Department of Homeland Security

Office of Inspector General

Transportation Security Administration's Management Letter for FY 2011 DHS Consolidated Financial Statements Audit

OIG-12-53

March 2012

Office of Inspector General

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

Homeland Security

MAR 14 2012

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 2011 DHS Consolidated Financial Statements Audit. It contains observations related to internal controls that were not required to be reported in the financial statements audit report. The independent public accounting firm KPMG LLP (KPMG) performed the integrated audit of DHS' FY 2011 financial statements and internal control over financial reporting and prepared this management letter. KPMG is responsible for the attached management letter dated February 03, 2012 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 management officials. 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.

Anne L. Richards

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February 3, 2012

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

Ladies and Gentlemen:

We have audited the balance sheet of the U.S. Department of Homeland Security (DHS or Department) as of September 30, 2011 and the related statement of custodial activity for the year then ended (referred to herein as the "fiscal year (FY) 2011 financial statements"). The objective of our audit was to express an opinion on the fair presentation of these financial statements. We were also engaged to examine the Department's internal control over financial reporting of the balance sheet as of September 30, 2011, and statement of custodial activity for the year then ended, based on the criteria established in Office of Management and Budget, Circular No. A-123, *Management's Responsibility for Internal Control*, Appendix A.

Our *Independent Auditors' Report* issued on November 11, 2011, describes a limitation on the scope of our audit that prevented us from performing all procedures necessary to express an unqualified opinion on DHS' FY 2011 financial statements and internal control over financial reporting. In addition, the FY 2011 DHS *Secretary's Assurance Statement* states that the Department was unable to provide assurance that internal control over financial reporting was operating effectively at September 30, 2011. We have not considered internal control since the date of our *Independent Auditors' Report*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. In accordance with *Government Auditing Standards*, our *Independent Auditors' Report*, referred to in the paragraph above, included internal control deficiencies identified during our audit, that individually, or in aggregate, represented a material weakness or a significant deficiency.

The Transportation Security Administration (TSA) is a component of DHS. We noted certain matters, related to TSA that are summarized in the Table of Financial Management Comments on the following pages, involving internal control and other operational matters that are less severe than a material weakness or a significant deficiency, and consequently are reported separately to the Office of Inspector General (OIG) and TSA management in 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. The disposition of each internal control deficiency identified during our FY 2011 audit – as either reported in our *Independent Auditors' Report*, or herein – is presented in Appendix A. The

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status of internal control deficiencies identified during our FY 2010 audit is presented in Appendix B. Our findings related to information technology systems security have been presented in a separate letter to the OIG and the TSA Chief Financial Officer and Chief Information Officer.

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
September 30, 2011

TABLE OF FINANCIAL MANAGEMENT COMMENTS (FMC)

APPENDIX

FMC 11-01 – Employee Record Management and Compliance with Human Resource Related Laws *(NFR No. TSA 11-01)*

We noted that Transportation Security Administration (TSA) has ineffective processes and controls to ensure that employee benefits are properly supported by available documentation within the employee personnel files.

Specifically we noted the following conditions related to a lack of documentation:

- One instance in which the SF-2817 Federal Employees Group Life Insurance (FEGLI) form was not included in the electronic Official Personnel Folder (eOPF).
- Five instances in which the SF-2809 (Federal Employees' Health Benefits (FEHB)), evidencing the non-election or waiver of benefits, was not included in the eOPF.
- Two instances in which the SF-2809 (FEHB), evidencing the employees' current benefits election, form was not included in the eOPF.
- Six instances in which the current Thrift Savings Plan (TSP) election form was not included in the eOPF.

Recommendation:
We recommend that TSA continue to monitor the service provider to verify that all of the supporting documentation for benefit and TSP elections are updated in the eOPF in a timely manner for both new hires and employee changes. This ongoing review will ensure the service provider is following the federal guidelines pertaining to recordkeeping.

FMC 11-02 – Accrued Payroll Controls *(NFR No. TSA 11-02)*

We noted that policies and procedures over the initiation and approval of personnel actions (SF-52s) at individual airports are not sufficient in distinguishing the applicable roles of the initiators and approvers of personnel actions in HRAccess. KPMG noted an individual could be assigned both the role of an initiator and an approver of personnel actions in the system and perform both actions on a single personnel action request thus not effectively applying segregation of duties.

