



Department of Homeland Security Office of Inspector General

Management Letter for the FY 2008 DHS Financial Statement Audit





Homeland
Security

March 27, 2009

Preface

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

This report presents the management letter for DHS' FY 2008 financial statements audit. It contains observations and recommendations related to internal control that were not required to be reported in the financial statement audit report. The independent public accounting firm KPMG LLP (KPMG) performed the audit of DHS' FY 2008 financial statements and prepared this management letter. Other internal control deficiencies which are considered significant or material were reported, as required, in KPMG's *Independent Auditors' Report*, dated November 14, 2008, which was included in the FY 2008 DHS *Annual Financial Report*. KPMG is responsible for the attached management letter dated December 5, 2008 and the conclusions expressed in it. We do not express opinions on DHS' financial statements or internal control; nor do we provide conclusions on compliance with laws and regulations.

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

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

Richard L. Skinner
Inspector General



KPMG LLP
2001 M Street, NW
Washington, DC 20036

December 5, 2008

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

Ladies and Gentlemen:

We were engaged to audit the balance sheet of the U.S. Department of Homeland Security (DHS or Department) as of September 30, 2008, and the related statement of custodial activity for the year then ended (referred to herein as “fiscal year 2008 financial statements”). We were not engaged to audit the statements of net cost, changes in net position, and budgetary resources, for the year ended September 30, 2008 (referred to herein as “other fiscal year 2008 financial statements”). Because of matters discussed in our *Independent Auditors’ Report*, dated November 14, 2008, the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the fiscal year 2008 financial statements.

In connection with our fiscal year (FY) 2008 audit, we were also engaged to consider DHS’ internal controls over financial reporting, and DHS’ compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on the balance sheet and statement of custodial activity. Our procedures did not include examining the effectiveness of internal control and do not provide assurance on internal control. We have not considered internal control since the date of our report.

We noted certain matters involving internal control and other operational matters that are summarized in the Table of Financial Management Comments on the next page, and presented for your consideration in Sections I – XI of this letter. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies. These comments are in addition to the significant deficiencies presented in our *Independent Auditors’ Report*, dated November 14, 2008, included in the FY 2008 DHS *Annual Financial Report*. A description of each internal control finding and its disposition as either a significant deficiency or a financial management comment is provided in Appendix A. Our findings related to information technology systems security have been presented in a separate letter to the Office of Inspector General and the DHS Chief Information Officer dated December 5, 2008.

As described above, the scope of our work was not sufficient to express an opinion on the balance sheet or statement of custodial activity of DHS as of September 30, 2008, and we were not engaged to audit the statements of net cost, changes in net position, and budgetary resources for the year ended September 30, 2008. Accordingly, other internal control matters and other instances of non-compliance may have been identified and reported had we been able to perform all procedures necessary to express an opinion on the fiscal year 2008 financial statements and had we been engaged to audit the other fiscal year 2008 financial statements. We aim, however, to use our knowledge of DHS’ organization gained during our work to make comments and suggestions that we hope will be useful to you.



We would be pleased to discuss these comments and recommendations with you at any time. This report is intended for the information and use of DHS' management, the Office of Inspector General, the U.S. Office of Management and Budget, the U.S. Congress, and the Government Accountability Office, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

Department of Homeland Security
Table of Financial Management Comments
September 30, 2008

TABLE OF FINANCIAL MANAGEMENT COMMENTS (FMC)

Section/Component	Comment Reference	Subject	Page(s)
I	Customs and Border Protection (CBP)		4-8
	FMC 08-01	Weaknesses in the management of environmental liabilities	
	FMC 08-02	Weaknesses in CBP's reporting of AMO OM&S and weaknesses noted in the performance of the annual AMO inventories	
	FMC 08-03	Weaknesses in controls over seized inventory	
	FMC 08-04	Lack of review of Importer Self-Assessment Annual Notification Letters	
	FMC 08-05	Weaknesses in CBP's process related to asset additions	
	FMC 08-06	Misstatement of actuarial FECA liability	
	FMC 08-07	Misstatement of September 30, 2008 leave accrual	
II	Federal Emergency Management Agency (FEMA)		9-14
	FMC 08-01	NEMIS auto-determination process needs improvement	
	FMC 08-02	Legal liabilities	
	FMC 08-03	Temporary adjustments of Fund Balance with Treasury reconciling differences	
	FMC 08-04	Inherited problems in legacy G&T's Integrated Financial Management Information System	
	FMC 08-05	Internal control deficiencies over premiums written at selected write your own insurance companies that participate in FEMA's National Flood Insurance Program (NFIP)	
	FMC 08-06	Internal control deficiencies over claims paid at selected insurance companies that participate in FEMA's NFIP	
	FMC 08-07	Inaccuracy of claims' loss reserves at selected write your own insurance companies that participate in FEMA's NFIP	
	FMC 08-08	Insufficient documentation of methodology used to calculate NFIP estimates reported in the FEMA financial statements	
	FMC 08-09	Internal control deficiencies in the claims reinspection program	
	FMC 08-10	Internal control deficiencies in the submit for rate program	
	FMC 08-11	Lack of consistent policies and procedures over and timely documentation of the initial response resources (IRR) inventory reconciliation process and monthly IRR rollforward process	
III	Federal Law Enforcement Training Center (FLETC)		15-17
	FMC 08-01	Contract review process	
	FMC 08-02	Unbilled reimbursable revenue	
	FMC 08-03	Journal voucher weaknesses	
	FMC 08-04	Weaknesses related to CIP	
	FMC 08-05	Depreciation of newly capitalized PP&E in the fixed assets module of the Momentum financial system	
IV	United States Citizenship and Immigration Services (USCIS)		18-20
	FMC 08-01	Obligations are not being recorded in FFMS in a timely manner	
	FMC 08-02	Discrepancies with leave balances between the NFC records and STAR WEB reports are not being researched and resolved timely	
	FMC 08-03	Inadequate internal controls over the reporting of property, plant, and equipment	

Department of Homeland Security
Table of Financial Management Comments
 September 30, 2008

FMC 08-04	Inadequate and/or inconsistent supervisor review of payroll transactions	
FMC 08-05	Insufficient documented evidence of Senior Executive Service (SES) employees' completion of OGE's annual ethics training requirement	
V	Immigration and Customs Enforcement (ICE)	21-26
FMC 08-01	Untimely execution of reimbursable agreements with other governmental entities when ICE is performing the services	
FMC 08-02	Untimely disbursement of payments to vendors and incorrect calculation of interest due pursuant to the Prompt Payment Act	
FMC 08-03	Obligations are not being recorded in FFMS in a timely manner	
FMC 08-04	Discrepancies with the leave balances between the NFC records and webTA reports are not being researched and resolved timely	
FMC 08-05	Lack of procedures to verify the receipt and acceptance of goods or services for IPAC transactions	
FMC 08-06	Inadequate and/or inconsistent supervisory review of payroll transactions	
FMC 08-07	Improper and incomplete preparation of the SF-132 to the SF-133 reconciliation	
FMC 08-08	Receivable deposits are not properly closed for activity in FFMS	
FMC 08-09	GAO Checklists are not properly completed	
FMC 08-10	Internal controls over aged Federal receivables	
FMC 08-11	Inadequate internal controls over property, plant, and equipment	
FMC 08-12	Completeness of free-form general journal voucher population	
FMC 08-13	Inadequacy / ineffectiveness of internal controls over the preparation and review of the pending/threatened litigation against ICE	
FMC 08-14	Purchase card obligation estimates	
VI	Management Directorate (MGT)	27-28
FMC 08-01	Obligations are not being keyed into FFMS in a timely manner	
FMC 08-02	Inadequate internal controls over property, plant, and equipment	
FMC 08-03	Authorization of travel transactions	
VII	National Protection and Programs Directorate (NPPD)	29
FMC 08-01	Obligations are not being keyed into FFMS in a timely manner	
VIII	Science & Technology Directorate (S&T)	30
FMC 08-01	Obligations are not recorded in FFMS timely	
FMC 08-02	Inadequate internal controls over property, plant, and equipment	
IX	Office of Health Affairs (OHA)	31
FMC 08-01	Accounting for undelivered orders and management review	
X	Transportation Security Administration (TSA)	32-35
FMC 08-01	Undelivered orders documentation	
FMC 08-02	Required Supplementary Information	
FMC 08-03	Grant monitoring and compliance with OMB Circular No. A-133	
FMC 08-04	Noncompliance with human resources related laws	
FMC 08-05	Ineffectiveness of controls over the time and attendance process	
FMC 08-06	Incomplete listing of asset leases	
FMC 08-07	Unauthorized transfer of assets	
FMC 08-08	SAS 70 review	
XI	United States Coast Guard (USCG)	36-39
FMC 08-01	Facts and figures quick report tool	

Department of Homeland Security
Table of Financial Management Comments
 September 30, 2008

FMC 08-02	Deepwater obligation process
FMC 08-03	Confidential financial disclosure reports (CFDRs) and Ethics Training Requirements
FMC 08-04	Legal liability reporting
FMC 08-05	Segregation of duties weakness – person entering applicant data into Direct Access may be the same person hiring the applicant

XII Consolidated (CONS) 40-43

FMC 08-01	Tracking system for ethics training, public financial disclosure reports, and confidential financial disclosure reports
FMC 08-02	Review of component financial information
FMC 08-03	Preparation of the Departmental legal letter
FMC 08-04	Configuration of the Transaction Elimination Pair report
FMC 08-05	Discrepancies exist between DHS guidance and the TIER analytical report
FMC 08-06	Trial balance analytical relationships
FMC 08-07	Review of FECA actuarial liability
FMC 08-08	Review of the Annual Financial Report

APPENDIX

Appendix	Subject	Page(s)
A	Crosswalk – Financial Management Comments to Active NFRs	44-51
B	Status of Prior Year NFRs	52-58
C	Management Response	59

Department of Homeland Security
Financial Management Comments
 September 30, 2008

I. CUSTOMS AND BORDER PROTECTION (CBP)

CBP – FMC 08-01 – Weaknesses in the management of environmental liabilities (NFR No. CBP 08-10)

CBP has made significant program changes and improved its overall process related to environmental liabilities. However, we noted the following weaknesses in CBP's policies and procedures for recognizing environmental liabilities during fiscal year (FY) 2008:

- CBP has developed a draft *Environmental Financial Liability Management System Handbook* (Handbook), procedures for determining cleanup costs for environmental financial liabilities, liability model bases of estimates, and others. However, development and implementation of some of these policies, procedures, and systems are not complete.
- CBP has re-categorized the risk of loss related to firing ranges as reasonably possible, but has not prepared a basis of estimate supporting this categorization, developed and reported estimates for the liability, or shown that the value is immaterial.
- CBP's Basis of Estimate to the 2008 Lead-Based Paint (LBP) Site Assessment Cost Model only includes assessment-related costs. CBP's draft Handbook and *Procedure for Determining Lead-Based Paint Related Cleanup Costs Environmental Financial Liability* state that LBP in non-residential structures is assumed to be an environmental cost, but not an environmental liability. Thus, CBP is excluding potential cleanup costs for non-residential building LBP cleanup.

Recommendations:

We recommend that CBP:

- Continue the development and initial implementation of environmental liability management efforts including the policies, procedures, and management software systems for determining cleanup costs for environmental financial liabilities.
- Develop and report an estimate and a related basis of estimate/likelihood associated with firing ranges. Note that for determining likelihood or estimating liability, the accounting standards do not require field surveys. The existence at uninvestigated sites can be determined based on information from known sites. If survey information is available, it should be considered in developing the estimates and determining the likelihood.
- Develop and report an estimate associated with LBP testing and abatement where LBP debris disposal is not permitted by the Environmental Protection Agency or state and local governments. Accounting standards do not require field surveys and existence at uninvestigated sites, but can be determined based on information from known sites.

CBP – FMC 08-02 – Weaknesses in CBP's reporting of AMO OM&S and weaknesses noted in the performance of the annual AMO inventories (NFR No. CBP 08-27)

Throughout FY 2008, we noted that CBP did not:

- Present the proper breakdown of the Operating Materials and Supplies (OM&S) balance related to aircraft into (1) OM&S held for use, (2) OM&S held in reserve for future use, and (3) excess, obsolete and unserviceable OM&S (per Statement of Federal Financial Accounting Standard (SFFAS) No. 3, *Accounting for Inventory and Related Property*).

Department of Homeland Security
Financial Management Comments
September 30, 2008

- Report a portion of “excess, obsolete, and unserviceable” OM&S assets in the total balance of “Inventory and Related Property, Net” reported on the Balance Sheet. Specifically, CBP did not report \$7.9 million of assets within the “excess, obsolete, and unserviceable” category.

We noted that upon identification of these issues, CBP adjusted the formatting of its OM&S footnote to include the proper breakouts per SFFAS No. 3 and recorded an adjustment to include the \$7.9 million within the “excess, obsolete, and unserviceable” category.

In addition, we noted the following weaknesses in the controls over CBP’s Air and Marine Operations (AMO) physical inventory procedures:

- At both locations observed, we noted that the individuals conducting the counting did not mark items as counted during the inventory.
- At one location observed, we noted that the “closed warehouse” concept was not followed. It appeared that normal receipt and issue transactions were being performed during the inventory observation period. Accordingly, inventory parts were being moved and used during the physical inventory. Although it is reasonable that certain parts may be needed during the physical inventory (missions), this process was not done in a controlled and methodical manner.
- At one location observed, we noted that the layout of the AMO inventory did not facilitate safeguarding of the aircraft parts. This was apparent as a portion of the warehouse served as a common walkway where all personnel, including those not related to the aircraft parts, were allowed to walk through unescorted. We specifically observed personnel who did not have badge access being allowed to walk through the aircraft parts storage area unescorted.
- At both locations observed, we noted that inventory counters did not evaluate materials as excess, obsolete, and unserviceable as a part of the physical inventory procedures. Further, per discussion with site personnel, these evaluations were not being conducted on a regular basis.

Recommendations:

We recommend that CBP continue to implement policies and control procedures to ensure that OM&S balances relating to Aircraft parts include all balances, including excess, obsolete, and unserviceable OM&S. We recommend that CBP continue to implement the necessary procedures to ensure that these balances are reported on the financial statements in compliance with SFFAS No. 3.

We also recommend that CBP develop and implement policies and control procedures to ensure that AMO inventory observations are reasonably complete, and effective and efficient in accomplishing management objectives. Specifically, CBP should consider the following:

- Update the *Materiel Control/Property Control Standard Operating Procedures* to require that items (or areas) are marked as counted. Marking items/areas as counted during an inventory is a widely-accepted practice of sound internal control in order to verify that all items have been counted.
- Reinforce the importance of the *Materiel Control/Property Control Standard Operating Procedures* through updated directives or other written communication and, if necessary, provide adequate training to ensure that (1) the “closed warehouse” concept is followed during inventory counts, and (2) contractors regularly identify materiel as “Excess Materiel

Department of Homeland Security
Financial Management Comments
 September 30, 2008

Candidates.” Further, reduce the amount of time the inventory takes by actively performing the inventory.

- Consider the reorganization of the layout of inventory facilities to ensure that only authorized personnel have access to the AMO inventory in order to safeguard against waste, loss, unauthorized use, and misappropriation.

CBP – FMC 08-03 – Weaknesses in controls over seized inventory (*NFR No. CBP 08-28*)

We statistically selected eleven seized property locations in which to observe the annual inventory and noted the following issues:

- At one of the eleven locations, per review of the certified count sheets following the completion of the inventory, we noted that the difference between the recorded and inventoried weights of two hard narcotic items exceeded the tolerable threshold of 2% set forth in the instructions. After we inquired of the seized property officer, the officer subsequently reported the items as discrepancies to Internal Affairs.
- At one of the eleven locations, which was an Office of Border Patrol (OBP), we inspected a page of the vault log and noted 15 instances between June 30, 2008 and July 12, 2008 that personnel accessed the vault without being accompanied by another CBP official as there is no formal requirement for OBP facilities to follow the two employee rule.

Recommendations:

We recommend that CBP:

- Reiterate, through written memorandums to the field and additional training, the correct procedures for conducting and completing inventories of seized and forfeited property.
- Update the Seized Asset Management and Enforcement Procedure Handbook to include OBP facilities to follow the same guidelines as the Office of Field Operations facilities in which no fewer than two employees may enter the temporary storage facility at any time.

