



# Performance and Accountability Report

Fiscal Year 2006

*Federal Law Enforcement Training Center*



Homeland  
Security



**OFFICE OF ARTESIA OPERATIONS** | THIS OFFICE ADMINISTERS THE DELIVERY OF LAW ENFORCEMENT TRAINING PROGRAMS IN ARTESIA, NEW MEXICO, HOSTS THE U.S. BORDER PATROL ACADEMY, AND MANAGES ALL LOGISTICAL AND SUPPORT ACTIVITIES FOR ARTESIA, INCLUDING VARIOUS CONTRACTUAL SERVICES FOR LODGING, FOOD, BASE MAINTENANCE AND OTHER SUPPORT SERVICES.

# Message from the Director



Homeland  
Security



**I AM PLEASED** to present the Federal Law Enforcement Training Center's (FLETC) Performance and Accountability Report (PAR) for Fiscal Year (FY) 2006. This report contains the financial and program performance results of our operations in providing superior and cost-effective training to approximately 53,000 law enforcement students in FY 2006.

The FLETC's mission is to train those who protect our homeland. While the mission statement is simple, the efforts to accomplish the mission are enormous. As reflected in this report, the FLETC achieved numerous accomplishments in FY 2006 to further elevate its training operations. Some notable highlights are: received academy accreditation and program accreditation of the FLETC Law Enforcement Instructor Training Program; increased training efforts for Immigration and Customs Enforcement (ICE) Investigators and Deportation Officers in connection with the Secure Border

Initiative (SBI); the opening of a new state-of-the-art combined skills training facility to provide comprehensive driver training; implementation of simulation technology to ensure students receive actual hands-on experience and test their critical decision-making skills without the inherent risks involved in the learned tasks; continued progress on the Practical Applications/Counterterrorism Operations Training Facility to provide a realistic training environment in combating terrorism; initiatives to integrate intelligence training into all basic law enforcement programs to promote intelligence analysis and information sharing; and creation of a new Inland Boat Training Program (IBOT) to teach basic skills enabling officers to safely operate a boat in a law enforcement capacity.

This PAR was prepared in accordance with the Office of Management and Budget (OMB) guidance. The FLETC management represents that the financial and performance data contained is reliable and complete. An assessment of the FLETC's internal accounting and administrative controls and financial management systems were performed in compliance with the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and the Federal Financial Management Improvement Act of 1996 (FFMIA). Management's assurances are presented in the Analysis of Systems, Controls and Legal Compliance section of the Management's Discussion and Analysis. Additionally, the FLETC underwent an independent audit of its Balance Sheet by KPMG LLP during FY 2006. The independent auditor's report and related information is contained in the financial section of this PAR.

Law enforcement continues to meet many demanding challenges. The FLETC's talented and dedicated staff is committed to the vision of providing fast, flexible and focused training to equip our students with the skills and knowledge needed to protect our homeland. I believe the FLETC vision captures the qualities essential in confronting the ever-changing challenges, and makes us the premier law enforcement training center.



*Connie L. Patrick*

Connie L. Patrick  
Director

Federal Law Enforcement Training Center

fleto

**WE TRAIN THOSE WHO PROTECT OUR HOMELAND**



**WET, WILD RIDE!** High speed pursuit and tactics are part of Inland Boat Operators Training Program at FLETC Gynco Operations.

# The Contents

---

Executive Summary	1
<b>Part I – Management’s Discussion and Analysis</b>	<b>3</b>
Introduction	4
History	4
Organization	5
Workload Statistics	14
FY 2006 Highlights	16
Analysis of Financial Statements	21
Analysis of Systems, Controls and Legal Compliance	26
Improper Payments Information Act (IPIA) Reporting	32
Future Effects on Existing, Currently Known Demands, Risks, Uncertainties, Events, Conditions and Trends	32
Limitations of the Financial Statements	34
<b>Part II – Strategic Plan and Performance</b>	<b>37</b>
FLETC Strategic Plan	38
Performance Goals & Results	39
FLETC Strategic and Performance Plan Linkage	44
Major Activities and Priorities	45
<b>Part III – Financial Information</b>	<b>47</b>
Message from the Chief Financial Officer	48
Independent Auditors’ Report	51
Consolidated Balance Sheet	80
Notes to the Consolidated Balance Sheet	81
Required Supplementary Information	93
<b>Part IV - Other Supplementary Information</b>	<b>95</b>
FLETC Partner Organizations	96
Principal Officials of the FLETC	98

**WE TRAIN THOSE WHO PROTECT OUR HOMELAND**



**PRESIDENTIAL VISIT TO FLETC ARTESIA OPERATIONS.**  
Department of Homeland Security Secretary Michael C. Chertoff and President George W. Bush speak to the FLETC staff and students at the commissioning ceremony of W. Ralph Basham as Commissioner, U.S. Customs and Border Protection.



## **EXECUTIVE SUMMARY**

THIS REPORT MARKS THE 11TH CONSECUTIVE YEAR THAT THE FEDERAL LAW ENFORCEMENT TRAINING CENTER (FLETC) HAS PREPARED A PERFORMANCE AND ACCOUNTABILITY REPORT (PAR).

THE REPORT COMPLIES WITH THE PAR FORMAT ESTABLISHED BY OMB CIRCULAR A-136 AND INCLUDES A MESSAGE FROM THE FLETC'S DIRECTOR, MANAGEMENT'S DISCUSSION AND ANALYSIS SECTION IN PART I, STRATEGIC PLAN AND PERFORMANCE SECTION IN PART II, AND FINANCIAL INFORMATION SECTION IN PART III. THE FLETC CHIEF FINANCIAL OFFICER'S LETTER, INDEPENDENT AUDITORS' REPORT, AND THE CONSOLIDATED BALANCE SHEET, NOTES TO THE CONSOLIDATED BALANCE SHEET AND REQUIRED SUPPLEMENTARY INFORMATION ARE IN PART III. PART IV CONTAINS OTHER SUPPLEMENTARY INFORMATION RELEVANT TO THE FLETC TRAINING OPERATIONS.

A COPY OF THE FLETC'S FY 2006 PAR IS AVAILABLE FOR PUBLIC REVIEW AND DOWNLOADING AT THE FLETC'S WEB PAGE: [HTTP://WWW.FLETC.GOV/CONTENTS/](http://www.fletc.gov/contents/).

fleto



**PRESIDENTIAL VISIT TO FLETC ARTESIA OPERATIONS.**

New Mexico Senator Pete V. Domenici introduces the president to the FLETC staff and students at the commissioning ceremony of W. Ralph Basham as Commissioner, U.S. Customs and Border Protection.



# Performance & Accountability Report

## Part I Management's Discussion and Analysis

### Fiscal Year 2006



**THE FEDERAL LAW ENFORCEMENT TRAINING CENTER**  
**GLYNCO | ARTESIA | CHARLESTON | CHELTENHAM | ILEA BOTSWANA | ILEA SAN SALVADOR**

# Management's Discussion and Analysis

## INTRODUCTION

The Federal Law Enforcement Training Center (FLETC) is an agency within the U.S. Department of Homeland Security (DHS). The FLETC is the leader in career-long law enforcement training, preparing law enforcement professionals to fulfill their responsibilities safely and proficiently, and ensuring that training is accomplished in the most cost-effective manner. The FLETC is an interagency organization that provides law enforcement training to the majority of Federal law enforcement personnel, while also training state, local, private sector security, and international law enforcement personnel. The number of agencies attending training and the number of students trained have steadily increased over the FLETC's 36-year history.

To accomplish our mission, the following strategic goals guide our priorities and actions:

- Provide training that develops the skills and knowledge to perform law enforcement functions safely, effectively, and professionally.
- Significantly expand access to and availability of quality law enforcement training.
- Create a new organizational culture through law enforcement training based on tradition and history.
- Implement best management practices.

## HISTORY

Prior to the establishment of the FLETC in 1970, the quality of training received by Federal law enforcement personnel varied greatly among Federal agencies. Standardized training was an unexplored concept, and inadequate facilities and redundancy were prevalent as each agency independently trained its own personnel. Studies conducted in the late 1960s revealed an urgent need for high-quality, cost-effective training by a cadre of professional instructors using modern

training facilities and standardized course content. The U.S. Congress responded by authorizing funds for planning and constructing the Consolidated Federal Law Enforcement Training Center (CFLETC), later named the FLETC.

After beginning operations in Washington, DC, the FLETC headquarters was relocated to Glynco, Georgia in 1975. Located on the southeast Georgia coast, the Glynco training center has classroom buildings, dining and residence halls, and state-of-the-art facilities for firearms, physical, driver, marine, and computer-based training activities. A similar, but smaller training center is located in Artesia, New Mexico. The Artesia site, which opened in late 1989, accommodates training principally for the Bureau of Indian Affairs and other law enforcement personnel located in the western United States. It now also hosts the U.S. Border Patrol Academy consolidated from various U.S. Border Patrol training sites, including a former training center in Charleston, South Carolina that had been established in FY 1991. In May 2001, the former Naval Communications Detachment facility in Cheltenham, Maryland, was transferred to the FLETC for conversion into a firearms and vehicle training facility that is used principally for in-service and re-qualification for Federal law enforcement officers and agents in the metropolitan Washington, DC area. In February 2003, Public Law 108-7 established Charleston, South Carolina as a permanent training facility within DHS to be operated under the direction of the FLETC.

Originally, only a handful of agencies trained at the FLETC. Today, the FLETC serves as an interagency law enforcement training organization for 82 Federal agencies. A majority of the partner organizations have transferred portions or all of their law enforcement training operations to one of the FLETC's training sites. These training offices



and academies coordinate the training activities of their personnel and conduct advanced and agency-specific training programs. Additionally, other Federal, state and local organizations, along with international law enforcement personnel, train at the FLETC on a space-available basis. The growth in the number of agencies that train at the FLETC clearly substantiates the success and resiliency of the consolidated training concept, as well as the quality and cost effectiveness of the training provided to the clientele.

## **ORGANIZATION**

The FLETC, whose senior manager is the Director, is organized into six directorates. The Deputy Director is responsible for five directorates each managed by an Assistant Director, while the Senior Associate Director for the Washington Operations is responsible for the Chief Financial Officer (CFO)

directorates. The following describes the elements in the Table of Organization:

**Office of the Director:** The Office of the Director administers the activities of the FLETC and is responsible for accomplishing its mission. The Director provides overall direction for the operation of the FLETC's programs with the objective of ensuring effective, efficient and economical administration. The Director develops, manages and directs the FLETC's programs. Staff attached to this office include the Office of the Deputy Director, Senior Associate Director for the Washington Operations, Chief of Staff, Equal Employment Opportunity, Office of Chief Counsel, Public Affairs, and the Inspection and Compliance Division. The staffs assist the Director in accomplishing the mission of the FLETC by providing coordination, public affairs, legal counsel, and other activities.

# Management's Discussion and Analysis

## Senior Associate Director for Washington

**Operations:** Serving as the Director's surrogate in Washington, DC, the Senior Associate Director provides legislative support and DHS and OMB coordination. The following offices report to the Senior Associate Director for Washington Operations.

- **Office of International Training and Technical Assistance:**

This office provides oversight for the administration and delivery of international law enforcement training programs. The office plans, develops, and presents training courses and practical exercise applications related to international law enforcement training.

- **International Law Enforcement Academy (ILEA) Gaborone, Botswana, Africa:** This division provides management direction for the Botswana ILEA.

- **International Law Enforcement Academy (ILEA) Latin America:** This division provides management direction for the Latin America ILEA.

- **Chief Financial Officer (CFO) Directorate:**

This directorate plans and directs the activities related to the FLETC's budget, financial systems and strategic plans. This office administers the integration of planning and performance measurement activities with budget formulation and execution. This office ensures the integrity of financial records and performs periodic reporting of financial activities. The CFO Directorate consists of three subordinate divisions:

- **Budget Division:** This division prepares the FLETC budget submission for DHS, OMB, and Congressional levels, executes the fiscal year appropriations for the bureau, and

develops cost data for training programs.

- **Finance Division:** This division directs the financial management system including all accounting and reporting of financial activities, administers the core financial management software, and provides accounting services involving accounts payable, accounts receivable, payroll, and travel.

- **Strategic Planning and Analysis Division:** This division develops the FLETC Strategic Plan and researches, develops, recommends and documents policies and procedures, conducts management analysis, and reports performance goals and measurements.

**Office of the Deputy Director:** The Deputy Director assists the Director and acts, in her behalf during her absence, in administering the activities of the FLETC. The Deputy Director provides overall direction to the five subordinate directorates for the operation of the FLETC's programs. In addition, other staff attached to this office include the Security and Emergency Division, the Special Investigations Division, and the Federal Law Enforcement Training Accreditation's Office of Accreditation.

- **Training Directorate:** Consisting of two major subordinate offices, the Offices of Training Applications and Training Operations, this directorate administers all law enforcement training activities at the FLETC headquarters.

- **Office of Training Applications:** This office directs faculty and staff and manages programs in support of basic, advanced and specialized law enforcement training. There are five faculty elements within the Office of Training Applications.

- **Behavioral Science Division:** This division plans, develops, and presents formal training courses and practical exercise applications related to the area of interpersonal relations including interviewing, handling crisis situations, professional ethics, conduct, sexual harassment, cultural sensitivity, and oral and written communications.
- **Physical Techniques Division:** This division plans, develops, and presents formal training courses and practical exercise applications related to trauma management and cardiopulmonary resuscitation, self defense, arrest techniques, physical fitness, safety and water survival. This division is also responsible for special use equipment and facilities assigned to the specific training area.
- **Legal Division:** This division plans, develops, and presents formal training courses and practical exercise applications related to the U.S. Constitution, applicable case law, statutory provisions, criminal law and evidence procedures.
- **Firearms Division:** This division plans, develops, and presents formal training courses and practical exercise applications related to the specialized and technical nature of law enforcement armament and weaponry. This division is also responsible for the special use equipment and facilities assigned, including the armory, which provides FLETC-wide armament and weaponry security, repair, and maintenance services.
- **Law Enforcement Leadership Institute:** This division plans, develops, and presents formal training courses and practical exercise applications related to managing and supervising law enforcement operations.
- **Office of Training Operations:** This office directs faculty and staff, manages programs in support of basic, advanced and specialized law enforcement training, and administers the FLETC accreditation program. There are five faculty elements within the Office of Training Operations.
- **Enforcement Operations Division:** This division plans, develops, and presents formal training courses and practical exercise applications related to various law enforcement operational procedures ranging from undercover and surveillance activities to the execution of search warrants. This division also provides the overall coordination for practical exercises.
- **Forensics and Investigative Technologies Division:** This division plans, develops, and presents formal training courses and practical exercise applications related to various criminalistic skills and knowledge, including laboratory and crime scene activities.
- **Computer and Financial Investigations Division:** This division plans, develops, and presents formal training courses and practical exercise applications related to the investigation of white collar crime violations, computer fraud, and microcomputer applications in law enforcement. This division is also responsible for the special use equipment and facilities assigned to this specific training area.

## Management's Discussion and Analysis

- **Driver and Marine Division:** This division plans, develops, and presents formal training courses and practical exercise applications related to the specialized nature and use of vehicles and vessels, including search techniques and operational procedures in a law enforcement environment. This division is also responsible for the special use equipment and facilities assigned to these specific training areas.
- **Counterterrorism Division:** This division plans, develops, and presents formal training courses and practical exercise applications related to anti-terrorism, counter-terrorism, and physical security.
- **Training Innovation and Management Directorate:** Consisting of two major subordinate offices, the Office of Training Management and the Office of Training Support, this directorate provides consistent allocation, management and coordination of training programs, promotes the innovative enterprise-wide development and application of training technology, and facilitates the integration of training activities with emerging technologies.
- **Office of Training Management:** This office provides oversight to three divisions.
  - **Evaluation and Analysis Division:** This division provides institutional research, consultation services, student evaluation and testing, and program validation studies.
  - **Training Management Division:** This division provides administrative assistance, including the coordination of advanced training activities; serving as the repository for lesson plans, syllabi, class reports, and student performance records; developing optimal scheduling plans to meet training requirements; and developing both long and short range plans for training operations.
  - **Training Resource Coordination Division:** This division provides training logistical support, including the scheduling of training programs, activities, and facilities.
- **Office of Training Support:** This office provides services and materials that most directly relate to the training mission. It consists of the following three divisions:
  - **Training Innovation Division:** This division identifies, researches, and evaluates emerging technology for application in law enforcement training.
  - **Media Support Division:** This division provides a full range of media and graphic arts services for all basic and advanced training activities including visual/media production, learning resource services, and printing/reproduction.
  - **Student Services Division:** This division provides physical therapy, student recreation, and contractual support for health services, lodging, meals, student records maintenance, and other contractual services.
- **Field Training Directorate:** This directorate provides oversight of Federal and non-Federal field training functions, including state, local and international law enforcement training activities, as well as management of the FLETC's field training sites in New Mexico, Maryland,



and South Carolina, and International Law Enforcement Academies in Botswana and Latin America.

- **Office of Artesia Operations:** This office administers the delivery of law enforcement training programs in Artesia, New Mexico, hosts the U.S. Border Patrol Academy, and manages all logistical and support activities for Artesia, including various contractual services for lodging, food, base maintenance and other support services.
- **Office of Cheltenham Operations:** This office administers the delivery of law enforcement training programs in Cheltenham, Maryland and manages all logistical and support activities for its operation.
- **Office of Charleston Operations:** This

office administers the delivery of law enforcement training programs in Charleston, South Carolina.

- **Office of State and Local Law Enforcement Training:** This office presents specialized program offerings that enhance networking and cooperation between Federal, state, and local law enforcement agencies. These programs vary in length from three days to four weeks and have an average class size of 25 students. Additionally, technical assistance is provided to state and local law enforcement agencies' training initiatives.
- **Administration Directorate:** This directorate plans, directs and coordinates the FLETC's administrative programs and objectives. It formulates policies and courses of action for programs, which include staffing requirements, administrative services, human resources,

## Management's Discussion and Analysis

procurement, property management, facilities management, and environmental and safety program management. The directorate directly supervises the Human Resources Division and also administers the Critical Incident and Stress Management program. In addition to the Human Capital Planning Program Officer, the two major offices within the directorate consist of the Assets Management and Facilities Management.

- **Human Resources Division:** This division develops and administers the human resources policies and programs at the FLETC and also conducts workforce and organizational assessments, workforce structuring and planning, studies and analysis, external marketing and diversity programs, and employee development programs.
- **Office of Assets Management:** This office provides managerial oversight to two divisions for the acquisition, management, and disposal of assets.
  - **Procurement Division:** This division develops and administers the procurement and contracting program at the FLETC.
  - **Property Management Division:** This division plans and directs the overall property management program including real property and non-expendable personal property at the FLETC.
- **Office of Operations Support:** The office is responsible for the monitoring of impact costs and risk exposures, as well as regulatory compliance, associated with the reliability, availability, maintainability, performance, and







longevity of physical assets.

- **Facilities Management Division:** This division develops and administers the facilities management program, including maintenance, alterations, emergency service, repairs and preventive maintenance for all buildings, grounds and equipment. It also coordinates all in-house, GSA or contract construction/alteration operations, and provides professional engineering services and assistance.
- **Environmental and Safety Division:** This division administers the environmental and safety program for the agency and ensures compliance with the applicable environmental and safety laws and regulations.

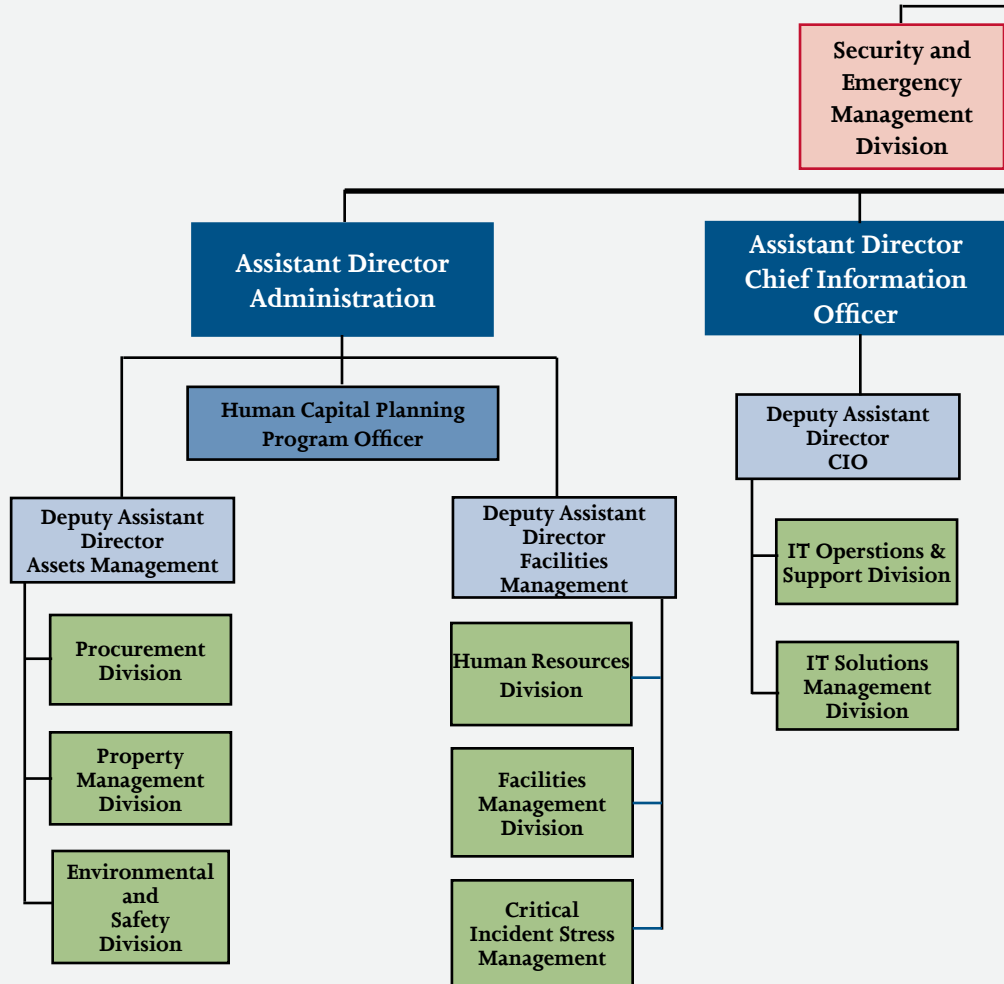
- **Chief Information Officer Directorate:** This

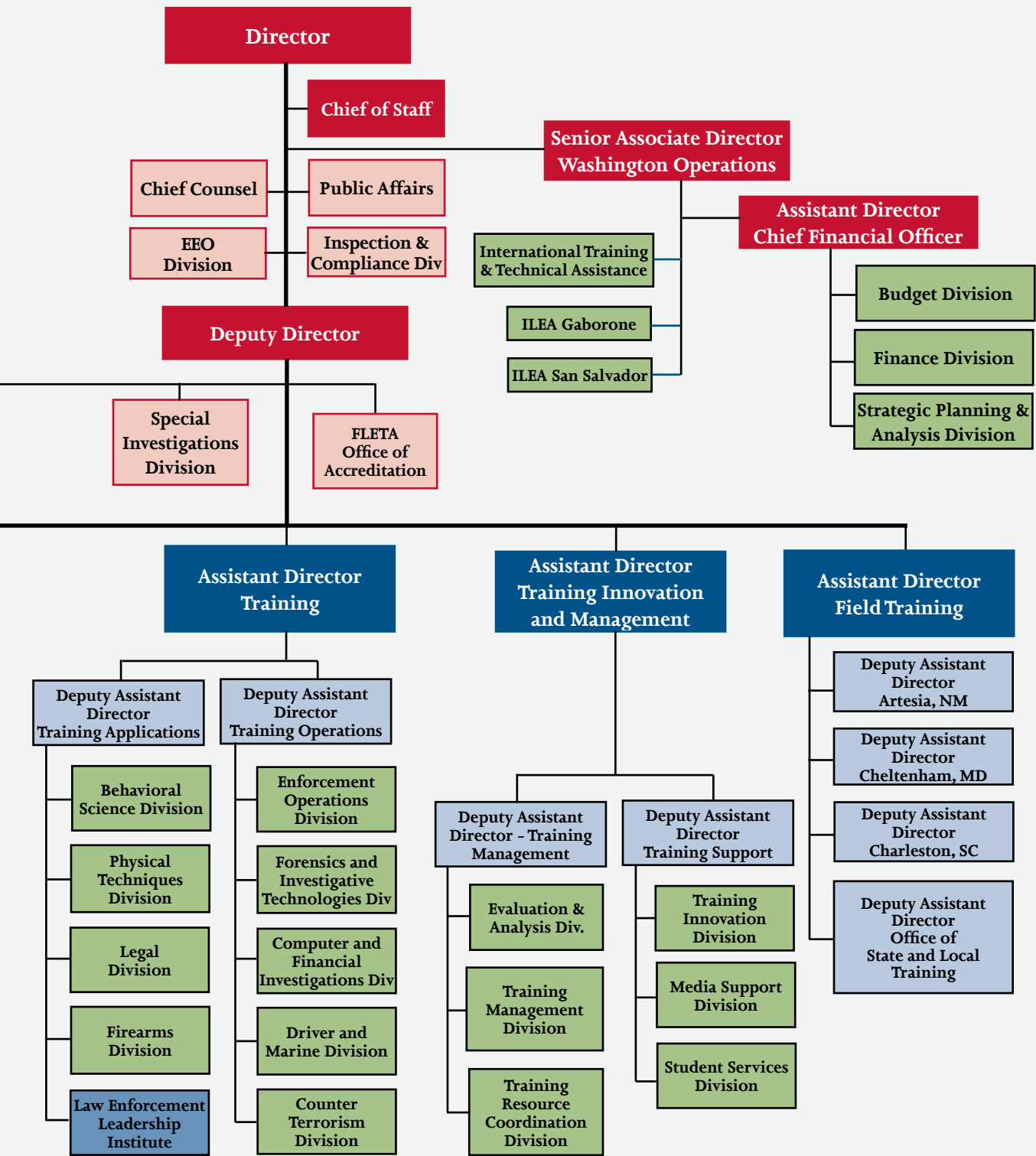
directorate manages two divisions in support of the FLETC's initiative for expanding electronic government, overall information technology (IT) planning function, coordination of IT expenditures and activities, and compatibility of IT equipment and service acquisitions.

