

DEPARTMENT OF HOMELAND SECURITY
Office of Inspector General

**Audit of DHS' Corrective Action Plan
Process for Financial Reporting -
Report No. 2**



Office of Inspector General

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



**Homeland
Security**

September 8, 2006

Preface

The Department of Homeland Security (DHS) Office of Inspector General (OIG) was established by the Homeland Security Act of 2002 (Public Law 107-296) by amendment to the Inspector General Act of 1978. This is one of a series of audit, inspection, and special reports published by our office as part of our oversight responsibility to promote economy, efficiency, and effectiveness within the department.

This report is the second of a series of OIG performance audit reports intended to provide an assessment of planned DHS corrective actions to improve internal control. Improving internal control is a critical objective of the DHS Financial Accountability Act (Public Law 108-330). The report is based on interviews with employees and officials of relevant agencies and institutions, direct observations, and a review of applicable documents. We contracted with the independent public accounting firm KPMG LLP to perform the audit. KPMG is responsible for the attached auditor's report and the conclusions expressed in it.

The recommendations herein have been discussed in draft with those responsible for implementation. It is our hope that this report will result in more effective, efficient, and economical operations. We express our appreciation to all of those who contributed to the preparation of this report.

A handwritten signature in cursive script that reads "Richard L. Skinner".

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KPMG is pleased to submit this performance audit report related to the Department of Homeland Security's (the Department's) corrective action plans developed to address the Financial Management Oversight, Financial Reporting, Fund Balance with Treasury, and Actuarial Liabilities material weaknesses at the Office of the Chief Financial Officer, United States Coast Guard, and Immigration and Customs Enforcement components as reported in the Department's independent auditors' report in the FY 2005 *Performance and Accountability Report*. This performance audit is the second of a series of performance audits that the Department of Homeland Security Office of Inspector General has engaged us to perform for fiscal year 2006. This performance audit is designed to meet the objectives identified in the Background, Objectives, and Scope section of this report.

We conducted our second performance audit from June 12, 2006 through July 7, 2006, in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. The purpose of this report is to communicate the results of our performance audit and the related findings and recommendations. Management concurred with our recommendations and prepared a response which is presented at the end of this report.

Since July 7, 2006, we have not performed any additional procedures with respect to this performance audit and have no obligation to update this report or to revise the information contained herein to reflect events occurring subsequent to July 7, 2006.

The Department of Homeland Security Office of Inspector General has authorized this report to be sent electronically for the convenience of the Department. However, only the final hard-copy report should be deemed our work product.

KPMG LLP

Executive Summary

Overall, the Department of Homeland Security (the Department) is working to identify and develop effective Corrective Action Plans (CAPs) to address the four material weaknesses at the Office of the Chief Financial Officer (OCFO), United States Coast Guard (Coast Guard), and Immigration and Customs Enforcement (ICE) over Financial Management Oversight, Financial Reporting, Fund Balance with Treasury, and Actuarial Liabilities (herein referred to as the "material weaknesses"), as reported in the Department's independent auditors' report included in the FY 2005 *Performance and Accountability Report* (herein referred to as the "FY 2005 independent auditors' report"). The OCFO, Coast Guard, and ICE have drafted CAPs intended to address their respective sections of the material weaknesses. The Department deems these CAPs as critical steps towards its objective of obtaining an unqualified audit opinion on its consolidated financial statements, as well as on its internal controls over financial reporting. Our performance audit was limited to a review of the CAPs themselves and not the outcomes achieved as a result of the execution of the procedures outlined in the CAPs.

Findings and Recommendations

KPMG identified several opportunities for management's consideration to improve the effectiveness of the Department's CAPs. KPMG has classified each of these observations into one of the following four broad categories representing phases which are generally performed to develop and implement an effective CAP:

- Identification of the underlying root cause,
- Development of an effective remediation plan,
- Accountability for establishment and successful implementation of the CAP, and
- Validation of the successful implementation of the CAP.

The recommendations needed, which we identified in relation to the CAPs for these material weaknesses, vary depending on the component, and in some cases on the material weakness itself.

Background, Objectives, and Scope

Background

Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*, states "Federal agencies are subject to numerous legislative and regulatory requirements that promote and support effective internal control. Effective internal control is a key factor in achieving agency missions and program results through improved accountability. Identifying internal control weaknesses and taking related corrective actions are critically important to creating and maintaining a strong internal control infrastructure that supports the achievement of agency objectives."

OMB Circular A-123 builds upon the internal control framework within the *Standards for Internal Control in the Federal Government* (Green Book), issued by the Government Accountability Office (GAO), which defines internal control as "an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- compliance with applicable laws and regulations."

Ten material weaknesses associated with internal controls were reported in the Department's independent auditors' report included in the FY 2005 *Performance and Accountability Report*. The Department has undertaken an initiative to develop and implement a formal corrective action plan process. Under this initiative, the Department issued various guidance and also deployed a web-based software application, Electronic Program Management Office (ePMO), to manage the collection and reporting of CAP information for the Department and its components. Under this initiative, the Department's intent is to develop effective CAPs and position itself to move forward in its objective of obtaining an unqualified audit opinion on its consolidated financial statements, as well as on its internal controls over financial reporting.

The first key milestone in the Department's CAP process was May 31, 2006, whereby all components were required to develop CAPs for each material weakness under the new format for input into ePMO by the Department's OCFO. The second key milestone will be the submission of revised CAPs as of June 30, 2006, by July 12, 2006. The revised CAPs are outside the scope of this performance audit.

Objectives

The objective of this performance audit is to report and evaluate the status and effectiveness of the CAPs for four of the ten material weaknesses that the Department has identified as their areas of CAP focus for FY 2006. The four material weaknesses are: Financial Management Oversight, Financial Reporting, Fund Balance with Treasury, and Actuarial Liabilities. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States, specifically, the standards for performance audits.

Our objective is to report on the status of CAP implementation, as of May 31, 2006, and evaluate the effectiveness of the Department's CAPs developed by the OCFO, Coast Guard, and ICE to address their respective sections of the four material weaknesses.

Scope

The scope of this performance audit includes the Department's CAPs, as of May 31, 2006, developed to address the Financial Management Oversight, Financial Reporting, Fund Balance with Treasury, and Actuarial Liabilities material weaknesses at the OCFO, Coast Guard, and ICE components as reported in the FY 2005 independent auditors' report. Our scope did not include procedures on any of the CAPs associated with the remaining six material weaknesses cited in the Department's FY 2005 independent auditors' report.

The Department is in the early stages of its CAP development and implementation process, and accordingly, management has represented that its CAPs will continue to be modified throughout the year. Our performance audit was limited to a review of the CAPs noted above as of May 31, 2006. Revised CAPs as of June 30, 2006, due by July 12, 2006, to the OCFO are outside the scope of this performance audit. Furthermore, our performance audit was limited to a review of the CAPs themselves and not the outcome being achieved as a result of the procedures outlined in the CAPs.