CBP – FMC 08-04 – Lack of review of Importer Self-Assessment annual notification letters (*NFR No. CBP 08-29*)

We selected a random sample of twenty Importer Self-Assessment (ISA) participants as of June 30, 2008 and noted that CBP did not complete the following during FY 2008:

- For eight of the twenty participants, CBP did not complete its review of the Annual Notification Letter (to include the internal review checklist and a signed continuation letter).
- For one of the twenty participants, CBP did not prepare a continuation letter signed by the Branch Chief notifying the company that it was approved for continued participation in the ISA program. We noted that CBP did complete its internal review checklist and noted this company was eligible for continued participation. However, the continuation letter, indicating Branch Chief review and approval of the decision to grant continued participation, was not prepared.

Recommendations:

We recommend that CBP:

- Update the Office of Strategic Trade ISA Handbook and/or issue internal guidance to formalize the requirements for:

Department of Homeland Security
Financial Management Comments
 September 30, 2008

- Completion of the Annual Notification Letter and review of the participant's risk to CBP based on information received from other CBP resources; and
- Issuance of either a Continuation Letter or Removal Letter based on this review.
- Timely review all ISA participants for eligibility for continued participation in the ISA program in conjunction with their submission of the Annual Notification Letter.

CBP – FMC 08-05 – Weaknesses in CBP's processes related to asset additions (NFR No. CBP 08-30)

CBP has weaknesses in its procedures related to asset addition transactions. This condition was indicated by the following:

- There are instances in which CBP utilizes standard general ledger account (SGL) 7190, "other gains," as a suspense account to record an asset rather than going through the appropriate process of recording an asset against a purchase order within its financial reporting system (SAP). Situations in which CBP utilizes the suspense account, SGL 7190, occur as a result of deviations from the standard goods receipt process for asset additions. SGL 7190 is used when the Personal Property Specialists (PPS) who receive these assets do not have sufficient accounting training to determine what the proper credit account should be. In these cases, the PPS will record a Debit to the asset and a Credit to SGL 7190, instead of the appropriate expense account. Through asset additions testwork performed as of June 30, 2008, we identified three instances where CBP utilized SGL 7190, other gains, to record an asset. We note that CBP manually reviews account 7190 and the balance was zero at September 30, 2008.
- Proper support for costs of assets recorded within SAP was not available for audit review. During testwork performed as of June 30 and September 30, 2008, we noted transactions related to aircrafts built by the U.S. Air Force (USAF) that were moved multiple times between construction in progress (CIP) and finished assets during FY 2008. Upon further investigation, we noted that there was a lack of clear communication between USAF and the CBP AMO division, and between AMO and CBP's Financial Statement Section. Ultimately, we were provided adequate documentation to support the costs of the aircraft as of September 30, 2008; however, it took significant time and effort to obtain.

Recommendations:

We recommend that CBP implement policies and procedures to properly record all asset additions. Specifically, we recommend that CBP:

- Minimize the circumstances that would require the use of recording asset additions using SGL 7190. Instead, CBP should attempt to record the entries for adding an asset through the standard goods receipt process so that manual reclassifications can be avoided.
- Obtain detailed support for the costs incurred when allocating those costs to an asset recorded in SAP.

CBP – FMC 08-06 – Misstatement of actuarial FECA liability (NFR No. CBP 08-31)

CBP had a weakness in the procedures over recording the actuarial Federal Employees' Compensation Act (FECA) liability at September 30, 2008. We noted that CBP understated this liability when it was originally recorded as of September 30, 2008. This understatement was

Department of Homeland Security
Financial Management Comments
September 30, 2008

recorded because CBP did not adequately review the liability balance after all adjusting journal entries were entered. CBP later recorded a top-side adjustment to correct the error.

Recommendation:

We recommend that CBP review the actuarial FECA liability to ensure that all adjusting journal entries are reviewed for accuracy before being submitted to DHS headquarters.

CBP – FMC 08-07 – Misstatement of September 30, 2008 leave accrual (NFR No. CBP 08-32)

We noted weaknesses in CBP's procedures over recording the accrued leave liability at September 30, 2008. Specifically, we noted that CBP reported the June 30, 2008 accrued leave liability on the September 30, 2008 financial statements. As such, the accrued leave liability was misstated by approximately \$14 million on the year-end financial statements.

Recommendation:

We recommend that CBP develop policies and procedures to ensure that the accrued leave liability is properly recorded at year end. In addition, the associated balance should be reviewed for accuracy.

Department of Homeland Security
Financial Management Comments
September 30, 2008

II. FEDERAL EMERGENCY MANAGEMENT AGENCY (FEMA)

FEMA – FMC 08-01 – NEMIS auto-determination process needs improvement (NFR No. 08-16)

FEMA has not established a process to verify an applicant's homeowner's insurance prior to granting disaster housing assistance. We noted that the National Emergency Management Information System (NEMIS) business rules and the NEMIS auto-determination process cannot verify homeowner's insurance status; therefore, FEMA does not have controls in place to prevent a violation of Section 312 of the *Stafford Act*, which requires the government to ensure that applicants do not receive assistance for any loss that has been paid for by another source, including an insurance company.

Recommendation:

We recommend that FEMA establish a process to verify an applicant's homeowner's insurance status to prevent (a) the inappropriate awarding of disaster assistance and (b) FEMA's non-compliance with the *Stafford Act*, Title III, Section 312.

FEMA – FMC 08-02 – Legal liabilities (NFR No. FEMA 08-23)

FEMA's legal letter templates are the only documentation provided to management for financial statement accrual and disclosure considerations. FEMA's legal letter templates did not contain the information necessary to support the completeness and accuracy of the legal data provided to DHS' Office of Financial Management (OFM) for its use, and to accrue the legal liability in and prepare related note disclosures for DHS' consolidated financial statements.

Recommendation:

We recommend that FEMA, in coordination with DHS, continue to develop, document, and implement formal policies and procedures to verify and support, in writing, the relevant management assertions, to include the assertions of completeness and accuracy of the legal liability estimate and related disclosure, on a periodic basis as required by DHS OFM.

FEMA – FMC 08-03 – Temporary adjustments of Fund Balance with Treasury reconciling differences (NFR No. FEMA 08-28)

During our September 30, 2008 Fund Balance with Treasury reconciliation testwork and journal voucher review testwork, we noted that both the Reports Consolidation Branch and the FEMA Finance Center posted temporary adjusting entries totaling a net of \$78.8 million for differences that needed additional research in order to fully reconcile cash to the balances reported by the U.S. Department of the Treasury (Treasury).

Recommendation:

We recommend that FEMA continue to improve the timeliness of reconciling differences with Treasury so that "temporary" adjustments are not needed.

Department of Homeland Security
Financial Management Comments
September 30, 2008

FEMA – FMC 08-04 – Inherited problems in legacy G&T’s Integrated Financial Management Information System (NFR No. FEMA 08-32)

During FY 2007, FEMA inherited the Grants & Training (G&T) Integrated Financial Management Information System (IFMIS) when G&T became a part of FEMA. FEMA’s internal analysis of the system determined that Federal / non-Federal attributes needed for Federal Agencies Central Trial-Balance System II and Treasury Information Executive Repository (TIER) submissions were not properly included in the inherited version of G&T’s IFMIS. This issue still exists as of the end of FY 2008.

Recommendation:

We recommend that FEMA complete its correction of the Federal / non-Federal attribute errors in the former G&T’s instance of IFMIS. Once the inherited errors are corrected, FEMA should perform procedures to validate the accuracy of the revisions before merging the G&T instance of IFMIS with the FEMA instance of IFMIS (scheduled for the third quarter of FY 2009).

FEMA – FMC 08-05 – Internal control deficiencies over premiums written at selected write your own insurance companies that participate in FEMA’s National Flood Insurance Program (NFIP) (NFR No. FEMA 08-33)

We randomly selected nine insurance companies to perform procedures over flood insurance premiums written during the period October 1, 2007 through April 30, 2008. For the nine companies selected, we noted the following internal control deficiencies related to our 405 sample items:

- Five instances where the check did not agree to the appropriate policy.
- Six instances where the check received from the insured was not in the name of the company issuing the policy.

Recommendations:

We recommend that FEMA:

- Follow-up with the applicable insurance company to determine that appropriate corrective action has been implemented to address the exceptions noted in our testwork.
- Provide increased oversight to insurance companies participating in the NFIP to ensure policies written are being processed and reviewed in accordance with NFIP guidelines relating to premium payments received from policyholders and to ensure NFIP insurance companies are maintaining supporting documentation relating to premium receipts.

FEMA – FMC 08-06 – Internal control deficiencies over claims paid at selected insurance companies that participate in FEMA’s NFIP (NFR No. FEMA 08-36 and 08-36a)

We randomly selected nine insurance companies to perform procedures over claims paid from the period October 1, 2007 through April 30, 2008. For each of the nine companies selected, we tested a random sample of 45 claims paid during this seven month period. During this testing, we noted the following internal control deficiencies and errors:

- One instance where the loss reserves were not properly established.
- One instance where the claim amounts per the Final Report were not within policy limits.

Department of Homeland Security
Financial Management Comments
 September 30, 2008

- 53 instances where the claim file and the Final Report were not approved before claim payment was processed and issued.
- One instance where the total amount paid did not agree to amount on Final Report or population file (or to one check amount if claim had multiple payments).
- One instance where the claim payment was not properly authorized.
- Eight instances where the loss adjustment expenses were not in compliance with NFIP Fee Schedule.
- Two instances where the loss reserve amounts were not adjusted as claim payments were made. For closed claims, loss reserve amounts were not reduced to zero.

In addition, we randomly selected nine insurance companies to perform procedures over claims paid from the period May 1, 2008 through July 31, 2008. For each of the nine companies selected, we tested a random sample of 45 claims paid during this three month period. During this testing, we noted the following internal control deficiencies and errors:

- Five instances where the total amount paid did not agree to amount on Final Report or population file (or to one check amount if claim had multiple payments).
- 12 instances where the loss adjustment expenses were not in compliance with NFIP Fee Schedule.
- Three instances where the loss reserve amounts were not adjusted as claim payments were made. For closed claims, loss reserve amounts were not reduced to zero.

Recommendations:

We recommend that FEMA:

- Follow-up with each of the applicable insurance companies to determine that appropriate corrective action has been implemented to address the exceptions noted in our testwork.
- Provide increased oversight to insurance companies participating in the NFIP to ensure claims files are being processed and reviewed in accordance with NFIP guidelines before approval and issuance of claim payments and to ensure the specific and consistent establishment and reporting of loss reserves and subsequent adjustments to the loss reserves.
- Determine and assess the impact of the payment and reserves data errors identified on the calculation of the actuarial liability estimate recorded in the FEMA general ledger.

FEMA – FMC 08-07 – Inaccuracy of claims’ loss reserves at selected write your own insurance companies that participate in FEMA’s NFIP (*NFR No. FEMA 08-37 and 08-37a*)

We randomly selected nine insurance companies to perform procedures over the accuracy and completeness of loss reserves established as of April 30, 2008. For each of the nine companies selected, we tested a random sample of 30 loss reserves reported as of April 30, 2008. During this testing, we identified the following internal control deficiencies and errors:

- One instance where the appropriate amount of the loss reserve was not established as compared to the information obtained in the claim file.
- Three instances where the loss reserve was not closed in a timely manner after full payment of the claim was made to the policyholder.

In addition, we randomly selected nine insurance companies to perform procedures over the accuracy and completeness of loss reserves established for the period May 1 to July 31, 2008. For each of the nine companies selected, we tested a random sample of 35 loss reserves reported

Department of Homeland Security
Financial Management Comments
September 30, 2008

as of July 31, 2008. During this testing, we identified the following internal control deficiencies and errors:

- 13 instances where the supporting documentation received did not support the loss reserve balances.
- Two instances where the loss reserve was not updated based on receipt of the Preliminary Report.
- 12 instances (ten out of the 12 related to increased cost of compliance claims) where the loss reserve was not reduced for an advanced payment or partial payment.
- One instance where the loss reserve was not closed in a timely manner after full payment of the claim was made to the policyholder.
- Three instances where the inaccurate amount of the loss reserve was due to a data input error.

Recommendations:

We recommend that FEMA:

- Follow-up with the applicable insurance companies to determine that appropriate corrective action has been implemented to address the exceptions noted in our testwork.
- Determine and assess the impact of the data errors identified on the calculation of the actuarial liability estimate recorded in the FEMA general ledger.
- Provide increased oversight to ensure the specific and consistent documentation of the established of the loss reserve and subsequent adjustment to the loss reserve per claim in the claim file at the insurance companies participating in the NFIP.

FEMA – FMC 08-08 – Insufficient documentation of methodology used to calculate NFIP estimates reported in the FEMA financial statements (NFR No. FEMA 08-39)

Although the methodology used by a third-party service provider to prepare financial statements for flood insurance activities is used to estimate all line items on the NFIP balance sheet and NFIP income statement, except for the actuarial estimate for the loss reserve, we focused our review of the methodology on deferred revenue, deferred acquisition cost, and accounts payable. The methodology used by the service provider is insufficiently documented to allow a reasonable person to re-perform the year-end estimates and yield the same results. The documented methodology does not provide quantitative factors to assess the estimate based on year-end current events, such as increased hurricane activity and/or substantial flooding, that differ from trends/activity throughout the fiscal year. The final estimates rely heavily on undocumented management judgments, historical knowledge, and/or assumptions to determine the final value of account balances reported in the NFIP financial statements and ultimately recorded in the FEMA financial statements.

Recommendations:

We recommend that FEMA require:

- The NFIP third party service provider to sufficiently document the estimation methodology to determine the year-end NFIP financial statements by incorporating quantitative factors to use based on the level of year-end hurricane/flooding activity.
- A formal review and approval of this methodology by a knowledgeable individual within FEMA's Office of the Chief Financial Officer (OCFO) once the methodology is fully documented and when changes are made to it.

Department of Homeland Security
Financial Management Comments
September 30, 2008

FEMA – FMC 08-09 – Internal control deficiencies in the claims reinspection program (NFR No. FEMA 08-40)

During our interim testwork as of April 30, 2008 over 35 claim reinspections, we identified the following exceptions:

- For 15 sample items, the NFIP insurance company did not receive the claims reinspection report from FEMA or its service provider as required in the *NFIP - The Write Your Own Program Financial Control Plan Requirements and Procedures (FCPRP)*.
- For two sample items, follow up was not performed on the results of the reinspections. We reviewed the results of these reinspections and identified that the service provider's claims adjuster made recommendations that the NFIP insurance company should have taken action on.
- For one sample item, adequate follow-up was not performed with the insurance company to ensure the company followed the conclusions reached in the reinspection. The insurance company did not follow the conclusions reached by FEMA and instead decided to maintain its prior decision.

Recommendations:

We recommend that FEMA:

- In conjunction with the service provider, work with the NextGen system developer to ensure the new system addresses the functionality and data reporting needs of the claims adjusters to properly carryout the Claims Reinspection Program.
- Provide increased oversight to ensure the Claims Reinspection Program is operating according to policies and procedures outlined in Part 3 of the FCPRP.

FEMA – FMC 08-10 – Internal control deficiencies in the Submit for Rate program (NFR No. FEMA 08-41)

While performing interim internal control testwork (October 1, 2007 to April 30, 2008) over 35 Submit for Rate policies under the Submit for Rate Program, we identified that the servicing agent's documentation of the Submit for Rate underwriters' review and follow-up on underwriting errors was not consistently maintained for all items tested.

Recommendations:

We recommend that FEMA's Mitigation Division:

- Develop and implement policies and procedures that require the servicing agent to maintain specific documentation evidencing the procedures performed during the servicing agent's review of and follow-up on Submit for Rate policies.
- Develop and implement a process to adequately monitor the review procedures performed by the servicing agent under the Submit for Rate Program.