- **Operations Support Division:** This division supports FLETC IT infrastructure operations and maintenance.
- **Information Technology Solutions Management Division:** This division supports project planning, acquisition, and implementation activities. It also coordinates the implementation of leading edge technologies to support law enforcement training.

U. S. Department of Homeland Security  
Federal Law Enforcement Training Center  
**Organizational Chart**

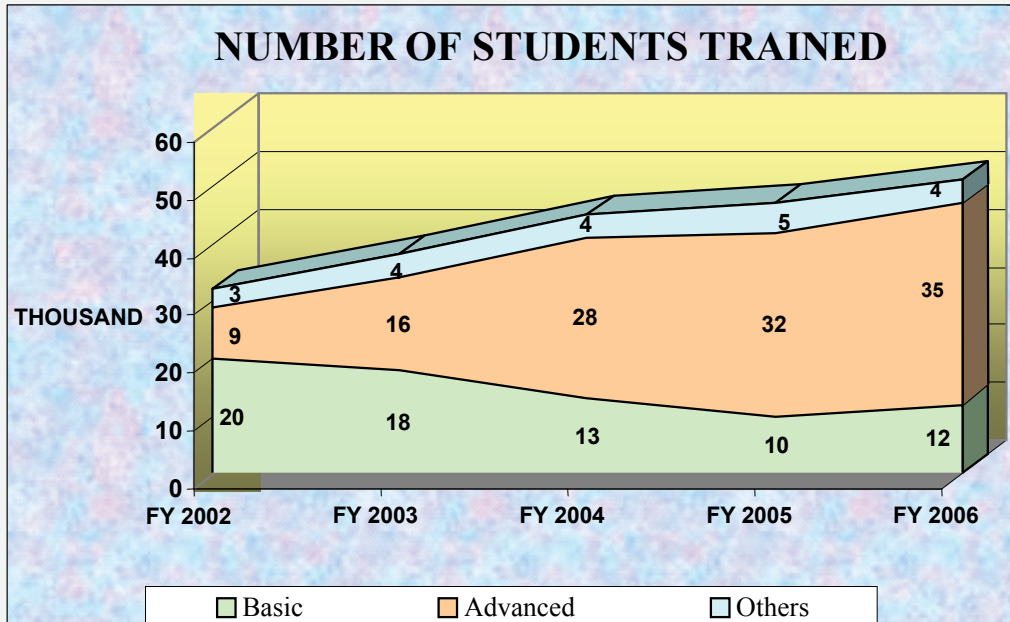
July 3, 2006



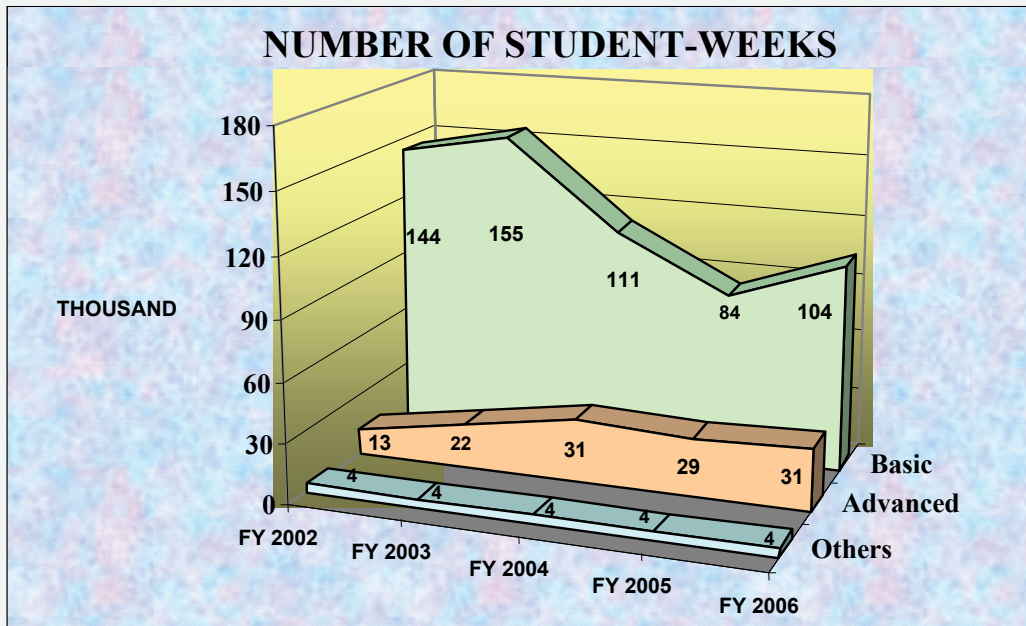


**WORKLOAD STATISTICS**

**Number of Students Trained FY 2002 – FY 2006**



**Number of Student-Weeks of Training FY 2002 - FY 2006**



The number of students trained has grown consistently over the past five years. The number of students has increased by 9% from FY 2005 and by 59% since FY 2002. The number of student-weeks of training has fluctuated as a result of heavy post-9/11 training requirements in FY 2002 and FY 2003.

## Training Conducted by Site and Category - FY 2006

CATEGORY	STUDENTS	STUDENT-WEEKS	ARSP *	PERCENT OF TOTAL STUDENT-WEEKS
<b>GLYNCO</b>				
Basic	9,449	72,234	1,389	51.9%
Advanced	11,665	15,634	301	11.2%
State & Local	543	907	17	0.7%
Subtotal	21,657	88,775	1,707	63.8%
<b>ARTESIA</b>				
Basic	1,514	29,922	575	21.5%
Advanced	3,264	4,314	83	3.1%
State & Local	21	16	-	0.0%
Subtotal	4,799	34,252	658	24.6%
<b>CHARLESTON</b>				
Basic	191	946	18	0.7%
Advanced	2,380	6,521	125	4.7%
State & Local	84	64	1	0.0%
Subtotal	2,655	7,531	144	5.4%
<b>CHELTENHAM</b>				
Basic	347	1,063	20	0.8%
Advanced	16,847	4,002	77	2.9%
State & Local	305	121	2	0.1%
Subtotal	17,499	5,186	99	3.7%
<b>EXPORT</b>				
Advanced	1,144	1,043	20	0.7%
State & Local	2,963	2,037	39	1.5%
International	532	368	7	0.3%
Subtotal	4,639	3,448	66	2.5%
<b>RECAP</b>				
Basic	11,501	104,165	2,002	74.8%
Advanced	35,300	31,514	606	22.6%
State & Local	3,916	3,145	59	2.3%
International	532	368	7	0.3%
Total	51,249	139,192	2,674	100.0%

\* Average Resident Student Population

The FLETC provided 139,192 student-weeks of training to 51,249 law enforcement agents and officers in FY 2006. Of the total student-weeks, 75% and 23% were attributed to the basic and advanced training programs, respectively.

# Management's Discussion and Analysis

## FY 2006 HIGHLIGHTS

The following notable FY 2006 accomplishments demonstrate our commitment to fulfill our mission and to support the needs of our Partner Organizations.

- **Cooperative Research and Development**

**Agreements.** The FLETC obtained authority to enter into Cooperative Research and Development Agreements (CRADA), Cooperative Agreements (CA), and the authority to administer grants. Borne of the need to expand the capability to research new computer and network forensics technologies and introduce the latest investigative tools into the classroom, the FLETC will capitalize on this authority with the first ever FLETC CRADA with Armstrong Atlantic State University, a noted computer science leader in the southeastern U.S. This groundbreaking work will be implemented across the FLETC with the adoption of CRADA business rules that will fuel other areas of research and innovation.

- **Federal Law Enforcement Legal Advisors**

**Conference.** The FLETC, with the cooperation of the Federal Bureau of Investigations and Drug Enforcement Agency Academies, developed and conducted the first three day conference for federal agency attorneys who provide tactical/operational legal advice to special agents and uniformed officers. Over 150 attorneys from 35 agencies involved in the protection of national security met to share knowledge, to address legal issues of common interest, and to better understand how to work together and network to encourage enhanced communication and sharing of information on matters of mutual interest in the future. Conference speakers included nationally recognized experts on law enforcement and intelligence issues.

- **Investigating Stored Value Cards.** In response to a growing law enforcement concern with the regulation, abuse and investigation of alternative money transfer systems, the FLETC formed an interagency working group composed of virtually every law enforcement, regulatory and intelligence agency concerned with the illicit transfer of funds via “stored value cards.” Upon its foundation and because of the critical importance of sharing investigative lessons learned to be rapidly integrated into training, the FLETC was asked by participants to chair this group and lead its efforts. Important first steps were taken to involve stored value card industry representatives in the discussion to fully explain the instrument and their own systems of internal controls and to assist the investigative community to identify when the instruments were being used for illicit purposes. Alternative money systems continue to be of prime concern and investigations of illicit schemes to fund criminal and terrorist operations.

- **Combined Skills Facility (CSF).**

The construction of the 1.83 mile CSF was completed in FY 2006. The CSF replicates urban and rural roadway infrastructures with varying configuration and signage, including surface wetting capabilities. Additionally, it contains a high center of gravity (4X4) course, and a four-lane special tactics course.

- **Law Enforcement Intelligence Training.**

The FLETC moved decisively in FY 2006 to support the National Criminal Intelligence Sharing Plan and the DHS initiatives to close information sharing gaps between agencies. FLETC designed a three phase program to introduce new law enforcement officers to intelligence concepts and terrorism pre-incident



indicators, conduct basic law enforcement intelligence analytic training and provide a comprehensive set of law enforcement intelligence skills for state and local officers. Curriculum developed for the basic officers and investigators will be reinforced by practical exercises requiring the identification and reporting of suspect incidents to a fusion cell or joint terrorism task force. The FLETC's existing Intelligence Analyst Training Program was exported twice to the National Capitol Region as a proof of concept and to further develop a partnership with the DHS Office of Intelligence and Analysis to reach an underserved population of analysts bridging the gap between traditional national security intelligence and the growing discipline of law enforcement intelligence. Simultaneously, and in partnership with DHS Office of Grants and Training, the FLETC designed and fielded an analytic training program focused on the needs of state and local agencies, particularly those responsible for supporting state or major metropolitan area intelligence fusion cells.

- **Tactics for Flying Armed Training.**

Approximately 600 agents from Partner Organizations were trained in topics including: use of force, close quarter defensive tactics, Federal Aviation Administration crew common strategy, Federal Flight Deck Officer procedures, tactics for linear environments, improvised explosive devices, and tactics for mitigating hijackings. The training was delivered through a variety of methods including a residential Center Advanced training, agency in-service, and export training programs. Also, in addition to the advanced training, approximately 500 basic students were trained at the FLETC in the Criminal Investigator Training Program, the Uniform Police Training Program, and the Land Management Police Training Program. These students were trained in a new facility that houses six aircraft simulators, which were designed and constructed to mimic various types of aircraft.

- **International Financial Investigations Training.**

The FLETC significantly expanded its financial investigations training opportunities in support of

## Management's Discussion and Analysis

both regional and global security concerns and in furtherance of partnerships between DHS, FLETC, the Departments of State, Treasury and Justice. In conjunction with the IRS National Criminal Investigations Academy, the FLETC established a two-year, comprehensive money laundering and asset forfeiture training program in support of Plan Colombia, an interagency mutual assistance program aimed at thwarting drug traffickers in the southern hemisphere. The FLETC also expanded financial investigations training available to southern Africa by bringing first ever iterations of its Financial Forensics Techniques Training Program (FFTTP) and the International Banking and Money Laundering Training Program to the International Law Enforcement Academy (ILEA), Gaborone, Botswana. Additional international training success was also experienced with the first ever export of the FFTTP to Malaysia in support of the Malaysian Inland Revenue Board. The FLETC has adeptly distinguished itself in reaching an international audience by researching and building curriculum based on host nation laws and regional concerns rather than focusing on exporting U.S. or agency specific investigative techniques.

- **Commercial Vehicle Counterterrorism Instructor Training Program (CVCITP).**

In response to potential threats to the transportation infrastructure, the FLETC piloted and implemented the CVCITP. This program is designed to meet the needs of law enforcement officers responsible for the enforcement of commercial vehicles traveling on the Nation's highways.

- **Critical Incident Response Training Program (CIRTP).** The FLETC partnered with the State of South Carolina and delivered eight CIRTPs.

It is a train-the-trainer program designed to deal with the full range of options available to a law enforcement agency when responding to a critical incident. This program is based upon the hostage-barricade model since experience has proven that the first 30 minutes of a hostage-barricade incident are normally the most difficult and dangerous. Occurrences in the early stages may actually limit and have an overwhelming influence on the resolution options.

- **Accreditation of the Law Enforcement Instructor Training Program.** On July 20, 2006 the Federal Law Enforcement Training Accreditation (FLETA) Board of Directors awarded program accreditation to the FLETC Law Enforcement Instructor Training Program (LEITP). The LEITP is the first FLETC program awarded accreditation status and follows the FLETA's March 2006 decision to award FLETC academy accreditation. The LEITP is designed to meet the needs of full-time law enforcement instructors, particularly permanent FLETC instructors and long-term temporary instructors detailed to the FLETC from the Partner Organizations. The LEITP is based largely on student-centered learning and focuses on presentation skills and basic lesson plan development. Because FLETC instructors play a critical role in providing basic and advanced law enforcement training to agents and officers from 82 Federal Partner Organizations and to the state, local, and international law enforcement community, the LEITP is critical to the success of law enforcement training, DHS, and the law enforcement profession at large.

- **Student Administration and Scheduling System (SASS).** In May 2006 the FLETC awarded a multi-year modular contract to Science Applications International Corporation (SAIC) for



the development and implementation of the SASS. The SASS will integrate the FLETC's numerous manual and partially automated processes. The SASS will also enable the FLETC to apply standardized scheduling priorities enterprise-wide and to thoroughly analyze all aspects of program and facility scheduling as well as student administration functions. This tool will provide information necessary to efficiently utilize current resources, plan for future requirements, and more effectively respond to the training needs of the FLETC's 82 Partner Organizations.

- **Simulation Systems.** The Training Innovation Division laid the groundwork for the strategic implementation of simulations and similar technology into a variety of FLETC law enforcement training programs. The first pod of four driver training simulators was delivered to the driver training complex for use in scenario development and staff training. The Training Innovation Division, in coordination with driver training experts from the Driver and Marine Division, initiated the implementation strategy of incorporating capabilities into the driving simulators that augment training conducted on the new Combined Skills Range. The simulated scenario-based training allows trainers to test critical decision-making skills without the inherent risks involved in students performing such tasks as driving in heavy traffic, traveling through intersections, and pursuing vehicles in urban areas. Delivery of additional driving simulators is planned for the end of the calendar year to coincide with the completion of the FLETC's new Simulation Lab facility. The Simulation Lab will house a variety of simulation systems under development and will provide space for testing and prototyping of simulation packages and systems being considered for

implementation in FLETC training programs. Tabletop simulations for Weapons of Mass Destruction and HAZMAT training, as well as applications for the Protective Service Operations Training Program are now under development.

- **ILEA San Salvador.** In FY 2006, the ILEA San Salvador will have graduated ten one-two week specialized training programs and two 6-week core programs for a total of 480 students. The Law Enforcement Management Development Program held its second graduation ceremony for 40 mid-level law enforcement officials from El Salvador, Costa Rica, Ecuador, and Panama. Also, the renovations of the ILEA San Salvador Academy were completed on June 20, 2006.
- **Secretary Condoleezza Rice** announced to the General Assembly of the Organization of American States (OSA) that the United States would work with the government of Peru to extend the ILEA training into South America and negotiations are underway to consider the establishment of an ILEA Regional Training Center in Lima. For the period of October 1, 2005 through September 30, 2006, 320 students graduated from specialized training programs conducted at that venue.
- **Archeological Resource Protection Training Program (ARPTP).** The Forensics and Investigative Technologies Division exported the ARPTP to the Grand Canyon National Park and trained 32 students from several Federal agencies. The ARPTP provides advance training to both law enforcement officers and archeologists in the investigation and successful prosecution of archeological resource crimes and is conducted several times a year at various locations across the U.S.

## Management's Discussion and Analysis

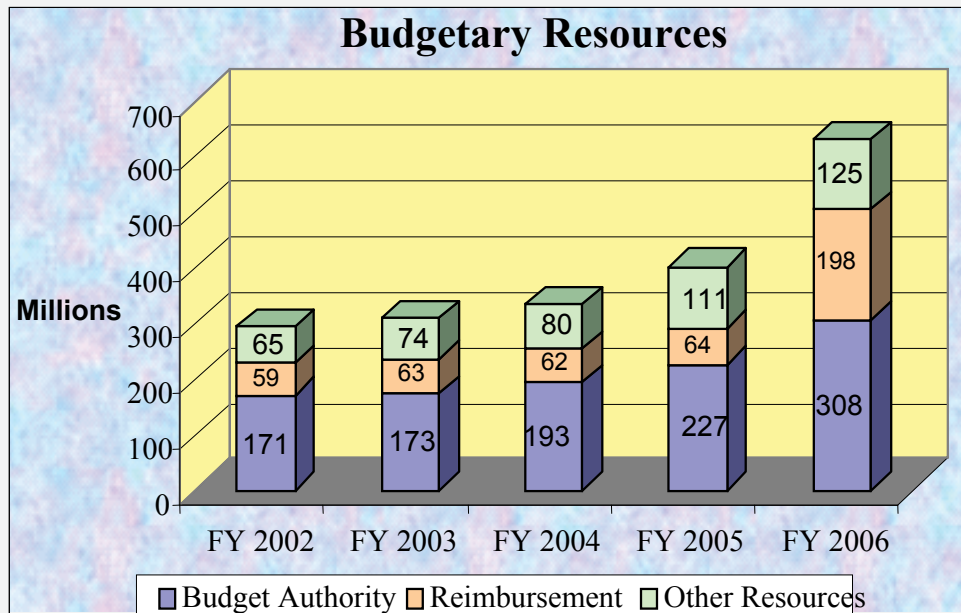
- **Inland Boat Operators Training (IBOT) Program.** The FLETC successfully conducted its first IBOT program at Glynco, GA. The IBOT program was designed to teach basic skills to those officers with limited vessel handling experience to enable them to safely operate their boat in a law enforcement capacity. Many of the courses are taught in an underway lecture and laboratory setting that maximizes the time spent on the water. The one-week program covers vessel handling and maintenance, inland navigation rules, safety and emergency procedures, and night piloting using the radar and global positioning system.
- **Commercial Vehicle Counterterrorism Training Program (CVTTP).** The Counterterrorism Division conducted the CVTTP in Tallahassee, FL for state and local government law enforcement officers. The CVTTP is designed to train law enforcement officers responsible for the enforcement of commercial vehicles traveling on the roadways and the extent these commercial vehicles can be used to commit terrorism acts, either as a weapon of mass destruction or transporting materials to further a terrorist cause. The CVTTP is unique in its design, recognizing that highway security is accomplished by a cooperative effort of Federal, state and local law enforcement officers.
- **Tactical Threat Engagement (TTE).** The Firearms Division introduced the TTE training to law enforcement officers enrolled in the Pilot Criminal Investigator Training and Uniformed Police Training Programs. The TTE focuses on tactical movements and movements with problem solving multiple threats including, offline, forward and backward and while firing a weapon. Students are also taught how to deal with a malfunctioning weapon during the course of firing.
- **Master Facility Construction Program.** In FY 2006, numerous facility construction and renovation projects were completed. The construction in progress account as of September 30, 2006, is \$48M for 45 ongoing projects.
- **Annual DHS Chief Financial Officer (CFO) Management Conference.** The FLETC Finance Division successfully hosted the annual conference held at Jekyll Island, Georgia in February 2006. The FLETC staff coordinated the logistics requirement for over 100 attendees and set up festivities, such as receptions, cookouts, and tour of the FLETC Glynco training facilities, including on-hand training at the driving and firearms ranges.

