



Memorandum

U.S. Department of
Transportation

Office of the Secretary
of Transportation

Office of Inspector General

Subject: INFORMATION: Quality Control Review
of Audited Financial Statements
for Fiscal Year 2002, TSA
QC-2003-016

Date: January 27, 2003

From: Kenneth M. Mead
Inspector General

Reply To

Attn Of: Meche:x61496

To: The Secretary
Under Secretary of Transportation for Security

The audit of the Transportation Security Administration (TSA) Financial Statements as of and for the period ended September 30, 2002, was completed by KPMG LLP (KPMG) of Washington, D.C. We performed a quality control review of the audit work to determine compliance with applicable standards. These standards include the Chief Financial Officers Act, *Government Auditing Standards*, and Office of Management and Budget Bulletin 01-02, *Audit Requirements for Federal Financial Statements*.

The KPMG audit report rendered an unqualified opinion on the TSA financial statements. The report included five material internal control weaknesses, one reportable internal control condition, and one material noncompliance with accounting laws and regulations. KPMG made 18 recommendations for corrective actions (see Attachment). We agree with the KPMG recommendations. We are requesting that, within 15 days, TSA specify actions taken and planned, along with estimated completion dates for planned actions.

In our opinion, the audit work performed by KPMG complied with applicable standards. Therefore, we are not making any additional recommendations.

We appreciate the cooperation and assistance of TSA and KPMG representatives. If we can answer any questions, please call me at (202) 366-1959, or John Meche at (202) 366-1496.

Attachment

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**KPMG RECOMMENDATIONS ON ITS AUDIT
OF TSA FINANCIAL STATEMENTS**

Recommendation 1

Hire an adequate number of qualified accounting personnel to fill the positions in TSA's Financial Reporting office.

Recommendation 2

Consider setting up a bi-weekly reporting and control mechanism that allows the on-site TSA supervisors to prepare a list of their separated employees for a given pay period on a list that is then matched against payroll files in order to withhold payment against those separated employees until such time that CPMIS reflects the separations.

Recommendation 3

Coordinate with DOT to revise technical support staff's access to the absolute minimum level necessary for them to perform the duties associated with operational functions, programs, and files, and to provide supervisory review of any access remaining through audit logs of technical support staff activities.

Recommendation 4

Request DOT to remove application programmer access to production programs and datasets, review the Resource Access Control Facilities logs for those inactive group members to determine the necessity of the account, and change the access level of the non-programmer members of the test programming group.

Recommendation 5

Develop and perform a risk assessment process based on an operational environment that clearly defines security requirements that can be tied to security plans and corresponding security tests and evaluation activities.

Recommendation 6

Describe in sufficient detail controls in place based on TSA's implementation of IPPS and Delphi into an operational environment and what security requirements are being addressed through those controls given the nature and extent of significant control deficiencies identified.

Recommendation 7

Test actual effectiveness of security controls through a comprehensive security test and evaluation process.

Recommendation 8

Establish a self-assessment process to continually monitor internal control and accounting systems in order to comply with the reporting requirements of FMFIA.

Recommendation 9

Establish policies and procedures related to fixed assets to ensure that assets are recorded in the financial statements on a timely basis. Ensure that the property accountability/logistics department maintains adequate and timely records of inventories and property additions/disposals and that this information is communicated to the accounting department on a timely basis for inclusion into the financial records. Conduct a complete physical inventory of its property and equipment.

Recommendation 10

Implement written accounts payable policies and procedures to ensure that communication between departments is adequate to ensure that liabilities recorded are complete, accurate, and recorded in a timely manner.

Recommendation 11

Establish procurement policies and procedures to ensure that accurate and complete accounting information is included on obligating documents so that all transactions are recorded on a timely basis.

Recommendation 12

Reemphasize its capitalization policies and procedures to ensure property purchases are appropriately capitalized.

Recommendation 13

Establish proper accounts receivable procedures to accrue air carrier and passenger security fees throughout the year for financial reporting purposes.

Recommendation 14

Establish a process to monitor its leasing arrangements and obligations in order to comply with the financial statement disclosure requirements.

Recommendation 15

Implement policies and procedures to ensure that all grant activity is properly accounted for. In addition, TSA should properly monitor the grants that they have disbursed.

Recommendation 16

Separate an amount of contract award dollars to fund oversight activities that enforce verification of cost and pricing data, specifically, data used to support loaded labor rates. In addition, require contractors to submit proposals and cost pricing data, as well as definitize the screener contracts.

Recommendation 17

Implement a mechanized time and attendance (T&A) system to ensure that all T&A information is properly recorded in the system. Supervisors or screening managers should approve a screener's T&A information before it is recorded in the Integrated Personnel and Payroll System (IPPS) and an approving official should perform an additional independent check after time is input into IPPS, ensuring that the time recorded in IPPS matches the employee's T&A information. Additionally, ensure that adequate documentation is retained.

Recommendation 18

Work aggressively to implement procedures to ensure compliance with the applicable Federal accounting standards and the usage of the standard general ledger at the transactional level.