FEMA – FMC 08-11 – Lack of consistent policies and procedures over, and timely documentation of, the Initial Response Resources (IRR) inventory reconciliation process and the IRR rollforward process (NFR No. FEMA 08-42 and 08-43)

During testwork, we noted that policies and procedures are inconsistent and untimely for the processes and functions performed involving the IRR inventory reconciliation and rollforward processes. For example, we noted that improvements are needed in the formal documentation and application of these processes in the following areas:

- Timeliness and availability of IRR inventory reconciliation documentation.
- Effective preparation and review of the IRR inventory reconciliation documentation.
- Consistency amongst logistic centers involving inventory adjustment procedures, inventory adjustment documentation, and treatment of IRR inventory in “transit” status.

Recommendations:

We recommend that FEMA:

- Conduct an inventory of the roles, responsibilities, processes, and functions performed within the IRR inventory reconciliation process, formally document the guidance provided in approved policies and procedures, and develop new policies and procedures as needed. These policies and procedures should specify the required timeframes for completion and review and the documentation required to be maintained to support the reconciliations.
- Assess the current practices related to the IRR inventory rollforward process; determine if enhancements to the Standard Operating Procedure (SOP) are needed to ensure consistency and sufficiency of the preparation, review, and documentation of the rollforwards; and make appropriate changes to the SOP.
- Develop and implement a committee that specifically is designated for establishing and maintaining formal policies and procedures.

III. FEDERAL LAW ENFORCEMENT TRAINING CENTER (FLETC)**FLETC – FMC 08-01 – Contract review process (NFR No. FLETC 08-16)**

We noted weaknesses in FLETC's Contract Review Process for three of the 45 contracts/purchase orders selected for testing, which were issued by the Procurement Division during FY 2008. Specifically, we noted:

- For one document, FLETC did not show evidence of a valid signature within the *Simplified Acquisition Folder*. The *Simplified Acquisition Folder* provides a space for the Contracting Officer to sign, indicating compliance with all requirements for the selection of a vendor for a contract/purchase order (contract was below \$100,000).
- For one document, FLETC did not show evidence of a valid, signed *Simplified Acquisition Branch Checklist* by the Branch Chief (contract was between \$100,000 and \$500,000).
- For one document, the Procurement Division was unable to locate the procurement file. As a result, we were unable to perform any procedures over this item (contract was between \$100,000 and \$500,000).

Recommendation:

We recommend that FLETC implement policies and procedures to ensure FLETC adheres to its own Procurement Bulletin 03-004 related to acquisition and contract review.

FLETC – FMC 08-02 – Unbilled reimbursable revenue (NFR No. FLETC 08-21)

FLETC Finance Division does not have policies and procedures in place to ensure that reimbursement revenue is computed and recorded to match the related expenses that are accrued at year-end. We noted three instances where reimbursable revenue was recognized in FY 2008, when the related expenses were incurred and accrued or paid during FY 2007. Specifically, we noted the following:

- An invoice in the amount of \$8,765,637 for the construction of the National Biodefense Analysis and Countermeasures Center (NBACC) facility for DHS Science and Technology Directorate (S&T) was a reimbursement booked in November 2007 (i.e. FY 2008) for an invoice from the construction contractor incurred in FY 2007. We confirmed that this invoice amount was included in the expense / Accounts Payable accrual and was recorded at the end of FY 2007.
- An invoice in the amount of \$1,603 was for reimbursable training expenses for the Naval Criminal Investigative Services for the month of May 2007.
- An invoice in the amount of \$232,378 was a reimbursement for training supplies expenses incurred and paid for in FY 2007.

Recommendations:

We recommend that FLETC:

- Develop and implement policies and procedures to ensure that reimbursement revenue is computed and recorded to match the related expenses that are accrued at year-end.
- Initiate a review of accrued expenses recorded at September 30, 2007, to identify other possible revenue matching discrepancies, and consider restating the prior year financial statements if the resulting adjustments are material.

Department of Homeland Security
Financial Management Comments
September 30, 2008

FLETC – FMC 08-03 – Journal voucher weaknesses (NFR No. FLETC 08-22)

FLETC is not in compliance with its SOP-13, *Journal Vouchers*, when posting journal entries. During testwork over our sample of journal vouchers (JV) for the period October 1, 2007 to June 30, 2008, we noted the following conditions:

- Six journal vouchers were not approved (as evidenced by signature) by a FLETC Finance Division Branch Chief.
- One journal voucher was prepared by the Branch Chief, Accounting Operations Branch and approved by the Branch Chief, Financial Reporting Branch. There was no evidence of approval by Deputy Chief Financial Officer (CFO)/Finance Division Chief.
- The journal voucher used to create the new 5720 and 5730 sub-accounts was calculated and posted incorrectly. In spite of the incorrect amount and the debit/credit errors, this JV was approved by the reviewer and entered into Momentum. We noted that the error was subsequently discovered and corrected; however, the fact that the error was not identified as part of the original supervisory review prior to booking in Momentum resulted in the posting of an erroneous JV, which represents a failure of the control being tested.

Recommendation:

We recommend that FLETC enforce the guidelines set forth in SOP-13, which require all JVs to be properly reviewed and approved, as evidenced by the signature of a Branch Supervisor or the Deputy CFO. In addition, we recommend that FLETC add to SOP-13 by including guidance over JV descriptions and what constitutes sufficient “proper supporting documentation.”

FLETC – FMC 08-04 – Weaknesses related to CIP (NFR No. FLETC 08-23)

- FLETC has not made timely transfers of completed assets from CIP to in-use assets in its general ledger at the Artesia location.
 - We noted that five out of seven assets tested were not transferred timely as of March 31, 2008.
 - We also noted eight out of 12 sample items tested where the completed construction projects were not capitalized timely. All eight of the completed constructions should have been reclassified to fixed asset prior to April 1, 2008.
- While performing testwork over FLETC CIP deletions during the period from October 1, 2007 to September 30, 2008, we noted 11 items out of 31 tested where FLETC incorrectly recorded amounts to an operating expense account during construction when these amounts should have been capitalized. We noted that these amounts were properly capitalized after completion of the project. Therefore, interim financial statements were misstated by the amount of the retroactive adjustments recorded at the end of the construction project.
- FLETC did not adhere to its procedures for the CIP account put in place to ensure CIP assets are properly recognized in the correct accounting period. While performing testwork over FLETC’s CIP additions from October 1, 2007 to March 31, 2008, we noted in one out of 32 items tested where a service was provided to FLETC during FY 2007. However, FLETC did not record the transaction as a liability or addition to CIP until fiscal year 2008.

Recommendations:

We recommend that FLETC:

Department of Homeland Security
Financial Management Comments
September 30, 2008

- Adhere to its policies and procedures to ensure timely transfers of completed assets from CIP to in-use assets. Also, consider adopting year-end cut off procedures to identify assets that may have been recently placed in service but remain classified as CIP.
- Consider the cost versus benefit of establishing a process to allocate and capitalize indirect labor expense contemporaneously as projects are constructed.
- Implement policies and procedures to ensure amounts are appropriately capitalized during construction of CIP projects instead of being recorded as operating expenses.
- Adhere to its policies and procedures to ensure CIP assets are properly recognized in the correct accounting period.

FLETC – FMC 08-05 – Depreciation of newly capitalized Property, Plant, and Equipment (PP&E) in the fixed assets module of the Momentum financial system (NFR No. FLETC 08-25)

FLETC is not properly entering capitalization dates for all completed fixed assets in the system, which resulted in these assets not being properly depreciated. Based on our interim testwork at June 30, 2008, we noted two out of ten samples selected for testwork where the costs of the assets were entered in the fixed assets system but the in-service (capitalization) dates were not. Consequently, the assets were not appropriately depreciated. KPMG calculated the depreciation expense that should have been recognized for these assets as of June 30, 2008 to be \$121,877.

Recommendation:

We recommend that FLETC implement and perform the necessary policies and procedures to ensure in-service (capitalization) dates are entered in the system for all completed fixed assets so that depreciation is recognized appropriately and accurately.

IV. UNITED STATES CITIZENSHIP AND IMMIGRATION SERVICES (USCIS)

USCIS – FMC 08-01 – Obligations are not being recorded in FFMS in a timely manner (NFR No. USCIS 08-06)

During our testwork over 67 disbursements in FY 2008, we noted two obligations were not recorded timely. Specifically:

- One instance where the period of performance was prior to the obligation being recorded in Federal Financial Management System (FFMS), and
- One instance where the invoice was received prior to the obligation being recorded in FFMS, which further supports that services were rendered before the obligation was recorded in the general ledger.

Recommendations:

We recommend that until the interface between FFMS and the Purchase Request Information System (PRISM) is implemented, the Financial Management Division (FMD) should:

- Reinforce controls at the USCIS Contracting Office to ensure that obligating documents, upon execution, are being delivered to the FMD in a timely manner to be recorded in FFMS.
- Reinforce controls at the USCIS OCFO to ensure that obligations are being recorded in FFMS in a timely manner upon receipt of an executed obligating document.
- On a more frequent basis, reconcile all obligations created in PRISM to the general ledger (i.e., FFMS). Specifically, the reconciliation should consist of the identification of differences between obligations created in PRISM and those recorded within FFMS. As differences are identified, management should research the causes and take immediate corrective action.
- Reiterate procurement policies to the Budget Office to ensure that obligations for overhead and other recurring expenses are entered into FFMS prior to the receipt of billings.

USCIS – FMC 08-02 – Discrepancies with leave balances between the NFC records and STAR WEB reports are not being researched and resolved timely (NFR No. USCIS 08-07)

We noted two instances where the annual leave hours reported per the System Time and Attendance Reporting (STAR) did not agree to the annual leave hours recorded per the National Finance Center (NFC) database. These errors remained outstanding for over five pay periods prior to being identified.

Recommendations:

We recommend that:

- The timekeepers adhere to existing policy and procedures by performing leave audits when discrepancies are reported by NFC and timely research and resolve the differences;
- The Office of Human Resources reiterate to all timekeepers the existence of the procedures outlined in the *Leave Audit Procedures* and re-emphasize the importance of adhering to policies and procedures; and develop and implement controls to monitor the execution of its policies and procedures, particularly related to leave audits, to ensure that they are being adhered to.

Department of Homeland Security
Financial Management Comments
September 30, 2008

USCIS – FMC 08-03 – Inadequate internal controls over the reporting of property, plant, and equipment (NFR No. USCIS 08-12)

USCIS did not have adequate processes in place to account for leasehold improvements and internal-use software in a timely manner. Furthermore, USCIS is in the process of analyzing the accuracy of the leasehold improvements in progress, internal-use software, and internal-use software in development balances at September 30, 2008, which are immaterial to the financial statements taken as a whole, but should be analyzed by management.

Recommendations:

We recommend that the USCIS FMD:

- Fully implement *USCIS SOP 124.009.1 Capitalized Property Standard Operating Procedures*.
- Implement policies and procedures to account for leasehold improvement and internal-use software in accordance with generally accepted accounting standards on an on-going basis. The procedures should include the completion of the analysis of the accuracy of the following balances reported as of September 30, 2008: \$6.9 million in leasehold improvements in progress, \$4.1 million in internal-use software, and \$16.3 million in internal-use software in progress.

USCIS – FMC 08-04 – Inadequate and/or inconsistent supervisor review of payroll transactions (NFR No. USCIS 08-14)

During the time and attendance (T&A) testing over 45 USCIS payroll transactions, we were unable to validate payroll transactions, including leave balances, due to discrepancies between the STAR report and employee timesheets; lack of supporting documentation provided; and unauthorized STAR reports. The following cases were noted:

- There were three instances where the employee's STAR report was missing approvals by the timekeeper and/or supervisor. Of these three employees, one was missing an approval by the supervisor, which is required for payroll transactions; and the other two were missing the approval of the timekeeper, which is recommended, but not required.
- The data reported on the timesheet for one employee did not properly reconcile to the STAR report, as the quantity or classification of hours did not agree between the timesheet and STAR report.
- The timesheet for one employee was unavailable for examination, as the timesheet could not be located.
- The leave request form for one employee was not provided to support the leave taken during the sampled pay period.

Recommendation:

We recommend that USCIS transition to a more automated method of recording and reporting payroll transactions by implementing a web-based time and attendance system, whereby each employee is responsible for entering their own timesheet data, and approvals by the supervisor and timekeeper are carried out electronically. The implementation of such a system could strengthen the internal control environment and reduce the likelihood of errors such as those noted above from occurring.

Department of Homeland Security
Financial Management Comments
September 30, 2008

USCIS – FMC 08-05 – Insufficient documented evidence of Senior Executive Service (SES) employees’ completion of OGE’s annual ethics training requirement (NFR No. USCIS 08-15)

USCIS could not provide documented evidence that two of the five SES employees tested successfully completed their required annual ethics training for 2008. This training is required by the Office of Government Ethics for all filers of public financial disclosure reports, which includes all SES employees.

Recommendation:

We recommend that USCIS maintain adequate documented evidence (e.g. sign-in sheet, certificates of completion) substantiating that all SES employees attended the annual ethics training required for filers of public financial disclosure reports. This training requirement is set forth in the Office of Government Ethics’ regulations, 5 C.F.R. §2638.704.

Department of Homeland Security
Financial Management Comments
 September 30, 2008

V. IMMIGRATION AND CUSTOMS ENFORCEMENT (ICE)

ICE – FMC 08-01 – Untimely execution of reimbursable agreements/security work authorizations with other governmental entities when ICE is performing the services (NFR No. ICE 08-01)

The Federal Protective Services (FPS) lacks documented policies and procedures to ensure that Security Work Authorizations (SWAs) are executed (i.e. signed) in a timely manner, as defined by FPS management. In our review of a sample of 45 SWAs, we noted eight of the SWAs were not executed (i.e. signed) in a timely manner.

Recommendation:

We recommend that FPS develop, document, and implement policies and procedures to ensure each SWA is signed and entered into FFMS in a timely manner, as defined by FPS management.

ICE – FMC 08-02 – Untimely disbursement of payments to vendors and incorrect calculation of interest due pursuant to the *Prompt Payment Standards* (NFR No. ICE 08-03)

Certain disbursements to ICE's vendors and its customers' (i.e., National Protection and Programs Directorate, Management Directorate, etc.) vendors were not made in a timely manner. Specifically, we noted that 17 out of a sample of 225 payments for acquired services were not paid within 30 days after receipt of a proper invoice as required by the *Prompt Payment Standards*, 5 C.F.R. §1315.4.

Recommendations:

We recommend that ICE:

- Continue to instruct ICE's program office on the requirements to submit invoices in a timely manner so that the payments can be made in compliance with the *Prompt Payment Standards*, 5 C.F.R. §1315.4.
- Issue formal policies and procedures to ICE's customers instructing them on the requirements to submit invoices to ICE in a timely manner.

ICE – FMC 08-03 – Obligations are not being recorded in FFMS in a timely manner (NFR No. ICE 08-04)

During our testing over 101 disbursements and 133 obligations made in FY 2008, we noted 14 obligations that were not recorded timely in FFMS. Specifically, we noted:

- Two instances where the period of performance was prior to the obligation being recorded in FFMS; thus, it appears that services were rendered before the obligation was recorded in FFMS; and
- 12 instances where the obligation was not recorded in FFMS timely after being awarded by the Contracting Officer.

Recommendations:

We recommend that all program offices and the Office of Acquisition Management:

- Adhere to the existing policies and procedures to ensure that all obligations are entered into FFMS timely and prior to period of performance or the receipt of any goods and/or services by the agency.

Department of Homeland Security
Financial Management Comments
 September 30, 2008

- Consider the feasibility of using PRISM for all procurement needs of the entity.

We also recommend that ICE OFM, in coordination with the Office of Acquisition Management:

- Continue its efforts to implement an interface between PRISM and FFMS.
- Develop and implement policies, procedures, and controls to ensure the complete and accurate recording of all obligations within FFMS. These procedures should clearly delineate the responsibilities for authorizations and recording.
- Issue formal policies and procedures that outline steps to appropriately reconcile all obligations created in PRISM and any other procurement tracking systems, whether automated or manual, to the general ledger (i.e., FFMS). Specifically, the reconciliation should consist of the identification of differences between obligations created in PRISM, and all non-procurement actions created in other systems, as compared to the obligations recorded within FFMS. As differences are identified, management should research the causes and take immediate corrective action.