## Analysis of Entity's Financial Statements

The FLETC's consolidated balance sheet appears in Part III with notes to the consolidated balance sheet and required supplementary information. This section includes key financial data relevant to the FLETC operations.

### FINANCIAL RESOURCES AND KEY INDICATORS

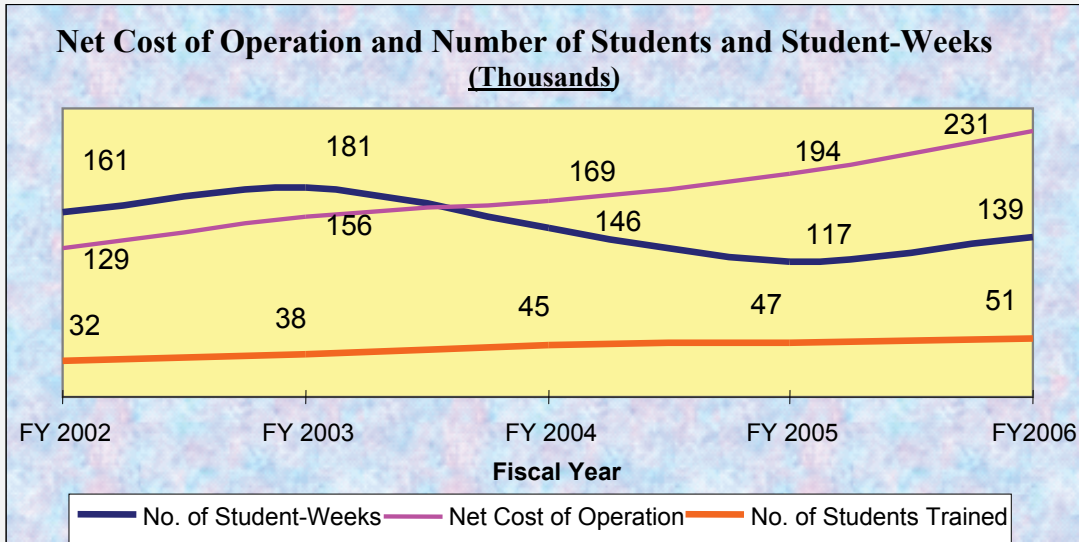
#### Budgetary Resources



The FLETC's budgetary resources continue to grow. Budgetary resources consist of the budget authority or annual appropriations, reimbursement for training services, and other resources comprised primarily of carryover funds for multi-year and no-year appropriations. The increase in budgetary resources for the past three years is attributed to an increase in FLETC's annual appropriations of \$81 million, or 36%, and a \$134 million, or 209%, increase in earned reimbursement for training services.

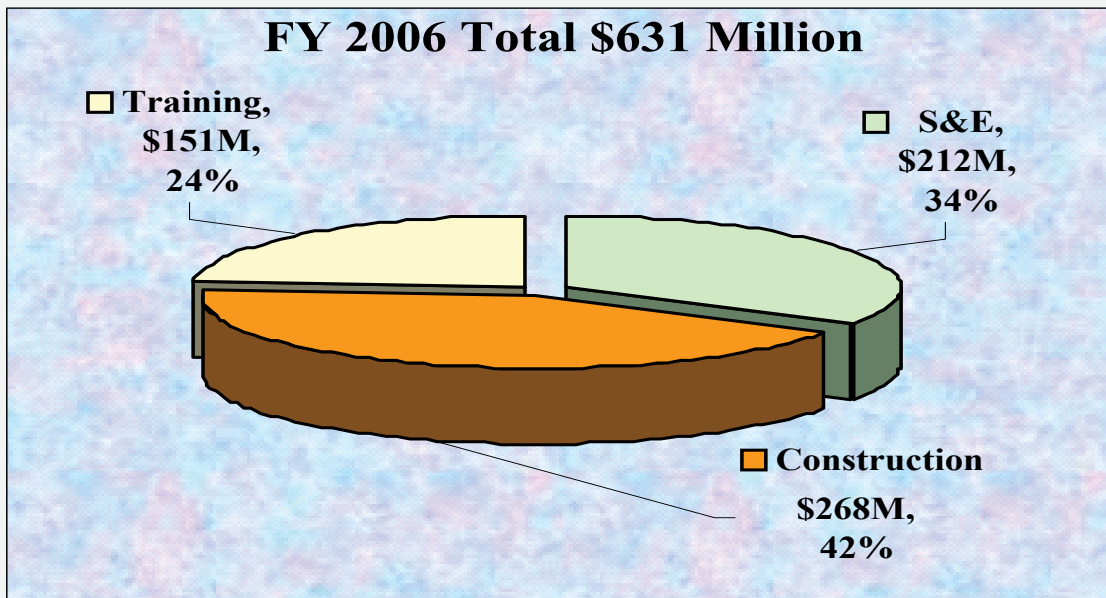
# Management's Discussion and Analysis

## Net Cost of Operation



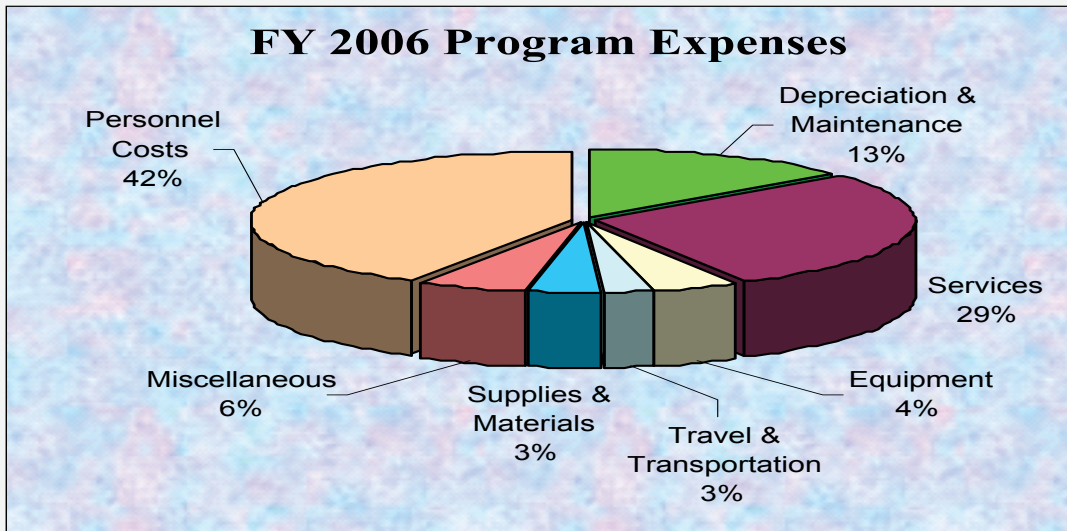
The FY 2006 net cost of operation increased by \$37 million, or 19%, from last fiscal year. The number of students trained and number of student-weeks increased by 9%, or 4 thousand students, and by 19%, or 22 thousand student-weeks, respectively, from FY 2005.

## Category of Funds



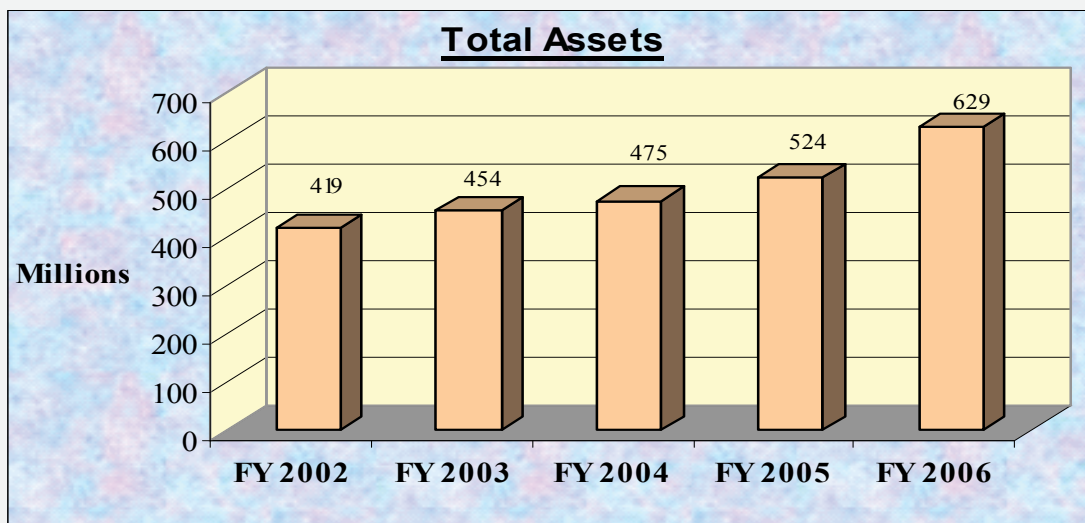
Of the \$631 million total budgetary resources in FY 2006, 34%, or \$212 million, was for salaries and expenses; 42%, or \$268 million, for construction; and 24%, or \$151 million, for training.

## Program Expenses



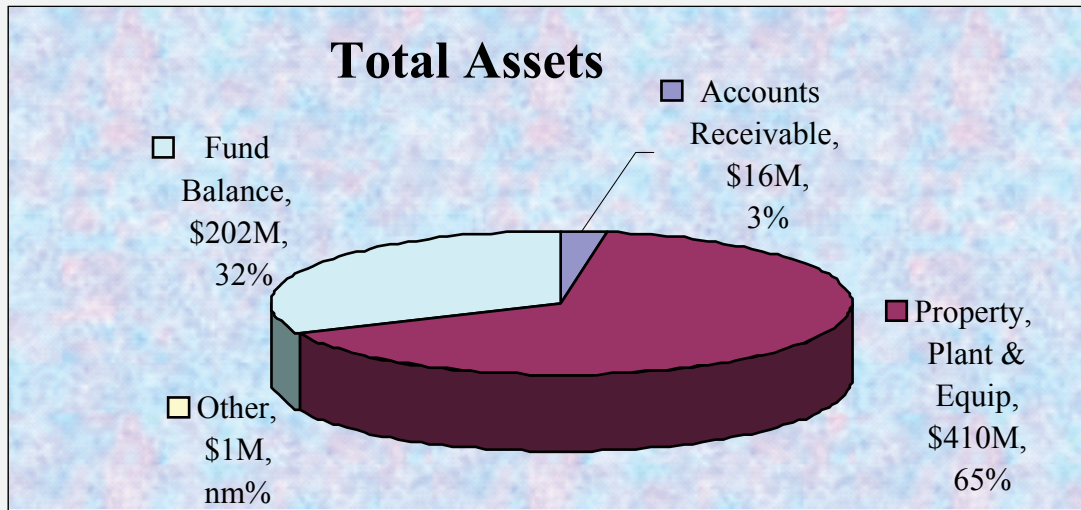
Of the \$319 million gross program expenses in FY 2006, 42%, or \$133 million, was spent on personnel compensation and benefits, an increase of 36% from last year. Also, 29%, or \$92 million, was spent on services to support the training mission during FY 2006, an increase of 39% from FY 2005.

## Assets



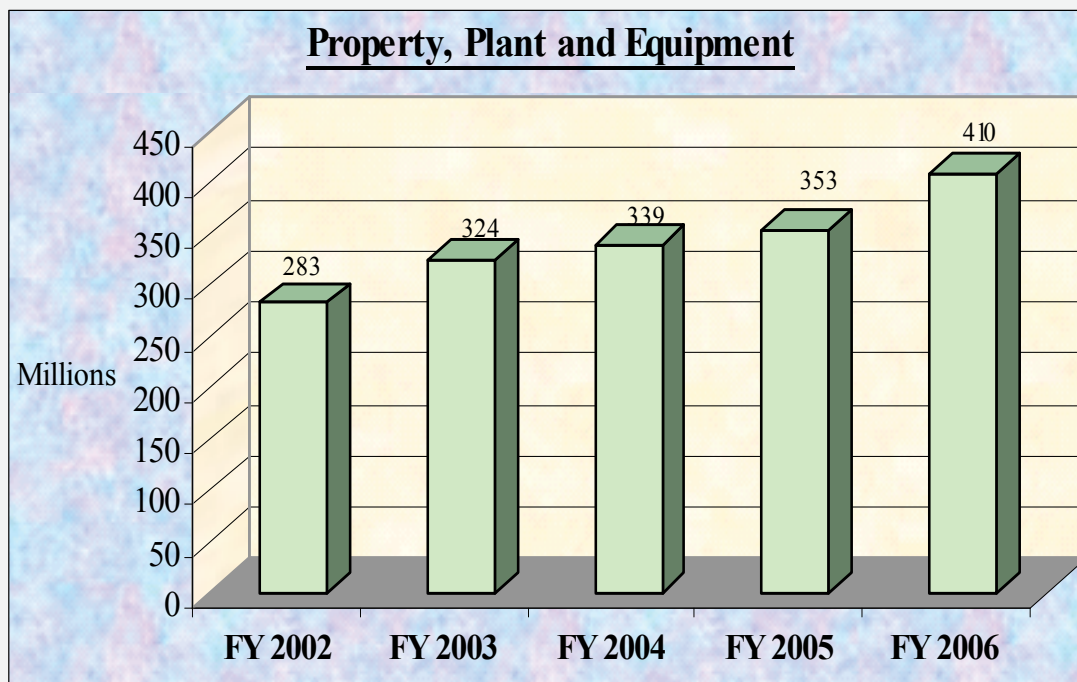
As of September 30, 2006, the value of the FLETC's total assets is \$629 million, an increase of 20%, or \$105 million, from FY 2005, largely attributed to the fund balances from the additional appropriations in FY 2006 and the capitalization of additional real properties.

## Management's Discussion and Analysis

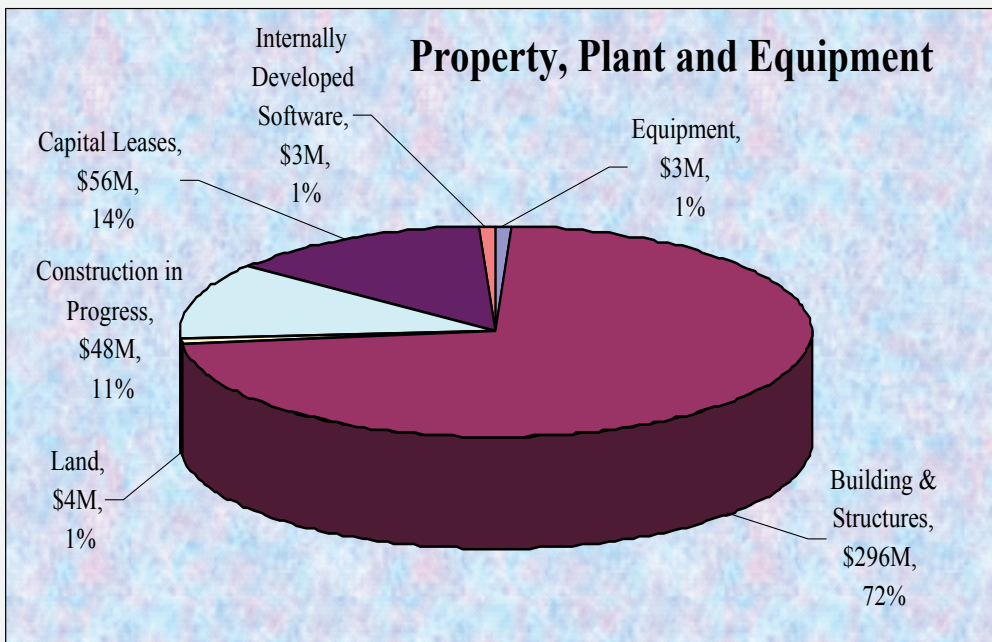


The majority of the FLETC's assets are comprised of plant, property, and equipment (PP&E) and Fund Balance with Treasury, totaling \$410 million and \$202 million, respectively, as of September 30, 2006.

### Property, Plant, and Equipment

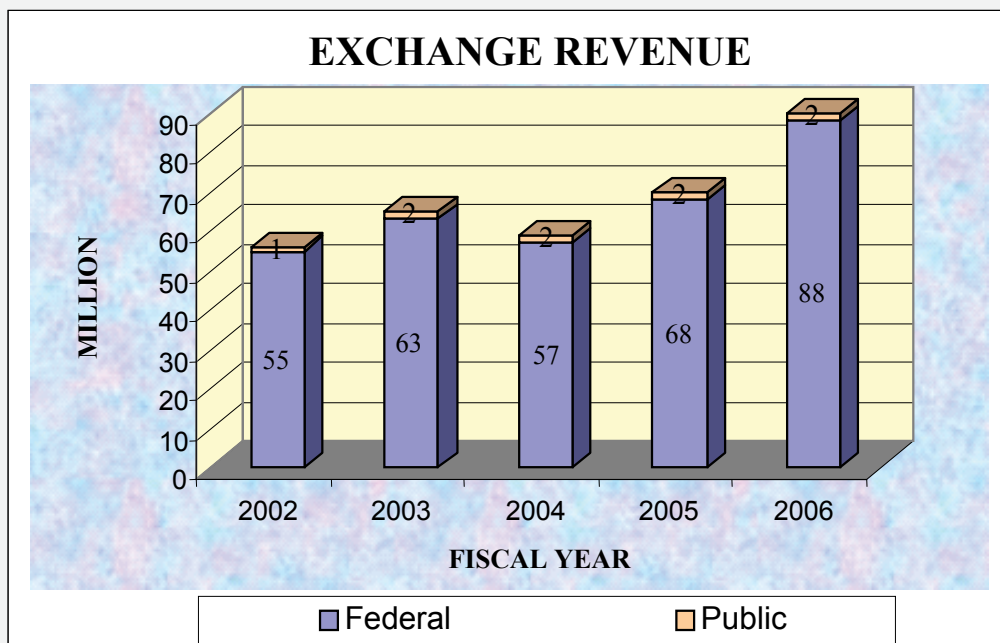


The value of the FLETC's property, plant and equipment (PP&E) is \$410 million as of September 30, 2006, an increase of 16%, or \$57 million, from FY 2005, primarily due to the ongoing facility construction and building renovations.



The majority of the FLETC's PP&E accounts are buildings and structures with net book value of \$296 million as of September 30, 2006. The value of the construction in progress account is \$48 million as of September 30, 2006.

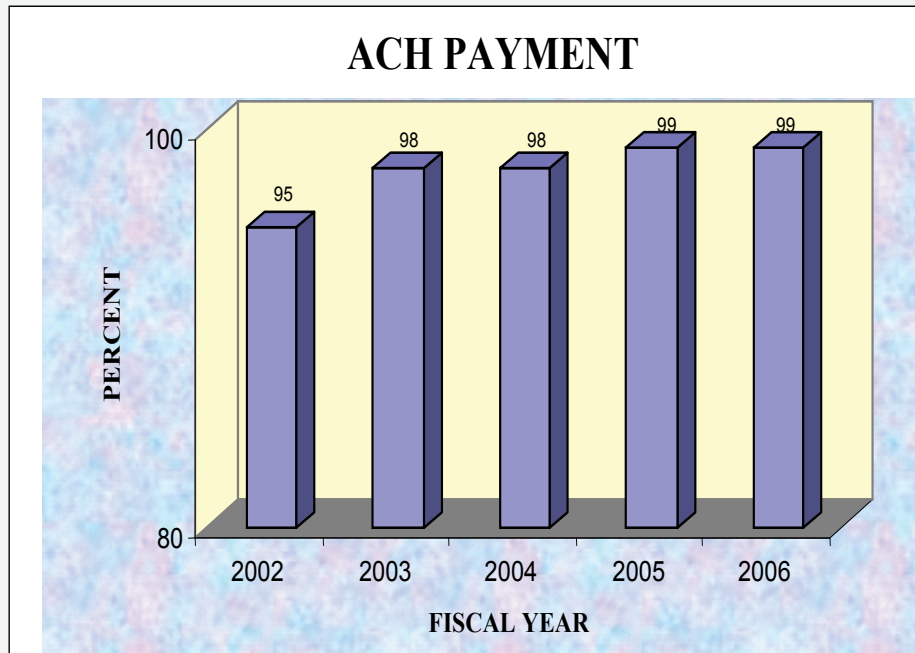
#### Exchange Revenue



For FY 2006, the total exchange revenue amounted to \$90 million of which \$88 million and \$2 million were derived from Federal and state and local agencies, respectively. The exchange revenue increased by 29%, or \$20 million, from FY 2005, primarily attributed to the Partner Organizations' reimbursement to the FLETC for construction and renovation of facilities and increased training.

## Management's Discussion and Analysis

### Automated Clearing House (ACH) Vendor Payments



ACH vendor payments continued to be maximized in FY 2006. ACH is an expeditious, cost-effective payment method that enhances accuracy and customer service to vendors.

### ANALYSIS OF SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

Federal agencies are required to comply with a wide range of laws and regulations, and to maintain systems that generate timely, accurate and useful information with which to make informed decisions. This section provides information on the FLETC's financial management system and compliance with the following:

- The Federal Managers' Financial Integrity Act (FMFIA)
- The Federal Financial Management Improvement Act (FFMIA)

### Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act (FMFIA) requires agencies to establish management control and financial systems that provide reasonable assurance that the integrity of Federal programs and operations are protected. It also requires the head of the agency, based on an evaluation of systems and controls, provide an annual Statement of Assurance on whether the agency has met this requirement. For FY 2006, the Director of the FLETC has provided qualified assurance that the Agency management controls and financial control systems meet the objectives of Sections 2 and 4 of FMFIA.



In accordance with the FMFIA and OMB Circular A-123, the FLETC has evaluated its management controls and financial management systems for FY 2006. Through our evaluation process and the results of external and internal audit reviews, we are reporting the following Section 2 material weakness:

**Failed control environment for the timely recognition of environmental clean up liability for firearms ranges.**

## Federal Financial Management Improvement Act

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires that agencies' financial management systems provide reliable financial data in accordance with generally accepted accounting principles and standards. Under FFMIA, financial management systems must substantially comply with three requirements – Federal financial management system requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger (SGL). For FY 2006, the FLETC noted some instances of non-compliance with the provisions of FFMIA. Corrective actions are being implemented for future compliance.

## Legal Compliance

The FLETC is committed to ensuring its financial activities are carried out in full compliance with applicable laws and regulations. To ensure this responsibility is met, senior Agency financial managers direct annual reviews of financial operations and programs compliance with applicable laws and regulations. For FY 2006, the FLETC complied substantially with all laws and regulations considered material to internal control over financial reporting.

## Management Assurances

In accordance with the Department of Homeland Security Financial Accountability Act and the Federal Managers' Financial Integrity Act, the FLETC has conducted an evaluation of its internal controls. Based on this evaluation, the following assurance statement is provided.