The timeline for this performance audit was as follows:

- Fieldwork/Reporting – June 12, 2006 through July 7, 2006
- Draft Report – July 17, 2006
- Final Report – September 6, 2006

Performance Audit Approach

We performed a variety of performance audit procedures over the CAPs for the four material weaknesses. Our methodology consisted of the following four-phased approach:

Phase I – Project Initiation and Planning

To initiate and focus the performance audit approach, we conducted a kick-off meeting with the Department's OIG, OCFO, Coast Guard, and ICE components to review the objectives, scope of the project, and the collaboration among participants.

Phase II – Determine the CAP Status of the Four Material Weaknesses

- OCFO, Coast Guard and ICE Interviews

We interviewed personnel from the OCFO, Coast Guard and ICE components on their understanding and implementation of their respective components' CAPs as of May 31, 2006, including, but not limited to, the root cause analysis performed, the critical milestones chosen for measurement, and mechanisms to monitor progress in meeting the milestones.

- CAPs and Related Supporting Documentation Reviews
 - The CAPs (i.e., the detail and summary report) contained within ePMO.
 - The underlying Excel and Word templates submitted to the Department's OCFO to populate ePMO.
 - If applicable, the CAPs prepared prior to the implementation of the Department's fiscal year 2006 CAP process (i.e. ICE Financial Action Plans (FAPS)).

- Notice of Findings and Recommendations (NFRs) issued during the fiscal year 2005 financial statement audit utilized to generate the FY 2005 independent auditors' report.

Phase III – Evaluate CAP Effectiveness

We reviewed the DHS *Corrective Action Plan Process Guide* (CAP Guide), dated April 28, 2006, and existing internal control monitoring practices and guidance for practices that would serve as our evaluation criteria. We then compared our understanding of the Department's existing CAPs to these practices to identify potential areas for improvement. These findings reflect situations that could negatively impact the Department's remediation of the material weaknesses if additional corrective action is not taken.

The internal control monitoring practices and guidance we reviewed included:

- OMB Circular A-123.
- CAP guides published by other Federal agencies.
- OMB Executive Branch Management Scorecard.

We categorized the areas for improvement into one of the four broad phases generally found in an effective CAP process:

- Identification of the underlying root cause is an important action step in the CAP process. Accurate identification of the root cause mitigates the chances of recurrence. Often merely the symptoms of the deficiency are identified rather than the root cause. By identifying only the symptoms, it is difficult to develop an effective CAP that will successfully resolve the deficiency.
- Development of an effective remediation plan is an appropriate way to cure an internal control deficiency. A key component of an effective plan is the inclusion of both attainable and measurable milestones to allow both the Department and the component to effectively monitor the remediation process.
- Accountability is vital to the CAP process because it necessitates the establishment of an individual CAP owner who is responsible for its successful implementation. The owner's responsibilities include ensuring that milestones are achieved and that the validation phase is completed.
- Validation is important in order to verify that the CAP has been successfully completed. The CAP should include activities that will provide evidence to support the closure of the CAP. These activities should include documentation reviews, work observations, and performance testing.

Phase IV – Conclusions and Recommendations

After conducting our analysis in Phase III, we formulated our findings and recommendations for each potential area of improvement identified.

Findings and Recommendations

Office of the Chief Financial Officer (OCFO)

The OCFO has drafted CAPs intended to address its respective sections of the two material weaknesses on *Financial Management Oversight and Financial Reporting* reported in the FY 2005 independent auditors' report.

Financial Management Oversight

Background:

The Financial Management Oversight material weakness relates to the overall management, personnel, and infrastructure of the OCFO. The OCFO initiated the Department-wide CAP process in early 2006. A crucial step in remediation of this material weakness was the successful confirmation by the U.S. Senate of the Department's Chief Financial Officer in May 2006. As part of the CAP process, the OCFO has led the Department in drafting guidance and providing the DHS components with tools to utilize during their respective CAP implementations. The OCFO has led 'CAP Workshops' with representatives from the Department components so that an adequate, uniform approach to performing root cause analyses and implementing corrective actions is taken Department-wide. The OCFO also developed the Electronic Program Management Office (ePMO) system enabling the Department and the components to track the corrective actions being undertaken at the component level to ensure a coordinated Department-wide response to auditor findings and recommendations. The OCFO has issued a CAP Guide and is currently in the developmental stages of creating an Internal Controls over Financial Reporting (ICOFR) Playbook for the components. Furthermore, these actions reflect the OCFO's recognition that the CAP process at DHS is an integral part of its preparation for OMB A-123 implementation.

The leadership provided by the Department in setting a positive 'tone-at-the-top,' and actively monitoring progress in implementing the CAP process has shown to be integral to the success achieved at the Department thus far and will be critical to resolving the material weaknesses at the Department.

Identification:

The OCFO has drafted a CAP to address the material weakness on Financial Management Oversight, as it relates to the OCFO. The CAP includes an analysis of root cause issues, key success factors and performance measures, resources required, and an analysis of the risks and impediments as seen by management. In addition, management has developed a timetable for corrective actions, and assigned specific tasks with due dates to individuals. Management emphasizes the evolutionary nature of the CAP, including their intent to modify and/or add actions as needed to fully correct the identified internal control weaknesses in financial management oversight, within the timetable specified by Department leadership (September 30, 2006). As the work progresses, management may identify additional root causes and will update the CAP accordingly in order to keep the CAP current and a useful management plan.

One of the key inputs used by the Department in the development of the OCFO CAP addressing the Financial Management Oversight internal control weaknesses was a self assessment using the GAO *Internal Control Management and Evaluation Tool* (GAO Evaluation Tool). Completion of a self assessment using the GAO Evaluation Tool was a Departmental mandate to support compliance with the *Department of Homeland Security Financial Accountability Act*, the *Federal Managers' Financial Integrity Act* (FMFIA), and implementation of OMB Circular A-123, *Management's Responsibility for Internal Controls* in FY 2006.

The OCFO, under the direction of the Acting Chief Financial Officer (CFO), began its self assessment of its control environment in FY 2006, and completed a thorough introspective review over several months. Department management views the control environment as the foundation for good financial management.

The GAO Evaluation Tool is intended to help managers determine how well the Department's control environment is designed and functioning and to help identify and develop actions to improve internal controls. Many of the financial management oversight weaknesses, as highlighted in the FY 2005 independent auditors' report, are synonymous with weaknesses in the overall control environment, and consequently, the GAO Evaluation Tool provided a starting point for identification and analysis of the root causes of the weakness.