ICE – FMC 08-04 – Discrepancies with the leave balances between the NFC records and webTA reports are not being researched and resolved timely (NFR No. ICE 08-06)

During the time and attendance (T&A) testing over 45 ICE payroll transactions, we noted 11 instances where the annual and sick leave hours reported per the webTA did not agree to the annual and sick leave hours recorded per the NFC database. The timing of the requests would have provided adequate time for the outstanding errors to be correct (a minimum of five pay periods). However, as these errors remained outstanding well over five pay periods subsequent to being identified, differences in the leave balances between the NFC records and webTA reports are not being researched and resolved timely.

Recommendations:

We recommend that:

- Timekeepers adhere to existing policy and procedures by performing leave audits when discrepancies are reported by NFC and timely researching and resolving the differences.
- The Office of Human Resources reiterate to all timekeepers the existence of the procedures outlined in the *ICE Summary of Leave Audit Procedures*, re-emphasize the importance of adhering to policies and procedures, and develop and implement controls to monitor the execution of its policies and procedures, particularly related to leave audits, to ensure that they are being adhered to.

ICE – FMC 08-05 – Lack of procedures to verify the receipt and acceptance of goods or services for IPAC transactions (NFR No. ICE 08-07)

Procedures to verify the receipt and acceptance of goods or services for disbursements processed through the Intra-governmental Payment and Collection (IPAC) system do not exist for all components serviced by the Burlington Finance Center (BFC) and the Dallas Finance Center (DFC).

Additionally, during testwork over disbursement transactions in FY 2008, it was noted that many IPAC documents (across all components) did not contain adequate background information to determine if the related disbursement was completely and accurately posted against the

Department of Homeland Security
Financial Management Comments
September 30, 2008

appropriate obligation. Specifically, the IPAC documents were not consistently disclosing relevant general ledger posting information such as 1) the obligation number, 2) the billing period of service, and 3) the purpose/description of the services.

This condition is applicable not only to ICE transactions, but also the transactions of components for which ICE provides accounting services: S&T, NPPD, and MGT.

Recommendations:

We recommend that:

- The DFC adhere to its existing SOPs for IPAC transactions.
- ICE OFM examine current policies and procedures and enhance them to include timely “post” validation when disbursements are processed through the IPAC system. The procedures should clearly delineate the responsibilities of the BFC, DFC, and ICE’s program offices.
- ICE OFM develop and implement controls to monitor the execution of its policies and procedures related to IPAC transactions, to ensure that they are being followed.
- ICE OFM develop standards, in addition to the basic data field requirements for IPAC documents, that would require customer agencies to include pertinent transaction information (e.g., obligation number, service period, point(s) of contact, and description of services) that is necessary for timely, accurate posting of disbursements against obligations and proper transaction validation.

ICE – FMC 08-06 – Inadequate and/or inconsistent supervisory review of payroll transactions
(NFR No. ICE 08-08)

During the T&A testing over 45 ICE payroll transactions, there were instances where the employee’s webTA report did not properly reconcile to the employee’s timesheet and instances where the T&A support provided was inadequate. Specifically, the following cases were noted:

- The data reported on the timesheet for five out of 45 employees did not properly reconcile to the webTA report as the quantity or classification of hours did not agree between the timesheet and webTA report.
- The timesheets for five out of 45 employees were not provided to support the employees’ webTA report that was transmitted to the NFC. Either the timesheet was not provided or the timesheet provided was not for the requested pay period. Per ICE OFM, these employees are located in offices where the timekeeping process is completely electronic, allowing the employee to enter his/her own time and attendance data into webTA. However, since ICE OFM was unable to provide evidence of this with a screen print from webTA, they were noted as exceptions.

Recommendation:

We recommend that ICE require all employees, when feasible, to record their T&A hours in webTA and electronically route to their assigned timekeeper and supervisor for review and approval. The current web-based T&A system, webTA, has this capability and is being utilized in selected ICE program offices. Employing this system in this manner at all program offices could strengthen the internal control environment and reduce the likelihood of errors such as those noted above from occurring.

Department of Homeland Security
Financial Management Comments
September 30, 2008

Additionally, we recommend that timekeepers and supervisors adhere to existing policies and procedures related to the comprehensive review and authorization of payroll transactions.

ICE – FMC 08-07 – Improper and incomplete preparation of the SF-132 to the SF-133 reconciliation (NFR No. ICE 08-11)

ICE OFM did not adhere to their existing policies and procedures when preparing the first quarter reconciliation of the *Apportionment and Reapportionment Schedule* (SF-132) to the *Report on Budget Execution and Budgetary Resources* (SF-133) for appropriation symbol 70X0521. Specifically, approximately \$27,000 of refund collection amounts in the SF-133 was not included in the reconciliation. As a result, the potential difference in the reconciliation communicated to NPPD management by ICE OFM was incorrect.

Recommendation:

We recommend that ICE OFM adhere to existing policies and procedures when preparing the reconciliation of the SF-132 to the SF-133 for ICE, USCIS, S&T, NPPD, and MGT.

ICE – FMC 08-08 – Receivable deposits are not properly closed for activity in FFMS (NFR No. ICE 08-12)

For three deposits, the deposit tickets were not closed for activity in FFMS screen RM013 – Cash Receipts Control Transaction Screen.

Recommendation:

We recommend that the BFC adhere to all existing procedures as documented in the BFC Receivable Deposit SOP to ensure all RM013 transactions are closed for activity in FFMS. This will ensure that no additional or duplicate amounts are erroneously posted to deposit tickets.

ICE – FMC 08-09 – GAO Checklists are not properly completed (NFR No. ICE 08-13)

Based on the instructions provided by Government Accountability Office (GAO) guidance in completing the GAO Checklist 2020 and 2010, we noted that there were 15 questions varying among the different entities for which ICE is the accounting service provider that were not answered accurately.

Recommendation:

We recommend that ICE OFM spend adequate time preparing the checklists in accordance with GAO guidance to ensure the checklists are accurate and complete. In addition, implementation and/or enforcing a management review or peer review process over the completion of the GAO Checklist 2020 and 2010 may identify errors in the checklist prior to submission to the Department.

ICE – FMC 08-10 – Internal controls over aged Federal receivables (NFR No. ICE 08-14)

As of May 31, 2008, there was a 400+ day old receivable on the Aging Receivable Report that had no documented follow up (e.g., email or other form of written communication to the serviced

Department of Homeland Security
Financial Management Comments
September 30, 2008

customer). After multiple attempts to get support indicating that this receivable was being addressed for collection, BFC was unable to provide supporting documentation dated within the scope of our testwork (as of May 31, 2008). Per BFC, all receivables aged over 45 days should be researched. Since we were unable to obtain documented support that this receivable was researched, we concluded that BFC had not followed its own policies and procedures, which contributed to this invoice being open for over a year.

Recommendation:

We recommend that BFC fully adhere to its policies and procedures for running, reviewing, and researching the Aging Receivable Report, including formal written notices to its customers.

ICE – FMC 08-11 – Inadequate internal controls over property, plant, and equipment (NFR No. ICE 08-16)

As a result of our procedures over ICE's property, plant, and equipment (PP&E), we noted the following conditions:

- ICE incorrectly recorded a transfer of assets from the U.S. General Services Administration (GSA);
- ICE was unable to substantiate the existence of the transferred assets and wrote off the entire amount during FY 2008;
- ICE incorrectly recorded operating leases as capital;
- ICE does not consistently maintain supporting documentation for personal property; and
- ICE does not update its leasehold improvements in a timely manner.

During the 4th quarter, management wrote off transferred-in CIP of \$19.6 million and transferred-in buildings of \$8.2 million

Recommendations:

We recommend that ICE:

- Design, implement, and document additional policies, procedures, and internal controls that will help ensure the PP&E recorded in the sub-ledgers exists, that it is complete and accurate, and that it is properly valued.
- Provide cross-training to the property management program and accounting personnel, including Sunflower Asset Management System (SAMS) training.

ICE – FMC 08-12 – Completeness of free-form general journal voucher population (NFR No. ICE 08-17)

ICE OFM does not currently have policies and procedures in place to ensure the completeness of the free-form general journal voucher (GJ) population and to ensure that all GJs are subject to the control environment.

Recommendation:

We recommend that ICE OFM implement policies and procedures to ensure the completeness of the free-form GJ population and to ensure all GJs are subject to the control environment.

Department of Homeland Security
Financial Management Comments
September 30, 2008

ICE – FMC 08-13 – Inadequacy / ineffectiveness of internal controls over the preparation and review of the pending/threatened litigation against ICE (NFR No. ICE 08-18)

Comparison of the June 30, 2008 interim legal management schedule to the September 30, 2008 final legal management schedule shows that ICE added 11 cases. We inquired of the Office of General Counsel (OGC) whether each of these 11 cases represent new claims against ICE, or if they were not new cases and should have been included on the June 30, 2008 interim management schedule. The OGC confirmed that four claims were inadvertently left off of the June 30, 2008 interim legal management schedule. During our review, we also noted that the claim amount of one case changed from \$25 million at June 30, 2008 to \$10 million at September 30, 2008. The OGC confirmed that the attorney who prepared the legal template for that claim as of June 30, 2008 made an error; the claim should have been shown at June 30, 2008 for \$10 million.

Recommendations:

We recommend that ICE OFM, in conjunction with the OGC:

- Conduct a comprehensive review of the processes to prepare, record, and disclose the legal liability balance for inclusion in the DHS consolidated financial statements.
- Make appropriate changes to systems and processes/sub-processes methodologies, to include the design and implementation of internal controls, to mitigate the risks/conditions identified.
- Test the controls to determine that they are designed properly and operating effectively.

ICE – FMC 08-14 – Purchase card obligation estimates (NFR No. ICE 08-19)

During testing over FY 2008 disbursement and obligation transactions, we requested documents to substantiate disbursement and obligations amounts. The support included copies of various FFMS screen prints, obligating travel documents, and invoices. During this testing, we noted that for 17 out of 393 sampled transactions, the support for the obligation amount was not readily available for examination. Specifically, all 17 of these items related to purchase card (PCard) transactions.

Recommendations:

We recommend that the ICE OCFO:

- Consistently follow existing policies and procedures to ensure purchases are properly authorized and that appropriate procurement documentation is prepared and maintained.
- Require the use of the PCard obligations and standardize the process for more firm controls over the use of Federal budgetary resources.

Department of Homeland Security
Financial Management Comments
September 30, 2008

VI. MANAGEMENT DIRECTORATE (MGT)

MGT – FMC 08-01 – Obligations are not being recorded into FFMS in a timely manner (NFR No. MGT 08-01)

During our testwork over 75 disbursements and 59 obligations in FY 2008, we noted that obligations were not being recorded timely. Specifically, we noted:

- 13 instances where the obligations were not recorded in FFMS timely after being awarded by the Contracting Officer;
- Two instances where the period of performance was prior to the obligation being recorded in FFMS, which further supports that services were rendered before the obligation was recorded in the general ledger; and
- Four instances where the invoice was received prior to the obligation being recorded in FFMS.

Recommendations:

We recommend that until the interface between FFMS and PRISM is implemented, the Departmental Operations Branch:

- Reinforce controls at the DHS Office of Procurement Operations (OPO) Contracting Office to ensure that obligating documents, upon execution, are being delivered to FMD in a timely manner to be recorded in FFMS.
- On a more frequent basis, reconcile all obligations created in PRISM to the general ledger (i.e., FFMS). Specifically, the reconciliation should consist of the identification of differences between obligations created in PRISM and those recorded within FFMS. As differences are identified, management should research the causes and take immediate corrective action.
- Reiterate procurement policies to the Budget Office to ensure that obligations for overhead and other recurring expenses are entered into FFMS prior to the receipt of monthly quarterly billings.
- Adhere to the existing policies and procedures to ensure that all obligations are entered into FFMS timely and prior to the receipt of any goods and/or services by the agency.

MGT – FMC 08-02 – Inadequate internal controls over property, plant, and equipment (NFR No. MGT 08-02)

MGT does not have adequate processes and controls in place to account for CIP, leasehold improvement, and internal-use software in a timely manner. Currently, MGT is in the process of analyzing the existence and accuracy of its equipment (personal property) balance at September 30, 2008, which is immaterial to the financial statements taken as a whole but should be analyzed by management.

Recommendations:

We recommend that MGT:

- Design, implement, and document additional policies, procedures, and internal controls that will help ensure the PP&E recorded in their sub-ledgers exists, that it is complete and accurate, and that it is properly valued.

Department of Homeland Security
Financial Management Comments
September 30, 2008

- Provide cross-training to the property management program and accounting personnel, including SAMS training.

MGT – FMC 08-03 – Authorization of travel transactions (NFR No. MGT 08-03)

In our review of 45 obligations posted to the general ledger between October 1, 2007 and June 30, 2008, we noted nine transactions (all of which were for local travel) for which MGT was unable to verify that the transaction approver had the proper authority to authorize the travel request.

Recommendations:

We recommend that the Financial Operations Staff:

- Utilize Travel Manager-FFMS system interface as the primary database for processing travel transactions. System controls will ensure that the transaction / travel request are routed to the designated authorizing official.
- Develop and maintain a listing of first and second line approving officials for local travel. This list should be periodically updated and used by the Financial Operations Division to verify proper authorization to obligate funds.
- Establish a system of internal controls to process and prepare travel authorizations in order to remediate weaknesses in internal controls over budgetary resources and payments.

VII. NATIONAL PROTECTION AND PROGRAMS DIRECTORATE (NPPD)

NPPD – FMC 08-01 – Obligations are not being keyed into FFMS in a timely manner (NFR No. NPPD 08-02)

During our testwork over 47 obligation transactions in FY 2008, we noted five instances where the obligation was not recorded timely after being authorized by contracting officials.

Recommendations:

We recommend that the Finance Office:

- Adhere to the existing policies and procedures to ensure that all obligations are entered into FFMS timely and prior to the receipt of any goods and/or services by the agency.
- Develop and implement controls to monitor the execution of its policies and procedures, particularly related to the timely recording of obligations within FFMS, to ensure that they are being followed.
- Reconcile all obligations created in PRISM to the general ledger (i.e. FFMS). Specifically, the reconciliation should consist of the identification of differences between obligations created in PRISM and those recorded within FFMS. As differences are identified, management should research the causes and take immediate corrective action.
- Improve communication with the DHS OPO and servicing vendors to better facilitate response times by vendors in accepting awards and delivery time by DHS OPO in approving awards.

VIII. SCIENCE AND TECHNOLOGY DIRECTORATE (S&T)

S&T – FMC 08-01 – Obligations are not recorded in FFMS timely (*NFR No. S&T 08-01*)

During our testwork over 73 disbursements and 48 obligations in FY 2008, we noted five obligations that were not recorded into FFMS in a timely manner after being authorized by the contracting officials.

Recommendations:

We recommend that the Financial Operations Staff:

- Adhere to existing policies and procedures to ensure the complete and accurate recording of all obligations within FFMS.
- Continue monitoring the execution of its policies and procedures, particularly related to facilitating the receipt of obligating documents from DHS OPO for timely recordation in FFMS.
- Continue reconciling all obligations created in PRISM and any other procurement tracking systems, whether automated or manual, to the general ledger (i.e., FFMS). As differences are identified, management should research the causes and take immediate corrective action.
- Continue implementing the TASC-ORACLE-ePRISM system interface to utilize interface capabilities for timely posting of obligations.

S&T – FMC 08-02 – Inadequate internal controls over property, plant, and equipment (*NFR No. S&T 08-04*)

S&T incorrectly recorded the transfer in of real and personal property from other Federal departments. In addition, S&T does not have adequate processes and controls in place to account for real property, personal property, and internal-use software in a timely manner. Currently, S&T is in the process of analyzing the existence and accuracy of their CIP and equipment balances as of September 30, 2008, which are immaterial to the financial statements taken as a whole but should be analyzed by management.

Recommendations:

We recommend that S&T:

- Design, implement, and document additional policies, procedures, and internal controls that will help ensure the PP&E recorded in the sub-ledgers exists, that it is complete and accurate, and that it is properly valued.
- Provide additional training to the property management program and accounting personnel, including SAMS training.
- Purchase or develop and implement a property management system for real property and capitalized software.