Federal Law Enforcement Training Center  
U. S. Department of Homeland Security  
1131 Chapel Crossing Road  
Glynco, Georgia 31524



**Homeland  
Security**

September 30, 2006

Honorable Michael Chertoff  
Secretary of the Department of Homeland Security  
Washington, DC 20360

Dear Secretary Chertoff:

In accordance with your delegation of responsibilities to me, I have directed an evaluation of the internal control at the Federal Law Enforcement Training Center (FLETC) in effect during the fiscal year ended September 30, 2006. This evaluation was conducted in accordance with OMB Circular No. A-123, *Management's Responsibility for Internal Control*, Revised December 21, 2004. Based on the results of this evaluation, the FLETC may provide the following assurance statements:

**Reporting Pursuant to FMFIA Section 2. 31 U.S.C.3512 (d)(2)**

The FLETC provides reasonable assurance that internal controls are achieving their intended objectives, **with the exception of the following material weakness that was found:**

- **Environmental Liabilities – the control environment in existence during the period failed to accurately assess and recognize environmental clean up cost liabilities of the FLETC to remediate outdoor firearms ranges and structures with friable asbestos and lead-based paint contaminants.**

**Reporting Pursuant to the DHS Financial Accountability Act. P.L. 108-330**

The scope of the FLETC's assessment of internal controls over financial reporting included performing test of design over the following financial management processes:

- **Entity Level Internal Controls**
- **Financial Reporting – risk areas assessed included general ledger maintenance; intra-departmental elimination and reconciliation; account analysis and reconciliations; new accounting pronouncements adoption; financial statement footnotes documentation; and recording of other miscellaneous liabilities and accruals.**
- **Funds Management – risk areas assessed included reconciliation of Fund Balances with Treasury and processing of cash receipts and cash disbursements.**

[www.fletc.gov](http://www.fletc.gov)

The FLETC provides reasonable assurance that internal control over financial reporting was designed effectively, and no material weaknesses were found in the internal controls over financial reporting.

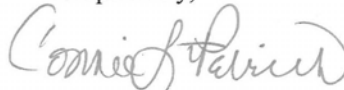
**Reporting Pursuant to FMFIA Section 4. 31 U.S.C.3512 (d)(2)(B)**

The FLETC's financial management systems conform to government-wide requirements.

**Reporting Pursuant to the Reports Consolidation Act. Section 3516(e)**

The Federal Law Enforcement Training Center's performance data used in the Performance and Accountability Report are complete and reliable.

Respectfully,



Connie L. Patrick  
Director

**Attachments**

Corrective Action Plan as of September 30, 2006

## Management's Discussion and Analysis

<b>Responsible</b>	Julie Martin
<b>Assigned</b>	Julie Martin
<b>Status</b>	In Progress
<b>%Complete</b>	50%
<b>Category</b>	Material Weakness Corrective Action Plan
<b>Responsible Organization</b>	Federal Law Enforcement Center (FLETC)
<b>Due Date</b>	11/30/2006
<b>Related NFRs</b>	Federal Law Enforcement Training Center (FLETC) – Environmental Liability
<b>Source of Control Deficiency</b>	IPA, Management
<b>Issue Description</b>	The existing control environment at the FLETC failed to accurately assess and promptly recognize environmental clean up cost liabilities to remediate indoor/outdoor firearms ranges. The FLETC recorded an additional \$11M environmental clean up cost liability in FY 2006 for its indoor/outdoor firearms ranges.
<b>Key Success Factors</b>	Correct the failed control environment by implementing Standard Operating Procedures (SOP) on real property management and financial reporting procedures that include assessment and routine reporting of environmental issues by the FLETC Environmental and Safety Division to the FLETC Finance Division for timely recognition and disclosure of all FLETC environmental liabilities.
<b>Key Performance Measures</b>	SOPs are approved and implemented. Records of environmental assessments are available and accessible. Computation of environmental clean up cost liabilities is properly substantiated.
<b>Verification and Validation</b>	The FLETC Finance Division will review the documentation provided by the FLETC Environmental and Safety Division for completeness and to ensure that the document package supports the cost estimates. No further material weaknesses are reported by the IPA.
<b>Risks and Impediments</b>	Due to cross-functional coordination, there could be a lack of communication and understanding of the technicality of the environmental and accounting issues between the FLETC environmental and accounting staff.
<b>Resources Required</b>	None
<b>Audit Report Recommendation</b>	N/A due to IPA report not being complete.

Outline #	Topic	Due Date	Requested Revised Due Date	Status
1	Complete assessment and recognition of all measurable and probable FLETC environmental clean up cost liabilities.	9/30/06		Completed
2	Draft and implement new SOPs establishing the assessment and reporting of environmental liabilities.	11/30/06	10/30/06	Completed
3	FLETC environmental and accounting staff to meet and clarify any questions regarding environmental clean up cost liability reporting requirements.	1/31/07	11/15/06	Completed
4	FLETC accounting staff to test, validate and compare the current inventory of facilities and structures supporting the latest recognition of environmental clean up cost liability list with the updated records held by FLETC environmental staff.	3/31/07	11/30/06	Completed



## Improper Payments Information Act (IPIA) Reporting

Improper payments at the FLETC are at low risk based on the assessment of risk factors established by DHS. This assertion was further substantiated by the result of a random sampling of payment vouchers in FY 2006 that yielded almost no occurrence of improper payment in the FLETC law enforcement training and other support programs. The FLETC will continue to strengthen its internal controls to guard against any improper payments.

## Other Management Information, Initiatives and Issues

### **FUTURE EFFECTS ON EXISTING, CURRENTLY KNOWN DEMANDS, RISKS, UNCERTAINTIES, EVENTS, CONDITIONS, AND TRENDS**

The following chart summarizes the projections for law enforcement training for the next two years:

	FY2007		FY2008	
	Students	Student-Weeks	Students	Student-Weeks
Basic	16,500	141,700	17,100	141,700
Advanced	34,400	31,100	34,400	31,100
S&L, Int'l & Export	4,800	4,600	4,800	4,600
<b>Total</b>	<b>55,700</b>	<b>177,400</b>	<b>56,300</b>	<b>177,400</b>

Historically, the FLETC has encountered difficulty recruiting and retaining law enforcement instructors with extensive Federal Criminal Investigator (GS-1811) experience. The FY 2002 Emergency Appropriations bill improved the FLETC's hiring flexibility by granting a salary offset waiver authority for up to 250 rehired annuitants for a five-year period. The FY 2007 Appropriations bill authorizes an increase in the number of rehired annuitants from 250 to 350 through December 31, 2007.

The FLETC continues facing operational constraints in balancing available resources and customer demand. To meet these challenges, the FLETC is implementing several initiatives to ensure its partner organization and other customers are provided with timely and cost-effective law enforcement training.

First, the Facilities Master Plan continues to evolve as projected physical resource requirements necessary to fulfill the mission expand. The FLETC will aggressively seek funding to acquire, implement and maintain the physical resources outlined in the Facilities Master Plan. Second, human capital constraints have been relaxed by legislation granting the FLETC rehire annuitant authority. With the increase in authority from 250 to 350, the availability of qualified law-enforcement instructors necessary to meet current demand will increase. Finally, the FLETC is developing an automated scheduling system known as the Student Administration and Scheduling System (SASS). The SASS initiative addresses the challenges of increased demand for law enforcement training and the ability to provide training on demand.

In addition to addressing risks associated with operational constraints, the FLETC is actively pursuing the integration of emerging technologies into the training environment. The goal is to increase training efficiency, student throughput, and training safety through the use emerging technologies such as

simulation and modeling. Strategic implementation objectives of deployment include integrating enterprise-wide technological training solutions in a cross-divisional training approach. This strategy enables the FLETC to leverage future investments in technology and continue providing the most effective and efficient law enforcement training available.

Over its history, the FLETC has developed a sustainable competitive advantage as the premiere provider of law enforcement training. The process leading to the current organizational structure has required constant change, adaptability and effective strategic management processes. Continued recognition as the leading provider of law enforcement training will require increased awareness of risks faced in today's dynamic marketplace. Those risks include increased competition, legislative risks, technological changes and changing customer demands, to name a few.

### **THE PRESIDENT'S MANAGEMENT AGENDA**

The President's Management Agenda (PMA), implemented in 2002, is an aggressive strategy for improving the management of the Federal government. It focuses on six areas of management that had apparent deficiencies across the government, and that had opportunities for improvements and progress to be made. The status and progress in implementing the PMA is tracked quarterly on a PMA Scorecard. The FLETC was the only DHS bureau that scored one yellow in status and all greens in every other measure.



# Management's Discussion and Analysis

## Limitations of the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of the entity in accordance with GAAP for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.







**OFFICE OF CHELTENHAM OPERATIONS |**  
THIS OFFICE ADMINISTERS THE DELIVERY  
OF LAW ENFORCEMENT TRAINING  
PROGRAMS IN CHELTENHAM, MARYLAND  
AND MANAGES ALL LOGISTICAL AND  
SUPPORT ACTIVITIES FOR ITS OPERATION.



**WE TRAIN THOSE WHO PROTECT OUR HOMELAND**

# Performance & Accountability Report Part II Strategic Plan and Performance Fiscal Year 2006



**THE FEDERAL LAW ENFORCEMENT TRAINING CENTER**

**GLYNCO | ARTESIA | CHARLESTON | CHELTENHAM | ILEA BOTSWANA | ILEA SAN SALVADOR**



### FLETC Strategic Plan

#### VISION

We must provide fast, flexible and focused training to secure and protect America.

#### MISSION

We train those who protect our homeland.

#### VALUES

Our values are the foundation upon which we accomplish our mission.

**Respect:** We treat each other and those we serve with fairness, dignity, and compassion. We value differences in people and ideas. We are committed to the well-being of our employees and to providing opportunities for individual growth and development.

**Integrity:** We adhere to the highest standards of ethical behavior.

**Service:** We seek to provide the highest levels

of service to our Partner Organizations. We are effective and responsible stewards of the taxpayers' dollars.

**Excellence:** We pursue the highest quality of leadership and service and recognize the importance of identifying, articulating, and responding to the interests and needs of the FLETC's diverse constituencies.

#### STRATEGIC GOALS

Based upon this foundation, we have built four goals as pillars to enable us to achieve our vision and accomplish our mission.

1. Provide training that enables our partners to accomplish their missions.
2. Foster a high-performing workforce.
3. Provide mission-responsive infrastructure.
4. Optimize business practices.



## Performance Goals and Results

The Performance Report provides a summary discussion of FLETC's four strategic goals and reports on the main measures by defining the program objectives, FY 2006 target and actual performance, and providing a clear picture of how the FLETC is working towards accomplishing its mission. We recognize that performance information is vital to making resource allocation decisions and is an integral part of the budget.

Performance measurement is an iterative process. We strive to present the highest-level outcome-oriented measures available. Measures are refined each year. Overall, changes in performance measurement fall into three categories: 1) the measure has been modified slightly as better data

have become available; 2) the measure is new to the report; and 3) the title has been modified for clarity; however, the reported data remains unchanged.

Throughout FY 2006, we continually improved our measures by establishing long-term performance goals and measures with aggressive targets. We aligned the performance measures to the following two budget programs to best reflect the FY 2006 results:

1. Federal Law Enforcement Training
2. Accreditation

The following charts show the main outcome measure for each program and the supporting measures that reflect the results related to our strategic plan.

## Strategic Plan and Performance

<b>Performance Goal:</b>	Accredit all Federal law enforcement training.				
<b>Performance Measure:</b>	Total number of programs accredited and re-accredited through Federal Law Enforcement Training Accreditation (FLETA).				
<b>Fiscal Year:</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Actual</b>	<b>FY 2006 Target</b>	<b>FY 2006 Actual</b>	<b>FY 2006 Results</b>
<b>Target/Actual Indicator:</b>	N/A	2	5	7	Met
<b>Description:</b>	The number of Federal law enforcement programs accredited through the Federal Law Enforcement Training Accreditation process. This process provides standards to ensure that graduates have the knowledge and skills to fulfill their responsibilities to prevent terrorism and other criminal activities against the US and our citizens in a safe and proficient manner.				
<b>Explanation of FY 2006 Results:</b>	Having solid training programs that adhere to Department standards is important to our nation's safety and security. The Department exceeded its goal by two programs. The following programs were accredited: the U.S. Dept. of State's Basic Special Agent Course (BSAC), the U.S. Postal Inspection Service's Basic Inspector Training (BIT) and Postal Police Officer Basic Training (PPOBT), and the Federal Law Enforcement Training Center's Law Enforcement Instructor Training Program (LEITP). Academies Accredited include: the U.S. Postal Inspection Service's, Career Development Division, the U.S. Air Force Special Investigations (AFOSI) Academy, and the Federal Law Enforcement Training Center (FLETC). The accreditation of a Federal Law Enforcement academy or program provides assurance that they have voluntarily submitted to a process of self-regulation; and, that they have successfully achieved compliance with a set of standards that have been established within their professional community that demonstrate their adherence to quality, effectiveness and integrity.				
<b>Objective/s Supported:</b>	2.4 - Coordinate national and international policy, law enforcement, and other actions to prevent terrorism.				
<b>Program:</b>	Accreditation - Federal Law Enforcement Training Center				

<b>Performance Goal:</b>	Provide the knowledge and skills to enable law enforcement agents and officers to fulfill their responsibilities.				
<b>Performance Measure:</b>	Percent of students that express excellent or outstanding on the Student Quality of Training Survey (SQTS).				
<b>Fiscal Year:</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Actual</b>	<b>FY 2006 Target</b>	<b>FY 2006 Actual</b>	<b>FY 2006 Results</b>
<b>Target/Actual Indicator:</b>	N/A	64%	66%	62%	Not Met
<b>Description:</b>	This measure is an indicator of the degree of training quality received based on the student's feedback. The SQTS is a formal means to identify opportunities for immediate improvements and updates to ensure that the student receives the right skills and knowledge, presented in the right way and right time. The Federal Law Enforcement Training Center (FLETC) biannually and annually summarizes the feedback from graduates of the FLETC's basic training programs.				
<b>Explanation of FY 2006 Results:</b>	FLETC established and maintained a robust process to examine law enforcement trends and emerging issues. FLETC collaborates with Partner Organizations to assess, validate and improve each program as they are constantly evolving and being refined in response to emerging issues such as changes in the laws, mission emphasis, and Partner Organization's requirements. Although we did not meet our target of 66%, we will continue to hold ourselves to continuously higher standards in the future. Training programs that meet the end-users needs is important to our nation's safety and security				
<b>Recommended Action:</b>	The Federal Law Enforcement Center is currently collaborating with the students and Partner Organizations to determine what we can do to improve training to ensure students receive the right skills and knowledge, presented in the right way and at the right time to prevent terrorism and other criminal activity against the US and our citizens.				

## Strategic Plan and Performance

<b>Performance Measure:</b>	Percent of Partner Organizations (POs) that express an agree or strongly agree on the Partner Organization Satisfaction Survey (POSS)				
<b>Fiscal Year:</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Actual</b>	<b>FY 2006 Target</b>	<b>FY 2006 Actual</b>	<b>FY 2006 Results</b>
<b>Target/Actual Indicator:</b>	92.7%	92.7%	82%	95%	Met
<b>Description:</b>	The percentage of Federal agencies and organizations that indicate satisfaction with the law enforcement training and services provided by the Federal Law Enforcement Training Center to prevent terrorism and other criminal activity against the US and our citizens.				
<b>Explanation of FY 2006 Results:</b>	FLETC met its goal and achieved a 95% agree to strongly agree rating by its participants. Training programs that meet the end-users needs is important to our nation's safety and security. FLETC is committed to providing the best training possible to all law enforcement organizations that we serve by establishing and maintaining robust processes to examine law enforcement trends and emerging issues. We collaborate with our Partner Organizations to assess, validate and improve each program as they are constantly evolving and being refined in response to emerging issues such as changes in the laws, mission emphasis, and Partner Organization's requirements. Through this collaboration with our Partner Organizations, the Federal Law Enforcement Training Center is able to provide the agencies with law enforcement agents and officers, skilled in the latest techniques, to enforce laws and regulations, protect the Nation, and interact with the public with respect for individuals and civil liberty.				



<b>Performance Measure:</b>	Percent of Federal supervisors that rate their FLETC basic training graduate's preparedness as good or excellent				
<b>Fiscal Year:</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Actual</b>	<b>FY 2006 Target</b>	<b>FY 2006 Actual</b>	<b>FY 2006 Results</b>
<b>Target/Actual Indicator:</b>	73.4%	90%	73%	71%	Not Met
<b>Description:</b>	The percentage of Federal law enforcement supervisors of basic training graduates of the Federal Law Enforcement Training Center, who after eight to twelve months of observing their officers or agents, indicate via survey their employees are highly prepared with the right knowledge and skills to perform their entry-level duties and responsibilities to prevent terrorism and other criminal activity against the US and our citizens.				
<b>Explanation of FY 2006 Results:</b>	The supervisors' feedback provides the FLETC with a continuous assessment and validation of our training programs. This helps to ensure that law enforcement officers and agents receive the right training to keep pace with the changing criminal and law enforcement environment. Through this collaboration with our Partner Organizations, the Federal Law Enforcement Training Center is able to provide the agencies with law enforcement agents and officers, skilled in the latest techniques, to enforce laws and regulations, protect the Nation, and interact with the public with respect for individuals and civil liberty. Although we did not achieve our goal and saw a significant decline from FY 2005, we are committed to continuously higher achievement standards.				
<b>Recommended Action:</b>	We will collaborate with our Partner Organizations to identify areas for improvement in our curriculum to ensure we provide them with graduates that are highly prepared with the right knowledge and skills to perform their entry-level duties and responsibilities to prevent terrorism and other criminal activity against the US and our citizens.				
<b>Objective/s Supported:</b>	2.4 - Coordinate national and international policy, law enforcement, and other actions to prevent terrorism.				
<b>Program:</b>	Law Enforcement Training - Federal Law Enforcement Training Center				

## FLETC Strategic and Performance Plan Linkage

FY 2006-2011

Strategic Goals	Long-term Performance Goals
<i>1. Provide training that enables our partners to accomplish their missions.</i>	a. By 2012, 88% of Partner Organizations express a high rate of overall satisfaction on the Partner Organization Satisfaction Survey.
	b. % of Federal supervisors agree FLETC graduates are highly prepared to perform their law enforcement functions. FY 2006            Target    73% FY 2007            Target    74% FY 2008            Target    75% FY 2009            Target    77% FY 2010            Target    79% FY 2011            Target    79% FY 2012            Target    80%
	c. % of FLETC graduates agree they were highly prepared to perform their law enforcement functions upon graduation. FY 2006            Target    60% FY 2007            Target    62% FY 2008            Target    64% FY 2009            Target    66% FY 2010            Target    68% FY 2011            Target    69% FY 2012            Target    70%
	d. % of students rate the quality of FLETC law enforcement training as excellent or outstanding. FY 2006            Target    66% FY 2007            Target    67% FY 2008            Target    68% FY 2009            Target    69% FY 2010            Target    70% FY 2011            Target    71% FY 2012            Target    72%
<i>2. Foster a high-performing workforce.</i>	a. Annually, 70% of employees express overall satisfaction on the FLETC Employee Satisfaction Survey.
<i>3. Provide mission-responsive infrastructure.</i>	a. Annually, 98% of requested training programs are conducted.
	b. Annually, 80% of training projections are scheduled.
<i>4. Optimize business practices.</i>	a. Annually, achieve the most efficient cost-per student-week of training.
	b. Accredite all Federal law enforcement training.

## Major Activities and Priorities

The FLETC's mission is to serve as the Federal government's leader for and provider of world-class law enforcement training. We prepare new and experienced law enforcement professionals to fulfill their responsibilities safely and proficiently. The average basic student spends 12 weeks at FLETC and receives instruction in all phases of law enforcement from firearms and high-speed vehicle operations to legal case instructions and defendant interview techniques. We accommodate the students' housing, food, laundry and subsistence needs to allow them to totally focus on their training. We also ensure that training is provided in the most cost-effective manner by taking advantage of economies of scale available only from a consolidated law enforcement training organization.

We are committed to providing strong, collaborative leadership for law enforcement training. Working as partners with client agencies, including state, local and international organizations, we identify ways that research, training, and education can be used to protect our democratic institutions, ensure public safety, and preserve law and order.

Major instructional areas include firearms, driver training, physical techniques, legal, counterterrorism, forensics and investigative technologies, computer and financial investigations, and behavioral science. The major portion of the FLETC's training activity is devoted to basic programs for criminal investigators and uniformed

police officers who have the authority to carry firearms and make arrests. The basic programs consist of classroom instruction and hands-on practical exercises. Students must apply their classroom knowledge during exercises that simulate typical situations encountered on the job. To add realism, these exercises often involve role players who act as victims, witnesses or suspects.

At the FLETC, students learn not only the responsibilities of law enforcement personnel, but through interaction with students from many other agencies, they also become acquainted with the missions and duties of their colleagues. This interaction provides the foundation for a more cooperative Federal law enforcement effort.

The instructor cadre at the FLETC consists of permanent FLETC employees and Federal officers and investigators on short-term detail assignment from their parent organizations. This mix of permanent and detailed instructors provides a balance of experience and fresh insight from the field.

### STRATEGIC PRIORITIES

The strategic priorities of the FLETC focus on expanding training programs through partnership and emerging technology. The law enforcement personnel training at the FLETC are the primary resources used to fight the war on terrorism and to make the homeland more secure. The FLETC concentrates its efforts on:

## Strategic Plan and Performance

- **Innovative development and integration of alternative training technologies, especially simulation and modeling.** Simulation technology emulates highly dangerous law enforcement driving scenarios and environments in a controlled setting that cannot be staged due to inability to replicate environment, conditions and safety concerns. Current methods in use permit the actual driving at real-speeds, allowing the student to understand principles of vehicle dynamics and driver controls within established time limits. Simulation technology for driver training emulates rural/urban/city environments, vehicle/pedestrian conflicts, time of day and weather. This training can measure the student's knowledge for point of possible perception, point of actual perception, reaction time and point of no avoidance to each particular set of conflicts. The performance goal is to reduce frequency, severity and vehicle fatalities for operational accidents by law enforcement agents and officers. The construction of a simulation training facility continued in FY 2006 with an estimated completion date of October 2006.
- **Intelligence Training:** Integrating homeland security and law enforcement requires effective surveillance and intelligence functions. In response to the most immediate need for intelligence awareness training, the FLETC developed the Anti-terrorism Intelligence Awareness Training Program which specifically targeted line officers and supervisors in the law enforcement community in FY 2004. In FY 2006, this program continued to be delivered at various geographic locations to accommodate as many law enforcement personnel as possible. The FLETC is also working with the DHS Information Analysis and Infrastructure Protection Directorate to develop a common means of collecting, developing, analyzing, processing and sharing of intelligence. This initiative will promote intelligence analysis and sharing between Federal, state, local and tribal law enforcement officers.
- **Counterterrorism:** In response to changing mission requirements, FLETC, in conjunction with our Partner Organizations, developed the design and training requirements for the Counter Terrorism Operations Training Facility (CTOTF), which completed construction in FY 06. This facility consists of four different environments – urban, suburban, inter-modal and international training areas – which are designed to replicate both foreign and domestic settings. It offers a variety of training venues, such as apartments, row houses, neighborhoods, schools, federal buildings, an embassy, roadways, and public transportation. In FY 2004, the training needs assessment was validated and the design and initial construction commenced for the inter-modal and international training sites. While this facility is multi-phased through FY 2011, the initial training began in FY 2005. This facility which consolidates anti/counter terrorism training will better prepare law enforcement personnel to fight terrorism.