The OCFO concluded that only two of the seven control environment objectives from the GAO Evaluation Tool are fully met by the Department. Commitment to competence, management philosophy, organizational structure, assignment of responsibilities and human resource practices are aspects of the control environment that require improvement. This self-assessment served as the Department's principle source of information to identify the root cause of the OCFO's contribution to the material weakness on financial management oversight and as input to the CAP. By itself, however, completion of the GAO Evaluation Tool does not substitute for a comprehensive root cause analysis.

Development:

Using the information gathered through the self-assessment, the OCFO prepared its CAP to address weaknesses in the control environment. The CAP is in the early stages of development and approval, yet several significant steps have already been taken. One such step is the drafting and release of the CAP Guide, and a formal process of reporting and monitoring (using ePMO) of corrective actions planned by the Department and its components. Another recent action is management's approval to initiate a workforce study to identify human resource gaps and skill sets needed to perform the financial reporting functions of the OCFO.

The initial draft of the CAP, based on the results of the self assessment of the control environment, including the assigned tasks and timetable for completion, was recently completed – within the past 45 days. Management will require more time to fully develop all of the corrective tasks and critical milestones; specifically, further developing certain missing elements (described below), to make the plan comprehensive. Until management addresses the missing elements, the effectiveness of the CAP is diminished.

The OCFO also sponsors periodic "CAP Workshops" attended by the Department's components, to help ensure continued progress is made in regards to CAPs throughout the Department. In addition, the OCFO is developing an *Internal Control Over Financial Reporting (ICOFR) Playbook* which, when completed, is intended to link the component CAPs to management's implementation of OMB A-123 and ultimately with management's assertions related to internal controls over financial reporting.

The OCFO presented us with several updates, not yet incorporated into the CAP, that are currently under development and review by Department leadership, which partially address some of our findings presented below:

- The Department has a limited number of employees, with necessary skill sets, particularly in OCFO financial management positions, which causes the current managers to prioritize workload, and postpone or defer work on critical projects such as policies, procedures, internal control improvements, etc. As a result, management has hired three full-time employees in fiscal year 2006 and has budgeted for an additional 13 full time equivalents over the next two

years. In addition, management has identified the need for an organizational staffing and human resource needs study. A summary level document of the objectives for such a study has been prepared and approval for further development and engagement of a contractor to perform the study was recently obtained from the Department's Deputy CFO. Management, however, has not yet fully developed and documented a detailed approach to the organizational needs assessment in the CAP, or prepared a Statement of Work, or engaged a contractor with the necessary expertise.

- The Department must overcome organizational structure issues that may impede the effectiveness of the Department's CFO and those in the OCFO for two primary reasons: (1) since its inception, the Department has operated under a matrix management philosophy /structure, with Chief (e.g., CFO, Chief Information Officer, Chief Procurement Officer, etc...) management and administrative responsibilities that cross-cut component operation at a Department level. Historically, the Department's CFO has seldom exercised his authority to implement policy and procedures, including, and most importantly, financial reporting controls across the Department.
- The CAP does not include a review of position descriptions for all current OCFO management and staff, to identify corrective actions necessary to better align job responsibilities with available human resources. In addition, the CAP does not address the linkage of annual goal setting and performance appraisals for managers and staff in the OCFO with specific OCFO objectives, e.g., implementation of CAPs, improvement in internal controls, etc.
- The Department has identified the need for an additional senior management official in the area of financial management, however, a CAP has not been developed to include steps to actively recruit for this position (e.g., posting the job announcement or advertising / interviewing for the position).
- The CAP lacks procedures to identify weaknesses in management and staff training requirements. For example, the training programs attended by managers and staff have not been identified based on a critical needs and core competency assessment of training programs to improve essential skills.
- Clear internal reporting relationships within the Department have not been established, defining OCFO and component responsibilities for CAP development and implementation especially in areas of overlap.

Accountability:

Until the matters mentioned above are fully developed and addressed, key areas of authority and responsibility for the CAP implementation cannot be adequately defined and communicated throughout the Department, especially as they relate to the interaction between the OCFO and component financial and reporting operations. The assignment of accountability for improvements has occurred, but due to the pace of CAP development the improvements brought about by the assignment have yet to take full effect.

Financial Reporting

Background:

The Financial Reporting material weakness is focused specifically on the reliability and timeliness of the interim and year-end consolidated financial statements. The OCFO, and in particular the financial reporting functions, have undergone substantial change in FY 2006, due to staff turnover, restructuring of the office, and a reallocation of roles and responsibilities. The OCFO lost one key manager to an internal transfer in FY 2006. The office was restructured into four functional areas each lead by a Director – Financial Reporting, Financial Systems and Administration, Policy, and Internal Control. Three staff personnel have been hired to fill vacancies identified at the beginning of the year, which has helped with the distribution of workload. However, some accounting personnel vacancies still remain, and management asserts that at least one key managerial position remains unfilled. To supplement expertise and distribute workload, the OCFO has hired an outside contractor to assist with the preparation of periodic financial statements and the FY 2006 Performance and Accountability Report, and performance of CAPs. The Policy branch is in the very early stages of development, e.g., has a target date of August 2006, for issuance of its own Charter and assignments to working group members.

Identification:

Upon review of the financial reporting CAP, we observed an analysis of root cause issues, key success factors and performance measures, resources required, and an analysis of the risks and impediments as seen by management. However, as explained below, the CAP is a mixture of typical financial reporting roles and responsibilities and corrective actions. It is not clearly written to focus on the information necessary to identify root causes, detailed listings of task, and assignments of responsibility that will ultimately lead to the correction of the Financial Reporting material weakness. The CAP is designed to accommodate periodic updates/modifications as necessary to keep the CAP current and a useful management plan. As the work progresses, management may identify additional root causes and will update accordingly.

Management's root cause analysis, conducted in FY 2006, shows that many of the conditions identified and reported by the independent auditor stem from challenges associated with the set-up of a new Federal department. Staffing decisions, allocation of limited resources, the need for new policies and procedures, internal controls, integration of financial processes and systems, to name a few conditions noted in the FY 2005 independent auditors' report, are typically multi-year projects to set-up organizations the size of the Department.

Development:

When the OCFO completes its identification of the underlying root causes of the financial reporting weakness, including management's response to the findings noted above, CAPs will need to be developed and implemented, together with specific milestones and assignment tasks and oversight to individuals.

The development and implementation of the CAP tasks have not been coordinated with the CAPs from the other Department components or with the Department's OMB Circular A-123 implementation – two closely related aspects of financial reporting and internal control improvements.