Department of Homeland Security
Financial Management Comments
September 30, 2008

IX. OFFICE OF HEALTH AFFAIRS (OHA)

OHA – FMC 08-01 – Accounting for undelivered orders and management review (*NFR No. OHA 08-01*)

During our testwork over June 30, 2008 undelivered orders (UDO) and accounts payable, OHA management stated that UDOs are calculated as obligations (i.e., contracts) minus invoices received by the Department of Health and Human Service (HHS), and accounts payable are determined by disbursements made by HHS to its vendors. This resulted in a proposed adjustment to UDOs of \$21 million as of June 30, 2008. However, this method is not in accordance with the U.S. Standard General Ledger (USSGL). Upon our inquiry, OHA performed further research on the Project BioShield inter-agency agreements and determined that the proper accounting method was using HHS disbursements. Therefore, OHA changed its method to calculate both UDOs and accounts payable using disbursements made by HHS for September 30, 2008.

We noted that OHA monitors the controls at HHS on a semi-annual basis. We observed the control in April and October 2008. We noted that OHA compares the listing of invoices received from HHS to the actual invoices, and additionally ensures the payment authorizations correspond to the invoices. However, we noted that this monitoring control is not formalized in SOPs, and does not include a review of the confirmations of actual payment made by HHS, which is the basis of OHA's accounts payable.

Recommendations:

We recommend that OHA:

- Continue to properly account for its undelivered orders balance in accordance with applicable accounting standards; and
- Implement monitoring procedures in order to have appropriate/effective internal controls over the balances provided by HHS. These controls should be formalized in SOPs and should include a review over payment transactions made by HHS in addition to invoices received by HHS.

Department of Homeland Security
Financial Management Comments
 September 30, 2008

X. TRANSPORTATION SECURITY ADMINISTRATION (TSA)

TSA – FMC 08-01 – Undelivered orders documentation (NFR No. TSA 08-05)

- TSA lacks sufficient internal controls to ensure contract management policies and procedures are being adhered too. Specifically, we noted the following instances where contract management policies and procedures failed:
 - Two instances where the period of performance of the obligation was not extended until after the expiration of the original period of performance.
 - Three instances of an expenditure's billing period extending beyond or outside the period of performance of the obligation.
 - One instance of an untimely deobligation related to a contract whose period of performance had expired over six months earlier.
- Expenditures were not evaluated to determine if they related to capitalizable activity. Specifically, we noted two instances where assets purchased over the established capitalization threshold of \$50,000 did not appear on the Sunflower Capitalized Asset list as of September 30, 2008.
- Proper adherence to the travel policy did not occur in all instances. Specifically, we noted 36 instances where a travel authorization was not recorded prior to travel.

Recommendations:

We recommend that TSA:

- Implement sufficient internal controls to ensure that contract management policies and procedures are being followed.
- Implement sufficient internal controls to ensure polices and procedures are followed to ensure that expenditures that relate to capitalizable activity are capitalized.
- Implement sufficient internal controls to ensure that travel policies and procedures are being followed.

TSA – FMC 08-02 – Required Supplementary Information (NFR No. TSA 08-10)

We noted that during FY 2008, TSA has made efforts to enhance report outcomes and outputs as required by Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, for Required Supplementary Stewardship Information (RSSI), specifically investments in human capital and research and development. We noted that although efforts have been made, TSA was unable to obtain all necessary support.

Recommendation:

We recommend that TSA develop and implement procedures to develop and track relevant outcomes and outputs and report them as part of RSSI.

Department of Homeland Security
Financial Management Comments
September 30, 2008

TSA – FMC 08-03 – Grant monitoring and compliance with OMB Circular No. A-133 (NFR No. TSA 08-15)

We noted that policies and procedures exist to monitor grantees' compliance with OMB Circular No. A-133, *Audits of State, Local Governments, and Non-Profit Organizations*; however, they were not fully implemented during FY 2008. KPMG noted the following in our review of TSA's compliance with OMB Circular A-133:

- TSA's tracking database used to track grants, including those subject to the audit requirements in A-133, is incomplete. Specifically, this database does not include all grants which are required to have a Single Audit performed.
- The dates in the grants database used to track the fiscal year end for grantees were incorrect or not included.
- Evidence of TSA's review of all of the grantee's Single Audit reports listed in TSA's database was not noted in the database.

Recommendations:

We recommend that TSA continue its efforts started during the last quarter of FY 2008 to review all grants, and monitor the grants on a timely basis, tracking the fiscal year end of the grantee, the award amount, and the status of the most recent Single Audit reports. We also recommend that TSA put processes in place to continually monitor completeness over the listing of grants. This will ensure that all of TSA's grants are included in the grants database and are monitored for compliance.

TSA – FMC 08-04 – Noncompliance with human resources related laws (NFR No. TSA 08-16)

In performing testwork over the Federal Employees' Group Life Insurance (FEGLI) Act, Federal Employees' Health Benefits Act, Fair Labor Standards Act (FLSA), and Pay and Allowance System for Civilian Employees including the Civil Service Retirement Act and the Federal Employees' Retirement System Act in FY 2008, we selected a statistical sample of 32 employees' pay to determine if TSA was in compliance with these benefits-related laws. In performing our testwork, we identified the following errors:

- We noted one sample that had an incorrect FEGLI deduction on the Statement of Earnings and Leave. The deduction taken for the pay periods selected did not match the enrollment form in the Official Personnel Folder (OPF).
- We noted one instance where the employee changed coverage during an "Open Enrollment" period and the supporting documentation was not in the employee's OPF.
- We noted five instances of non-compliance with the FLSA. In each of these five instances, TSA was unable to support the amounts paid to its employees for FLSA compensation.

Recommendations:

We recommend that TSA:

- Investigate each of the three instances of non-compliance described above to determine the cause of the issue, and whether these instances of non-compliance are systemic, isolated occurrences, or a combination.
- If the issues are isolated, determine if additional training, improvement in policies or procedures, or enhanced management monitoring controls would help prevent similar occurrences in the future.

Department of Homeland Security
Financial Management Comments
September 30, 2008

- If systemic, develop a “mission action plan” to identify the root cause and implement corrective actions. Corrective action may include:
 - Reviewing employee elections made under previous human resources service providers and previous agencies to ensure the plans employees elect are the plans for which employees receive benefits.
 - Reviewing the controls during the “Open Enrollment” period to ensure all changes made by employees during the period are reflected in the OPF.
 - Inquiring with the NFC and gain an understanding of all calculations used to pay employees.

TSA – FMC 08-05 – Ineffectiveness of controls over the time and attendance process (NFR No. TSA 08-18)

We noted several instances where the T&A sheets were missing the approval signature of the employee. Upon further inquiry, it was noted that the employees were not available to review and sign their timesheet when it was required to be submitted because of shift conflicts or being on personal leave. Due to this, the supervisors approved the timesheet and the timesheet was entered into the webTA system without proper approval from the employee. Furthermore, even after being entered into webTA, the timesheet was never returned to the employee for review and approval.

Recommendations:

We recommend that TSA:

- Implement and follow an additional policy that requires employees to review and sign all timesheets.
- Mandate that timekeepers mark timesheets for review if the employee signature is absent and regularly follow up on such items until they are resolved.

TSA – FMC 08-06 – Incomplete listing of asset leases (NFR No. TSA 08-20)

During our inventory observation procedures, we noted that one asset selected to verify its existence and inclusion in the annual property inventory was excluded from the Sunflower capitalized asset module. Upon inquiry with site management, the asset was identified as leased property, and therefore properly excluded from owned asset listing. However, we also noted that the asset was not included on the leased asset listing.

Recommendations:

We recommend that TSA develop and implement a policy to reasonably ensure that all leased assets are properly tracked. The policy should include:

- Guidance to help identify equipment as leased assets and to maintain a listing of the assets;
- A requirement to perform periodic reviews to ensure completeness, and indicate the disposition of the asset when the lease expires.

TSA – FMC 08-07 – Unauthorized transfer of assets (NFR No. TSA 08-21)

TSA personnel did not always adhere to TSA policy requiring authorization and documentation to support all security equipment transfers between locations. We noted one instance where an

Department of Homeland Security
Financial Management Comments
September 30, 2008

asset was not in the airport location listed in TSA's records. The asset was listed to be in Jacksonville, FL (JAX), but was located at the Daytona Beach International Airport. TSA informed us that "no transfer documentation was available to support transfer of this asset from JAX to Daytona. The move was unauthorized." As such, in this instance TSA personnel did not adhere to the Office of Property Management's Security Equipment Movement Procedures.

Recommendation:

We recommend that TSA implement monitoring controls to ensure the existing policy in place regarding the transfer of assets is followed.

TSA – FMC 08-08 – SAS 70 review (NFR No. TSA 08-25)

As of September 2008, TSA had not performed a review of its service providers' internal control report or evaluated the implications of the service providers' controls on TSA's control environment for FY 2008. Additionally, the review that was performed over the service organizations' FY 2007 controls did not evaluate the implications of the service providers' controls on TSA's control environment. During October 2008, TSA performed a review of its service providers' draft control report to determine any implications to the financial statements. Based on this review, no additional steps were identified.

Recommendation:

We recommend that TSA continue its review of its service providers' current year internal control reports on an annual basis and review updated and finalized reports as necessary.

Department of Homeland Security
Financial Management Comments
 September 30, 2008

XI. UNITED STATES COAST GUARD (USCG)

USCG – FMC 08-01 – Facts and figures quick report tool (NFR No. USCG 08-05)

The current reports produced by the Facts and Figures Quick (FAFQ) application/report tool are not providing accurate information for Coast Guard financial reporting and decision making. The FAFQ report tool does not accurately display the results of specific transactions. Examples of the issues identified include the following:

- FAFQ does not properly indicate the modifier in the transaction code status column to indicate a reversal transaction, when necessary. Therefore, negative and positive transaction amounts appear to be recorded for the same transaction code.
- Transactions with codes for which the posting logic indicates there should be an effect on the related advance, expenditure, and/or undelivered order balance, displayed no transaction amount in the corresponding column on the FAFQ view/report.

Recommendations:

We recommend that Coast Guard:

- Develop, within the Core Accounting System (CAS), the informational tools necessary for users in operations and management to make informed decisions based on complete, accurate, reliable, and timely information.

Until this recommendation is complete, we recommend that Coast Guard:

- Test the FAFQ output for each transaction code or other posting logic trigger to determine necessary corrections to ensure that the tool displays all transactions and provides reliable information for users; or, disable or limit access to the application.
- Adequately test any new reporting tool during its development to ensure all posting logic generates the appropriate data in the output prior to implementation and availability to users.
- Modify the FAFQ tool to display a warning message when accessed that the information on the reports/view screen may not be accurately presented.

USCG – FMC 08-02 – Deepwater obligation process (NFR No. USCG 08-11)

Coast Guard's *Deepwater Financial Operating Procedures Manual* does not properly describe designed controls. Although this manual describes internal controls, they are general in nature and may be applied in an inconsistent or ineffective manner.

Recommendation:

We recommend that the Coast Guard revise the *Deepwater Financial Operating Procedures Manual* to include detailed procedures and internal controls to ensure the completeness and accuracy of the Contract Information Management System, Financial Procurement Desktop, and CAS balances. Once the manual has been revised, we recommend that it becomes a formal agency policy.

USCG – FMC 08-03 – Confidential financial disclosure reports (CFDRs) and Ethics Training Requirements (NFR No. USCG 08-14)

Internal controls over the filing and review of the CFDRs were not fully effective. Specifically, we inspected the filing and review of 15 CFDRs and noted the following six issues:

Department of Homeland Security
Financial Management Comments
 September 30, 2008

- Three employees filed their CFDRs after the CFDR filing season (January 1, 2008 to February 15, 2008) with no extension granted.
- Two employees filed their CFDRs late, after the 90 day extension granted to file at the end of the CFDR filing season (February 16, 2008 to May 15, 2008).
- One CFDR Reviewing Official certified the review beyond 60 days after the filing date.

Further, internal controls over the monitoring of ethics training requirements were not fully effective. Specifically, KPMG noted the following:

- 41 individuals, who are required to, did not complete the initial ethics training
- 44 individuals, who are required to, did not complete the annual ethics training.

Recommendation:

We recommend that the Coast Guard evaluate implemented internal controls and take appropriate corrective action to ensure that (1) all CFDRs are filed and reviewed timely and (2) initial and annual ethics training requirements are timely met. The initial ethics training is required for all new employees, and the annual training is required for filers of public and confidential financial disclosure reports set forth in the Office of Government Ethics' regulations, 5 C.F.R. §2638.703 - .705.

USCG – FMC 08-04 – Legal liability reporting (NFR No. USCG 08-28)

Certain Coast Guard controls over completeness and accuracy of the overall Coast Guard legal liabilities balance recorded as part of the DHS legal liability on the September 30, 2008 DHS financial statements were either not properly designed or not operating effectively during FY 2008. Specifically, Coast Guard does not have appropriate internal controls to ensure that its components report all contingent legal liabilities immediately, as required by Coast Guard policy.

Additionally, throughout our interim and year-end testwork, we noted the following:

- Neither CG-842 or CG-945 performed the required review procedures, which includes a “floor to file” review, at the MLCs or at the Finance Center (FINCEN) related to the September 30, 2008 contingent legal liability data, nor was any indication given that designated individuals performed such reviews in their place.
- CG-842 and CG-0945’s quarterly reviews are inadequately defined, designed, and performed. Specifically:
 - No methodology exists to support CG-842’s sampling review threshold of 20% of open claims or sampling method used when testing completeness.
 - CG-842’s review at the National Pollution Funds Center (NPFC) over the September 30, 2008 data did not achieve the pre-established threshold of 20% of open claims, as only four out of 144 open claims (3%) were reviewed.
 - CG-842 and CG-0945’s quarterly reviews do not address the risk that the population of claims forwarded from the units and districts was potentially incomplete.
- Coast Guard does not perform an adequate review of either the Claims Processing System (CPS) query or historical Tort and Admiralty data to ensure that a complete and accurate population of data is used in performing the trend analyses. As a result, we noted the following specific conditions over our testwork of the Natural Resource Damages (NRD) trend analysis and payout rate:

Department of Homeland Security
Financial Management Comments
 September 30, 2008

- NPFC included four “Initiates” into the query used to perform the NRD trend analysis. Initiates are not classified as contingent legal liabilities, but rather reimbursable costs paid through separate funding.
- Twenty-six NRD claims were excluded from the CPS query and were not factored into the calculation of the historical payout rate. Upon notification of the error, CG-842 did not re-perform the trend analysis to determine the correct historical payout rate. Additionally, we determined that inclusion of over 2,600 claims that were denied on August 19, 2001 provided an inaccurate historical payout rate, as this group of claims and their related activity does not represent normal NRD activity.
- The implemented SOP and Financial Resource Management Manual (FRMM) have not been finalized and are still in draft form.
- Based on testwork performed at March 31, 2008, Coast Guard did not retain the correspondence from the March 31, 2008 data call with nine out of 20 reporting offices. However, based on testwork performed at September 30, 2008, Coast Guard properly retained the correspondence from the September 30, 2008 data call with all reporting offices.

Recommendations:

We recommend that the Coast Guard:

- Conduct a comprehensive review of the processes to prepare, record, and disclose the legal liability balance for inclusion in the DHS consolidated financial statements.
- Identify the risks and current conditions that could preclude management from supporting the identified financial assertions in the future.
- Make appropriate changes to systems and processes/sub-processes methodologies, to include the design and implementation of internal controls, to mitigate the risks/conditions identified.
- Test the controls to determine that they are designed properly and operating effectively.

To the extent relevant after completing the above steps, we recommend that Coast Guard:

- Establish internal controls and procedures, such as extending the data review forms/assurance statements to all units, to assist in the assurance that the procedures outlined in the SOP and Claims and Litigation Manual to report all contingent legal liabilities to appropriate data-reporting offices are operating effectively.
- Ensure that proper testing is consistently performed at the designated reporting offices on a quarterly basis.
- Re-evaluate the methodology and procedures surrounding CG-842 and CG-0945’s quarterly reviews of completeness and accuracy. Perform an analysis in order to support the methodology, sampling plan, and review procedures, and ensure that all elements are properly documented in the SOP and FRMM.
- Develop an internal control to review the completeness and accuracy of the queried data used to complete the trend analyses and calculate the historical payout rates. Consider performing a reconciliation between the current year and prior year’s trend analyses to identify the validity of changes, and investigate anomalies. If errors are detected, perform and document an analysis to determine the financial statement impact and if the historical payout rate needs to be recalculated.
- Implement and distribute a finalized version of the SOP and FRMM.
- Continue to retain correspondence with the reporting offices from each data call for documentation and audit purposes.