Specifically we noted the following:

- Five instances in our testwork in which the initiator and approver of the action were the same individual.

We also noted that the quality assurance (QA) review of personnel actions processed in the EmpowHR system is not operating effectively.

Specifically we noted the following:

- Two instances where the approver was the same as the processor.
- Two instances in which the QA reviewers were not assigned the role to perform the review in EmpowHR.

Recommendations:
We recommend that TSA:

- Modify its personnel system to not allow the initiator and approver to be the same individual.
- Monitor the service provider's QA review of personnel actions to ensure it is operating effectively.

FMC 11-03 – Ineffective Controls over the Time and Attendance Process *(NFR No. TSA 11 -04)*

We noted that TSA lacks defined policies and procedures to ensure timely review and approval of leave requests.

Controls over the review and approval of timesheets are not operating effectively. Specifically, we noted:

- Lack of evidence of timely supervisor review and approval of timesheets and additional supporting documentation (eight instances). We noted that overtime and compensatory time hours were approved prior to submission to National Finance Center for processing.
    - 4 of 104 overtime requests were not approved prior to the employee working the overtime hours.
    - 4 of 104 instances of Compensatory Time hours worked prior to the supervisor approving the hours.
- Lack of evidence of supervisor review and approval of timesheet and additional supporting documentation (one instance):
    - 1 of 104 instances in which evidence of approval for overtime hours worked was not available.
- Untimely approval of timesheet by supervisor (one instance):
    - 1 of 104 instances where the timesheet wassigned 4 days prior to the pay period end date.

Recommendation:
We recommend that TSA continue to provide training to improve the awareness of effective control of the time and attendance processes. This training should be accomplished by initial training of personnel newly assigned to time and attendance duties as well as refresher training for those employees performing these tasks. The refresher training should be available both formally, through the Online Learning Center, and informally, through broadcasts and monthly agency-wide conference calls.

FMC 11-04 – Government Accountability Office Checklist *(NFR No. TSA 11-08)*

We noted that the Government Accountability Office (GAO) checklist review was not designed or operating effectively as of March 31, 2011.

Specifically, we noted:

- Two instances where TSA indicated "Y," or "yes," for the existence of information in the financial statements when the accounting policy or information was not disclosed or applicable to the March 31, 2011 Annual Financial Report (AFR). Specifically we noted:
    - TSA answered yes that operating materials and supplies are valued at historical cost when TSA has adopted the purchase method to account for Operating Materials & Supplies.

  - TSA answered "yes" to questions related to liabilities associated with social insurance (specifically related to unemployment insurance) when TSA does not operate social insurance programs.
- Two instances where TSA indicated "Y," or "yes," for the existence of information in the financial statements when the accounting policy or information was not disclosed or applicable to the March 31, 2011 AFR. We noted no additional explanatory language was included to clarify to the user that the response of yes is due to TSA having a policy to account for the item in the event a transaction were to occur. Specifically we noted:
  - TSA answered "yes" to questions related to the accounting treatment for capital leases when in the March 31, 2011 AFR TSA did not include a liability or disclosure for capital leases.
  - TSA answered "yes" to questions related tothe accounting treatment of transfers of multi-use heritage assets when the March 31, 2011 disclosure noted TSA classified all heritage assets as collection type assets.
- One instance where TSA indicated that a policy is not applicable when the accounting policy was in fact applicable to the agency. Specifically we noted:
  - TSA answered "no" to questions related todonated property, indicating that the agency did not have donated property. As a result of procedures performed during our fiscal year (FY) 2011 site visits KPMG noted the Lackland K-9 facility has 10 buses and 2 trains that were donated to the agency.

Recommendation:
We recommend that TSA establish a more formal and thorough GAO 2010 Checklist review process that includes input from each of the Office of Financial Management (OFM) branches and other TSA offices that are responsible for properly accounting for TSA's asset, liability, revenue, and expense transactions.

FMC 11-05 – Undelivered Orders (UDOs) Process ***(NFR No. TSA 11-10)***

We noted that TSA lacks a policy to ensure Contracting Officer's Technical Representative (COTR) status file used for the verification and validation review is complete. Specifically, there is no policy requiring a review of the exclusion file to ensure obligations are properly included in the verification and validation review.