Since the CAP was only recently drafted and management has not had enough time to fully and completely identify and develop the CAP tasks, we noted several critical elements missing from the CAP that should be considered for inclusion. Without the addition of the critical missing elements (described below), the plan is not comprehensive, which could diminish the ultimate effectiveness

of the CAP. In some cases, the OCFO was able to demonstrate that the missing elements are dependent on the outcome of the Financial Management Oversight CAP, e.g., organizational and workforce study, and consequently there is a natural lag in the identification and development of the Financial Reporting CAP. The critical missing elements are as follows:

- The list of critical milestones and detailed tasks in the CAP are not comprehensive, and do not clearly show linkage to the weaknesses being corrected or the root cause issues. For example, management's root cause analysis indicates that OFM roles and responsibilities are not clearly defined, including insufficient back-up role planning. It is not clear which, if any, of the detailed tasks will address this issue.
- Many of the tasks listed in the CAP appear to be ordinary, routine responsibilities of the OCFO, rather than tasks meant to investigate and correct the root cause issues (i.e., "compile a hard-close June 30, 2006 PAR Section 3," "compile MD&A Section of the PAR," and to "compile September 30 financial statements"). All of these tasks are normal operational responsibilities of the OCFO and are not corrective actions. In addition, a disproportionate number of tasks appear to be administrative tasks that are not substantial actions to correct issues (i.e., "establish Department FMPIP subcommittee of working groups to evaluate policy and directives (an action with a due date of June 15, 2006, and labeled as "not started)").
- The CAP lacks procedures to identify the root cause underlying the reason why policies and procedures require excessive time to develop, approve and issue. In some cases, draft OCFO policies have been pending approval for more than a year – with no clear time-line for management approval and issuance. Despite the establishment of a Policy branch, no policies and procedures (by official Management Directive) have been issued in FY 2006. Policy issuance has been hindered by limited resources and a lack of coordination between the Department's operating components. For example, seven policies are in process but all have stalled or been held up from issuance, in some cases for more than a year.

Accountability:

We observed that the OCFO has hired a reputable outside contractor to assist with financial reporting functions and CAP related tasks, as needed. However, as of May 31, 2006, the contractor hired to support the OCFO is limited to only two full-time professionals, and consequently, is dedicated to important, but narrowly focused, periodic financial reporting roles.

Implementation of the financial reporting CAP has been divided among several OCFO managers who do not have sufficient time to commit to the project, and therefore must delegate most of the tasks. Accountability for the financial reporting CAP is not clearly defined or tracked. Further, the financial reporting CAP is not managed or monitored by a senior executive, and other priorities of the OCFO have slowed progress. These conditions appear to have slowed progress – only 9 of the 55 tasks are shown as complete (many of which are routine operations or administrative functions as mentioned above).

Recommendations

OCFO – Financial Management Oversight

We recommend that:

1. Corrective actions be added to the CAP to identify weaknesses in management and staff training policies, and to then develop and document corrective actions in the CAP.

2. Management should engage an outside independent contractor that specializes in this subject matter to perform its recently approved organizational workforce and human resource needs study. When the study is complete, CAPs will need to be developed and implemented, together with specific milestones and assignment of tasks and accountability to individuals. The study should provide management with:
 - A critical assessment of the knowledge, skills, and abilities needed to perform the functions of the OCFO, and identify technical and experience gaps, so that recruiting, hiring, training and role definition can be adjusted if necessary; and
 - A review of position descriptions for all current OCFO management and staff, to identify corrective actions necessary to better align job responsibilities with skill sets and available human resources, and to clarify reporting responsibilities that overlap within the OCFO, and to make recommendations to better align annual goal setting and performance appraisals with OCFO objectives.
3. The agency continue its recruitment of an additional senior manager who has extensive experience with department level consolidated financial reporting, to serve in a senior management position in the area of financial management (i.e., posting or advertising the job announcement, interviewing and hiring for the position).
4. Define the exact criteria which will be used to ascertain when the corrective action has been successfully completed, as well as the method for testing against such criteria as part of OMB A-123 implementation steps (i.e. tests of design and tests of operating effectiveness of internal controls). Additionally, integrate the CAPs with the OCFO's plan for OMB A-123 implementation and annual FMFIA assurance statement. Management's plan for validation of corrective actions should be closely integrated with their controls test work conducted to comply with OMB A-123.

OCFO – Financial Reporting

We recommend that management:

5. Identify a list of detailed tasks and critical milestones in the CAP to identify the root causes of the material weakness. When the OCFO completes its identification of the underlying root cause of the financial reporting weakness, including management's response to the conditions noted in the FY 2005 independent auditors' report, management should develop and implement CAPs that include specific milestones and assignment of tasks and oversight to appropriate individuals.
6. Amend the CAP to include only root cause investigation, or corrective actions, designed to mitigate or eliminate the financial reporting material weakness. Ordinary, routine, responsibilities of the OCFO, such as "compiling September 30 financial statements", should be removed as they are not corrective actions developed in response to a root cause analysis.
7. Include procedures in the CAP to assess the reasonableness of the time to develop, approve and issue appropriate corrective actions regarding policies and procedures. This recommendation may be dependent on the outcome of improvements to the control environment, discussed previously.
8. Coordinate the development and implementation of the CAP tasks with the corrective actions from the other Department components and with the Department's OMB Circular A-123 implementation.

9. Assign the implementation of the financial reporting CAP to a manager who is principally responsible and accountable for fulfillment of the CAP. Presently, the tasks are split between managers who may not have sufficient time to commit to the project, and are delegating most of the tasks. Management should clearly define and track accountability. In addition, a senior executive should routinely monitor and manage the progress on the financial reporting CAP.
10. Define the exact criteria which will be used to ascertain when the corrective action has been successfully completed, as well as the method for testing against such criteria as part of OMB A-123 implementation steps (i.e. tests of design and tests of operating effectiveness of internal controls). Additionally, integrate the CAPs with the OCFO's plan for OMB A-123 implementation and annual FMFIA assurance statement. Management's plan for validation of corrective actions should be closely integrated with their controls test work conducted to comply with OMB A-123.

United States Coast Guard (Coast Guard)

The Coast Guard has drafted CAPs intended to address its respective sections of the four material weaknesses on Financial Management Oversight, Financial Reporting, Fund Balance with Treasury, and Actuarial Liabilities, reported in the FY 2005 independent auditors' report.

Background:

The CAPs contain a description of the known issues and root causes, management's key success factors and performance measures, general resources required, and in some cases, time milestones for corrective actions. It is acknowledged that the Coast Guard has attended a CAP workshop sponsored by the OCFO on June 26, 2006, where the CAP approach, future actions and milestones were discussed. Additionally, the Coast Guard was instrumental in assisting the Department in the ePMO pilot implementation.

Identification:

The CAPs for the four material weaknesses consist primarily of known conditions, previously identified by the financial statement auditors, and lack evidence of a detailed review to identify the underlying root cause of the four material weaknesses.