Department of Homeland Security
Financial Management Comments
September 30, 2008

USCG – FMC 08-05 – Segregation of duties weakness – person entering applicant data into Direct Access may be the same person hiring the applicant (NFR No. USCG 08-32)

Coast Guard has not taken corrective action to address the user roles surrounding the entering and hiring on an applicant by the same individual. Specifically, the individual who enters an applicant's data into the Direct Access system also has the ability to hire the applicant in the system.

Recommendations:

We recommend that the Coast Guard:

- Segregate the roles by requiring that the person who enters an applicant's data is not the person that hires the applicant, and document formal policies and procedures to reflect this.
- If the roles cannot be segregated, implement the use of mitigating controls (i.e., configure the application auditing to properly capture hiring actions and have an independent party monitor Direct Access audit trails on a regular basis to ensure that activities are authorized). Once implemented, document these controls in a formal policy and procedures.

Department of Homeland Security
Financial Management Comments
 September 30, 2008

XII. CONSOLIDATED (CONS)

CONS – FMC 08-01 – Tracking system for ethics training, public financial disclosure reports, and confidential financial disclosure reports (NFR No. CONS 08-02)

During our testwork over entity-level controls, we noted that DHS:

- Has not issued supplemental Standards of Conduct. Supplemental Standards of Conduct have been developed, reviewed by the components and the Office of Government Ethics, and are currently awaiting approval; however, the Designated Agency Ethics Official (DAEO) does not anticipate approval and implementation of the guidance until after FY 2008.
- Has not revised the existing Secretarial statement on the Standards of Conduct, Management Directive (MD) 0480.1. As of the date of test work, the draft was in routing for concurrence/comment by the components.
- Has not issued common department-wide procedural guidance for filing financial disclosure reports. Issuance of that guidance must await approval of the revision of MD 0480.1.
- Does not have a single, Department-wide system to record the positions that required their incumbents to file financial disclosure reports and, consequently, is not able to monitor the filing status of all required reports or whether all filers completed required annual ethics training.

Recommendations:

We recommend that the DAEO, in conjunction with the Chief Human Capital Officer and the Chief Information Officer, as appropriate:

- Continue to work to finalize and issue procedural guidance for financial disclosure reporting and department-wide supplemental ethics guidance, including the revision of MD 0480.1.
- Continue to develop and implement a system to ensure all employees who must complete financial disclosure reports/ethics training are identified and monitored annually.

CONS – FMC 08-02 – Review of component financial information (NFR No. CONS 08-08)

In FY 2008, OFM issued and implemented updated Financial Reporting SOPs and updated Component Requirements Guide providing guidance on documentation and review over the component binder review process. During our review of the March, April, and June component binders, we noted that management has improved the process surrounding component binder monitoring; however, we noted the following exceptions:

March Binders

- United States Secret Service (USSS) – USSS did not submit the quarterly required submission of the Fund Balance with Treasury reconciliation for March, and there was no evidence of follow-up by the Desk Officer. Upon inquiry to the Desk Officer in July 2008, support for the Fund Balance with Treasury (FBwT) was subsequently put into the binder; however, the reconciliation was not obtained from the component.

April Binders

- USCG – The Desk Officer reviewed and analyzed the USCG April documents in order to complete the component scorecard; however, this review was not adequately documented in the April binder.

Department of Homeland Security
Financial Management Comments
September 30, 2008

- Office of the Inspector General (OIG) – The Desk Officer did not sign-off on the Component Binder checklist in April. However, we noted that evidence of review was apparent through tickmarks and notes throughout the binder.
- Domestic Nuclear Detection Office (DNDO) – Per discussion with the FMCB Assistant Director and the DNDO Desk Officer, the Desk Officer reviewed and analyzed the DNDO April documents in order to complete the component scorecard; however, this review was not adequately documented in the April binder. In addition, the Component Binder Checklist was not signed by the Desk Officer or the FMCB Assistant Director at the time of testwork, and there was no Memo to File documenting communications with the component for follow up from March or any issues noted during review.

OIG Materiality Calculation

- OFM did not sufficiently review the FY2008 OIG materiality calculation. OIG uses Gross Costs as a materiality base and erroneously did not subtract intragovernmental costs when determining materiality, per OFM guidance. Therefore, both thresholds for overall Materiality and Intradepartmental Elimination Materiality were miscalculated and set at a higher amount.

Recommendations:

We recommend that OFM:

- Ensure that the monthly and quarterly reviews of Component financial information are conducted in accordance with the Component Requirements Guide and properly documented in a timely manner.
- Ensure that proper and timely follow-up is performed for components with missing deliverables.
- Recalculate component submitted materiality and advise component management on the accuracy of their calculations in accordance with the Component Requirements Guide.

CONS – FMC 08-03 – Preparation of the Departmental legal letter (*NFR No. CONS 08-15*)

Interim Legal Letter

We noted that the interim legal letter and management schedule as of June 30, 2008 did not use the materiality thresholds as detailed in the request letter from the DHS CFO. Specifically, the legal letter and resulting management schedule prepared by DHS OFM only included individual cases over \$7.5 million and aggregate of similar cases over \$15 million, instead of individual and aggregate of similar cases over \$7.5 million, and aggregate of all other cases over \$15 million.

OGC does not maintain a database that stores a comprehensive list of all cases that is readily available to enable an aggregation as requested. In addition, OFM did not have a process in place to gather and analyze all of these cases not meeting the individual materiality threshold or the threshold for the aggregate of similar cases.

Final Legal Letter

In response to the conditions noted above during our interim review, OGC and OFM provided an aggregation of all similar and dissimilar cases meeting our aggregate threshold of \$15 million as of September 30, 2008. However, OFM did not coordinate with OGC to ensure an adequate review was performed over the unknown or “unable to determine” cases prior to auditor inquiry. The subsequent review resulted in an estimate of probable loss of \$12.4 million (lower range) and

Department of Homeland Security
Financial Management Comments
 September 30, 2008

\$26 million (upper range), as well as a reasonably possible loss of \$17.4 million (lower of range), and \$29.6 million (upper range).

Recommendations:

We recommend that DHS OFM, in conjunction with OGC:

- Ensure that the legal representation letter from OGC addresses the request from the CFO.
- Develop a component-based tracking system for all open legal claims and assessments, which will enable DHS to comply fully with the requirements in OMB Circular No. A-136.
- Ensure that the materiality level used for all components is consistent with the CFO's request.

CONS – FMC 08-04 – Configuration of the Transaction Elimination Pairs report (NFR No. CONS 08-17)

During our review of the Department's Transaction Elimination Pairs report, we noted the following conditions:

- Pair 40 (Treasury Reciprocal Category 05), Borrowing Revenue/Expense, is missing base accounts 7112, 7190, 7212, and 7290; and
- Pair 48, which is the reverse of pair 40, is missing reciprocal accounts 7112, 7190, 7212, and 7290.

Recommendation:

We recommend that DHS OFM continue to work with the Department's service provider to implement TIER functionality, which will allow the Department to include all general ledger accounts in the elimination pairs required by Treasury Financial Manual 2-4700.

CONS – FMC 08-05 – Discrepancies exist between DHS guidance and the TIER analytical report (NFR No. CONS 08-23)

In FY 2008, we noted that OFM has made improvements to the TIER Specifications Table configuration and corrected many discrepancies identified in FY 2007. However, we identified the following exceptions upon comparing the TIER Specifications Table with the analytics guidance documented in the DHS OFM SOP:

- General Funds Analytic #11-1F, "Unfilled Customer Orders with Advance = Unearned Revenues – Activity," includes the sum of accounts 4222 (A, T) and 2310 (A, T); however, the analytic should only include the sum of accounts 4222 (A, F) and 2310 (A, F); and
- General Fund Analytic #11-1T, "Unfilled Customer Orders with Advance = Unearned Revenues – Activity," is blank. This analytic should include the sum of accounts 4222 (A, T) and 2310 (A, T).

Recommendation:

We recommend DHS OFM modify the TIER Specification Table to be consistent with the DHS OFM SOP, and ensure that the analytic formulas are accurate and complete.

CONS – FMC 08-06 – Trial balance analytical relationships (NFR No. CONS 08-24)

During our analysis over USSGL account relationships, we noted that DHS developed its analytical report using the Treasury Tie-Point Project guidance. However, we noted that DHS'

Department of Homeland Security
Financial Management Comments
September 30, 2008

analytical report excluded certain key relationships not included in Treasury's guidance, including the proof of cumulative results of operations (CRO). We performed these extra tests, which resulted in the identification of a material error at FEMA.

Recommendation:

We recommend that DHS OFM expand the analytical report to include the CRO proof. In addition, DHS OFM should evaluate and consider additional analytical relationships.

CONS – FMC 08-07 – Review of FECA actuarial liability (NFR No. CONS 08-25)

During our testwork over the year-end FECA actuarial liability, we noted no evidence of Desk Officer review over eight component FECA actuarial liability allocations.

Recommendation:

We recommend DHS OFM ensure the year-end FECA actuarial liability review is conducted in accordance with the DHS OFM SOPs for Financial Reporting and is properly documented in a timely manner.

CONS – FMC 08-08 – Review of the Annual Financial Report (NFR No. CONS 08-26)

The DHS OFM's review process did not identify errors in the Financial Section of the September 30, 2008 Annual Financial Report (AFR) delivered to us. During our review of the AFR, we noted the following:

- In Footnote 19, *Leases*, for future minimum lease payments of operating leases, DHS reported a combination of cancelable and non-cancelable leases; and GSA and non-GSA leases. OMB Circular A-136 states that non-cancelable leases should be disclosed. Upon our inquiry, DHS included a narrative description in the footnote of what the amounts were comprised of.
- In Footnote 2, *Non-Entity Assets*, the amount reported as non-entity taxes, duties, and trade receivables, net, for CBP, was \$1,999 million. The amount should be \$2,078 million, and the CBP financial statements reflected the correct amount. Upon our inquiry, DHS made the correction.
- In Footnote 22, *Earmarked Funds*, the amounts for the "Customs User Fees" fund was not properly disclosed. The amounts were improperly split between the "Customs User Fees" column and the "All Other Earmarked Funds" column. The entire amount should have been reported under "Customs User Fees." The difference in total assets was \$75 million. Upon our inquiry, DHS made the proper correcting reclassification.

Recommendation:

We recommend DHS OFM and the Components enhance its review process over the financial statement footnotes to enable timely identification of errors.

Department of Homeland Security
 Crosswalk - Financial Management Comments to NFRs
 September 30, 2008

Component	NFR No.	Description	Disposition			
			IAR			FMC
			MW	SD	NC	No.
CONS	08-01	Government Performance Results Act of 1993 (GPRA) non-compliance			O	
CONS	08-02	Tracking system for ethics training, public financial disclosures, and confidential reports				08-01
CONS	08-03	Audited financial statements			N	
CONS	08-04	<i>Number not used</i>	Not applicable			
CONS	08-05	<i>Number not used</i>	Not applicable			
CONS	08-06	<i>Number not used</i>	Not applicable			
CONS	08-07	<i>Number not used</i>	Not applicable			
CONS	08-08	Review of component financial information				08-02
CONS	08-09	<i>Number not used</i>	Not applicable			
CONS	08-10	<i>Number not used</i>	Not applicable			
CONS	08-11	Lack of compliance with Debt Collection Improvement Act (DCIA) of 1996			P	
CONS	08-12	<i>Number not used</i>	Not applicable			
CONS	08-13	Statement of Net Cost (SNC) methodologies and IT systems functionality			O	
CONS	08-14	<i>Number not used</i>	Not applicable			
CONS	08-15	Preparation of the Departmental legal letter				08-03
CONS	08-16	Controls over the intragovernmental confirmation and reconciliation process	A			
CONS	08-17	Configuration of the Transaction Elimination Pairs report				08-04
CONS	08-18	<i>Number not used</i>	Not applicable			
CONS	08-19	Lack of compliance with OMB Circular A-50, <i>Audit Follow-up</i>			L	
CONS	08-20	<i>Number not used</i>	Not applicable			
CONS	08-21	<i>Number not used</i>	Not applicable			
CONS	08-22	<i>Number not used</i>	Not applicable			
CONS	08-23	Discrepancies exist between DHS guidance and the TIER analytical report				08-05
CONS	08-24	Trial balance analytical relationships				08-06
CONS	08-25	Review of FECA actuarial liability				08-07
CONS	08-26	Review of the Annual Financial Report				08-08
CBP	08-01	Verification of CPL and certification of payments		H		
CBP	08-02	Detection of excessive drawback claims		H		
CBP	08-03	Insufficient retention period for documents that support drawback claims		H		
CBP	08-04	ACS deficiency over the accumulation of claims against a drawback bond		H		
CBP	08-05	Deficiencies in the in-bond process		H		
CBP	08-06	System integration and compliance with the USSGL at the transaction level			K	

Department of Homeland Security
 Crosswalk - Financial Management Comments to NFRs
 September 30, 2008

Component	NFR No.	Description	Disposition			
			IAR			FMC
			MW	SD	NC	No.
CBP	08-07	ACS deficiencies over non-entity account receivable and CBP's ability to effectively monitor collection actions		H		
CBP	08-08	ACS limitations - review of prior related drawback claims and selectivity for underlying consumption entries		H		
CBP	08-09	<i>Number not used</i>	Not applicable			
CBP	08-10	Weaknesses in the management of environmental liabilities				08-01
CBP	08-11	Overpayment of drawback claims		H		
CBP	08-12	Failure to perform a full desk review/supervisory review		H		
CBP	08-13	<i>Number not used</i>	Not applicable			
CBP	08-14	<i>Number not used</i>	Not applicable			
CBP	08-15	Weaknesses identified in the bonded warehouses foreign trade zone process and procedures		H		
CBP	08-16	Weaknesses in the requirements related to the monitoring, review, and oversight relating to the efficient of completion of FP&F cases		H		
CBP	08-17	Weakness in the Compliance Measurement Program		H		
CBP	08-18	Weakness in the review of weekly/monthly entry edit reports		H		
CBP	08-19	<i>Number not used</i>	Not applicable			
CBP	08-20	<i>Number not used</i>	Not applicable			
CBP	08-21	<i>Number not used</i>	Not applicable			
CBP	08-22	<i>Number not used</i>	Not applicable			
CBP	08-23	Untimely deobligation of inactive obligations (UDOs)	F			
CBP	08-24	Untimely capitalization of assets from CIP	D			
CBP	08-25	Untimely recognition in SAP of assets received for SBI fence construction	D			
CBP	08-26	Weaknesses related to the collections and deposits process		H		
CBP	08-27	Weaknesses CBP's reporting of AMO OM&S and weaknesses noted in the performance of the annual AMO inventories				08-02
CBP	08-28	Weaknesses in controls over seized inventory.				08-03
CBP	08-29	Lack of review of Importer Self-Assessment annual notification letters				08-04
CBP	08-30	Weaknesses in CBP's processes related to asset additions				08-05
CBP	08-31	Misstatement of actuarial FECA liability				08-06
CBP	08-32	Misstatement of the September 30, 2008 leave accrual				08-07
CBP	08-33	Weaknesses in recording CIP	D			
FEMA	08-01	<i>Number not used</i>	Not applicable			
FEMA	08-02	Financial monitoring of grants awarded by the former Office of Grants and Training (G&T)			L	
FEMA	08-03	<i>Number not used</i>	Not applicable			
FEMA	08-04	Non-grant unliquidated obligations (ULO) within the former G&T not de-obligated timely	F			
FEMA	08-05	<i>Number not used</i>	Not applicable			

Department of Homeland Security
 Crosswalk - Financial Management Comments to NFRs
 September 30, 2008