Recommendation:
We recommend that TSA Funds Control Program Support Branch (FCPSB) should no longer use the COTR Status File as a resource to determine validity of a UDO. The information utilized to determine the status of a contract should be limited to information obtained from the Core Accounting System, the Contract Closeout spreadsheet and previously reviewed verification and validation files, and research compiled by FCPSB.

FMC 11-06 – Review of Journal Entries *(NFR No. TSA 11-12)*

We noted that controls related to journal entry reviews were not fully effective during the current year. Specifically, we identified two sample items that were recorded to correct entries that were reviewed, approved, and posted in error in prior months.

Recommendations:
We recommend that TSA:

- Ensure that journal entry preparers and reviewers take annual JV Training.
- Ensure that the journal entry training provided covers journal entry preparation, lessons learned from the previous year, and requirements for journal entry review and approval.

FMC 11-07 – Accounts Payable Process *(NFR No. TSA 11-14)*

During our walkthrough of the accounts payable process at TSA, we noted a lack of controls in place to evidence COTR review of Intra- Governmental Payment and Collection (IPAC) payments.

Recommendations:
We recommend that TSA:

- Document the review process for IPACs, perform a gap analysis, and implement improvements to ensure timely IPAC payment review and approval. Specifically:
  - For the recurring IPAC payment type agreements (majority of IPAC transactions):
    - Document the "As-Is" process and controls related to the creation and management of agreements that result in recurring payments.
    - Determine if controls for recurring payments are appropriately designed related to:
      - Establishing the agreement.
      - Establishing the recurring payment.
      - Stopping payments as a result of performance issues.
      - Automatically stopping payments at the end of the agreed-upon payment period.
      - Verifying IPAC costs are in line with agreement terms.
  - For the non-recurring IPAC payment type agreements:
    - Document the "As-Is" process and controls related to the creation and management of agreements that result in non-recurring payments.
    - Determine if controls for non-recurring payments are appropriately designed related to:
      - Establishing the agreement.
      - Managing payments, including obtaining timely COTR approval.
      - Managing final agreement reconciliation, payment and closeout.
  - Perform a gap analysis and develop a Change Action Plan related to the needed improvements.
- Document authorization received from program offices for IPACs cleared in coordination with the Accounting Branch.

FMC 11-08 – Travel Authorization Approval *(NFR No. TSA 11-18)*

As a result of our testwork to ensure that travel authorizations and vouchers are properly approved, coded, and recorded into the FedTraveler System through June 30, 2011, KPMG noted the following:

- TSA lacks policies and procedures that explicitly address variations to the standard travel document approval process. In addition, TSA lacks documented policies and procedures related to multi-trip travel authorizations including defined travel authorization thresholds review and approval in which to verify the appropriateness of authorized dollars. Specifically:
    - In one instance, the Federal Air Marshall Service (FAMS) voucher had evidence of only one level of approval.
    - In two instances in which multi-trip travel authorizations were approved, the approval chain did not detail the specific trip authorization that was approved. Further, the original authorization for one of the multi-trip authorizations was for $1,000,000.
- Controls over the travel authorization and voucher process were not operating effectively. Specifically:
    - In one instance, a travel authorization was created outside of TSA's policies and procedures in place (FY 2011 *Travel Waiver Request for International Personnel*) related to the Office of Global Strategies.
    - In two instances, the sample (one authorization and one voucher) was posted by TSA in error.
    - In two instances, TSA posted an unsupported voucher against an authorization and omitted an approved voucher from proper posting against an authorization.

Recommendations:
We recommend TSA:

- Publish a travel handbook that accompanies Management Directive 1000.6 in order to address the FAMS approval process and other deviations from standard policy.
- Implement plans to monitor large dollar travel authorizations on a monthly basis that include following up with the program offices to ensure appropriate approvals of travel dollars.
- Implement a requirement that approvers and certifiers take annual training to reinforce their understanding of travel policy and their roles in the approval process over travel authorizations and travel vouchers.