# Performance & Accountability Report

## Part III Financial Information

### Fiscal Year 2006



THE FEDERAL LAW ENFORCEMENT TRAINING CENTER

GLYNCO | ARTESIA | CHARLESTON | CHELTENHAM | ILEA BOTSWANA | ILEA SAN SALVADOR

# Message from the Chief Financial Officer



**Homeland  
Security**



The FLETC Fiscal Year (FY) 2006 Performance and Accountability Report (PAR) provides an overview of the financial results of the year and discusses important matters of financial management. As the FLETC Chief Financial Officer, I am proud to report that the FLETC successfully complied with new financial management requirements introduced during FY 2006, and continues to provide quality service while demonstrating fiscal responsibility.

During FY 2006, the FLETC performed further examination and analysis of its internal controls over financial reporting. The FY 2006 efforts resulted in creation of additional policies and procedures to strengthen areas of weakness, and will drive the continued efforts in the coming year's audit over the controls. As directed by the Office of Management and Budget (OMB), the FLETC is also providing assurances in compliance with the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and the Federal Financial Management Improvement Act of 1996 (FFMIA). The reported weaknesses have been addressed and Corrective Action Plans are in place. With the exception of the build-lease arrangement discussed below, full remediation is expected in FY 2007, and management sees no major impediments to correcting the weaknesses.

As reported in previous PAR's, the FLETC is waiting for a formal determination from the OMB as to whether the build-lease arrangement for three dormitories consummated in FY 2001 and FY 2002 is a capital or operating lease for budgetary purposes. For financial reporting purposes, the FLETC has recorded the liability as a capital lease and discloses the build-lease arrangement in the Notes to the Consolidated Balance Sheet.

One new requirement for the FLETC was the transition from a limited scope audit over all of the FLETC financial statements to a full scope balance sheet audit as of September 30, 2006. The audit was performed by an independent auditor, KPMG LLP, and the auditors expressed an unqualified opinion on the FLETC's balance sheet as of September 30, 2006. Their report is contained in the financial section of this PAR. In the performance of the FY 2006 audit, KPMG identified numerous reportable conditions related to significant deficiencies in the FLETC's internal control over financial reporting, six of which are considered to also be material weaknesses. KPMG also identified material instances of non-compliance with laws and regulations during their FY 2006 audit. I am fully committed to implementing corrective actions to remedy these weaknesses in internal controls over financial reporting and compliance with laws and regulations. As of the date of this letter, the FLETC has already implemented policies and procedures to correct all of the findings noted in KPMG's audit report.

Financial responsibility is of utmost importance in fulfilling organizational missions, and in being accountable to Congress and the American public. The FLETC does not take this responsibility lightly. Our staff is knowledgeable and motivated to provide superior support, while continuing to strengthen internal controls and face new challenges. I am confident that in the coming year, the FLETC's financial management will have continued success.



*Alan Titus*

Alan Titus  
Chief Financial Officer  
Federal Law Enforcement Training Center

FEB 16 2007



**Homeland  
Security**

MEMORANDUM FOR: Ms. Connie L. Patrick  
Director  
Federal Law Enforcement Training Center

FROM: Richard L. Skinner  
Inspector General

SUBJECT: *Independent Auditors' Report on FLETC's FY 2006 Consolidated  
Balance Sheet*

The attached report presents the results of the Department of Homeland Security's (Department) Federal Law Enforcement Training Center (FLETC) consolidated balance sheet as of September 30, 2006. We contracted with the independent public accounting firm KPMG LLP (KPMG) to perform the audit.

**Summary**

KPMG issued an unqualified opinion on FLETC's consolidated balance sheet for FY 2006. The FY 2006 auditors' report discusses six material weaknesses, two other reportable conditions, and instances of non-compliance with two laws and regulations, as follows:

**Reportable Conditions That Are Considered To Be Material Weaknesses**

- A. Financial Reporting
- B. Environmental Cleanup Costs
- C. Capital Lease Liabilities
- D. Valuation of Inventories
- E. Construction in Progress
- F. Accounts Payable

**Other Reportable Conditions**

- G. Deferred Revenue
- H. Financial Systems Security

**Non-Compliance with Laws and Regulations**

- I. Federal Financial Management Improvement Act of 1996 (FFMIA)
- J. Prompt Payment Act (PPA)

KPMG also reported other matters related to compliance with the *Anti-Deficiency Act*.

\* \* \* \* \*

KPMG is responsible for the attached auditors' report dated December 8, 2006, and the conclusions expressed in the report. We do not express opinions on the balance sheet or internal control or conclusions on compliance with laws and regulations.

Consistent with our responsibility under the Inspector General Act, we are providing copies of this report to appropriate congressional committees with oversight and appropriation responsibilities over the Department. In addition, we will post a copy of the report on our website for public dissemination.

We request that a corrective action plan that demonstrates FLETC's progress in addressing the report's recommendations be provided to us within 90 days of the date of this letter.

We appreciate the cooperation extended to the auditors by your staff. Should you have any questions, please call me, or your staff my contact David M. Zavada, Assistant Inspector General for Audits, at 202-254-4100.

Attachment





KPMG LLP  
2001 M Street, NW  
Washington, DC 20036

## INDEPENDENT AUDITORS' REPORT

Inspector General  
U.S. Department of Homeland Security

Director  
The Federal Law Enforcement Training Center

We have audited the accompanying consolidated balance sheet of the U.S. Department of Homeland Security's (DHS) Federal Law Enforcement Training Center (FLETC) as of September 30, 2006 (referred to herein as "balance sheet"). The objective of our audit was to express an opinion on the fair presentation of the balance sheet. In connection with our audit, we also considered FLETC's internal controls over financial reporting and performance measures; and tested FLETC's compliance with certain provisions of applicable laws, regulations, and contract agreements that could have a direct and material effect on the balance sheet.

### SUMMARY

As stated in our opinion on the balance sheet, we concluded that FLETC's balance sheet as of September 30, 2006 is presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles (GAAP).

As discussed in our opinion, in fiscal year 2006, FLETC changed its method of accounting for and reporting of earmarked funds to adopt changes in accounting standards and changed its method of accounting for operating supplies inventory.

Our consideration of internal controls over financial reporting, and performance measures resulted in the following conditions being identified as reportable conditions:

- A. Financial Reporting
- B. Environmental Cleanup Costs
- C. Capital Lease Liabilities
- D. Valuation of Inventories
- E. Construction in Progress
- F. Accounts Payable
- G. Deferred Revenue
- H. Financial Systems Security

We consider reportable conditions A through F above to be material weaknesses.

The results of our tests of compliance with certain provisions of laws, regulations, and contract agreements, disclosed the following instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*:

- I. Federal Financial Management Improvement Act of 1996 (FFMIA)
- J. Prompt Payment Act (PPA)

KPMG LLP, KPMG LLP, a U.S. limited liability partnership, is a member of KPMG International, a Swiss cooperative.



We also reported other matters related to compliance with the *Anti-deficiency Act*.

The following sections discuss our opinion on FLETC's balance sheet; our consideration of FLETC's internal control over financial reporting and performance measures; our tests of FLETC's compliance with certain provisions of applicable laws, regulations, and contract agreements; and management's and our responsibilities.

### **OPINION ON THE BALANCE SHEET**

We have audited the accompanying balance sheet of the Department of Homeland Security's (DHS) Federal Law Enforcement Training Center (FLETC) as of September 30, 2006.

In our opinion, the balance sheet referred to above presents fairly, in all material respects, the financial position of FLETC as of September 30, 2006 in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the balance sheet, FLETC changed its method of accounting for and reporting earmarked funds in fiscal year 2006 to adopt the provisions of the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards (SFFAS) No. 27, *Identifying and Reporting Earmarked Funds*. Also as discussed in Note 1 to the balance sheet, FLETC elected to change its method of accounting for and reporting operating supplies inventory in fiscal year 2006 from the consumption method to the purchase method in accordance with SFFAS No. 3, *Accounting for Inventory and Related Property*.

The information in the Management's Discussion and Analysis and Required Supplementary Information (RSI) sections is not a required part of FLETC's balance sheet, but is supplementary information required by GAAP and OMB Circular No. A-136, *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the balance sheet taken as a whole. The information in Part II - Strategic Plan and Performance and Part IV - Other Supplementary Information are presented for purposes of additional analysis and are not required as part of the balance sheet. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect FLETC's ability to record, process, summarize, and report financial data consistent with the assertions by management in the balance sheet.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud, in amounts that would be material in relation to the balance sheet being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.



In our audit, we noted certain matters, described in Exhibits I and II, involving internal control over financial reporting and its operation that we consider to be reportable conditions. We believe that the reportable conditions presented in Exhibit I are material weaknesses. Exhibit II presents the other reportable conditions. Exhibit IV presents the status of prior year reportable conditions.

#### **INTERNAL CONTROLS OVER PERFORMANCE MEASURES**

Under OMB Bulletin No. 06-03, the definition of material weaknesses is extended to other controls. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud, in amounts that would be material in relation to a performance measure or aggregation of related performance measures, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

Our consideration of the internal control over the existence and completeness assertions related to key performance measures would not necessarily disclose all matters involving the internal control and its operation related to the design and operation of the internal control over the existence and completeness assertions related to key performance measures that might be reportable conditions.

In our audit, we noted no matters involving the design and operation of the internal control over the existence and completeness assertions related to key performance measures that we considered to be material weaknesses as defined above.

#### **COMPLIANCE AND OTHER MATTERS**

Our tests of compliance with certain provisions of laws, regulations, and contract agreements, as described in the Responsibilities section of this report, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed two instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 06-03, and are described in Exhibit III.

The results of our tests of compliance with certain provisions of other laws and regulations, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 06-03.

The results of our tests of FFMIA disclosed instances, described in Exhibit III, in which FLETC's financial systems did not substantially comply with Federal financial management system requirements, the United States Government Standard General Ledger at the transaction level, and Federal accounting standards.

##### *Other Matters*

FLETC management has initiated a review of the classification of certain liabilities recorded in their accounting records that may identify a violation of the Anti-deficiency Act, or other violations of appropriation law, that may have occurred during fiscal year 2006 or during earlier years.

\* \* \* \* \*

#### **RESPONSIBILITIES**

**Management's Responsibilities.** The United States Code Title 31 Section 3515 and 9106 require agencies to report annually to Congress on their financial status and any other information needed to fairly



present their financial position and results of operations. To assist DHS in meeting these reporting requirements, FLETC prepares and submits financial statements in accordance with GAAP.

Management is responsible for the balance sheet, including:

- Preparing the balance sheet in conformity with GAAP;
- Preparing the Management's Discussion and Analysis (including the performance measures) and Required Supplementary Information;
- Establishing and maintaining effective internal control; and
- Complying with laws, regulations, and contract agreements, applicable to FLETC, including FFMIA.

In fulfilling this responsibility, management is required to make estimates and judgments to assess the expected benefits and related costs of internal control policies.

**Auditors' Responsibilities.** Our responsibility is to express an opinion on the fiscal year 2006 balance sheet of FLETC based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 06-03. Those standards and OMB Bulletin No. 06-03 require that we plan and perform the audits to obtain reasonable assurance about whether the balance sheet is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of FLETC's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the balance sheet;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall balance sheet presentation.

We believe that our audit provides a reasonable basis for our opinion.

In planning and performing our audit, we considered FLETC's internal control over financial reporting by obtaining an understanding of FLETC's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the balance sheet. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 06-03. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to provide an opinion on the FLETC's internal control over financial reporting. Consequently, we do not provide an opinion thereon.

As required by OMB Bulletin No. 06-03, in our audit, with respect to internal control related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis and the Strategic Plan and Performance sections, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions and determined



whether these internal controls had been placed in operation. We limited our testing to those controls necessary to test and report on the internal control over key performance measures in accordance with OMB Bulletin 06-03. However, our procedures were not designed to provide an opinion on internal control over reported performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether FLETC's balance sheet is free of material misstatement, we performed tests of FLETC's compliance with certain provisions of laws, regulations, and contract agreements, noncompliance with which could have a direct and material effect on the determination of the balance sheet amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 06-03, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contract agreements, applicable to FLETC. However, providing an opinion on compliance with laws, regulations, and contract agreements, was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 06-03 and FFMIA, we are required to report whether FLETC's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

We also noted certain additional matters that we have reported to the management of FLETC in a separate letter dated December 8, 2006.

**RESTRICTED USE**

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

**KPMG LLP**

December 8, 2006

## Independent Auditors' Report Exhibit I – Material Weaknesses

---

### A. Financial Reporting

*Background:* Prior to the enactment of the Department of Homeland Security Act in 2003, FLETC was a component of the U.S. Department of the Treasury and underwent an annual full scope audit of its financial statements. Since March 2003, FLETC has been audited as a component of U.S. Department of Homeland Security (DHS), and as such represented a small component of a much larger Department. The decision to audit FLETC's FY 2006 balance sheet as a stand alone component resulted in a much closer examination of FLETC's transactions and balances than in previous years' Department level audits.

*Conditions:* We noted internal control weaknesses over six significant balance sheet line items that require immediate improvement. Those six instances are presented in more detail in this report and consist of deficiencies in the following areas:

- Policies and procedures to ensure completeness, accuracy and valuation of FLETC's estimated environmental liabilities;
- Policies and procedures to ensure the proper accounting and financial reporting of FLETC's lease transactions;
- Valuation of operating materials inventories;
- Capitalization of construction in progress accounts;
- Lack of a methodology for approximating accounts payable at fiscal year-end; and
- Lack of a timely reconciliation of deferred revenue accounts.

*Criteria:* OMB Circular A-136, *Financial Reporting Requirements*, requires DHS, and thus FLETC as a component of DHS, to report its financial transactions and related financial statement disclosures in accordance with the Circular. In addition, GAAP sets the requirements for the accounting treatment to be applied to transactions of Federal agencies, including the financial statement disclosures related to certain transactions.

OMB Circular A-123, Section I, Introduction, states the following:

"Management is responsible for developing and maintaining effective internal control. ... The importance of internal control is addressed in many statutes and executive documents. The FMFIA establishes overall requirements with regard to internal control. The agency head must establish controls that reasonably ensure that... (iii) revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets."

*Cause/Effect:* We believe this condition is a result of the following:

- Lack of training and experience by those Finance Division professionals charged with responsibility for ensuring FLETC's financial statements are prepared in accordance with GAAP; and
- Lack of formal guidance and continuous training of field staff to ensure that transactions are accounted for correctly at inception.

As a result of the above deficiencies, FLETC was unable to timely prepare its adjusted trial balance and was required to record numerous adjusting journal entries to ensure that the balance sheet as of September 30, 2006 was prepared in accordance with GAAP.

*Recommendations:* We recommend that FLETC Financial Division management:

## Independent Auditors' Report

### Exhibit I – Material Weaknesses

---

- Provide immediate and ongoing training to all personnel responsible for the preparation of FLETC's financial statements;
- Design and implement a process that ensures all accounting transactions are recorded in accordance with GAAP;
- Establish formal channels of communication with each FLETC Division that provides the Finance Division estimates or information required for financial reporting and ensures, by training or other means, that the estimates and information provided are timely, properly supported, and compliant with GAAP; and
- Ensure that all FLETC personnel are made aware that financial reporting implications must be considered when entering into agreements and making budgetary decisions.

*Management's Response:* Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our findings and its comments were responsive to our recommendations.

#### **B. Environmental Cleanup Costs**

*Background:* FLETC maintains firing ranges for use in training its students in the use of various firearms required in their capacity as agents and law enforcement officers. Although FLETC has begun using reduced-hazard, or "green" ammunition where possible, the ammunition used in the past and currently in use for certain training applications contains lead and contaminates the soil in and around the ranges. FLETC is responsible for remediation of lead contamination at 34 indoor and outdoor ranges.

FLETC also has numerous buildings that contain asbestos and lead-based paint. As these buildings are renovated for future use or demolished in preparation for construction of new buildings, the asbestos and lead-based paint contamination must be contained and remediated by FLETC.

*Conditions:* FLETC does not have policies and procedures in place to ensure that it is able to efficiently and effectively develop reasonable estimates of its environmental liabilities in accordance with GAAP. As a result, FLETC initially recorded a pre-audit liability of only approximately \$7,000 for remediation of lead contamination at firing ranges, and a general liability of \$500,000 for all other cleanup cost that might arise. The estimates recorded as liabilities lacked any auditable support. In addition, no comprehensive study of the extent of lead, asbestos, or lead-based paint contamination was conducted, nor was an estimate of the cost for the remediation of the various types of contamination developed or otherwise considered. The final audited re-estimated liabilities prepared in accordance with GAAP amounted to approximately \$58 million as of September 30, 2006.

*Criteria:* OMB Circular A-123, Section I, Introduction, states the following:  
"Management is responsible for developing and maintaining effective internal control. ... The importance of internal control is addressed in many statutes and executive documents. The FMFIA establishes overall requirements with regard to internal control. The agency head must establish controls that reasonably ensure that:...(iii) revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets."

## **Independent Auditors' Report** **Exhibit I – Material Weaknesses**

---

Statement of Federal Financial Accounting Standards (SFFAS) #5, *Accounting for Liabilities of the Federal Government*, provides the definition and general principle for recognition of liabilities in paragraph 19: “A liability for federal accounting purposes is a probable future outflow or other sacrifice of resources as a result of past transactions or events.”

Federal Financial Accounting and Auditing Technical Release #2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*, states in footnote 1 that “liabilities shall be recognized when the following conditions are met:

- A past transaction or event has occurred,
- A future outflow or other sacrifice of resources is probable, and
- The future outflow or sacrifice of resources is measurable.”

SFFAS #6, *Accounting for Property, Plant, and Equipment*, defines clean-up costs in paragraph 85 as: “...the costs of removing, containing, and/or disposing of (1) hazardous waste from property, or (2) material and/or property that consists of hazardous waste at permanent or temporary closure or shutdown of associated PP&E.” Furthermore, paragraph 87 clarifies that “Cleanup may include, but is not limited to, decontamination, decommissioning, site restoration, site monitoring, closure, and post closure costs.”

*Cause/Effect:* FLETC does not have a process in place to periodically identify, estimate, and update as necessary the liability for environmental cleanup costs for use in complying with Federal accounting and financial reporting requirements.

As a result of the above deficiencies, FLETC was unable to timely prepare its adjusted trial balance and was required to record material adjusting journal entries to properly state its environmental liabilities as of September 30, 2006. Additionally, FLETC’s note disclosures also required substantial modification to ensure compliance with GAAP.

*Recommendations:* We recommend that FLETC management:

- Train personnel in the Facilities Division and the Environmental and Safety Division on the accounting and financial reporting requirements for environmental liabilities, as well as development of the auditable support for the variables and assumptions that make up the estimate and recorded liability;
- Design and implement a process for periodically estimating, updating, and reporting environmental liabilities to the Finance Division for use in complying with financial reporting requirements;
- Ensure that all estimates of environmental liabilities are reviewed and approved by Finance Division management to ensure the estimates are reasonable and accompanied by auditable supporting documentation; and
- Formalize the policy on reporting and treatment of environmental liabilities by developing a written standard operating procedure (SOP) to help ensure FLETC’s procedures are in accordance with the applicable accounting standards pertaining to environmental cleanup costs.

*Management’s Response:* Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our findings and its comments were responsive to our recommendations.



**Independent Auditors' Report**  
**Exhibit I – Material Weaknesses**

---

**C. Capital Lease Liabilities**

*Background:* FLETC entered into three 20-year, non-cancelable leases for dormitory buildings during FY 2001 and FY 2002. The leases were initially classified and recorded as operating leases. The FY 2002 independent auditors, however, analyzed the lease agreements and determined the leases met the requirements for treatment as capital leases, and proposed that FLETC account for them as such. The leases were reported as buildings and offset by a contingent liability in FLETC's FY 2002 financial statements and continued to be reported as a contingent liability through most of FY 2006. Since the inception of the leases, FLETC has depreciated the recorded cost of the buildings over the 20-year lease term. In addition, FLETC has recorded a reduction in the contingent liability and the related imputed interest expense with each lease payment. FLETC requested that the OMB review the details of the lease agreements and determine the classification of the leases as either capital or operating. OMB has not made a classification determination.

*Conditions:* FLETC does not have adequate policies and procedures and internal controls to ensure that its lease transactions are accounted for in accordance with GAAP. As a result, KPMG noted:

- Since FY 2002, FLETC has been incorrectly reporting the lease liability totaling approximately \$50 million as of September 30, 2006, as an unfunded contingent liability;
- FLETC's recorded monthly imputed interest expense associated with the capital lease payments was not determined using the required interest rate method. The imputed interest was determined for the entire lease term and equal amounts were recognized with each payment; and
- The depreciation expense recorded on the three buildings was calculated incorrectly and would have resulted in full depreciation of the buildings in year 13 of the 20-year leases.

*Cause/Effect:* These conditions initially arose in FY 2001 because there were no formalized policies and procedures that required FLETC's Procurement Division to consult with the Budget and Finance Division prior to entering into lease transactions. The result was that three leases were unintentionally structured as capital leases. The lease liabilities were misclassified and improperly reported as contingent liabilities as a result of FLETC's attempts to support a position that these leases should be classified as operating leases, pending a determination of classification by OMB, and thus avoid the OMB Circular A-11 requirement to fully fund capital leases at lease inception.

The misstatement of imputed interest on the lease payments and the miscalculation of the annual depreciation cost resulted from calculation errors made at the inception of the leases, which were not detected by a management review process that should take place when non-routine financial transactions are entered into and recorded in FLETC's books and records. FLETC's financial reporting since the inception of the lease agreements has cumulatively understated the imputed interest expense by approximately \$13.2 million, overstated the depreciation of the buildings by approximately \$7.3 million, understated the net book value of the leased buildings by \$134,000, and understated the lease liability by \$12.4 million.

*Criteria:* OMB Circular A-123, Section I, Introduction, states the following:

### Independent Auditors' Report Exhibit I – Material Weaknesses

---

“Management is responsible for developing and maintaining effective internal control. ... The importance of internal control is addressed in many statutes and executive documents. The FMFIA establishes overall requirements with regard to internal control. The agency head must establish controls that reasonably ensure that: ... (iii) revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.”

SFFAS #5 defines capital leases as “leases that transfer substantially all the benefits and risks of ownership to the lessee.” In paragraph 43, the following four criteria for determining whether leases should be classified as capital are detailed:

- The lease transfers ownership of the property to the lessee by the end of the lease term.
- The lease contains an option to purchase the leased property at a bargain price.
- The lease term is equal to or greater than 75 percent of the estimated economic life of the leased property.
- The present value of rental and other minimum lease payments, excluding that portion of the payments representing executory cost, equals or exceeds 90 percent of the fair value of the leased property.

If, at its inception, a lease meets one or more of the above four criteria, the lease should be classified as a capital lease by the lessee. It is noted that the third and fourth criteria above are not applicable when the beginning of the lease term falls within the last 25% of the estimated economic life of the leased property. An operating lease, however, is “an agreement conveying the right to use property for a limited time in exchange for periodic rental payments.”