In order to develop a meaningful actionable CAP that includes identification of resource needs, milestones, performance indicators and accountability, the root cause(s) of the issue must be determined. As written, the CAPs do not extend beyond a general discussion of the problems or approach to correction, and the underlying causes of the conditions are not described in sufficient detail to allow development of specific actions and milestones. For example, the Coast Guard cites a lack of investment in personnel/training as a root cause in the Financial Management Oversight CAP. However, the CAP does not contain any further analysis of personnel deficiencies – such as which positions, roles and responsibilities, processes, locations, number of personnel, etc. Consequently, the associated action plan is limited to a general statement that "adequate personnel and financial resources must be made available in order to address root-cause issues and help ensure long-term sustainable success."

The causes that have been identified have not been categorized, cross-referenced to problems identified by management, and prioritized for correction. In addition, the CAPs lack specific identification of financial systems and processes that require corrective actions, and an approach to correction.

Likewise, the key success factors and performance measures identified consist primarily of an array of policies and procedures typically found in a reliable financial reporting process, without specific application to the Coast Guard financial reporting systems and processes. In some cases, possible corrective actions have been deferred, pending further review to identify issues and develop a full CAP at a future date. For example, the Financial Management Oversight CAP contains a critical milestone of "not later than February 15, 2007, issue report from the financial management transformation team containing a comprehensive, integrated plan and milestones..." The CAP is a plan to develop a plan, and is, therefore, incomplete, and would be ineffective without further development.

The CAPs focus almost exclusively on audit finding recommendations categorized by material weakness in outline format with columns displaying status, percent complete, due date and individuals responsible for action. However, the reports do not contain a rationale for the due date, the detail steps planned or executed or how percentage of completion was determined or tested. The CAPs are incomplete as they only include audit recommendations which are only a small fraction of the total number of issues or root causes that Coast Guard must identify and address. The high level root causes identified in the CAPs appear to be the initial steps in that effort.

In addition, the CAPs contain errors. For example, the resources required to correct Fund Balance with Treasury and Financial Reporting material weaknesses are identical, and the auditor recommendations in the CAP do not match the auditors' recommendation in the FY 2005 independent auditors' report.

Development and Accountability:

Financial Management Oversight

Management has identified four broad categories of issues that cause the Financial Management Oversight material weakness; (1) personnel / training, (2) organization, (3) [financial] systems, and (4) [personnel and budget] resources. The CAP, as written, is evidence that management recognizes the deep-rooted structural (organization, personnel and system) issues, and that full correction is a multi-year effort, and that a restructuring of the Coast Guard's financial management function may be needed to realign financial reporting processes with the optimal mix of civilian vs. military and centralized vs. decentralized responsibilities. In addition, the Coast Guard has vacant key financial positions. The Financial Management Oversight CAP, which is currently under review by the Coast Guard's interim CFO, calls for the creation of a "Financial Management Transformation Team," and for a "comprehensive, integrated plan of action and milestones..." by February 15, 2007. The Financial Management Oversight CAP is therefore incomplete, pending further development as planned by Coast Guard management.

Financial Reporting

The Financial Reporting CAP states that "There are many errors within the general ledger posting logic. Most of these are due to inherent systems' deficiencies..." However, it is not clear from the Financial Reporting CAP what steps will be taken to investigate these systems issues or when management expects to have the problem(s) resolved. In addition to financial systems problems, the Financial Reporting CAP identifies many fundamental / structural issues that are preventing the Coast Guard from preparing reliable financial data for submission to the OCFO, e.g., lack of policies, procedures, controls, personnel, training, inefficient and error prone processes. The Financial Reporting CAP lacks a detailed listing of tasks to investigate these fundamental issues, identify the root cause, and then develop corrective actions and assign responsibilities. Regarding resource requirements, management's assessment of the resources required to investigate and resolve these issues is limited to five staff (GS-12) personnel and unspecified funding for

"modifications to the Core Accounting System". Yet full implementation of an auditor recommendation to "conduct an assessment of the current financial reporting process, including a review of the three general ledger systems..." will require the commitment of considerably more experienced supervisors, as well as expert systems personnel and/or contractors for identification and correction of posting logic problems.

Fund Balance with Treasury

Management has identified a number of issues that led to the material weakness in Fund Balance with Treasury accounts. Some issues appear to identify potential root causes, such as "cumbersome/complex systems and processes and poor process design and systems integration". However, most of the issues are symptomatic in nature, i.e., "inability to provide audit disbursement, collection, and adjustment populations, number of suspense transactions is excessive, missing some signed backup obligation documents," etc. The Fund Balance with Treasury CAP lacks evidence of a detailed investigation to identify the root cause and then to develop specific corrective actions. Further, the extent of IT system deficiencies that may be causing or contributing to the material weakness is not clear in the Fund Balance with Treasury CAP. Some steps could be taken immediately to improve the reliability of the Fund Balance with Treasury account balances. However, the Fund Balance with Treasury CAP lacks a separation of short and long term actions and a time-line for correction.

Actuarial Liabilities

The CAP includes a description of the underlying issues causing the material weakness in actuarial liabilities, and the majority of the issues appear to be potential root causes, e.g., multiple/inadequate/non-unified financial accounting systems, weak program oversight accountability, organizational structure, poor data integrity, etc. The due date for correction is December 2007. The Actuarial Liabilities CAP lacks interim milestones to make / measure incremental temporary improvements that will allow actuarial balances to be accurately stated in the financial statements in FY 2006. The resources required do not address the cost for system upgrades, reorganization, or process changes. For example, the Actuarial Liabilities CAP states that it lacks "input from CG-842 (FINCEN) and CG-841 (IT systems)" and is therefore not fully developed.

Overall, the CAPs for each of the four material weaknesses lack important details necessary to be an effective plan. Specifically, we found that the Coast Guard CAPs lack:

- Linkage or cross-reference to the material weakness conditions being corrected. Presently, the CAPs refer generally to the group of auditor findings by area, and it is difficult to determine if all of the conditions identified by the auditor are adequately addressed in the CAP;
- Evidence of review and approval by management, together with a description of periodic progress reports to be provided to Coast Guard and OCFO management on progress;
- A fully developed / detailed listing of the tasks to be performed, and identification of system deficiencies and corrective actions and who is accountable for their completion;
- The detailed time-frame (milestones) that corrective actions are to occur, other than general months / years for a few actions, including the protocol of correction, e.g. systems before processes, etc.;
- Performance metrics / measures for use by management to determine that corrective actions are on track or require modification, and to assign accountability;

- A thorough evaluation of the resources needed – both personnel and funding, and the source of those resources once determined;
- Identification and dedication of resources including supervisors and contract assistance. Presently, everyone associated with the CAP process already has other full-time job responsibilities within the Coast Guard. The corrective actions are of a scale that dedicated personnel, including management, are necessary for the plan to be effective in the near-term;
- A description of how the Coast Guard will verify and validate that corrective actions are complete and effective in correcting the conditions that lead to material weaknesses; and
- Integration with the Coast Guard's OMB A-123 implementation process.