FMC 11-09 – UDOs Documentation *(NFR No. TSA 11-22)*

We noted that controls were not fully effective to ensure contract management policies, procedures, and controls are being properly adhered to. KPMG noted the following related to our June 30, 2011 and September 30, 2011, and year-end UDO balance testwork:

- Four instances where the sample amount did not agree to the supporting documentation.
- A number of instances related to documentation where the information entered into the general ledger (GL) did not agree to the supporting documentation. Specifically:
    - Nine instances where the sample detail (e.g invoice number, contract number, object class, vendor type) did not agree to the supporting documentation.
- A number of instances where transactions were not recorded in the GL timely. Specifically:

  - Two instances where based on the period of performance (POP) ending date, the contract was not de-obligated timely.
  - Seven instances where monthly rental charges were incurred prior to the execution of a signed obligation.
  - Three instances where the sample was not recorded in the GL timely.
  - One instance where an obligation was posted to the GL prior to execution.
- One instance where the obligation did not have a valid POP at September 30, 2011.

Recommendations:
We recommend that TSA:
- Strengthen policies and controls to ensure accurate undelivered order balances.
- Work with United States Coast Guard (USCG) Finance Center (FINCEN) to document the root cause and systemic corrections associated with purchase order GL sync issues.
- OFM should work with FINCEN to obtain a monthly listing of transactions that have been corrected and their financial impact to the GL and the purchase order modules.

FMC 11-10 – Non-Compliance with the *Debt Collection Improvement Act of 1996 (NFR No. TSA 11-24)*

In FY 2010, TSA was not in compliance with the Debt Collection Improvement Act of 1996 (DCIA) and we issued NFR TSA-10-06. During FY 2010, TSA developed an internal standard operating procedure manual (ISOP) to ensure compliance with DCIA. Although an ISOP has been adopted and approved, the ISOP is not properly designed to ensure full compliance with the provisions of DCIA for FY 2011. The ISOP does not address when TSA should send a demand letter to a debtor. Further, the ISOP indicates that referrals are only made on a quarterly basis.

Specifically, we noted the following instances of non-compliance:
- For 12 of 74 sample items selected, demand letters were not sent to the debtor in a timely fashion.
- For five of 74 sample items selected, TSA did not refer eligible, outstanding debt to Treasury within 180 days.

Recommendations:
We recommend that TSA:
- Continue efforts to ensure full compliance with the DCIA.
- Office of Revenue should work with the TSA Accounting Branch and Financial Policy and Travel Branch to ensure that the DCIA Standard Operating Procedures (SOP) are properly edited to address when TSA sends a demand letter to debtors.
- Office of Revenue should ensure that the SOP is properly edited to ensure Treasury referrals are consistent with DCIA guidelines.

FMC 11-11 – Lease Accounting and Disclosure *(NFR No. TSA 11-29)*

Controls over the receipt of quarterly data call from the office of real estate in order to update the Master Lease Listing (MLL) are not operating effectively. Specifically KPMG noted five instances where General Services Administration (GSA) occupancy agreements identified in June 30, 2011 UDO testwork were not included in the MLL as of September 30, 2011.

The OFM Financial Management Analysis Group (FMAG) issues quarterly data calls to three different entities within TSA:

- The Office of Field Real Estate Services (OFRES)
- Building Management Services (BMS)
- Law Enforcement FAMS, Office of Acquisition (OAQ)

Each entity is responsible for different areas of real estate contracts, with the bulk of the leases being occupancy agreements (OAs) between GSA and TSA; these OAs are almost exclusively managed by OFRES. FMAG relies on the responses from these three offices, as well as other compensating controls, to prepare the quarterly MLL for all of TSA. In our test work, we noted several instances where OAs that were included in the June 30, 2011 MLL were not included in the September 30, 2011 Master Lease Listing. TSA was not able to provide an explanation for the exclusion of at least five of these leases.

In reviewing the procedures followed by FMAG in compiling the quarterly MLLs, we noted that FMAG provides a master listing to the three real estate offices during each data call and asks them to confirm any additions or deletions to the listing. We observed that there are usually several rounds of updates to the master listing, instead of one complete and conclusive update from each of the three real estate offices. We also observed that not all of the real estate offices respond by updating the listing provided by FMAG; sometimes the response is an email with comments, an email with an attached lease agreement, or even phone calls. Finally, we observed that none of the three real estate offices provide a master listing of their own to FMAG. FMAG responded that they believed two of the offices do not have master listings and one of the offices has multiple listings but not a consolidated listing. As a result of our review, we were not able to rely on the controls in place by FMAG to compile the MLL from the three real estate officers.