OMB Circular A-11, Appendix A, *Scorekeeping Guidelines*, Section 11, *Scoring Purchases*, requires that all capital leases be fully funded at their inception and that risks should be carefully analyzed and managed. Specifically, OMB Circular A-11, Section 31.6, *Full funding*, states, “Requests for acquisition of capital assets must propose full funding to cover the full costs of the project or a useful segment of the project, consistent with the policy stated in section 300.6(b).” In addition, OMB Circular A-11, Appendix B, *Budgetary Treatment of Lease-Purchases and Leases of Capital Assets*, Section 1(b) states, “Unless otherwise specified by law, budget authority is available for liquidating obligations (i.e., outlays) for only five fiscal years after the authority expires. For leases financed by annual or multi-year budget authority, agencies should ensure that the appropriations language allows the budget authority to remain available for lease payments over the full term of the lease. If this period is expected to be longer than five fiscal years after the authority expires, the appropriations language should include the provision described in section 95.8.”

The Anti-deficiency Act prohibits an officer or employee of the United States from making expenditures or incurring obligations before appropriations become available, unless otherwise authorized by law (31 U.S.C. § 1341).

Lastly, per the U.S. Government Standard General Ledger (USSGL), capital lease liabilities are to be recorded in account 2940, Capital Lease Liabilities, rather than as a Contingent Liability.

*Recommendations:* We recommend that FLETC management:

- Design and implement a process that ensures the Procurement Division consults with the Budget and Finance Division prior to entering into transactions or agreements to determine the budgetary and financial reporting effects of the proposed transactions or agreements; and

## Independent Auditors' Report Exhibit I – Material Weaknesses

---

- Review all transactions prior to recording in FLETC's books and records to ensure transactions are recorded in accordance with GAAP.

*Management's Response:* Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our finding that the cause/effect was a result of no formalized procedures that required FLETC's Procurement Division to consult with the Budget and Finance Division prior to entering into lease transactions. However, management believes the misclassification of the lease liability as a contingent liability was a subsequent effect due to the fiscal year 2002 audit by other independent public auditors. Management stated that when the issue was raised during the 2002 audit, FLETC requested an OMB review and temporarily reported the lease liability as a contingent liability pending an OMB determination, which as yet has not been received.

*Auditors' Response to Management's Response:* As summarized above, management has not resolved the misclassification of the lease liability as a contingent liability. The Government Accountability Office states in section 1001.08 of its *Financial Audit Manual* that management's representations to the auditor must acknowledge its responsibility for the financial statements and its belief that the financial statements are fairly presented in accordance with United States Generally Accepted Accounting Principles; completeness of financial information; recognition, measurement, and disclosure; and subsequent events. Therefore, we continue to believe that the misclassification of the lease liability was solely the responsibility of FLETC management, and that lack of resolution of the classification issue constitutes a material weakness in internal control.

### D. Valuation of Inventories

*Background:* FLETC maintains inventories of ammunition, uniforms and operating supplies necessary for use by its students during their training. FLETC elected to use the consumption method of recording its inventory, whereby the inventory items are expensed upon being withdrawn from inventory for use. Inventories totaled approximately \$9.6 million at June 30, 2006 and \$10.3 million at September 30, 2006

*Conditions:* FLETC does not have adequate policies and procedures and internal controls to ensure that it is valuing its inventories of the above materials in accordance with GAAP. As a result, KPMG noted:

- FLETC was improperly applying the 'latest acquisition cost' method for valuing the inventory of uniforms. FLETC was not tracking the unrealized holding gain/loss related to the uniform inventory caused by a change in unit price.
- FLETC did not have a process in place for aging uniform inventory, nor was a uniform inventory obsolescence reserve established. A uniform that had been issued, worn, and laundered multiple times was recorded for financial reporting purposes at the same cost of an item that had never been worn.
- FLETC's Deputy Chief Financial Officer confirmed that the other components of FLETC's inventory (e.g., ammunition, gas & oil, and supplies, etc) were being valued in a similar manner as the uniforms.

*Cause/Effect:* FLETC's Finance Division did not adequately communicate the requirements for proper inventory valuation to the Student Services Division and the COTR over uniforms. In

## **Independent Auditors' Report** **Exhibit I – Material Weaknesses**

---

In addition, the Finance Division did not review the inventory valuation methodology being employed by the Student Services Division. The effect was the consistent misstatement of the inventory value for financial reporting purposes. FLETC elected to change its method of accounting for inventories to another acceptable method, the purchases method, for reporting in its September 30, 2006 consolidated balance sheet.

*Criteria:* OMB Circular A-123, Section I, Introduction, states the following:

“Management is responsible for developing and maintaining effective internal control. ... The importance of internal control is addressed in many statutes and executive documents. The FMFIA establishes overall requirements with regard to internal control. The agency head must establish controls that reasonably ensure that: ... (iii) revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.”

SFFAS #3, *Accounting for Inventory and Related Property*, defines the purchases method of accounting for inventory as “A method of accounting for goods, such as materials and supplies, in which the acquisition cost is recognized as an expense upon purchase of the goods rather than upon their use. Additionally, the consumption method is described as “A method of accounting for goods, such as materials and supplies, where the goods are recognized as assets upon acquisition and are expensed as they are consumed.”

Paragraph 20 of SFFAS #3 states that “Inventory shall be valued at either (1) historical cost or (2) latest acquisition cost.” Furthermore, paragraph 23 continues: “The latest acquisition cost method provides that the last invoice price... be applied to all like units held including those units acquired through donation or non-monetary exchange. The inventory shall be revalued periodically but at least at the end of each fiscal year. Revaluation results in recognition of unrealized holding gains/losses in the ending inventory value.” Paragraph 24 states: “An allowance for unrealized gains/losses in inventory shall be established to capture these gains/losses.” The Department of Homeland Security (DHS) and its components (e.g. FLETC) must adhere to the requirements set forth in SFFAS #3.

*Recommendation:* We recommend that FLETC management continue its newly adopted purchases method of accounting for inventory, whereby inventory is expensed upon purchase.

*Management's Response:* Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our findings and its comments were responsive to our recommendations.

### **E. Construction in Progress**

*Background:* At any point in time, FLETC has multiple on-going construction projects. These projects often involve modification or renovation of multiple buildings under a single contract. FLETC records the cost of the on-going construction in Construction in Progress (CIP) accounts. Upon completion, the total cost of the project is removed from the CIP accounts and recorded as in-service buildings or as appropriate. At that point, the assets are in-use and depreciation of the asset cost begins.

**Independent Auditors' Report**  
**Exhibit I – Material Weaknesses**

---

*Conditions:* FLETC does not have adequate policies and procedures and internal controls in place to ensure that construction in progress accounts are accounted for in accordance with GAAP. As a result, KPMG noted:

- FLETC occasionally uses the same project number to track costs associated with multiple buildings and is not always able to separate the project cost to be applied to each building included in the contract. In addition, FLETC occasionally establishes multiple project numbers under the same contract/delivery order and does not consistently apply expenditures related to progress billings to the appropriate project number.
- FLETC does not always transfer completed CIP projects from CIP accounts to in-use property accounts on a timely basis. Our statistical selection of 22 projects from the CIP account revealed that 7 were completed projects during FY 2006 that should have been transferred to a property account and depreciated during FY 2006 by the Finance Division. The completed CIP projects that had not been transferred totaled approximately \$5.2 million, and the evaluated statistical sample projected that the total account overstatement was approximately \$12.1 million. FLETC reviewed the entire CIP list and made the necessary adjustments to transfer the completed CIP projects to the appropriate property accounts in accordance with GAAP.

*Cause/Effect* CIP projects are not always allocated to the correct capital assets because there is no process in place to require vendors to separate the cost billed to FLETC by capital asset. Additionally, there is no methodology in place to allocate the cost of progress payments when there are multiple projects, and in some cases, costs are allocated to the projects with the oldest available funds to ensure there is sufficient funding to complete the project.

CIP projects are not always transferred to property accounts and depreciated because Finance Division personnel do not routinely compare the Facilities Division's ongoing CIP list to the CIP account in the general ledger and inquire whether differences should be transferred as completed projects.

*Criteria:* OMB Circular A-123, Section I, Introduction, states the following:  
"Management is responsible for developing and maintaining effective internal control. The importance of internal control is addressed in many statutes and executive documents. The FMFIA establishes overall requirements with regard to internal control. The agency head must establish controls that reasonably ensure that: . . . (iii) revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets."

SFFAS #6, *Accounting for Property, Plant, and Equipment*, states:

"All general PP&E shall be recorded at cost. Cost shall include all costs incurred to bring the PP&E to a form and location suitable for its intended use. For example, the cost of acquiring property, plant, and equipment may include:

- amounts paid to vendors;
- transportation charges to the point of initial use;
- handling and storage costs;
- labor and other direct or indirect production costs (for assets produced or constructed);
- engineering, architectural, and other outside services for designs, plans, specifications, and surveys;

### Independent Auditors' Report Exhibit I – Material Weaknesses

---

- acquisition and preparation costs of buildings and other facilities;
- an appropriate share of the cost of the equipment and facilities used in construction work;
- fixed equipment and related installation costs required for activities in a building or facility;
- direct costs of inspection, supervision, and administration of construction contracts and construction work;
- legal and recording fees and damage claims;
- fair value of facilities and equipment donated to the government; and
- material amounts of interest paid.”

Paragraph 34 of SFFAS #6 states: “PP&E shall be recognized when title passes to the acquiring entity or when the PP&E is delivered to the entity or to an agent of the entity. In the case of constructed PP&E, the PP&E shall be recorded as construction work in process until it is placed in service, at which time the balance shall be transferred to general PP&E.”

*Recommendations:* We recommend that FLETC management take the following steps:

- Design and implement a process that ensures each project number applies to only one capital asset unit. (Conversely, FLETC may require the contractor to separate the costs of work performed on its contract invoices enabling FLETC to capture the cost to be applied to each unit).
- Develop and implement a formalized process to train project managers on the financial reporting requirements for CIP projects.
- Implement the *Real Property SOP* issued by FLETC on October 27, 2006. Among the procedures established, the SOP requires:
  - a. The Facilities Division submit copies of all *Capitalization Reports* to the Property Management Division and the Finance Division within 10 days of project completion or final decision of additional cost resulting from litigation.
  - b. The Finance Division validate construction/renovation project costs in *Capitalization Reports*.
  - c. The Finance Division maintain the CIP subsidiary ledger by project numbers and funds. The Finance Division will compile copies of paid invoices/bills by CIP project numbers and provide copies to the Property Management Division upon validation of *Capitalization Report* costs. After submission of the *Capitalization Reports*, the Finance Division will follow-up with the Project Managers for completed construction/renovation projects listed in the CIP subsidiary ledger.
- Develop and implement a quarterly process to reconcile CIP projects listed in the subsidiary ledger with on-going construction projects as recognized by the Facilities Management Division.

*Management's Response:* Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our findings and its comments were responsive to our recommendations.

#### F. Accounts Payable

*Background:* FLETC has an established process for estimating its accounts payable liability for financial reporting purposes at year end. We discussed the estimation methodology used for each of the following transaction areas prior to beginning our audit procedures over accounts payable:

**Independent Auditors' Report**  
**Exhibit I – Material Weaknesses**

---

travel expenses, purchase cards, goods and services received, recurring services, permanent change of station, and miscellaneous payables.

*Conditions:* FLETC does not have adequate policies and procedures and internal controls to ensure that it has developed a reasonable estimate of its accrued liabilities as of fiscal year end in accordance with GAAP. As a result, KPMG noted:

- FLETC's process for accruing liabilities at the end of the fiscal year did not capture all the outstanding liabilities that existed at September 30, 2006. Our statistical sample of FLETC's disbursements through October 25, 2006 resulted in 27 of the 96 selections containing unrecorded liabilities totaling approximately \$3.8 million. A second non-statistical sample of disbursements through November 5, 2006 revealed another \$3.8 million of liabilities not recorded as of September 30, 2006.
- The majority of the under-accrual was in the area of service and construction contracts.

*Cause/Effect:* FLETC's accounts payable & accrued expenses balances were significantly understated because the accrual process did not operate as designed. The failure of the process was not detected because of insufficient management review and oversight of the process and the accrual that resulted. FLETC management subsequently re-estimated the accounts payable and accrued expense accrual as of September 30, 2006. Adjustments to the books and records were recorded as a result of the re-estimation.

*Criteria:* OMB Circular A-123, Section I, Introduction, states the following:

"Management is responsible for developing and maintaining effective internal control. ... The importance of internal control is addressed in many statutes and executive documents. The FMFIA establishes overall requirements with regard to internal control. The agency head must establish controls that reasonably ensure that: ... (iii) revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets."

Paragraphs 77-79 of the SFAS #1, *Accounting for Selected Assets and Liabilities*, state:

77 When an entity accepts title to goods, whether the goods are delivered or in transit, the entity should recognize a liability for the unpaid amount of the goods. If invoices for those goods are not available when financial statements are prepared, the amounts owed should be estimated.

78 When a contractor provides the government with goods that are also suitable for sale to others, the liability usually arises when the contractor physically delivers the goods and the government receives them and takes formal title. However, when a contractor builds or manufactures facilities or equipment to the government's specifications, formal acceptance of the products by the government is not the determining factor for accounting recognition. Constructive or de facto receipt occurs in each accounting period, in accordance with the following paragraph.

79 For facilities or equipment constructed or manufactured by contractors or grantees according to agreements or contract specifications, amounts recorded as payable should be based on an estimate of work completed under the contract or the agreement. The

### **Independent Auditors' Report Exhibit I – Material Weaknesses**

---

estimate of such amounts should be based primarily on the federal entity's engineering and management evaluation of actual performance progress and incurred costs.

DHS and its components (e.g. FLETC) must adhere to the requirements set forth in SFFAS #1.

*Recommendations:* We recommend that FLETC management take the following steps:

- Design, implement, and document an accrual process that will ensure each type of accounts payable is properly accrued for financial reporting purposes. This process should include a final review of the accrual details by senior management to ensure the process was properly executed and the accrual is reasonable.
- Require the use of the accrual process to capture the financial reporting information required for inclusion in FLETC's quarterly financial statements, as required by OMB Circular A-136.
- Provide comprehensive training to every person involved in the accrual process. The training should include a discussion of the objective of the process, what each type of accounts payable requires to be accrued properly, the timing of the procedures to be performed, what form the reported results should take, to whom the results must be reported, and exactly how the information and methods used to obtain the information or estimate are to be documented for later examination by persons internal or external to FLETC.
- Design and implement a plan to periodically review the reported accrual information provided by personnel both inside and outside the Finance Division. This will require a knowledgeable person going to the location of the individuals generating the accrual information and reviewing the accuracy of the information as well as the documentation as to how the information was obtained or estimated.
- Assign one person in the Finance Division the responsibility for ensuring that each person designated to submit the quarterly accrual information submits the information on time and in the format required. Any late, incomplete, or undocumented submissions should be reported to senior Financial Division management as well as Management of the Division in which the designated individual works.
- Include the timely and accurate submission of the accrual information as a part of each designated individual's performance evaluation.

*Management's Response:* Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our findings and its comments were responsive to our recommendations.



**Independent Auditors' Report**  
**Exhibit II – Reportable Conditions**

---

**G. Deferred Revenue**

*Background:* FLETC's recognizes in proportion to the training completed, e.g. half of the revenue is recognized as earned when a student has completed half the training. FLETC has a small proportion of its students that individually pay for their training rather than their sponsoring agency paying upon receipt of an invoice from FLETC. At the time of the individual payment, FLETC has often not prepared an invoice and recorded an accounts receivable. FLETC records and reports these individual payments as deferred revenue until FLETC staff have an opportunity to research the payment and properly account for it as revenue. The event that triggers the recording of the deferred revenue is not related to whether the student has completed any or all of the training for which the payment is made, but whether at the time of payment an accounts receivable has been recorded.

*Condition:* We noted the following condition related to FLETC's deferred revenue:

- FLETC is not timely recognizing revenue from student tuition in those situations where payment is made prior to generation of an invoice and recording of the related accounts receivable. We statistically selected 23 payments for examination from the deferred revenue account and found that every selection was composed entirely or partially of unrecognized FY 2006 earned revenue from tuition. There were several instances where the student's training was completed more than 3 months prior to the end of the fiscal year, yet the payment amount was still reported as deferred revenue.

*Cause/Effect:* Lack of internal controls over the recognition of revenues related to cash receipts from students who pay individually prior to the receipt of an invoice from FLETC. Additionally, in the preparation of FLETC's consolidated balance sheet as of September 30, 2006, deferred amounts were not researched because management did not consider the potential misstatement material enough to justify the use of resources to correct the error. The effect is that deferred revenues are overstated by approximately \$214,000 on the FLETC consolidated balance sheet as of September 30, 2006.

*Criteria:* Paragraph 85 of the Statement of Federal Financial Accounting Standards (SFFAS) #1, *Accounting for Selected Assets and Liabilities*, states, "Before revenues are earned, the current portion of the advances and prepayments should be recorded as other current liabilities. After the revenue is earned, the entity should record the current liabilities appropriate amount as a revenue or financing source and should reduce the liability accordingly." The U.S. Department of Homeland Security (DHS) and its components (e.g. FLETC) must adhere to the requirements set forth in SFFAS #1.

*Recommendations:* We recommend that FLETC management take the following steps:

- Design and implement a process that ensures the research and monthly adjustment of the deferred revenue account to recognize revenue that has been earned.
- Inform the Finance Division staff that the concept of "materiality" is not appropriate for use in determining whether to correctly record FLETC's transactions.

## **Independent Auditors' Report Exhibit II – Reportable Conditions**

---

### Management's Response:

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our findings and its comments were responsive to our recommendations.

### **H. Financial Systems Security**

*Background:* Controls over the FLETC information technology (IT) and related financial systems are essential elements of financial reporting integrity. Effective general controls in an IT and financial systems environment are typically defined in six key control areas: entity-wide security program planning and management, access control, application software development and change control, system software, segregation of duties, and service continuity. In addition to general controls, financial systems contain application controls which are the structure, policies, and procedures that apply to separate, individual application systems, such as accounts payable, inventory, payroll, or loans.

During FY 2006, we performed audit procedures over the two key FLETC financial systems, Momentum and Procurement Desktop (PD), as well as those systems' supporting the general control environment. The overall objective of our IT audit procedures was to evaluate the effectiveness of IT general controls of FLETC's financial processing environment and related IT infrastructure as necessary to support the FY2006 FLETC consolidated balance sheet audit.

The Federal Information System Controls Audit Manual (FISCAM), issued by the Government Accountability Office (GAO), formed the basis of our review and was supplemented by the National Institute of Standards and Technology (NIST) Special Publication 800-53 and applicable DHS and FLETC policies and procedures.

To complement our general IT controls audit, we also performed technical security testing for key network and system devices, as well as testing over key financial application controls. The technical security testing was performed from within FLETC and was focused on test, development, and production devices that directly support FLETC financial processing and key general support systems. The application control testing included assessing the structure, policies, and procedures that apply to separate, individual application processes, such as accounts payable, and payroll. The application control testing was performed to assess the controls that support the financial system's internal controls over the input, processing, and output of financial data and transactions.

During FY 2006, we identified IT general control weaknesses at FLETC. The most significant weaknesses, from a balance sheet audit perspective, related to access controls and change controls. Collectively, the IT control weaknesses limited FLETC's ability to ensure that critical financial and operational data was maintained in such a manner to ensure confidentiality, integrity, and availability. In addition, these weaknesses negatively impacted the internal controls over FLETC financial reporting and its operations.

*Conditions:* In FY 2006, the following IT and financial system control weaknesses were identified related to Momentum, PD and the supporting IT control environment:

1. Regarding entity-wide security program planning and management, we noted:

**Independent Auditors' Report**  
**Exhibit II – Reportable Conditions**

---

- Background investigations of contractors employed to operate, manage and provide security over FLETC IT systems is not being properly conducted.
  - Information technology security awareness training is in draft form.
2. Regarding access controls, we noted:
- 5 instances of generic and shared accounts on key servers and databases.
  - Workstations, servers, or network devices were configured without necessary security patches, or were not configured in the most secure manner.
  - Password configurations for key systems were configured to permit passwords not in compliance with DHS password policies.
  - Physical access to the FLETC Telecom room was not adequately controlled.
  - Policies and procedures for access authorization and review were not developed.
  - Policies and procedures for restricting access to sensitive system software were not developed.
  - Policies and procedures for mobile code and voice of internet protocol (VOIP) technology were not developed.
  - Policies and procedures for review of Momentum audit logs were not developed.
3. Regarding application software development and change control, we noted:
- The System Development Life Cycle for the Momentum system is in draft form.
  - Policies and procedures regarding configuration management controls were not in place.
  - The lack of documented test plan standards and procedures.
  - The lack of a documented comprehensive set of test transactions.
  - Test results are not maintained and a documented approval for the test results does not exist.
4. Regarding system software, we noted that the installation of the Momentum's system software is not logged or reviewed by management.
5. Regarding segregation of duties, we noted that policies and procedures for segregating incompatible duties in the Momentum's system were not developed.
6. Regarding service continuity, we noted:
- Momentum's back up tapes were not tested or appropriately labeled.
  - Momentum's contingency plan has not been tested.

*Cause/Effect:* Many of the conditions identified in FY 2006 during our IT audit are the result of a lack of detail and defined IT policies and procedures, as well as a lack of monitoring of the control environment to ensure compliance with DHS, OMB, and NIST policies. Additionally, many of these weaknesses are inherent in FLETC's legacy systems, or system development activities that did not incorporate strong security controls from the outset and will take several years to fully address. Further, the lack of resources and competing responsibilities has prevented FLETC from implementing many of these controls and processes into their environment. And finally, there was no consistent and thorough testing of IT controls by FLETC to identify and mitigate weaknesses. The effect of the identified IT weaknesses has the potential to impact the integrity of the data processing and reporting of FLETC financial and operational data.

## **Independent Auditors' Report** **Exhibit II – Reportable Conditions**

---

*Criteria:* The Federal Information Security Management Act (FISMA) passed as part of the *Electronic Government Act of 2002* mandates that Federal entities maintain IT security programs in accordance with OMB and NIST guidance. OMB Circular A-130, *Management of Federal Information Resources*, and various NIST guidelines describe specific essential criteria for maintaining effective general IT controls. In addition, OMB Circular A-127 prescribes policies and standards for executive departments and agencies to follow in developing, operating, evaluating, and reporting on financial management systems. In addition, we assessed the FLETC financial systems to the Department's own security policies and procedures, such as the DHS *Information Technology Security Program Publication, 4300A*.