Component	NFR No.	Description	Disposition			
			IAR			FMC
			MW	SD	NC	No.
FEMA	08-06	<i>Number not used</i>	Not applicable			
FEMA	08-07	Lack of current Anti-deficiency Act policies and procedures		G		
FEMA	08-08	Ineffective controls over processing mission assignment payments		G		
FEMA	08-09	Untimely de-obligation of mission assignments	F			
FEMA	08-09a	Untimely de-obligation of mission assignments	A			
FEMA	08-10	<i>Number not used</i>	Not applicable			
FEMA	08-11	<i>Number not used</i>	Not applicable			
FEMA	08-12	Unavailability of supporting documentation for the reporting of internal use software and internal use software in development	D		K	
FEMA	08-13	Non-compliance with 5 CFR Part 2638 related to ethics training		G		
FEMA	08-14	Lack of segregation of duties within the financial reporting process	A			
FEMA	08-15	<i>Number not used</i>	Not applicable			
FEMA	08-16	NEMIS auto-determination process needs improvement				08-01
FEMA	08-17	Unavailability of supporting documentation for certain entity level controls		G		
FEMA	08-18	<i>Number not used</i>	Not applicable			
FEMA	08-19	Lack of formal policies and procedures in various areas		G		
FEMA	08-20	Monitoring of audit findings in accordance with OMB Circular Nos. A-133 and A-50, and related compliance matters			L	
FEMA	08-21	FMFIA non-compliance			J	
FEMA	08-22	Non-compliance with the Improper Payment Improvement Act of 2002			M	
FEMA	08-22a	Additional non-compliance with IPFA conditions			M	
FEMA	08-23	Legal liabilities				08-02
FEMA	08-24	<i>Number not used</i>	Not applicable			
FEMA	08-25	Errors identified in year-end flood insurance journal entries	A			
FEMA	08-26	<i>Number not used</i>	Not applicable			
FEMA	08-27	<i>Number not used</i>	Not applicable			
FEMA	08-28	Temporary adjustments of Fund Balance with Treasury reconciling differences				08-03
FEMA	08-29	<i>Number not used</i>	Not applicable			
FEMA	08-30	<i>Number not used</i>	Not applicable			
FEMA	08-31	<i>Number not used</i>	Not applicable			
FEMA	08-32	Inherited problems in G&T's Integrated Financial Management Information System				08-04
FEMA	08-33	Internal control deficiencies over premiums written at selected write your own insurance companies that participate in FEMA's National Flood Insurance Program (NFIP)				08-05
FEMA	08-34	<i>Number not used</i>	Not applicable			
FEMA	08-35	<i>Number not used</i>	Not applicable			

Department of Homeland Security
 Crosswalk - Financial Management Comments to NFRs
 September 30, 2008

Component	NFR No.	Description	Disposition			
			MW	SD	NC	FMC No.
FEMA	08-36	Internal control deficiencies over claims paid at selected insurance companies that participate in FEMA's NFIP				08-06
FEMA	08-36a	Internal control deficiencies over claims paid year-end testwork at selected insurance companies that participate in FEMA's NFIP				08-06
FEMA	08-37	Inaccuracy of claims' loss reserves at selected write your own insurance companies that participate in FEMA's NFIP				08-07
FEMA	08-37a	Inaccuracy of claims' loss reserves at selected write your own insurance companies that participate in FEMA's NFIP identified during final testwork				08-07
FEMA	08-38	Lack of accounts payable accrual verification and validation	A			
FEMA	08-39	Insufficient documentation of methodology used to calculate NFIP estimates reported in the FEMA financial statements				08-08
FEMA	08-40	Internal control deficiencies in the claims reinspection program				08-09
FEMA	08-41	Internal control deficiencies in the submit for rate program				08-10
FEMA	08-42	Lack of consistent policies and procedures over and timely documentation of the initial response resources (IRR) inventory reconciliation process				08-11
FEMA	08-43	Lack of consistent policies and procedures involving the monthly IRR inventory rollforward process				08-11
FEMA	08-44	Insufficient resources in the Risk Management & Compliance Branch		G		
FEMA	08-45	Monitoring and communication of significant financial-related matters in the NFIP	E			
FEMA	08-46	Insufficient implementation of internal controls / lack of segregation of duties over the grant accrual methodology	A			
FEMA	08-47	Untimely change in accounts payable accrual methodology	A			
FEMA	08-48	Lack of an accounts payable accrual for legacy Office of Grants and Training (G&T) non-grant activities	A			
FEMA	08-49	Lack of effective roles over and timely de-obligation of unliquidated obligations (ULOs)	F			
FEMA	08-50	Improvements needed in review and recording of year-end mission assignment accrual	A			
FLETC	08-01	The process to identify and record environmental liabilities needs to be improved.	E			
FLETC	08-02	<i>Number not used</i>	Not applicable			
FLETC	08-03	<i>Number not used</i>	Not applicable			
FLETC	08-04	<i>Number not used as of 12/5/2008</i>	Completed after 12/5/2008			
FLETC	08-05	<i>Number not used</i>	Not applicable			
FLETC	08-06	<i>Number not used</i>	Not applicable			
FLETC	08-07	<i>Number not used</i>	Not applicable			
FLETC	08-08	<i>Number not used</i>	Not applicable			
FLETC	08-09	<i>Number not used</i>	Not applicable			
FLETC	08-10	<i>Number not used as of 12/5/2008</i>	Completed after 12/5/2008			
FLETC	08-11	<i>Number not used as of 12/5/2008</i>	Completed after 12/5/2008			

Department of Homeland Security
 Crosswalk - Financial Management Comments to NFRs
 September 30, 2008

Component	NFR No.	Description	Disposition			
			IAR			FMC
			MW	SD	NC	No.
FLETC	08-12	Number not used	Not applicable			
FLETC	08-13	Capital Lease Liability	Completed after 12/5/2008			
FLETC	08-14	Number not used	Not applicable			
FLETC	08-15	Number not used	Not applicable			
FLETC	08-16	Contract Review Process				08-01
FLETC	08-17	Number not used	Not applicable			
FLETC	08-18	Number not used	Not applicable			
FLETC	08-19	Number not used	Not applicable			
FLETC	08-20	FFMIA Noncompliance			K	
FLETC	08-21	Unbilled Reimbursable Revenue				08-02
FLETC	08-22	Journal Voucher Weaknesses				08-03
FLETC	08-23	Weaknesses related to CIP				08-04
FLETC	08-24	Number not used as of 12/5/2008	Completed after 12/5/2008			
FLETC	08-25	Depreciation of newly capitalized PP&E in the fixed assets module of the Momentum financial system				08-05
USCIS	08-01	Number not used	Not applicable			
USCIS	08-02	Fee receipts are not being deposited timely		I		
USCIS	08-03	RNACS improperly reflects completed naturalization applications as pending		I		
USCIS	08-04	Untimely update of adjudication status within CLAIMS 3 and CLAIMS 4		I		
USCIS	08-05	Applications included in deferred revenue at incorrect fee amounts		I		
USCIS	08-06	Obligations are not being recorded in FFMS in a timely manner				08-01
USCIS	08-07	Discrepancies with the leave balances between the NFC records and STAR reports are not being researched and resolved timely				08-02
USCIS	08-08	Number not used	Not applicable			
USCIS	08-09	Number not used	Not applicable			
USCIS	08-10	Number not used	Not applicable			
USCIS	08-11	Errors in performance of the deferred revenue quality assurance procedures at the New York City District Office		I		
USCIS	08-12	Inadequate internal controls over the reporting of property, plant, and equipment				08-03
USCIS	08-13	Deficiencies in the deferred revenue quality assurance process and the internal control environment		I		
USCIS	08-14	Inadequate and/or inconsistent supervisor review of payroll transactions				08-04
USCIS	08-15	Insufficient documented evidence of Senior Executive Service (SES) employees' compliance with the Code of Federal Regulations				08-05

Department of Homeland Security
 Crosswalk - Financial Management Comments to NFRs
 September 30, 2008

Component	NFR No.	Description	Disposition			
			IAR			FMC
			MW	SD	NC	No.
ICE	08-01	Untimely execution of reimbursable agreements with other governmental entities when ICE is performing the services				08-01
ICE	08-02	<i>Number not used</i>	Not applicable			
ICE	08-03	Untimely disbursement of payments to vendors and incorrect calculation of interest due pursuant to the Prompt Payment Act				08-02
ICE	08-04	Obligations are not being recorded in FFMS in a timely manner				08-03
ICE	08-05	<i>Number not used</i>	Not applicable			
ICE	08-06	Discrepancies with the leave balances between the NFC records and webTA reports are not being researched and resolved timely				08-04
ICE	08-07	Lack of procedures to verify the receipt and acceptance of goods or services for IPAC transactions				08-05
ICE	08-08	Inadequate and/or inconsistent supervisory review of payroll transactions				08-06
ICE	08-09	<i>Number not used</i>	Not applicable			
ICE	08-10	<i>Number not used</i>	Not applicable			
ICE	08-11	Improper and incomplete preparation of the SF-132 to the SF-133 reconciliation				08-07
ICE	08-12	Receivable deposits are not properly closed for activity in FFMS				08-08
ICE	08-13	GAO Checklist are not properly completed				08-09
ICE	08-14	Internal controls over aged Federal receivables				08-10
ICE	08-15	Lack of internal controls - environmental and disposal liability	E			
ICE	08-16	Inadequate internal controls over property, plant and equipment				08-11
ICE	08-17	Completeness of free-form general journal voucher population				08-12
ICE	08-18	Inadequacy / ineffectiveness of internal controls over the preparation and review of the pending/threatened litigation against ICE				08-13
ICE	08-19	Purchase card obligation estimates				08-14
MGT	08-01	Obligations are not being keyed into FFMS in a timely manner				08-01
MGT	08-02	Inadequate internal controls over property, plant and equipment				08-02
MGT	08-03	Authorization of travel transactions				08-03
NPPD	08-01	Potential violation of the Anti-deficiency Act (ADA)			Q	
NPPD	08-02	Obligations are not being keyed into FFMS in a timely manner				08-01
NPPD	08-03	Failure to provide reasonable assurance that internal controls are achieving their intended objectives			J	
S&T	08-01	Obligations are not recorded in FFMS timely				08-01
S&T	08-02	<i>Number not used</i>	Not applicable			
S&T	08-03	Lack of internal controls - environmental and disposal liability	E			

Department of Homeland Security
Crosswalk - Financial Management Comments to NFRs
September 30, 2008

Component	NFR No.	Description	Disposition			
			IAR			FMC
			MW	SD	NC	No.
S&T	08-04	Inadequate internal controls over property, plant and equipment				08-02
OHA	08-01	Accounting for undelivered orders and management review				08-01
TSA	08-01	<i>Number not used</i>	Not applicable			
TSA	08-02	<i>Number not used</i>	Not applicable			
TSA	08-03	<i>Number not used</i>	Not applicable			
TSA	08-04	Incorrect trading partner codes	A			
TSA	08-05	Undelivered order documentation				08-01
TSA	08-06	<i>Number not used</i>	Not applicable			
TSA	08-07	<i>Number not used</i>	Not applicable			
TSA	08-08	<i>Number not used</i>	Not applicable			
TSA	08-09	Financial reporting deficiencies	A			
TSA	08-10	Required Supplementary Information				08-02
TSA	08-11	Debt Collection Improvement Act (DCIA) compliance			P	
TSA	08-12	<i>Number not used</i>	Not applicable			
TSA	08-13	Non-compliance with FFMLA			K	
TSA	08-14	Non-compliance with FMFIA			J	
TSA	08-15	Grant monitoring and compliance with OMB Circular No. A-133				08-03
TSA	08-16	Non-Compliance with human resources related laws				08-04
TSA	08-17	<i>Number not used</i>	Not applicable			
TSA	08-18	Ineffectiveness of controls over the time and attendance process				08-05
TSA	08-19	Policies and procedures to ensure compliance with GAAP	A			
TSA	08-20	Incomplete listing of asset leases				08-06
TSA	08-21	Unauthorized transfer of assets				08-07
TSA	08-22	Warehouse property impairment	D			
TSA	08-23	Policies and procedures for evaluating non-GAAP policies	A			
TSA	08-24	Review of journal vouchers	A			
TSA	08-25	SAS 70 review				08-08
TSA	08-26	Incorrect classification of obligations as Fed or non-Fed	A			
TSA	08-27	Accounts payable	A			
TSA	08-28	Reporting of PP&E	A, D			
TSA	08-29	Entity-level controls		G		
USCG	08-01	Statement of Net Cost	A			
USCG	08-02	Contracting officer warrant authority	F			

Department of Homeland Security
Crosswalk - Financial Management Comments to NFRs
 September 30, 2008

Component	NFR No.	Description	Disposition			
			IAR			FMC
			MW	SD	NC	No.
USCG	08-03	Accounts payable accrual	E			
USCG	08-04	Purchase requests/commitments	F			
USCG	08-05	Facts and figures quick report tool				08-01
USCG	08-06	Operating materials & supplies	D			
USCG	08-07	Payroll accrual and unfunded leave accrual	E			
USCG	08-08	PP&E construction in process	D			
USCG	08-09	Actuarial post-employment travel liability	E			
USCG	08-10	PP&E repairables	D			
USCG	08-11	Deepwater obligations process				08-02
USCG	08-12	Actuarial medical liability	E			
USCG	08-13	Intragovernmental transactions and balances	A			
USCG	08-14	Confidential financial disclosure reports (CFDRs)				08-03
USCG	08-15	Environmental liability	E			
USCG	08-16	Actuarial pension liability	E			
USCG	08-17	Accounts receivable	A			
USCG	08-18	PP&E asset records	D			
USCG	08-19	Undelivered orders	F			
USCG	08-20	Cumulative results of operations (CRO) analysis	A			
USCG	08-21	Federal Financial Management Improvement Act (FFMIA)			K	
USCG	08-22	FBwT – reconciliation / military & civilian payroll processes	C			
USCG	08-23	PP&E non-construction in process (CIP) assets	D			
USCG	08-24	Federal Manager Financial Integrity Act			J	
USCG	08-25	Suspense accounts	C			
USCG	08-26	Vessels and small boats useful lives	D			
USCG	08-27	Year-end pipeline adjustment	F			
USCG	08-28	Legal liability reporting				08-04
USCG	08-29	Financial management oversight		G		
USCG	08-30	Financial statement disclosures	A			
USCG	08-31	Financial reporting process	A			
USCG	08-32	Segregation of duties weakness - person entering applicant data into Direct Access may be the same person hiring the applicant				08-05

Department of Homeland Security
Status of Prior Year NFR's
 September 30, 2008

Component	NFR No.	Description	Disposition ¹	
			Closed	Repeat (08 NFR No.)
CONS	07-01	Government Performance Results Act of 1993 (GPRA) non-compliance		CONS-08-01
CONS	07-02	Tracking system for ethics training, public financial disclosures, and confidential reports		CONS 08-02
CONS	07-03	Audited financial statements		CONS-08-03
CONS	07-04	FY 2007 beginning balance reconciliation and prior year restatements	X	
CONS	07-05	Budget and Finance Policies and Management Directives	X	
CONS	07-06	June 30, 2007 consolidated financial statement and supporting documentation review	X	
CONS	07-07	Topside adjustments	X	
CONS	07-08	Review of component financial information		CONS 08-08
CONS	07-09	Review of consolidated financial information	X	
CONS	07-10	Completeness of DHS reported Treasury Account Fund Symbols	X	
CONS	07-11	Lack of compliance with Debt Collection Improvement Act (DCIA) of 1996		CONS 08-11
CONS	07-12	Oversight of parent/child reporting	X	
CONS	07-13	Statement of Net Cost (SNC) methodologies and IT systems functionality		CONS 08-13
CONS	07-14	Improper Payment Improvement Act (IPIA) compliance	X	
CONS	07-15	Preparation of the Departmental legal letter		CONS 08-15
CONS	07-16	Controls over the intragovernmental confirmation and reconciliation process		CONS 08-16
CONS	07-17	Configuration of the Transaction Elimination Pairs report		CONS 08-17
CONS	07-18	Lack of compliance with Federal Financial Management Improvement Act (FFMIA)	X	
CONS	07-19	Lack of compliance with OMB Circular A-50, <i>Audit Follow-up</i> and the Inspector Generals Act		CONS 08-19
CONS	07-20	Restatement of FY 2006 balances	X	
CONS	07-21	Policies and procedures related to imputed costs	X	
CONS	07-22	Earmarked funds (Implementation of SFFAS No. 27)	X	
CBP	07-01	Verification of CPL and certification of payments		CBP 08-01
CBP	07-02	Detection of excessive drawback claims		CBP 08-02
CBP	07-03	Insufficient retention period for documents that support drawback claims		CBP 08-03
CBP	07-04	ACS deficiency over the accumulation of claims against a drawback bond		CBP 08-04
CBP	07-05	Customs and Border Protection is unable to effectively monitor and close in-bond entries on a consistent basis		CBP 08-07
CBP	07-06	System integration and compliance with the USSGL at the transaction level		CBP 08-06
CBP	07-07	ACS deficiencies over non-entity account receivable and CBP's ability to effectively monitor collection actions		CBP 08-07
CBP	07-08	ACS limitations - review of prior related drawback claims and selectivity for underlying consumption entries		CBP 08-08