Recommendations:
We recommend TSA:

- Chief Administrative Officer (CAO) implements a TSA-wide real property management tool to monitor all TSA leases and occupancy agreements. The real property management tool should be designed to capture at a minimum the following information for every lease:
    - Lease Agreement Number
    - Capital vs. Operating Lease indicator
    - Cancelable vs. Non-Cancelable indicator
    - Lease Start Date
    - Lease End Date
    - Lease Disposition (lease expired, lease cancelled, lease replaced by lease no.XXX)
- Until a TSA-wide lease tracking database can be implemented, the CAO, through the OFRES maintain the official MLL for TSA, and coordinate this list with the other two TSA offices with lease authority (BMS and OAQ).

- The MLL prepared by CAO reports all active leases for the period (quarterly), and includes the same information required in the above recommendation.
- The MLL maintained by CAO should include a section for expired/terminated leases that includes the same information provided for active leases; as well as a field that explains the disposition of the lease (lease expired, lease cancelled, lease replaced by lease no.XXX).
- The CAO work with OFM to ensure CAO's process for identifying and tracking leases provides OFM with the information necessary to report leases in the financial statements and prepare journal vouchers as needed.

FMC 11-12 – Accounting for Advances and Prepayments *(NFR No. TSA 11-30)*

TSA lacks effective internal controls to accurately review potentially capitalizable transactions recorded in the GL for appropriate presentation in the financial statements.

Specifically we noted:
- Advances were not properly identified or capitalized as of the balance sheet date.
- One recorded advance was not properly liquidated due to goods and services being received.

Recommendations:
We recommend that TSA:
- Perform a quarterly analysis of agreements with advances to ensure proper recordation of expenses is timely posted and to maintain the necessary supporting documentation to support balances reflected in the trial balance.
- Perform a formalized monthly reconciliation of advances that is reviewed and approved by management.
- Continue to work with USCG FINCEN to properly identify advances that have been paid via the IPAC.
- Implement policies and procedures to ensure that agreements that are prepaid are identified, using a multi step approach, and reported accurately in the financial statement.

FMC 11-13 – UDOs Documentation – Federal Air Marshals *(NFR No. TSA 11-31)*

We noted that controls were not operating effectively to ensure expenditures are appropriately posted in the GL against authorized, obligated dollars in the budgetary accounts (e.g. 4801).

Recommendations:
We recommend that TSA:
- Initiate a structural change to the mission scheduling process that will mitigate a number of key cost variables that have historically complicated the mission travel projection process.
- Initiate a joint effort between the Financial Management Division of Federal Air Marshals (FAMS) and the Offices of Flight Operations and Field Operations to conduct a full-scale review of its mission travel financial planning and oversight processes. The goal of this review will be to enhance internal coordination and understanding and to further strengthen the projecting techniques used to develop mission travel estimates.
- Provide a written report of FAMS' findings and recommendations to TSA OFM for review and comment.

- Recommended corrective actions require OFM approval and will be implemented upon mutual agreement.

Transportation Security Administration
Crosswalk - Financial Management Comments to Active NFRs
September 30, 2011

		Disposition[1]			
		IAR			FMC
NFR No.	**Description**	**MW**	**SD**	**NC**	**No.**
11-01	Employee Record Management and Compliance with Human Resource Related Laws				11-01
11-02	Accrued Payroll Controls				11-02
11-03	Ineffective Controls at the Dallas Warehouse	C			
11-04	Ineffective Controls over the Time and Attendance Process				11-03
11-05	Property Plant & Equipment (PP&E) Federal Air Marshals (FAMS)	C			
11-06	PP&E Site Visits	C			
11-07	Policies and Procedures over the PP&E Process	C			
11-08	Government Accountability Office Checklist				11-04
11-09	Incorrect Trading Partner Codes	A			
11-10	Undelivered Order (UDO) Process				11-05
11-11	*Number Not Used*	Not applicable			
11-12	Review of Journal Entries				11-06
11-13	*Number Not Used*	Not applicable			
11-14	Accounts Payable Process				11-07
11-15	PP&E Provided by Client Issues	C			
11-16	Lack of Policies and Procedures over Internal Use Software (IUS)	C			
11-17	Warehouse Reconciliation to the General Ledger	C			
11-18	Travel Authorization Approval				11-08
11-19	Accounting for Other Direct Costs	C			
11-20	Accounts Receivable Controls	A			
11-21	Reporting PP&E	C			
11-22	UDOs Documentation				11-09
11-23	Entity-Level Controls	A	F		
11-24	Non-Compliance with the *Debt Collection Improvement Act of 1996*				11-10
11-25	Warehouse Controls	C			
11-26	Accounts Payable Balance	C			
11-27	Financial Reporting Deficiencies	A			
11-28	Non-Compliance with FFMIA			K	
11-29	Lease Accounting and Disclosure				11-11
11-30	Accounting for Advances and Prepayments				11-12
11-31	UDOs Documentation – FAMS				11-13

