-30)**

During our testwork over leases, we noted fully effective controls were not in place for the entire year to ensure:

- The future minimum lease payments excluded amounts un-related to rental payments. We noted one instance where payments made for leasehold improvements were improperly included the footnote disclosure.
- We noted three instances where improvements paid for by TSA were included in the deferred rent liability calculation; two of these instances were corrected prior to year-end.

*Recommendations:*

We recommend that TSA:

- Review and document lessons learned from the FY 2010 cleanup and review activity for identifying and accounting for leases.

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- Review the lease and leasehold improvement ISOPs and revise the straight-line analysis and deferred rent liability calculations.
- Implement and maintain processes for recording leases and leasehold improvements.
- Have the Internal Control Branch perform periodic reviews of lease and leasehold improvement activity.

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NFR No.	Description	Disposition <sup>1</sup>			
		IAR			FMC
		MW	SD	NC	No.
10-01	Warehouse Inventory System and Procedures				10-01
10-02	Compliance with Human Resources Related Laws				10-02
10-03	Accrued Payroll Controls				10-03
10-04	Accounts Receivable Controls				10-04
10-05	Ineffective Controls at the Dallas Warehouse	D			
10-06	Noncompliance with Debt Collection Improvement Act of 1996				10-05
10-07	Policies and Procedures over the Property, Plant, and Equipment (PP&E) Process	D			
10-08	Ineffective Controls Over the Time and Attendance Process				10-06
10-09	PP&E Site Visits	D			
10-10	Fund Balance with Treasury Controls				10-07
10-11	Lack of Policies and Procedures Over Internal Use Software	D			
10-12	Accounts Payable Process				10-08
10-13	Incorrect Trading Partner Codes	A			
10-14	Accounting for Other Direct Costs Incurred in FY 2009 and Prior	D			
10-15	Untimely Update of Asset Transfers				10-09
10-16	Undelivered Orders Documentation				10-10
10-17	Entity-Level Controls	A, D			
10-18	<i>Number not used</i>	Not applicable			
10-19	Reporting PP&E	D			
10-20	Financial Reporting Deficiencies	A			
10-21	Non-Compliance with the Federal Financial Management Improvement Act of 1996			J	
10-22	<i>Number not used</i>	Not applicable			
10-23	Grant Monitoring and Compliance with OMB Circular No. A-133, Audit of Sales, Local Governments and Nonprofit Organizations				10-11
10-24	<i>Number not used</i>	Not applicable			
10-25	<i>Number not used</i>	Not applicable			
10-26	Review of Journal Vouchers				10-12
10-27	Review of Service Organizations' Internal Controls				10-13
10-28	<i>Number not used</i>	Not applicable			
10-29	Accounts Payable Balance				10-14
10-30	Lease Accounting and Disclosure				10-15

<sup>1</sup>Disposition Legend:

IAR Independent Auditors' Report dated November 12, 2010

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

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NC	Contributed to Noncompliance 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 Management and Reporting
B	Information Technology Controls and System Functionality
C	Fund Balance with Treasury
D	Property, Plant, and Equipment
E	Actuarial and Other Liabilities
F	Budgetary Accounting
G	Other Entity-Level Controls
H	Custodial Revenue and Drawback
I	<i>Federal Managers' Financial Integrity Act of 1982 (FMFIA), and Laws and Regulations Supporting OMB Circular No. A-50, Audit Followup, as revised</i>
J	<i>Federal Financial Management Improvement Act of 1996 (FFMIA)</i>
K	<i>Single Audit Act Amendments of 1996</i>
L	<i>Chief Financial Officers Act of 1990 (CFO Act)</i>
M	<i>Antideficiency Act, as amended (ADA)</i>
N	<i>Government Performance and Results Act of 1993 (GPRA)</i>