Recommendations:

We recommend that Coast Guard:

11. Perform a thorough root cause analysis to identify the underlying causes of the four material weaknesses, including a review of financial IT systems, processes and human resources. Coast Guard should not rely on the financial statement audit to identify all of the significant causes of control weaknesses, and should only use the audit to corroborate management's findings.
12. Develop CAPs to mitigate and ultimately correct control deficiencies, based on management's own assessment of the issues. The CAPs should include a description of the detailed tasks and milestones, key success and performance metrics, and a designated person who is primarily accountable for completion of the effort. The identified root causes should be cross-referenced to the weakness identified by management (as well as those identified by the financial statement auditor). The CAPs should be prioritized for correction, to minimize duplication of effort where corrective actions overlap (i.e., correction of IT system posting logic errors may resolve multiple issues, or mitigate the need for process changes).
13. Make a realistic assessment of the resource requirements, i.e., human and financial, needed to perform the investigations to identify the root causes of material weaknesses, develop and execute thorough CAPs, and then to verify correction. This assessment should include input from all affected areas, i.e., CG-842 (FINCEN) and CG-841 (IT systems). In filling key financial management vacancies, the Coast Guard should ensure that the position holders have the necessary skills and experience to successfully execute the CAPs.
14. Obtain support from executive leadership, since effective correction will at times compete with other mission priorities, and progress could falter without continuous reinforcement from leadership.
15. Define the exact criteria which will be used to ascertain when the corrective action has been successfully completed, as well as the method for testing against such criteria as part of OMB A-123 implementation steps (i.e. tests of design and tests of operating effectiveness of internal controls). Additionally, integrate the CAPs with the Coast Guard's plan for OMB A-123 implementation and annual FMFIA assurance statement. Management's plan for validation of corrective actions should be closely integrated with their controls test work conducted to comply with OMB A-123.

Immigration and Customs Enforcement (ICE)

ICE has drafted CAPs intended to address their sections of the three material weaknesses on Financial Management Oversight, Financial Reporting, and Fund Balance with Treasury, reported in the FY 2005 independent auditors' report.

Background:

ICE established the Program Management Office (PMO), which reports to ICE's CFO, to develop and implement a three-year Financial Action Plan (FAP) to manage and monitor efforts to improve ICE's financial management. The FAP addresses the material weaknesses as they relate to ICE which includes the material weaknesses in *Financial Management Oversight*, *Financial Reporting* and *Fund Balance with Treasury*.

In the establishment of the PMO, ICE contracted with a consulting firm to not only provide expertise but also manpower. The primary responsibilities of the PMO are to (1) provide program management infrastructure to ensure successful FAP execution, (2) provide guidance and support to staff developing initiative project plans and implementing them, and (3) resolve issues and mitigate risks that may hinder the FAP implementation effort. By February 2006, ICE issued its FAP and the process of implementing the corrective actions was launched. Each initiative in the FAP is supported by a Detailed Project Plan that outlines the tasks and milestones to be achieved.

When the Department initiated its Department-wide CAP process in April 2006, ICE was already in the midst of its FAP implementation. In order to comply with the Department's CAP process, ICE fashioned its CAPs based on the information in its existing FAP. These CAPs summarizing the FAP initiatives were provided to the Department for uploading to the Department's ePMO database. While the CAPs and the FAP are similar, the FAP contains information regarding ICE's corrective actions in much greater detail than the summary-level information provided in the CAPs. For purposes of this performance audit, KPMG evaluated the corrective actions as detailed in ICE's FAP and supporting documentation. However, the FAP data was also compared with the information in ICE's CAPs within ePMO for consistency purposes.

The FAP includes an analysis of root cause issues, potential effects of the deficiency, corrective actions and their foreseen impact. In addition, management has developed a timetable for corrective actions, and assigned specific tasks with due dates to specific individuals.

When developing the FAP, ICE management indicated that it considered the FAP to be an evolutionary document that would be periodically updated as needed to consider new facts and circumstances, and to ensure continuous progress is made. Further, a decision was made to focus on deploying ICE's resources on the area of Fund Balance with Treasury with the goal of resolving this material weakness in FY 2006. Management decided that this measured, focused approach was the best way to fully rectify the issue, as opposed to attempting to work on all deficiencies simultaneously and spreading its resources too thin. While ICE wants to see positive progress in the remediation for each of the material weaknesses, it has only committed to fully remediate the Fund Balance with Treasury material weakness during FY 2006.

The leadership provided by the ICE CFO in setting a positive 'tone-at-the-top,' and actively monitoring ICE's progress in implementing the FAP has shown to be integral to the success achieved at ICE thus far. The ICE's CFO continued commitment to the FAP effort is instrumental to resolving the material weaknesses at ICE.

Financial Management Oversight

Identification:

Management has segregated the Financial Management Oversight material weakness into three primary areas: Workforce Strategy, Financial Systems, and Management Oversight. When developing the FAP, the PMO performed a root cause analysis which consisted primarily of conducting interviews with personnel and leveraging institutional knowledge of the ICE personnel in the PMO. The root cause analysis initially focused on the conditions cited by the auditors during the FY 2005 audit. The PMO categorized Financial Management Oversight within the FAP into two primary areas: Workforce Strategy and Financial Systems. Subsequent to the development of the FAP, the PMO expanded its initial root cause analysis which resulted in Management Oversight also being identified as one of three primary areas. To ensure that the FAP, at a minimum, addressed each of the auditor findings cited during the FY 2005 audit, the FAP contains an appendix which crosswalks each of the auditor findings to the task within each initiative designed to correct the material weakness. Additionally, as the work progresses, management may identify additional root causes and will update accordingly.

Development:

ICE developed and documented its corrective actions in a two-tiered approach. The first tier is the FAP itself which is at the highest level and can be described as more of a summary level. Each initiative within the FAP contains a brief background section as well as the following sections: Cause, Effect, Corrective Actions, and Impact of Corrective Actions. Within the Corrective Actions section, the primary tasks to be completed are listed along with a task description, milestone, and estimated date of completion (month and year). The second tier is the Detailed Project Plan which is at a more detailed level. The Detailed Project Plan contains the following sections: Project Summary, Key Team Roles and Responsibilities, Business Issues and Challenges, Project Plan, and Key Outputs. Within the Key Outputs section, the primary tasks to be completed are listed along with the key output description and the estimated date of completion (month, day, and year).