*Recommendations:* We recommend that FLETC management ensure that the following corrective actions are taken:

1. For entity-wide security program planning and management:
  - a) Enforce DHS policy to ensure that all contractors go through the appropriate background/suitability check; and
  - b) Finalize the IT System Security Awareness and Training and enforce by having all new and existing FLETC users and contractors complete the training.
2. For access control:
  - a) Use unique database administrator (DBA) user accounts to allow for accountability when performing DBA duties on Procurement Desktop;
  - b) Implement the corrective actions noted in the results of our IT audit's vulnerability scans on the Momentum and PD applications;
  - c) Perform periodic scans of the FLETC network environment, including the financial processing environment, for the identification of vulnerabilities, in accordance with NIST SP 800-42;
  - d) Implement corrective actions to mitigate the risks associated with any vulnerabilities identified during periodic scans. Configure the Momentum and Procurement Desktop applications to require a password to be a minimum of eight characters in length and contain a combination of alphabetic, numeric, and special characters to be in compliance with DHS Information Technology Security Program Publication, 4300A Password Policy;
  - e) Configure the Procurement Desktop to lock out account users after three (3) invalid login attempts to be in compliance with DHS Information Technology Security Program Publication, 4300A;
  - f) Develop policies and procedures regarding gaining access to the FLETC Telecom Room, including the use of a user authorization form;
  - g) Perform a semi-annual review of the FLETC Telecom Room access listing in compliance with DHS Information Technology Security Program Publication 4300A;

**Independent Auditors' Report**  
**Exhibit II – Reportable Conditions**

---

- h) Ensure that FLETC Manual 4330: User Identification and Authentication Management is finalized, promulgated to all FLETC employees and enforced;
  - i) Develop and implement policies and procedures for restricting access to Momentum system software, and promulgate it to all needed personnel, to be in compliance with DHS Information Technology Security Program Publication, 4300A;
  - j) Develop and implement FLETC specific policies and procedures over the authorization and use of mobile code and VOIP technologies to be in compliance with DHS Information Technology Security Program Publication 4300A; and
  - k) Develop and implement policies and procedures to proactively monitor sensitive access, via audit log review, to system software utilities for Momentum to be in compliance with DHS Information Technology Security Program Publication, 4300A.
3. For application software development and change control:
- a) Finalize and implement a SDLC methodology for Momentum, as well as incorporating security planning throughout the life cycle;
  - b) Develop and implement documented policies and procedures over the Momentum and Procurement Desktop configuration management process modeled after the informal configuration management process currently in place; and
  - c) Document a listing of all users with access to the Momentum and Procurement Desktop program libraries. Ensure that access is prohibited to development staff.
4. For system software, enable audit logging over the installation of Momentum's system software and ensure that logs are maintained and periodically reviewed by management.
5. For segregation of duties:
- a) Identify and document incompatible duties and system roles and responsibilities within Momentum; and
  - b) Develop and implement policies and procedures segregating incompatible duties within the core financial system to be in compliance with DHS Information Technology Security Program Publication, 4300A.
6. For service continuity:
- a) Periodically test the backup compact discs maintained onsite in compliance with DHS Information Technology Security Program Publication 4300A;
  - b) Affix external labels to the backup CDs indicating the distribution limitations and handling caveats of the information in compliance with DHS Information Technology Security Program Publication 4300A; and
  - c) Perform a test of the Momentum's contingency plan, in compliance with DHS Information Technology Security Program Publication 4300A.

**Independent Auditors' Report**  
**Exhibit II – Reportable Conditions**

---

*Management's Response:* Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our findings, and its comments were responsive to our recommendations.

**Independent Auditors' Report**  
**Exhibit III – Compliance with Laws and Regulations**

---

**I. Federal Financial Management Improvement Act of 1996 (FFMIA)**

*Background/Criteria:* FFMIA requires that an agency's financial management systems substantially comply with Federal financial management system requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger at the transaction level.

*Conditions – Federal financial management system requirements:* As explained in Exhibit II, FLETC has not complied with/performed:

- The Computer Security Act Requirements in accordance with FISMA, and OMB Circular A-130,
- The documentation requirements for financial management systems and processing instructions in accordance with JFMIP and other applicable requirements,
- The internal control requirements that ensure resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data are obtained, maintained, and disclosed in reports,
- The training and user support requirements that should be provided to the users at all levels of the financial systems to enable them to understand, operate, and maintain the systems, and
- The maintenance required to enable the system to continue to operate in an effective and efficient manner.

*Conditions – Applicable Federal accounting standards:* As explained in more detail in Exhibit II, we noted internal control weaknesses over six significant balance sheet line items that when viewed together represent a general inattention to reporting transactions in accordance with Federal Accounting Standards. Those six instances are presented in more detail in Exhibit II and consist of deficiencies in the following areas:

- 1 Policies and procedures to ensure completeness, accuracy and valuation of FLETC's estimated environmental liabilities;
  - 2 Policies and procedures to ensure the proper accounting and financial reporting of FLETC's lease transactions;
  - 3 Valuation of operating materials inventories;
  - 4 Capitalization of construction in progress accounts;
  - 5 Lack of a methodology for approximating accounts payable at fiscal year-end; and
  - 6 Lack of a timely reconciliation of deferred revenue accounts.
- In addition, Finance Division personnel generally focus on budgetary considerations, which although very important, must be accompanied by an appropriate recognition of FLETC's financial reporting requirements and adherence to Federal Accounting Standards.
  - The Finance Division does not always ensure that other divisions providing information or estimates necessary for financial reporting are properly trained on what information and support is required by GAAP.

*Conditions – Compliance with the U.S. Standard General Ledger at the transaction level:*

- FLETC is recording a liability in Momentum for received goods and services in general ledger account 2190, other accrued liabilities, rather than account 2110, accounts payable.
- FLETC is not using the disbursements in transit, account 2120, when it processes an invoice for payment. FLETC delays recording the transaction until Treasury confirms that the

### **Independent Auditors' Report** **Exhibit III – Compliance with Laws and Regulations**

---

disbursement has been made, at which time accounts payable, account 1011, and fund balance with Treasury, account 1010, are reduced to reflect the disbursement.

*Recommendation:* We recommend that FLETC implement the recommendations related to the above conditions as detailed in Exhibits I and II as well as develop a process to ensure FLETC complies with all the provisions of FFMIA.

*Management Response:* Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our findings, and its comments were responsive to our recommendations.

#### **J. Prompt Payment Act**

*Background/Criteria:* In 1982, Congress enacted the Prompt Payment Act (P.L. 97-177) (referred to herein as ‘The Act’). The Act, as amended, is found at 31 U.S.C. Chapter 39. The Office of Management and Budget (OMB) included the Prompt Payment Act in OMB Circular A-125, which has since been rescinded and codified in Title 5 part 1315 of the Code of Federal Regulations on September 29, 1999.

The Prompt Payment final rule by OMB (5 CFR 1315) requires Executive Departments and Agencies to pay commercial obligations within a certain time period and to pay interest on payments that are late.

The Prompt Payment standards published in the Federal Register Volume 64, No. 188 section 1315.4, paragraph 4(i), state that “when payments are made after the due date, interest will be paid automatically...” Paragraph (j) further states that payments are to follow good stewardship and cash management practices, and that entities are to make payment “no more than seven days prior to the payment due date.”

In determining when a payment is due, 5 CFR §1315.4(b)(1) states that “for the purposes of determining a payment due date and the date on which interest will begin to accrue if a payment is late, an invoice shall be deemed to be received on the later of: the date a proper invoice is actually received by the designated agency office... or the 7<sup>th</sup> day after the date on which the property is actually delivered.” The term “designated agency office,” is defined by 5 CFR §1315.2(m) to mean “the office designated by the purchase order, agreement, or contract to first receive and review invoices.”

Furthermore, 31 U.S.C. 3902(b) states, “the interest penalty shall be paid for the period beginning on the day after the required payment date and ending on the date on which payment is made.” According to 5 CFR 1315, simple interest is to be computed at the interest rate established by the Secretary of the Treasury, and published in the Federal Register which is in effect at the time the agency accrues the obligation to pay a late interest payment.

#### *Conditions:*

- FLETC is not calculating and paying interest on all past due invoices. A total of three of 32 sample items selected for testing were paid more than 30 days after the invoice receipt date. Two of the sample items were subject to interest in excess of the \$1 de-minimus threshold



**Independent Auditors' Report**  
**Exhibit III – Compliance with Laws and Regulations**

---

established under the Prompt Payment Act. However, FLETC did not pay interest on these items.

- FLETC is not consistently annotating invoices with the date and time of receipt by the designated agency office. The date the invoice is received by the designated office is the log date entered into Momentum when the invoice is processed for payment. The Procurement Division does not consistently name the Finance Division as the designated agency office when issuing contracts, purchase orders, or modifications, and Accounting Technicians are not consistently verifying that the designated agency office annotated the invoice with the date and time of receipt. As a result, Accounting Technicians are relying on the date and time annotated by the Finance Division to indicate the date of initial receipt for use in determining the payment date and date on which interest begins to accrue.
- Accounting Technicians are not consistently entering the log date correctly when creating payment vouchers in Momentum Financials Desktop. KPMG noted one instance where an invoice was received and not annotated with a log date. The invoice was subsequently forwarded to the Contracting Officers Representative (COR) for certification. When the COR returned the invoice to the Finance Division, an acceptance date and time was annotated on the document. As a result, the incorrect log date was used when entering information into Momentum Financials Desktop.
- There were two instances where an invoice was received from a vendor and annotated with a log date. The invoices were subsequently forwarded to the COTR for certification. When the COTR returned the invoice to the Finance Division, a second acceptance date and time was annotated on the invoices. When creating the payment voucher in Momentum, the Accounting Technician used the latter of the two dates.
- Accounting Technicians are not consistently entering the acceptance date correctly when creating payment vouchers in Momentum Financials Desktop. KPMG noted two instances where the acceptance date entered in Momentum corresponded to the date the invoice was certified for payment, not the date the COTR indicated the goods were accepted.

*Recommendations:* We recommend that FLETC management:

- Develop and implement a training requirement for all personnel processing invoices and payments to ensure FLETC's compliance with 5 CFR 1315, the Prompt Payment Act.
- Develop and implement a quarterly review process to examine the documentation supporting payments for proper recording of receipt dates, ensure that dates and payment information are correctly entered into Momentum Financials Desktop, and ensure disbursements are scheduled in accordance with the requirements of the Prompt Payment Act.

*Management Response:* Management has prepared an official response presented as a separate attachment to this report. In summary, management disagreed with the significance of our findings because it believes that the size of the audit sample of transactions was relatively small to conclusively determine that FLETC is noncompliant with the requirements of the Prompt Payment Act, the Act.

In addition, Management disagrees with the significance of our finding based on the total interest penalty payments made by FLETC when compared to total FLETC disbursements. Specifically Management believes that if total interest penalty payments are within the 2% interest threshold established by the DHS Office of Financial Management, they should be considered in compliance with the Act.

### **Independent Auditors' Report** **Exhibit III – Compliance with Laws and Regulations**

---

*Auditors' Response to Management's Response* As described above, we tested the attributes of internal controls that help to ensure compliance with the Act. Attribute testing and sample size is addressed in the Government Accountability Office *Financial Auditing Manual*, GAO FAM, Section 460.02. Our sample size was appropriately determined by that guidance.

Our testing of compliance with the Act was based on guidance provided by the GAO FAM that does not base compliance with the Act on an internally generated threshold.

Therefore we continue to believe that the findings as stated above constitute noncompliance with the Act.

**Independent Auditors' Report**  
**Exhibit IV – Status of Prior Year's Reportable Condition**

---

<b>Prior Year Condition</b>	<b>As Reported at September 30, 2005 (DHS Consolidated Report)</b>	<b>Status as of September 30, 2006 (FLETC Stand-Alone Balance Sheet Only Report)</b>
<b>Capital Leases</b>	<b>Material Weakness:</b> FLETC had not properly classified as capital leases three build-to-lease dormitories.	<b>Continues as a Material Weakness:</b> FLETC reclassified the improperly recorded contingent lease liability to the appropriate capital lease liability account and corrected the accompanying misstatements of imputed interest, accumulated depreciation, depreciation, lease liability outstanding, and cumulative results of operations. This finding is reported as a material weakness in Exhibit I of this report.

Federal Law Enforcement Training Center  
U.S. Department of Homeland Security  
1131 Chapel Crossing Road  
Glynco, Georgia 31524



## Homeland Security

January 8, 2007

KPMG LLP  
Attn: Elizabeth Hacquard  
2001 M Street, NW  
Washington, DC 20036

Ladies and Gentlemen:

We are providing this letter in connection with your audit of the Federal Law Enforcement Training Center's (FLETC) consolidated balance sheet as of September 30, 2006, and the related Independent Auditors' Report. In response to the findings, our concurrence or nonconcurrence is as follows:

#### **Exhibit I – Material Weaknesses**

- A. Financial Reporting – We concur with this finding.
- B. Environmental Cleanup Costs – We concur with this finding.
- C. Capital Lease Liabilities – We do not concur with this finding as described.

We agree that the *Cause/Effect* was an initial result of no formalized procedures that required FLETC's Procurement Division to consult with the Budget and Finance Division prior to entering into lease transactions. However, the misclassification as a contingent liability was a subsequent effect due to the fiscal year 2002 audit by other independent public auditors. When the issue was raised in 2002, FLETC requested an OMB review, and reported the contingent liability with the intention of it being a temporary classification until an OMB determination was rendered. That determination remains with OMB currently.

The *Recommendations* were implemented back in October 2002 as a result of the prior audit.

- D. Valuation of Inventories – We concur with this finding.
- E. Construction in Progress – We concur with this finding.
- F. Accounts Payable – We concur with this finding.

[www.fletc.gov](http://www.fletc.gov)

**Exhibit II – Reportable Conditions**

- A. Deferred Revenue – We concur with this finding.
- B. Financial Systems Security – We concur with this finding.

**Exhibit III – Compliance with Laws and Regulations**

- A. FFMIA – We concur with this finding.
- B. Prompt Pay Act – We do not concur with this finding.

The audit team’s sample size of 32 documents drawn from an overall population of 21,600 vendor invoices subject to the Prompt Payment Act in FY 2006 is relatively small to conclusively determine that FLETC is noncompliant with the requirements of the Act.

FLETC’s total interest penalty payment in FY 2006 is \$15,422, which is negligible when compared to the total disbursements of \$200M. Even if the interest penalty payment is multiplied 260 times, FLETC is still within the 2% penalty interest threshold established by DHS OFM to measure the timely payment of invoices.

FLETC will continue to train its staff and emphasize the importance of the Prompt Payment Act procedures in processing invoices. The formalized training process is well-documented in the Finance Division Accounts Payable standard operating procedures.

Additionally, invoices subject to the Act will be sampled on a quarterly basis by the FIN internal control staff.

**Exhibit IV – Status of Prior Year’s Reportable Condition**

Capital Leases – We concur with this finding.

Sincerely,



Julie Martin  
Deputy Chief Financial Officer  
Federal Law Enforcement Training Center

## Consolidated Balance Sheet

Department of Homeland Security  
**FEDERAL LAW ENFORCEMENT TRAINING CENTER**  
**CONSOLIDATED BALANCE SHEET**  
**As of September 30, 2006**  
(In Thousands)

**ASSETS**

Intragovernmental assets

Fund balance with Treasury (Note 3)	\$ 202,290
Accounts receivable, net (Note 5)	14,838
Other (Note 6)	397
<b>Total intragovernmental assets</b>	<u>217,525</u>

Cash (Note 4)	27
Accounts receivable, net (Note 5)	1,280
Property, plant and equipment, net (Note 7)	<u>409,955</u>

**TOTAL ASSETS** **\$ 628,787**

**LIABILITIES**

Intragovernmental Liabilities

Other (Note 10)	\$ 2,995
<b>Total Intragovernmental Liabilities</b>	<u>2,995</u>

Accounts Payable	2,982
Deferred Revenue	215
Accrued Payroll and Benefits	23,606
Environmental Clean-Up Liability (Note 9)	11,197
Capital Lease Liability (Note 11)	61,153
Other (Note 10)	<u>14,753</u>

**TOTAL LIABILITIES** **\$ 116,901**

**NET POSITION**

Unexpended Appropriations	\$ 197,114
Cumulative Results of Operations	<u>314,772</u>

**TOTAL NET POSITION** **\$ 511,886**

**TOTAL LIABILITIES AND NET POSITION** **\$ 628,787**

## Notes to the Consolidated Balance Sheet

### Note 1: Summary of Significant Accounting Policies

#### A. REPORTING ENTITY

The Federal Law Enforcement Training Center (FLETC), a component of the U.S. Department of Homeland Security (DHS), serves as an interagency law enforcement training center. The FLETC provides facilities, equipment, and support services for conducting law enforcement training for Federal agencies and specialized programs for State and local agencies and foreign governments. The FLETC was established on July 1, 1970, by Treasury Department Order No. 217, as an organizational entity within the Department of the Treasury. The FLETC was transferred from Treasury to the DHS on March 1, 2003, as an entity within the Directorate of Border and Transportation Security by the Homeland Security Act of 2002 (P.L. 107-296). Training sites and offices include Glynco, Georgia; Artesia, New Mexico; Washington, DC; Charleston, South Carolina; and Cheltenham, Maryland. Also, the FLETC conducts training in four International Law Enforcement Academies (ILEA) located in Budapest, Hungary; Bangkok, Thailand; Gaborone, Botswana; and San Salvador, El Salvador. The programs and operations of the FLETC are funded principally through Congressional appropriations on an annual, multi-year, and no-year basis. Accordingly, operating costs incurred and recorded as expenses are funded through either appropriated funds, reimbursable agreements or other financing sources.

#### B. BASIS OF ACCOUNTING AND PRESENTATION

The financial information presented is a consolidated balance sheet only, as of September 30, 2006. The consolidated balance sheet has been prepared from the accounting records of the

FLETC in conformity with U.S. generally accepted accounting principles (GAAP), based on accounting standards issued by the Federal Accounting Standards Advisory Board, and with the Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements. Under GAAP, as a general rule, revenues and related assets are recognized when earned, and expenses and related liabilities are recognized when incurred.

The consolidated balance sheet should be read with the realization that it is for a component of a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation and that payment of liabilities other than for contracts can be abrogated by the sovereign entity.

#### C. ASSETS AND LIABILITIES

Entity intra-governmental assets and liabilities result from activity with other Federal agencies. All other entity assets and liabilities result from activity with parties outside the Federal government, such as domestic and foreign persons, organizations, or governments outside the U.S. Government. Assets represent tangible items that have probable economic benefits that can be obtained or controlled by the FLETC. Liabilities represent the amount of monies or other resources that are likely to be paid as a result of a transaction or event that has already occurred. However, no liability can be paid absent an appropriation. Liabilities for which an appropriation has not been enacted are, therefore, classified as Liabilities not covered by Budgetary Resources. Although future appropriations to fund the liabilities are likely and anticipated, it is not certain that appropriations will

be enacted to fund these liabilities. Also, liabilities arising from other than contracts can be abrogated by the Government, acting in its sovereign capacity.

### **D. FUND BALANCES WITH TREASURY**

Fund balances with Treasury represent funds available to pay liabilities and finance authorized expenditures.

### **E. ACCOUNTS RECEIVABLE AND RELATED ALLOWANCES FOR UNCOLLECTIBLE AMOUNTS**

Outstanding billed reimbursable costs for goods and services provided to other Federal agencies and state and local governments comprise the majority of accounts receivable. The FLETC uses the allowance method for recognizing bad debt expense on state and local government accounts receivable. No allowance is recorded for accounts receivable from Federal agencies as these amounts are considered fully collectible.

### **F. OTHER INTRAGOVERNMENTAL ASSETS**

Other intragovernmental assets consist of prior fiscal years governmental advances to the legacy Department of the Treasury Working Capital Fund (WCF) for expenses of operating and maintaining common administrative services of Treasury provided to the FLETC prior to its transfer to DHS. In accordance with the established Treasury WCF procedures, funds for services were collected in advance and expended as services were provided by the WCF. The FLETC expects the WCF to refund these advances.

### **G. OPERATING MATERIALS AND SUPPLIES**

Operating materials and supplies (OM&S) are tangible personal property consumed in normal operations. In FY 2006, the FLETC implemented a change in accounting principle for the accounting of its OM&S. Prior to FY 2006, a financial resource

was recognized when title passed to the FLETC, or goods were in the FLETC's possession. At the time the goods were used in the provision of a service, the asset was removed from the account. In FY 2006, the FLETC began applying the purchase method which provides that OM&S be expensed when purchased. The purchase method was adopted because it is not cost-beneficial to apply the consumption method, an allowable exception to using the consumption method. The effect of the adoption was a decrease of \$8 million to the OM&S asset account and to the beginning cumulative results of operations (CRO) balance.

### **H. PROPERTY, PLANT, AND EQUIPMENT**

The FLETC capitalizes property, plant, and equipment (PP&E) with an acquisition value of \$50,000 or greater. Major alterations and renovations are also capitalized, while minor equipment costs are charged to expenses as incurred. Property and equipment transferred to the FLETC from the Department of Defense on the date that the FLETC relocated to Glynco, as well as the turnover of Cheltenham, Maryland and Charleston, South Carolina facilities are recorded at the net book value at the date they were transferred to the FLETC. There are no restrictions on the use or convertibility of general PP&E.

Depreciation is calculated on a straight-line basis over estimated useful lives ranging from five to thirty years, once the asset has been placed in service. Land is not depreciated. Buildings acquired under capital leases are amortized over the lease term. Routine repairs and maintenance are expensed as incurred.

The FLETC also capitalizes its internal use software. Internal use software includes purchased commercial off-the-shelf software (COTS), internally developed, or contractor-developed. For



COTS, the FLETC capitalizes the amount paid to the vendor for the software. For contractor developed software, the capitalized costs include the amount paid to a contractor to design, program, install and implement the software. Capitalized costs for internally developed software include the full costs (direct and indirect costs) incurred during the software development phase. Amortization of the capitalized software is calculated using the straight-line method beginning on the date of acquisition, if purchased, or the when successfully tested and placed in use, if developed.

#### **I. ACCRUED PAYROLL AND OTHER BENEFITS**

Accrued payroll and other benefits include annual leave, compensatory time, and other leave time. The accrual for these items represents the leave time earned by the FLETC employees but not taken as of the fiscal year end, and is computed using current compensation rates. Sick leave is not accrued when earned, but is expensed when taken as employees do not get paid for unused sick time upon separation from the organization.

#### **J. PENSION COSTS AND OTHER RETIREMENT BENEFITS**

The FLETC recognizes the full annual cost of its civilian employees' pension benefits; however, the assets of the plan and liability associated with these costs are recognized by the Office of Personnel Management (OPM) rather than the FLETC.

In general, employees hired prior to January 1, 1984, participate in the Civil Service Retirement System (CSRS), while employees hired after that date participate in the Federal Employees' Retirement System (FERS). The FLETC and its employees contribute to the retirement plan at a certain percent of base pay as provided by the OPM. The cost of providing these benefits by OPM is

more than the amount contributed by the FLETC and its employees. The difference between the full annual cost of CSRS and FERS retirement plans and the amount paid by the FLETC is recorded as an imputed cost on the FLETC's Statement of Net Costs, and also as an offsetting imputed financing source in the FLETC's Statement of Net Position.

Similar to the retirement plans, the OPM, not the FLETC, reports the liability for future payments to retired employees who participate in the Federal Employees Health Benefits Program (FEHB) and the Federal Employees Group Life Insurance Program (FEGLI). The full cost of these benefits, however, is recorded in the FLETC's financial statements with an offsetting imputed financing source.