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NFR No.	Description	Disposition <sup>1</sup>	
		Closed <sup>2</sup>	Repeat (2010 NFR No.)
09-01	<i>Number not used</i>		Not applicable
09-02	<i>Number not used</i>		Not applicable
09-03	<i>Number not used</i>		Not applicable
09-04	Incorrect Trading Partner Codes		TSA 10-13
09-05	Undelivered Orders Documentation		TSA 10-16
09-06	<i>Number not used</i>		Not applicable
09-07	<i>Number not used</i>		Not applicable
09-08	<i>Number not used</i>		Not applicable
09-09	Financial Reporting Deficiencies		TSA 10-20
09-10	Required Supplementary Stewardship Information	X	
09-11	Non-Compliance with Debt Collection Improvement Act (DCIA) of 1996		TSA 10-06
09-12	<i>Number not used</i>		Not applicable
09-13	Noncompliance with FFMIA		TSA 10-21
09-14	Noncompliance with FMFIA	X	
09-15	Grant Monitoring and Compliance with OMB Circular No. A-133, Audit of Sales, Local Governments, and Nonprofit Organizations		TSA 10-23
09-16	Noncompliance with Human Resources Related Laws		TSA 10-02
09-17	<i>Number not used</i>		Not applicable
09-18	Ineffectiveness of Controls over the Time & Attendance Process		TSA 10-08
09-19	Policies and Procedures to Ensure Compliance with GAAP	X	
09-20	<i>Number not used</i>		Not applicable
09-21	Untimely Update of Asset Transfers		TSA 10-15
09-22	Warehouse Property Impairment	X	
09-23	<i>Number not used</i>		Not applicable
09-24	Review of Journal Vouchers		TSA 10-26
09-25	Review of Service Organizations' Internal Controls		TSA 10-27
09-26	Incorrect Classification of Obligations as Fed or Non-Fed	X	
09-27	Accounts Payable Balance		TSA 10-29
09-28	Reporting PP&E		TSA 10-19
09-29	Entity-Level Controls		TSA 10-17
09-30	Lease Accounting and Disclosure		TSA 10-30
09-31	Ineffective Controls at the Dallas Warehouse		TSA 10-05
09-32	GAO Checklist Review	X	
09-33	PP&E Site Visits		TSA 10-09
09-34	Fund Balance with Treasury Controls		TSA 10-10
09-35	Lack/Ineffectiveness of Controls over the Accounts Receivable Process		TSA 10-04
09-36	Controls over Payroll Procedures		TSA 10-03
09-37	Procurement Controls	X	

Transportation Security Administration  
*Status of Prior Year NFRs*  
 September 30, 2010

NFR No.	Description	Disposition <sup>1</sup>	
		Closed <sup>2</sup>	Repeat (2010 NFR No.)
09-38	Policies and Procedures over the PP&E Process		TSA 10-07
09-39	Accounts Payable Controls		TSA 10-12
09-40	Lack of Policies and Procedures over the Deployment of IUS		TSA 10-11
09-41	Unavailability of Supporting Documentation	X	
09-42	Net Position Controls	X	

<sup>1</sup> KPMG was engaged to perform an audit over the DHS balance sheet and statement of custodial activity as of and for the year ended September 30, 2010, and was not engaged to perform an audit over the statement of net cost, statement of changes in net position, and statement of budgetary resources for the year ended September 30, 2010. In addition, we were engaged to follow up on the status of all active NFRs that supported significant deficiencies reported in KPMG's *Independent Auditors' Report* dated November 13, 2009.

<sup>2</sup> NFRs were closed either through remediation of the findings or that we were not engaged to follow up on active NFRs that did not support significant deficiencies reported in KPMG's *Independent Auditors' Report* dated November 13, 2009.

Transportation Security Administration  
*Management Response to the  
Management Letter*

U.S. Department of Homeland Security

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



**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 FY2010 Transportation Security Administration's Financial Statement Audit*. TSA concurs with all findings and recommendations outlined in the report and has confirmed that the report agrees with the individual NFRs issued by the independent auditors, KPMG. We are currently in process of implementing the Mission Action Plans (MAPs) which address the audit recommendations. Again, TSA appreciates the opportunity to review the report, and we look forward to working with your team during the upcoming FY 2011 Financial Statement 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

File: 1000.2.1-a

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