The Project Plan, maintained in Microsoft Project, lists the primary tasks and the subtasks along with the number of days the task/subtask should take to complete as well as the start date and the end date for the task/subtask. The intent is that the FAP would be a static document while the Detailed Project Plan and the accompanying Microsoft Project Plan would be updated as needed. The information contained in the Corrective Action section of the FAP should be consistent with the information in the Key Outputs section of the Detailed Project Plan which, in turn, should be consistent with the Critical Milestones in the CAP within ePMO.

Upon comparison of the tasks/critical milestones and the corresponding due dates in the FAP, dated February 2006; the Detailed Project Plan for Workforce Strategy and the Detailed Project Plan Financial Systems, dated May 31, 2006 and April 18, 2006, respectively; and the CAP Detail Report as of May 31, 2006 from ePMO; we noted a couple of minor inconsistencies (i.e., due dates, description of tasks, and number of tasks) between the various documents. In addition, we noted that the CAP within ePMO did not contain information on the Key Performance Measures, Risks and Impediments, and Resources Required. All of the inconsistencies between the various documents appear to be attributable to timing (i.e., the date each of the documents was prepared and the frequency with which ePMO was updated).

ICE attended the Department's OCFO-sponsored CAP Workshop for Financial Management Oversight where the corrective action approach, future actions and milestones were discussed. ICE represented that the CAP Workshop was beneficial and provided ideas for revisions to its FAP. We understand that revised CAPs are due to the Department by July 12, 2006. These CAPs are outside

the scope of this performance audit. ICE further represented that the revisions would not be considered significant but would be adding specificity to the existing data (e.g., tasks and milestones) and revising expected completion dates for select milestones, as well as providing information for the sections of the CAP which were not previously submitted for input into ePMO.

Within the Management Oversight area, none of the tasks/critical milestones, with the exception of the task to "Establish Financial Action Plan Program Management Office", is considered to have a 'true' completion date as the tasks are considered to be on-going. Other tasks lack exact criteria which will be used to ascertain when the corrective action has been successfully completed, as well as the method for testing against such criteria. Similarly, within Workforce Strategy, the PMO represented that the success criteria and validation criteria cannot be determined until the Workforce Transition Plan has been developed and implemented.

The PMO has established a FAP Executive Dashboard which is updated at least monthly to provide a snapshot of the progress and status of each FAP Initiative. For each task/critical milestone within each FAP Initiative, a color coding is used to identify whether the task is complete (blue), on track (green), moderately delayed (yellow), significantly delayed (red) or not started (white). The FAP Dashboard does not reflect and track the progress for the area of Management Oversight and most of the tasks in this area are all considered to be on-going tasks as only one of the tasks/critical milestones in this area has a 'true' completion date.

Of the ten and six tasks/critical milestones within the areas of Workforce Strategy and Financial Systems, respectively, ICE indicated in its FAP Dashboard as of June 30, 2006, that five and one, respectively, have been completed.

Accountability:

As previously mentioned, the PMO has established a FAP Executive Dashboard, which is updated at least monthly and provides a snapshot of the progress and status of each FAP Initiative. Additionally, the percentage of completion is presented at the overall FAP Initiative level.

For each material weakness initiative included in the FAP, an ICE initiative owner has been assigned, as well as a PMO liaison. Additionally, ICE senior leadership also has a role in the FAP initiative.

The PMO, in conjunction with the initiative owner, completed a resource template for each FAP Initiative which identified the resource name, skill set needed by the resource, and the number of hours per week by month for each resource. The resources were categorized as Executive Sponsor, Initiative Owner, or Staff. We noted that the resource template included both ICE employees and contracted personnel.

As represented to us by the PMO, the responsibility for reporting on the task status and documenting evidence to support such status rests with the ICE initiative owner and not the PMO. However, we were informed that the PMO is in the process of gathering such evidence for completed tasks from each of the ICE initiative owners for its own records.

Financial Reporting

Identification:

When developing the FAP, the PMO performed a root cause analysis which consisted primarily of conducting interviews with personnel and leveraging the institutional knowledge of the ICE personnel in the PMO. The root cause analysis initially focused on the conditions cited by the auditors during the FY 2005 audit. The analysis performed by the PMO team resulted in two

categories being identified: Lack of Policies and Process Needs Improvement. To ensure that the FAP, at a minimum, addressed each of the auditor findings cited during the FY 2005 audit, the FAP contains an appendix which crosswalks each of the auditor findings to the task within each initiative designed to correct the material weakness. Subsequent to the development of the FAP, the PMO expanded its initial root cause analysis which resulted in additional causes being identified.

Development:

As previously discussed under the corresponding section under Financial Management Oversight, ICE developed and documented its corrective actions in a two-tiered approach.

Upon comparison of the tasks/critical milestones and the corresponding due dates in the FAP, dated February 2006, the Detailed Project Plan dated June 15, 2006, and the CAP Detail Report as of May 31, 2006 from ePMO, we noted a couple of minor inconsistencies (i.e., due dates, description of tasks, and number of tasks) between the various documents. In addition, we noted that the CAP within ePMO did not contain information on Key Performance Measures, Risks and Impediments, and Resources Required. Furthermore, all of the inconsistencies between the various documents appear to be attributable to timing (i.e., the date each of the documents was prepared and the frequency with which ePMO was updated).

We understand that revised CAPs as of June 30, 2006, are due to the Department by July 12, 2006. ICE represented that it would be submitting a revised CAP to the Department. These revised CAPs are outside the scope of this performance audit. ICE further represented that the revisions would not be considered significant but would be adding specificity to the existing data (i.e., tasks and milestones) and revising expected completion dates for select milestones, as well as providing information in the sections of the CAP that were not previously submitted for input into ePMO.

Abnormal balances, 'free-form' general journal entries, and accurate and timely submission of financial reports are considered to be significant problem areas within Financial Reporting. Although the PMO developed a metric to track and monitor the total amount and number of abnormal balances over \$1 million, as well as the categorization (i.e., researched transactions causing abnormal balances, identified root cause, and identified data/process owner) of the amount and number of these abnormal balances, we noted no such similar metric to monitor and track the volume and reason of 'free-form' general journal entries. As such, it would appear that ICE will be relying on the occurrence of high-level (i.e., branch director) approval of 'free-form' general entries, as required by the newly developed standard operating procedures, to test the success in this area. Further, we noted no mechanism to track and monitor the volume and type of 'warning' errors received upon submission of the monthly financial data into TIER. As such, it would appear that ICE will be relying only on the fact that the monthly financial data is submitted to the Department by its stipulated deadlines and that the financial data is accepted and processed in TIER without 'fatal' errors.