Department of Homeland Security
Status of Prior Year NFR's
 September 30, 2008

Component	NFR No.	Description	Disposition ¹	
			Closed	Repeat (08 NFR No.)
CBP	07-09	Number not used	Not applicable	
CBP	07-10	Weaknesses in the management of environmental liabilities		CBP 08-10
CBP	07-11	Overpayment of drawback claims		CBP 08-11
CBP	07-12	Failure to perform a full desk review		CBP 08-12
CBP	07-13	Insufficient guidance related to the D28 Alert Report	X	
CBP	07-14	National Account Manager Program	X	
CBP	07-15	Weaknesses identified in the bonded warehouses foreign trade zone process and procedures		CBP 08-15
CBP	07-16	Weaknesses in the requirements related to the monitoring, review, and oversight relating to the efficiency of completion of FP&F cases		CBP 08-16
CBP	07-17	Weakness in the Compliance Measurement Program		CBP 08-17
CBP	07-18	Weakness in the review of weekly/monthly entry edit reports		CBP 08-18
CBP	07-19	Lack of formal procedures for Strategic Trade Centers (STC)	X	
CBP	07-20	Review of Byrd disbursement claims (overpayment of Byrd claims)	X	
CBP	07-21	Weaknesses in CBP's controls related to asset retirements	X	
CBP	07-22	Untimely capitalization of assets from internal use software in development to internal use software	X	
FEMA	07-01	Lack of sufficient grants accrual methodology	X	
FEMA	07-02	Financial monitoring of grants awarded by the former Office of Grants and Training (G&T)		FEMA 08-02
FEMA	07-03	Inadequate inventory procedures at FEMA's Fort Worth Logistics Center	X	
FEMA	07-04	Non-grant unliquidated obligations (ULOs) within the former G&T not de-obligated timely		FEMA 08-04
FEMA	07-05	Untimely clearing of items from the suspense account 70F3876	X	
FEMA	07-06	Lack of segregation of duties related to preparation and approval of journal vouchers	X	
FEMA	07-07	Lack of current Anti-deficiency Act policies and procedures		FEMA 08-07
FEMA	07-08	Ineffective controls over processing mission assignment payments		FEMA 08-08
FEMA	07-09	Untimely de-obligation of mission assignments		FEMA 08-09
FEMA	07-10	Unavailability of supporting documentation for undelivered orders	X	
FEMA	07-11	Grants not closed and deobligated timely	X	
FEMA	07-12	Unavailability of supporting documentation for the reporting of internal use software and internal use software in development		FEMA 08-12
FEMA	07-13	Non-compliance with 5 CFR Part 2638 related to ethics training		FEMA 08-13
FEMA	07-14	Lack of segregation of duties within the financial reporting process		FEMA 08-14
FEMA	07-15	Lack of re-evaluation procedures over the allowance for doubtful accounts	X	

Department of Homeland Security
Status of Prior Year NFR's
 September 30, 2008

Component	NFR No.	Description	Disposition ¹	
			Closed	Repeat (08 NFR No.)
FEMA	07-16	NEMIS auto-determination process needs improvement		FEMA 08-16
FEMA	07-17	Unavailability of supporting documentation for certain entity level controls		FEMA 08-17
FEMA	07-18	Incomplete year-end accounts payable accruals related to fire grants	X	
FEMA	07-19	Lack of formal policies and procedures for entity level controls, financial reporting, and funds management		FEMA 08-19
FEMA	07-20	Monitoring of audit findings in accordance with OMB Circular Nos. A-133 and A-50, and related compliance matters		FEMA 08-20
FEMA	07-21	FMFIA non-compliance		FEMA 08-21
FEMA	07-22	Non-compliance with the Improper Payment Improvement Act of 2002		FEMA 08-22
FEMA	07-23	Legal liabilities		FEMA 08-23
FEMA	07-24	Lack of segregation of duties in accounting for the direct loan program and direct loan subsidy rate calculation	X	
FEMA	07-25	Significant errors identified in year-end flood insurance journal entries		FEMA 08-25
FEMA	07-26	Ineffective internal controls over FEMA grants	X	
FEMA	07-27	Incorrect application of the consumption method related to stockpile inventory	X	
FEMA	07-28	Temporary adjustments of Fund Balance with Treasury reconciling differences		FEMA 08-28
FEMA	07-29	Review for property, plant, and equipment acquired at year-end	X	
FEMA	07-30	Ineffective controls over journal vouchers	X	
FEMA	07-31	Recording of transactions in Fund 36	X	
FEMA	07-32	Inherited problems in G&T's Integrated Financial Management Information System (IFMIS)		FEMA 08-32
FEMA	07-33	Internal Control Deficiencies over Premiums Written at Selected Write Your Own (WYO) Insurance Companies that Participate in FEMA's National Flood Insurance Program		FEMA 08-33
FEMA	07-34	Accounts Payable as of 5/31/07 at Selected Write Your Own (WYO) Insurance Companies that Participate in FEMA's National Flood Insurance Program	X	
FEMA	07-35	Completeness of Accounts Payable as of 5/31/07 at Selected Write Your Own (WYO) Insurance Companies that Participate in FEMA's National Flood Insurance Program	X	
FEMA	07-36	Internal Control Deficiencies over Claims Paid at Selected Write Your Own (WYO) Insurance Companies that Participate in FEMA's National Flood Insurance Program		FEMA 08-36
FEMA	07-37	Accuracy of Claims' Reserves at Selected Write Your Own (WYO) Insurance Companies that Participate in FEMA's National Flood Insurance Program		FEMA 08-37
FLETC	07-01	The process to identify and record environmental liabilities needs to be improved.		FLETC-08-01
FLETC	07-02	Capitalization threshold does not correspond to financial and operation conditions at FLETC	X	
FLETC	07-03	Background investigation updates for existing employees and contractors needs to be performed timely.	X	

Department of Homeland Security
Status of Prior Year NFR's
 September 30, 2008

Component	NFR No.	Description	Disposition ¹	
			Closed	Repeat (08 NFR No.)
FLETC	07-04	Unrecorded Liabilities exist as of 9/30/2007	Completed after 12/5/2008	
FLETC	07-05	Performance measure information should be validated and approved by a supervisor	X	
FLETC	07-06	Deferred maintenance disclosure is understated	X	
FLETC	07-07	Fixed asset acquisitions or completed construction projects are not recorded timely.		FLETC-08-23
FLETC	07-08	Recording of transactions into Momentum Desktop		FLETC-08-23
FLETC	07-09	The useful life in the Momentum Fixed Assets module can be changed	X	
FLETC	07-10	Non-accrual of taxes related to Accrued Annual Leave	Completed after 12/5/2008	
FLETC	07-11	Debt Collection Improvement Act Compliance	Completed after 12/5/2008	
FLETC	07-12	Procedures are not in place to properly record infrequent transactions	X	
FLETC	07-13	Capital Lease Liability		FLETC-08-13
FLETC	07-14	Asbestos abatement costs are capitalized	X	
FLETC	07-15	Overstatement of the Deferred Revenue Account	X	
FLETC	07-16	Contract Review Process Needs Improvement		FLETC-08-16
FLETC	07-17	Recording of transaction into Momentum Desktop	X	
FLETC	07-18	Receipt date to calculate prompt payment is inaccurate	X	
FLETC	07-19	Payroll Documentation	X	
FLETC	07-20	Management Review of Upward and Downward Adjustments		FLETC-08-20
USCIS	07-01	Need for refinement of the deferred revenue quality assurance analysis methodology	X	
USCIS	07-02	Fee receipts are not being deposited in a timely manner per Treasury guidance at USCIS service centers		USCIS 08-02
USCIS	07-03	RNACS improperly reflects completed naturalization applications as pending		USCIS 08-03
USCIS	07-04	Completeness of deferred revenue		USCIS 08-04
USCIS	07-05	Applications included in deferred revenue at incorrect fee amounts		USCIS 08-05
USCIS	07-06	Obligations are not being recorded in FFMS in a timely manner		USCIS 08-06
USCIS	07-07	Discrepancies with the leave balances between the NFC records and STAR reports are not being researched and resolved timely		USCIS 08-07
USCIS	07-08	Untimely resolution of issues identified during the reconciliation of the SF-132 and SF-133	X	
USCIS	07-09	Errors in performance of the deferred revenue quality assurance procedures at the Washington District Office	X	
USCIS	07-10	Inadequate internal controls over the inventory of applications awaiting processing at the service centers	X	
ICE	07-01	Untimely execution of reimbursable agreements with other governmental entities when ICE is performing the services		ICE 08-01
ICE	07-02	Untimely resolution of issues identified during the reconciliation of the SF-132 and SF-133	X	

Department of Homeland Security
Status of Prior Year NFR's
 September 30, 2008

Component	NFR No.	Description	Disposition ¹	
			Closed	Repeat (08 NFR No.)
ICE	07-03	Untimely disbursement of payments to vendors and incorrect calculation of interest due pursuant to the Prompt Payment Act		ICE 08-03
ICE	07-04	Obligations are not being recorded in FFMS in a timely manner		ICE 08-04
ICE	07-05	Inconsistent classification within FFMS for purchases of goods and the use of receiving tickets	X	
ICE	07-06	Discrepancies with the leave balances between the NFC records and STAR reports are not being researched and resolved timely		ICE 08-06
ICE	07-07	Lack of procedures to verify the receipt and acceptance of goods or services for IPAC transactions		ICE 08-07
ICE	07-08	Inadequate and/or inconsistent supervisory review of payroll transactions		ICE 08-08
ICE	07-09	Inadequate policies and/or procedures within the Ethics Office related to Senior Executive Service (SES) employees	X	
ICE	07-10	Unauthorized approval of free-form general journal entries	X	
MGT	07-01	Obligations are not being keyed into FFMS in a timely manner		MGT 08-01
PRE	07-01	Potential violation of the Anti-deficiency Act (ADA)		NPPD 08-01
PRE	07-02	Obligations are not being keyed into FFMS in a timely manner		NPPD 08-02
S&T	07-01	Obligations are not recorded in FFMS timely		S&T 08-01
S&T	07-02	Untimely resolution of issues identified during the reconciliation of the SF-132 and SF-133	X	
USV	07-01	Obligations are not being keyed in FFMS in a timely manner		NPPD 08-02
USV	07-02	Controls over internal use software and software-in-development need improvement	X	
TSA	07-01	Letters of intent accrual for June 30, 2007	X	
TSA	07-02	Accrued leave balances	X	
TSA	07-03	PP&E depreciation	X	
TSA	07-04	Incorrect trading partner codes		TSA 08-04
TSA	07-05	Undelivered order balances		TSA 08-05
TSA	07-06	Construction in Progress (CIP)	X	
TSA	07-07	Reconciliation of property, plant, and equipment	X	
TSA	07-08	Use of USSGL account 1890	X	
TSA	07-09	Financial reporting deficiencies		TSA 08-09
TSA	07-10	Required Supplementary Stewardship Information		TSA 08-10
TSA	07-11	Debt Collection Improvement Act (DCIA) compliance		TSA 08-11
TSA	07-12	Allowance for Doubtful Accounts and Related Accounts Receivable Methodology	X	

Department of Homeland Security
Status of Prior Year NFR's
 September 30, 2008

Component	NFR No.	Description	Disposition ¹	
			Closed	Repeat (08 NFR No.)
TSA	07-13	Non-compliance with FFMIA		TSA 08-13
TSA	07-14	Non-compliance with FMFIA		TSA 08-14
TSA	07-15	Grant monitoring and compliance with OMB Circular No. A-133		TSA 08-15
TSA	07-16	Non-Compliance with Human Resources Related Laws		TSA 08-16
TSA	07-17	Core Accounting System (CAS) Generated Accounts Payable	X	
USCG	07-01	Statement of Net Cost		CG 08-01
USCG	07-02	Contracting officer warrant authority		CG 08-02
USCG	07-04	Accounts payable accrual		CG 08-03
USCG	07-04	Purchase requests/commitments		CG 08-04
USCG	07-05	Facts and figures quick report tool		CG 08-05
USCG	07-06	Operating materials & supplies		CG 08-06
USCG	07-07	Payroll accrual and unfunded leave accrual		CG 08-07
USCG	07-08	PP&E construction in process (CIP)		CG 08-08
USCG	07-09	Actuarial post-employment travel liability		CG 08-09
USCG	07-10	PP&E Repairables		CG 08-10
USCG	07-11	Deepwater obligations process		CG 08-11
USCG	07-12	Actuarial medical liability		CG 08-12
USCG	07-13	Intragovernmental transactions and balances		CG 08-13
USCG	07-14	Confidential financial disclosure reports (CFDRs)		CG 08-14
USCG	07-15	Environmental liability		CG 08-15
USCG	07-16	Actuarial pension liability		CG 08-16
USCG	07-17	Accounts receivable		CG 08-17
USCG	07-18	PP&E asset records		CG 08-18
USCG	07-19	Undelivered orders		CG 08-19
USCG	07-20	Cumulative results of operations (CRO) analysis		CG 08-20
USCG	07-21	Federal Financial Management Improvement Act (FFMIA)		CG 08-21
USCG	07-22	FBwT – reconciliation / military & civilian payroll processes		CG 08-22
USCG	07-23	PP&E non-construction in process (CIP) assets		CG 08-23
USCG	07-24	Federal Manager Financial Integrity Act		CG 08-24
USCG	07-25	Suspense accounts		CG 08-25
USCG	07-26	Vessels and small boats useful lives		CG 08-26
USCG	07-27	Year-end pipeline adjustment		CG 08-27
USCG	07-28	Legal liability reporting		CG 08-28
USCG	07-29	Financial management oversight		CG 08-29
USCG	07-30	Financial statement disclosures		CG 08-30
USCG	07-31	Financial reporting process		CG 08-31

Department of Homeland Security
Status of Prior Year NFR's
 September 30, 2008

Component	NFR No.	Description	Disposition ¹	
			Closed	Repeat (08 NFR No.)
USSS	07-01	Seized counterfeit currency reporting	X	
USSS	07-02	Pension liability reporting	X	

¹ KPMG was engaged to perform an audit over the Department of Homeland Security balance sheet and statement of custodial activity as of and for the year ended September 30, 2008, and was not engaged to perform an audit over the statement of net cost, statement of changes in net position, and statement of budgetary resources for the year ended September 30, 2008. In addition, we were engaged to perform follow-up on the status of all active Notice of Findings and Recommendations (NFRs) that supported significant deficiencies reported in KPMG's Independent Auditors' Report dated November 15, 2007, and which were not closed during FY 2008.

Department of Homeland Security
*Management Response to the Draft
Management Letter*

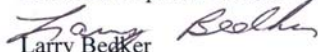
U.S. Department of Homeland Security
Washington, DC 20528



**Homeland
Security**

March 9, 2009

MEMORANDUM FOR: Anne Richards
Assistant Inspector General for Audits

FROM: 
Larry Beeker
Director, DHS Office of Financial Management

SUBJECT: Draft Management Letter for the FY 2008 DHS Financial
Statement Audit

Thank you for the opportunity to comment on the Draft Management Letter for the FY 2008 DHS Financial Statement Audit. We concur with the report's recommendations and are currently incorporating the audit results into our Management Action Plans. We appreciate your office's contributions and insights, and we look forward to working with you as we implement our corrective actions and the *DHS Financial Accountability Act*.

Appendix D Report Distribution

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Appendix D
Report Distribution

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