Transportation Security Administration
Crosswalk - Financial Management Comments to Active NFRs
September 30, 2011

[1]Disposition Legend:

IAR	Independent Auditors' Report dated November 11, 2011
FMC	Financial Management Comment
MW	Contributed to a Material Weakness at the Department level when combined with the results of all other components
SD	Contributed to a Significant Deficiency at the Department level when combined with the results of all other components
NC	Contributed to Non-Compliance with laws,regulations, contracts, and grant agreements at the Department level when combined with the results of all other components
NFR	Notice of Finding and Recommendation

Cross-reference to the applicable sections of the IAR:

A	Financial Reporting
B	Information Technology Controls and System Functionality
C	Property, Plant, and Equipment
D	Environmental and Other Liabilities
E	Budgetary Accounting
F	Entity-Level Controls
G	Fund Balance with Treasury
H	Grants Management
I	Custodial Revenue and Drawback
J	*Federal Managers' Financial Integrity Act of 1982* (FMFIA)
K	*Federal Financial Management Improvement Act of 1996* (FFMIA)
L	*Single Audit Act Amendments of 1996*
M	*Chief Financial Officers Act of 1990* (CFO Act)
N	*Antideficiency Act*, as amended (ADA)
O	*Government Performance and Results Act of 1993* (GPRA)

Transportation Security Administration
Status of Prior Year NFRs
September 30, 2011

NFR No.	Description	Disposition[1] Closed[2]	Repeat (2011 NFR No.)
10-01	Warehouse Inventory System and Procedures		TSA 11-25
10-02	Compliance with Human Resources Related Laws		TSA 11-01
10-03	Accrued Payroll Controls		TSA 11-02
10-04	Accounts Receivable Controls		TSA 11-20
10-05	Ineffective Controls at the Dallas Warehouse		TSA 11-03
10-06	Non-Compliance with Debt Collection Improvement Act of 1996		TSA 11-24
10-07	Policies and Procedures over the PP&E Process		TSA 11-07
10-08	Ineffective Controls over the Time and Attendance Process		TSA 11-04
10-09	PP&E Site Visits		TSA 11-06
10-10	Fund Balance with Treasury Controls	X	
10-11	Lack of Policies and Procedures over IUS		TSA 11-16
10-12	Accounts Payable Process		TSA 11-14
10-13	Incorrect Trading Partner Codes		TSA 11-09
10-14	Accounting for Other Direct Costs Incurred in fiscal year 2009 and Prior		TSA 11-19
10-15	Untimely Update of Asset Transfers	X	
10-16	UDOs Documentation		TSA 11-22
10-17	Entity-Level Controls		TSA 11-23
10-18	*Number not used*	Not applicable	
10-19	Reporting PP&E		TSA 11-21
10-20	Financial Reporting Deficiencies		TSA 11-27
10-21	Non-Compliance with the FFMIA		TSA 11-28
10-22	*Number not used*	Not applicable	
10-23	Grant Monitoring and Compliance with OMB Circular No. A-133, Audit of Sales, Local Governments and Nonprofit Organizations	X	
10-24	*Number not used*	Not applicable	
10-25	*Number not used*	Not applicable	
10-26	Review of Journal Vouchers		TSA 11-12
10-27	Review of Service Organizations' Internal Controls	X	
10-28	*Number not used*	Not applicable	
10-29	Accounts Payable Balance		TSA 11-26
10-30	Lease Accounting and Disclosure		TSA 11-29

[1] 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, 2011, 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, 2011. In addition, we were engaged to follow-up on the status of all active NFRs that supported significant deficiencies reported in our FY 2010 *Independent Auditors' Report*.

[2] The scope of our audit was limited to follow-up on NFRs that supported a material weakness or significant deficiency as reported in our *Independent Auditors' Report*. All other NFRs, e.g., that described insignificant findings, and therefore presented to DHS management as observations for consideration, were considered closed.

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