Of the eight tasks/critical milestones within Financial Reporting ICE indicated in its FAP Dashboard as of June 30, 2006, three tasks/critical milestones have been completed.

Based on the progress being made on the task related to the research and resolution of abnormal balances, ICE updated the Detailed Project Plan for Financial Reporting on June 15, 2006 which extended the estimated completion dates for this task.

Lastly, ICE is scheduled to attend the Department's OCFO-sponsored CAP Workshop for Financial Reporting on August 7, 2006.

Accountability:

Refer to the corresponding section under Financial Management Oversight for a discussion of the roles of personnel with ICE, the completion of resource templates, the responsibility for supporting the progress made and the reporting of corrective action status via the FAP Dashboard.

Fund Balance with Treasury (FBWT)

Identification:

When developing the FAP, the PMO performed a root cause analysis which consisted primarily of conducting interviews with personnel and leveraging the institutional knowledge of the ICE personnel in the PMO. The root cause analysis initially focused on the conditions cited by the auditors during the FY 2005 audit. The analysis performed by the PMO team resulted in three categories being identified: Untimely Clearing and Recording of Items, Lack of Policies, and Process Needs Improvement. The PMO categorized Fund Balance with Treasury within the FAP into four primary areas as follows:

- Cash Reconciliation
- Statement of Differences
- Suspense
- Non-224 Transactions

To ensure that the FAP, at a minimum, addressed each of the auditor findings cited during the FY 2005 audit, the FAP contains an appendix which crosswalks each of the auditor findings to the task within each initiative designed to correct the material weakness. Subsequent to the development of the FAP, the PMO expanded its initial root cause analysis which resulted in additional causes being identified. Additionally, as the work progresses management may identify additional root causes and will update accordingly.

Development:

As previously discussed under the corresponding section under Financial Management Oversight, ICE developed and documented its corrective actions in a two-tiered approach.

Upon comparison of the tasks/critical milestones and the corresponding due dates in the FAP, dated February 2006, the Detailed Project Plan dated April 4, 2006, and the CAP Detail Report as of May 31, 2006 from ePMO, we noted a couple of minor inconsistencies (i.e., due dates, description of tasks, and number of tasks) between the various documents. In addition, we noted that the CAP within ePMO did not contain information on Key Performance Measures, Risks and Impediments, and Resources Required. Furthermore, all of the inconsistencies between the various documents appear to be attributable to timing (i.e., the date each of the documents was prepared and the frequency with which ePMO was updated).

We understand that revised CAPs as of June 30, 2006, are due to the Department by July 12, 2006. ICE represented that it would be submitting a revised CAP to the Department. These revised CAPs are outside the scope of this performance audit. ICE further represented that the revisions would not be considered significant but would be adding specificity to the existing data (i.e., tasks and milestones) and revising expected completion dates for select milestones, as well as providing information in the sections of the CAP that were not previously submitted for input into ePMO.

Standard operating procedures were issued for each of the identified four areas. In addition, within the areas of Statement of Differences and Suspense, the tasks reflected as complete include the reconciling and clearing of all FY 2005 transactions and FY 2006 transactions greater than 60 days for both ICE and each of the Components.

ICE is scheduled to attend the Department's OCFO-sponsored CAP Workshop for Fund Balance with Treasury on August 16,2006.

Accountability:

Refer to the corresponding section under Financial Management Oversight for a discussion of the roles of personnel with ICE, the completion of resource templates, the responsibility for supporting the progress made and the reporting of corrective action status via the FAP Dashboard.

Recommendations:

We recommend that ICE:


16. Ensure that revisions and updates to the FAP and supporting documentation are made to ICE's CAPs maintained in ePMO. Since the CAPs maintained in ePMO are the basis for the Department-wide CAP and ePMO is the system of record for the Department for corrective actions, it is imperative that the CAP data in ePMO be current.
17. Within the area of Management Oversight, define the exact criteria which will be used to ascertain when the corrective action has been successfully completed, as well as the method for testing against such criteria as part of OMB A-123 implementation steps (i.e. tests of design and tests of operating effectiveness of internal controls). Additionally, integrate the CAPs with ICE's plan for OMB A-123 implementation and annual FMFIA assurance statement. Management's plan for validation of corrective actions should be closely integrated with their controls test work conducted to comply with OMB A-123.
18. Include completion of the GAO Evaluation Tool as a critical milestone in its Financial Reporting CAP.
19. Within the area of Workforce Strategy, define the success and validation criteria in conjunction with the development and implementation of the Workforce Transition Plan.
20. Enhance its understanding and working knowledge of ePMO to ensure that ICE's CAP data in ePMO is portraying an accurate picture. As previously stated, the CAPs maintained in ePMO are the basis for the Department-wide CAP and ePMO is the system of record for the Department for corrective actions.
21. Reduce the volume of 'free-form' general journal entries that are recurring in nature. This would reduce the need for the entry to be made as a 'free-form' general journal entry which in turn would reduce the risk of an inappropriate entry being recorded.
22. Develop a mechanism to track and monitor the volume and type of 'warning' errors received upon submission of the monthly financial data into TIER. This would effectively limit the number of 'warning' errors received by being proactive in researching and resolving the underlying cause.

SEP 7 2006



Homeland Security

MEMORANDUM FOR: Richard L. Skinner, Inspector General

FROM: David L. Norquist, Chief Financial Officer 

SUBJECT: Audit of DHS' Corrective Action Plan Process for Financial Reporting – Report No. 2

Thank you for the opportunity to comment upon the Audit of DHS' Corrective Action Plan Process for Financial Reporting – Report No. 2. We concur with the report's recommendations and are pleased to report that actions are already **underway** to address the issues raised in the report. The report highlights valuable best practices and lessons learned. For example, ICE is improving the internal control environment through establishing a strong "tone at the top" and Coast Guard is piloting an automated corrective action planning tracking system for managing Department-wide corrective action plans (CAPs). Most significantly, throughout the summer the Department sponsored a series of CAP workshops designed to help identify crosscutting root causes of internal control deficiencies focusing on the areas of people, policies, processes, and systems. The workshops set clear expectations for integrating test of design and operating effectiveness requirements of DHS policy and OMB Circular No. A-123, *Management's Responsibility for Internal Controls* into our corrective action plans. The workshops were well attended and supported by all DHS Components and we are developing stronger corrective actions as a result.

After the CAPs are updated, the next step will be the implementation of the DHS *Internal Controls over Financial Reporting (ICOFR) Playbook*. The ICOFR Playbook will act as a single, comprehensive, and integrated plan to organize and focus corrective action and assessment efforts across the Department.

We appreciate the positive comments about our developing corrective action planning process. In closing, we look forward to continue our partnership in implementing corrective actions and most importantly the DHS *Financial Accountability Act*.

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