#### **K. FEDERAL EMPLOYEE BENEFITS PAYABLE – FECA ACTUARIAL LIABILITY**

The Federal Employees Compensation Act (FECA) program is administered by the U.S. Department of Labor (DOL) and provides income and medical cost protection to covered Federal civilian employees who have been injured on the job or have incurred a work-related occupational disease. Beneficiaries of employees whose death is attributable to a job-related injury or occupational disease receive compensation. The DOL initially pays valid FECA claims for all of the Federal government and seeks reimbursement two fiscal years later from the Federal agencies employing the claimants. Estimated future FECA costs are determined by the DOL for the DHS, which in turn, allocates to the FLETC actuarial liabilities not covered by budgetary resources. This governmental liability is determined by using the paid losses extrapolation method calculated over the next 37-year period. This method utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period.

### **L. LITIGATION CONTINGENCIES AND SETTLEMENTS**

Probable and estimable unsettled litigation and claims against the FLETC are recognized as a liability and expensed for the full amount of the expected loss. Expected litigation and claim losses include settlements to be paid from the Treasury Judgment Fund on behalf of the FLETC and settlements to be paid from the FLETC appropriations. Settlements to be paid from the Judgment Fund for the FLETC are recognized as an expense and imputed financing.

### **M. ENVIRONMENTAL LIABILITY**

Cleanup costs, which are the costs of removing, containing and/or disposing of hazardous waste, represent an environmental liability. At September 30, 2006, the FLETC has recorded an accrual for the estimated total cleanup costs associated with its firearms ranges. Based on new accounting guidance to be adopted in FY 2007, future liability estimates will include cleanup costs of buildings containing friable and non-friable asbestos. Cost estimates are subject to revision as a result of changes in technology, environmental laws and regulations, inflation and plans for remediation. Any changes in the estimated total cleanup costs will be expensed when re-estimates occur and the liability balance is adjusted.

### **N. EARMARKED FUNDS AND ADOPTION OF A NEW ACCOUNTING STANDARD**

The FLETC has adopted SFFAS No. 27. Identifying and Reporting Earmarked Funds. Earmarked funds are financed by specifically identified revenues and are required by statute to be used for designated activities or purposes.

Earmarked non-exchange revenue and other financing sources, including appropriations and net cost of operations, are shown separately on the Statement of Changes in Net Position. The portion of cumulative results of operations attributable to

earmarked funds is shown separately

on both the Statements of Changes in Net Position and the Balance Sheets. The FLETC has only one earmarked fund of less than \$500 in FY 2006. Due to the immaterial balance, it is not separately reported as of September 30, 2006.

### **O. REVENUES AND FINANCING SOURCES**

The FLETC receives the majority of its funding through annual, multi-year, no-year, and trust fund appropriations that may be used within statutory limits for operating and capital expenditures. Appropriations are recognized as financing sources when the related expenses are incurred. The FLETC enters into reimbursable agreements with the Department of Homeland Security and other Federal entities for services or goods provided. Under these arrangements, one entity provides goods or services to another at an agreed-upon price, and revenue from reimbursable agreements is recognized when the services are provided. Other minor financing sources include gifts and transfers from the Department of Justice's Violent Crime Reduction Trust Fund.

### **P. IMPUTED COSTS/FINANCING SOURCES**

The FLETC often receives goods and services from other Federal Government entities without reimbursing the providing entity for all related goods. These are subsidized costs that are recognized as imputed costs by the FLETC. Conversely, the FLETC often incurs costs that are partially or totally paid for by other entities. These are recorded as imputed financing sources. The FLETC recognizes both imputed costs and financing sources to the extent directed by the OMB and DHS. The FLETC started recording intra-departmental imputed costs for law enforcement instructors detailed from the other DHS bureaus in Fiscal Year (FY) 2005.

#### **Q. TAX STATUS**

The FLETC is a Federal entity, and therefore is not subject to Federal, state or local income taxes. Accordingly, no liability for income taxes is required in the accompanying balance sheet.

#### **R. USE OF ESTIMATES**

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the period.

Actual results could differ from these estimates. Useful lives of fixed assets, allowance for doubtful accounts related to accounts receivable, likelihood of outcomes related to contingent liabilities and the actuarial estimates associated with the FECA liabilities are estimates that have the most significant impact on the accompanying balance sheet.

### **Note 2: Non-Entity Assets**

There are no non-entity assets as of September 30, 2006. All assets are entity assets of the FLETC.



**Note 3: Fund Balance with Treasury**

**A. Fund Balances** as of September 30, 2006 (in thousands):

Fund Type

Trust Funds	\$ -
Appropriated Funds	201,838
Other Fund Types	<u>452</u>
Total	<u>\$ 202,290</u>

Trust fund balances are comprised of gifts and transfers from the Department of Justice’s Violent Crime Reduction Trust Fund. At September 30, 2006 trust fund balances are nominal. Other fund balances result from the FLETC’s authority to use the proceeds from the sale of surplus items and recyclable materials to purchase like-items. If these funds are not used for this restricted purpose within two years, the FLETC is required to transfer the funds to the Department of Treasury.

**B. Status of Fund Balance with Treasury** as of September 30, 2006 (in thousands):

Status

Unobligated balance	
Available	\$ 73,193
Unavailable	16,662
Obligated balance not yet disbursed	111,983
Restricted unobligated balance - Deposit funds	<u>452</u>
Total	<u>\$ 202,290</u>

**Note 4: Cash**

The cash amount totaling \$27 thousand as of September 30, 2006 represents collections on hand, not yet deposited.

**Note 5: Accounts Receivable, Net**

**A. Intragovernmental Accounts Receivable**

Intragovernmental accounts receivable due from other Federal agencies as of September 30, 2006, total \$14.8 million, and are considered fully collectible.

**B. Public Accounts Receivable**

Receivables due from the public are recognized for law enforcement training provided to state, local and foreign governments. As of September 30, 2006, receivables from the public total \$1.3 million, net of an allowance for doubtful accounts totaling \$45 thousand. The allowance for estimated uncollectible accounts receivable due from the public is determined by using the Percentage Analysis Method. The Percentage Analysis Method derives an estimated percentage of uncollectible accounts receivable by account type that is based on the experience of collecting past due accounts. The Specific Identification Method is used when actual uncollectible amounts of receivables are known.

## Note 6: Other Assets

Other intragovernmental assets are comprised of \$0.4 million as of September 30, 2006 for advances paid to the legacy Department of the Treasury Working Capital Fund. The balances are expected to be refunded from the Treasury.

## Note 7: General Property, Plant, and Equipment, Net

Property, plant, and equipment (PP&E) consists of the following as of September 30, 2006 (in thousands):

Category	Service Life (Years)	Acquisition Cost 2006	Accumulated Depreciation/Amortization 2006	Net Book Value 2006
Land and Land Rights	N/A	\$ 4,077	\$ -	\$ 4,077
Construction in Progress	N/A	48,059	-	48,059
Buildings, Structures, and Facilities	20-30	404,112	107,850	296,262
Equipment:				
ADP	5	257	257	0
Vehicles	5-8	5,979	3,517	2,462
Other Equipment	5	3,767	3,223	544
Assets Under Capital Lease	20	68,164	11,937	56,227
Internally Developed Software	N/A	2,324	-	2,324
<b>Total Property, Plant and Equipment</b>		<b>\$ 536,739</b>	<b>\$ 126,784</b>	<b>\$ 409,955</b>

## Note 8: Liabilities Not Covered By Budgetary Resources

Property, plant, and equipment (PP&E) consists of the following as of September 30, 2006 (in thousands):

## Financial Information

Intragovernmental:	
Unfunded FECA liability	\$ 2,991
Total Intragovernmental Not Covered	<u>2,991</u>
Public:	
Accrued payroll and benefits	18,552
Accrued cleanup cost liability	11,197
Capital lease liability	61,153
Contingent liabilities	<u>350</u>
Total Public Not Covered	<u>91,252</u>
Total Liabilities Not Covered by Budgetary Resources	\$ 94,243
Total Liabilities Covered by Budgetary Resources	<u>\$ 22,658</u>
Total Liabilities	<u>\$ 116,901</u>

The FLETC anticipates that the liabilities not covered by budgetary resources will be funded from future budgetary resources when required.

### Note 9: Environmental Clean-Up Liability

The FLETC is responsible to clean up its sites with environmental contamination based on compliance with Federal, state and/or local environmental laws and regulations. The primary Federal laws associated with environmental clean up are the Comprehensive Environmental Response, Compensation, and Liability Act and the Resource Conservation and Recovery Act.

The FLETC has recorded \$11.2 million for environmental cleanup cost liability as of September 30, 2006. The amount represents the total estimated cleanup costs for thirty-four firing ranges (19 in Artesia, NM; 6 in Charleston, SC; 1 in Cheltenham, MD and 8 in Glynco, GA). Currently, there are no plans to close or clean up the ranges; however, the estimated costs of future cleanup represent a liability for financial reporting purposes. Included in the September 2006 amount is a \$7 thousand balance from actual cleanup of four Glynco outdoor firearms ranges completed in FY 2005. The FLETC is waiting for State of Georgia environmental regulators to approve the completed cleanup of the four ranges and formally close the project. The requirements for the Glynco firearms ranges are governed by the State of Georgia Hazardous Waste Management Act (O.C.G.A. Section 12.8.60).

In addition to the contamination associated with the firearms ranges, the FLETC is responsible to clean up its buildings that contain asbestos and/or lead-based paints, in accordance with applicable laws. As of September 30, 2006, no buildings contained friable asbestos and there were no plans to dispose of or clean up any buildings. Therefore, no liability was recorded for financial reporting purposes. Next year, however, the FLETC will adopt new accounting guidance that will require the recording of a liability for

both friable and non-friable asbestos cleanup costs that are both probable and reasonably estimable. The FLETC will perform an environmental study in FY 2007 to determine cost estimates.

The estimated costs recognized as of September 30, 2006 are based on the most current information on prior experience as well as environmental studies, but will be monitored on an ongoing basis. Cost estimates are subject to revision as a result of changes in technology, environmental laws and regulations, inflation and plans for remediation. Any changes in the estimated total cleanup costs will be expensed when re-estimates occur and the liability balance adjusted.

## Note 10: Other Liabilities

Other liabilities are as follows as of September 30, 2006 (in thousands):

	<u>Non-Current</u>	<u>2006 Current</u>	<u>Total</u>
Intragovernmental:			
Unfunded FECA liability	\$ 2,991	\$ -	\$ 2,991
Employee benefits contributions and payroll taxes	<u>-</u>	<u>4</u>	<u>4</u>
Total Other Intragovernmental	<u>2,991</u>	<u>4</u>	<u>2,995</u>
Public:			
Capital lease liability	58,895	2,258	61,153
Contingent liabilities	350		350
Accrued cleanup cost liability	11,197	-	11,197
Other accrued liabilities	<u>-</u>	<u>14,403</u>	<u>14,403</u>
Total Other Nongovernmental Liabilities	<u>\$ 70,442</u>	<u>\$ 16,661</u>	<u>\$ 87,103</u>

Other accrued liabilities represent primarily accruals for goods and services received, but unbilled at year-end.

### Contingent Liabilities:

The FLETC is involved in various administrative proceedings incidental to its operations. The estimated contingent liability recorded at September 30, 2006 is \$350 thousand. Other claims for which loss probability is reasonably possible is estimated as \$200 thousand. Management vigorously contests all claims and lawsuits.

**Note 11: Leases**

A. FLETC as a Lessee

Capital Leases:

In FY 2001 and FY 2002, the FLETC entered into 20-year leases for the construction and operation of three private, hotel-type facilities to meet an urgent need for additional law enforcement student housing. At September 30, 2006, the FLETC has recorded the remaining net present value of the net lease payments for the three facilities as a capital lease liability. The minimum lease payments are being allocated between the reduction of the capital lease liability and interest expense. The unamortized capital lease liability is \$61.2 million.

Summary of Assets Under a Capital Lease (in thousands):

	<u>2006</u>
Land and Buildings	\$68,164
Accumulated Amortization	<u>(11,938)</u>
Net Assets Under a Capital Lease	<u>\$56,226</u>

Future Payments Due:

<u>Fiscal Year</u>	<u>Building</u>
2007	\$ 6,103
2008	6,103
2009	6,103
2010	6,103
2011	6,103
Beyond 2011	<u>69,903</u>
Total Future Lease Payments	\$ 100,418
Less: Imputed Interest	(34,972)
Less: Executory Costs	<u>(4,293)</u>
Net Capital Lease Liability	<u>\$ 61,153</u>

Lease liabilities covered by budgetary resources	\$ -
Lease liabilities not covered by budgetary resources	\$61,153



Operating Leases:

The FLETC leases various properties that are accounted for as operating leases, including an office space in Washington, DC that is leased from the General Services Administration (GSA). The GSA-leased equipment consists of various vehicles used for training. The non-GSA leases consist of office equipment such as copiers and postage meters. Lease arrangements are normal business practices by the GSA and commercial vendors as stipulated in the applicable GSA Federal supply schedule contracts. The future lease payments under the current non-cancellable leases are as follows (in thousands):

Future Payments Due:

<u>Fiscal Year</u>	<u>Asset Category</u>			<u>Totals</u>
	<u>GSA-Leased Building</u>	<u>GSA-Leased Equipment</u>	<u>Non-GSA Leased Equipment</u>	
2007	\$ 233	\$ 1,037	\$ 549	\$ 1,819
2008	234	1,037	518	1,789
2009	234	1,037	23	1,294
2010	234	1,037	18	1,289
2011	234	1,037	-	1,271
Beyond 2011	<u>1,168</u>	<u>5,185</u>	<u>-</u>	<u>6,353</u>
Total Future Lease Payments	<u>\$ 2,337</u>	<u>\$ 10,370</u>	<u>\$ 1,108</u>	<u>\$ 13,815</u>

## Financial Information

### B. FLETC as a Lessor

The FLETC purchased a 20-acre parcel of real property in Brunswick, Georgia, in FY 2003, that has an irrevocable 50-year lease for a communications tower by SBA Properties, Inc. The lease is for an initial term of five years and renews up to ten additional terms of five years each, unless the lessee notifies the FLETC of its intent of non-renewal. The lease receipt for the first five years is \$800 monthly or \$9,600 annually and increases by 15% with the sixth year and every fifth year thereafter. The lease receipts are miscellaneous revenues in the FLETC Custodial Account and deposited to the Treasury General Fund (in thousands):

Future Projected Receipts:

<u>Fiscal Year</u>	<u>Communication Tower</u>
2007	\$ 10
2008	11
2009	11
2010	11
2011	11
Beyond 2011	<u>44</u>
Total Future Lease Payments	<u>\$ 98</u>

## Required Supplementary Information (Unaudited)

### DEFERRED MAINTENANCE

The FLETC performs maintenance on its facilities. Maintenance includes preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it continues to provide acceptable services and achieves its expected life.

Deferred maintenance is maintenance that was not performed when it should have been or was scheduled to be and which, therefore, is put off or delayed for a future period. The chart below presents information on the FLETC's deferred maintenance. The information is measured by condition assessment survey, which includes periodic inspections of PP&E.

Asset Category	Asset Condition /1.			(Dollars in thousands)	
	(check all applicable box with "x")			Deferred Maintenance	
	Good	Fair	Poor	Estimated Range	
				Low	High
Buildings, Structures, and Facilities	x	x	-	\$40,747	\$45,036
Equipment - Vehicles and Vessels	x	x	-	\$0	\$0
Equipment - Other	x	x	-	\$0	\$0
Stewardship/Heritage Assets				\$0	\$0
Total				<b>\$40,747</b>	<b>\$45,036</b>

#### /1. Asset Condition

**Good.** Facility/equipment condition meets established maintenance standards, operates efficiently, and has a normal life expectancy. Scheduled maintenance should be sufficient to maintain the current condition, and there is no deferred maintenance on assets in good condition.

**Fair.** Facility/equipment condition meets minimum maintenance standards, but requires additional maintenance or repair to prevent further deterioration, increase operating efficiency, and to achieve normal life expectancy. Deferred maintenance may need to be recognized.

**Poor.** Facility/equipment does not meet most maintenance standards and requires frequent repairs to prevent accelerated deterioration and provide a minimal level of operating function. In some cases, this includes condemned or failed facilities.



**KEEPING THE SKIES FRIENDLY |** THE FLETC PROVIDES REALISTIC SCENARIO-BASED TRAINING ENVIRONMENTS FOR THREE BRANCHES OF GOVERNMENT, 31 FEDERAL DEPARTMENTS AND INDEPENDENT AGENCIES AND 82 PARTNER ORGANIZATIONS. HERE U.S. AIR MARSHALS USE AIRCRAFT AT FLETC ARTESIA TO TRAIN STUDENTS IN THE TACTICS AND TECHNIQUES TO COUNTER AIRBORNE THREATS.

# Performance & Accountability Report Part IV Other Supplementary Information Fiscal Year 2006



**THE FEDERAL LAW ENFORCEMENT TRAINING CENTER**

**GLYNCO | ARTESIA | CHARLESTON | CHELTENHAM | ILEA BOTSWANA | ILEA SAN SALVADOR**

## Other Supplemental Information

### FLETC PARTNER ORGANIZATIONS

**3 Branches of Government**  
**31 Member Departments and Independent Agencies**  
**82 Partner Organizations**

#### EXECUTIVE BRANCH:

<b>Agency for International Development</b>	Office of the Inspector General
<b>Agriculture</b>	U.S. Forest Service Office of the Inspector General
<b>Central Intelligence Agency</b>	Office of the Inspector General Office of Security
<b>Commerce</b>	Bureau of Industry and Security National Institute of Standards and Technology National Marine Fisheries Service Office of the Inspector General Office of Security
<b>Defense</b>	Air Force Office of Special Investigations Defense Criminal Investigative Service Defense Logistics Agency National Security Agency Naval Criminal Investigative Service Office of the Inspector General Pentagon Force Protection Agency
<b>Education</b>	Office of the Inspector General
<b>Energy</b>	Office of the Inspector General
<b>Environmental Protection Agency</b>	Criminal Investigations Division Office of the Inspector General
<b>Federal Deposit Insurance Corporation</b>	Office of the Inspector General
<b>General Services Administration</b>	Office of the Inspector General
<b>Health and Human Services</b>	Food and Drug Administration National Institutes of Health Office of the Inspector General
<b>Homeland Security</b>	Citizenship and Inspection Services Customs and Border Protection Federal Air Marshals Federal Emergency Management Agency Office of the Inspector General Federal Emergency Management Agency Office of Safety and Security Federal Protective Service Immigration and Customs Enforcement Office of the Inspector General Transportation Security Administration U.S. Border Patrol U.S. Coast Guard U.S. Secret Service
<b>Housing and Urban Development</b>	Office of the Inspector General
<b>Interior</b>	Bureau of Indian Affairs Bureau of Land Management Bureau of Reclamation Fish and Wildlife Service National Park Service Office of the Inspector General Office of Surface Mining, Reclamation and Enforcement U.S. Park Police

<b>Justice</b>	Bureau of Alcohol, Tobacco and Firearms Federal Bureau of Prisons Federal Bureau of Investigations Police Office of the Inspector General U.S. Marshals Service
<b>Labor</b>	Office of the Inspector General
<b>National Aeronautics and Space Administration</b>	Office of the Inspector General
<b>National Railroad Passenger Corporation</b>	Amtrak Police
<b>Nuclear Regulatory Commission</b>	Office of the Inspector General
<b>Office of Personnel Management</b>	Office of the Inspector General
<b>Railroad Retirement Board</b>	Office of the Inspector General
<b>Small Business Administration</b>	Office of the Inspector General
<b>Smithsonian Institute</b> National Zoological Park	Office of Protection Services
<b>Social Security Administration</b>	Office of the Inspector General
<b>State</b>	Bureau of Diplomatic Security Office of the Inspector General
<b>Tennessee Valley Authority</b>	Office of the Inspector General TVA Police
<b>Transportation</b>	Office of the Inspector General
<b>Treasury</b>	Bureau of Engraving and Printing Financial Crimes Enforcement Network Internal Revenue Service Criminal Investigations Division Office of the Inspector General Treasury Inspector General for Tax Administration U.S. Mint
<b>U.S. Postal Service</b>	Office of the Inspector General Postal Inspection Service-Postal Police
<b>Veterans Affairs</b>	Office of the Inspector General
<b>JUDICIAL BRANCH:</b>	
<b>U.S Courts</b>	Office of Probation and Pretrial Services Supreme Court Police
<b>LEGISLATIVE BRANCH:</b>	
<b>U.S. Congress</b>	Library of Congress Police Office of the Inspector General Office of Security U.S. Capitol Police

## PRINCIPAL OFFICIALS OF THE FLETG

Director .....	Connie L. Patrick
Chief of Staff .....	Jane C. Titus
Chief Counsel .....	Willis C. Hunter
Public Affairs Officer .....	Peggy D. Dixon
Senior Associate Director, Washington Operations .....	John C. Dooher
Assistant Director - Chief Financial Officer .....	Alan L. Titus
Deputy Director .....	D. Kenneth Keene
Assistant Director, Training .....	Bruce J. Bowen
Deputy Assistant Director, Training Operations .....	Bradley W. Smith
Deputy Assistant Director, Training Applications .....	Marie R. Bauer
Assistant Director, Training Innovation and Management .....	Michael R. Hanneld
Deputy Assistant Director, Training Management .....	Robert Ray
Deputy Assistant Director, Training Support .....	Robert S. Gray
Assistant Director, Field Training .....	Cynthia J. Atwood
Deputy Assistant Director, Artesia Operations .....	Joseph W. Wright
Deputy Assistant Director, State and Local Law Enforcement Training .....	Stanley Moran
Deputy Assistant Director, Charleston Operations .....	Eugene L. Coon
Deputy Assistant Director, Cheltenham Operations .....	Robert A. Smith
Assistant Director, Administration .....	Marcus Hill
Deputy Assistant Director, Assets Management .....	Gregory G. Carver
Deputy Assistant Director, Operations Support .....	Bryan Lemons
Assistant Director - Chief Information Officer .....	Sandra H. Peavy
Deputy Assistant Director, Chief Information Officer .....	Raymond Barnett





**OFFICE OF CHARLESTON OPERATIONS**  
| THIS OFFICE ADMINISTERS THE  
DELIVERY OF LAW ENFORCEMENT  
TRAINING PROGRAMS IN  
CHARLESTON, SOUTH CAROLINA.



FOR ADDITIONAL INFORMATION CONTACT:  
PUBLIC AFFAIRS OFFICE | FEDERAL LAW ENFORCEMENT TRAINING CENTER |  
GLYNCO, GA 31524 | 912.267.2447 | WWW.FLETC.GOV



**WE TRAIN THOSE WHO PROTECT OUR HOMELAND**

Federal Law Enforcement Training Center  
U. S. Department of Homeland Security  
1131 Chapel Crossing Road  
Glynco, Georgia 31524  
[www.fletc.gov](http://www.fletc.gov)



Homeland  
Security