

**DEPARTMENT OF HOMELAND SECURITY**  
**Office of Inspector General**

**Management Letter**  
**for the FY 2007 DHS**  
**Financial Statement Audit**



**OIG-08-36**

**April 2008**

APR - 3 2008



**Homeland  
Security**

## Preface

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

This report represents the management letter for DHS' FY 2007 financial statement 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 2007 financial statements and prepared this management letter. Material weaknesses and other significant deficiencies were reported, as required, in KPMG's Independent Auditor's Report, dated November 15, 2007, that was included in the FY 2007 DHS Annual Financial Report. KPMG is responsible for the attached management letter dated December 21, 2007, and the conclusions expressed in it. We do not express opinions on DHS' financial statements or internal control or conclusion on compliance with laws and regulations.

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

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

Richard L. Skinner  
Inspector General



KPMG LLP  
2001 M Street, NW  
Washington, DC 20036

December 21, 2007

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 and statement of custodial activity of the U.S. Department of Homeland Security (DHS or Department) as of September 30, 2007 (referred to herein as “fiscal year 2007 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, 2007 (referred to herein as “other fiscal year 2007 financial statements”). Because of matters discussed in our *Independent Auditors’ Report*, dated November 15, 2007, the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the balance sheet or the statement of custodial activity for the year ended September 30, 2007.

In connection with our fiscal year (FY) 2007 engagement, we were also engaged to consider DHS’ internal control over financial reporting and to test 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 15, 2007, included in the FY 2007 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 18, 2007.

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, 2007, 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, 2007. 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 2007 financial statements and had we been engaged to audit the other fiscal year 2007 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**

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**I. CUSTOMS AND BORDER PROTECTION (CBP)**

**CBP – FMC 07-01 – Weaknesses in the management of environmental liabilities**  
(NFR No. CBP 07-10)

We noted weaknesses related to CBP's policies and procedures for recognizing environmental liabilities during FY 2005. During FYs 2006 and 2007, CBP made significant program changes and improved their overall process related to environmental liabilities. However, the following weaknesses were still noted during FY 2007:

- Development and implementation of the environmental liability management efforts, including new policies, procedures, and the management software system (CP-Track) has not been finalized; CBP is currently reevaluating CP-Track to determine if there is a more appropriate approach or a better software tool to use.
- Re-evaluation of liability associated with firing ranges has not been completed.

*Recommendations:*

We recommend that CBP:

- Continue developing, implementing, and maintaining environmental liability management efforts including developing policies, procedures, and management software systems;
- Continue to re-evaluate the estimates related to CBP's firing range liability as additional information becomes available; and

**CBP – FMC 07-02 – Weaknesses in CBP's controls related to asset retirements**  
(NFR No. CBP 07-21)

CBP retired three aircraft in the fourth quarter of FY 2007 using the ZAARET2 function within its financial reporting system (SAP). The ZAARET2 function was added to SAP to exclude asset removals that do not represent true asset retirements or asset sales (i.e. removal of duplicates/removal of assets created in error), from being reported as asset disposals. However, the three aircraft were true asset retirements. One aircraft was transferred to another organization; however, no *Transfer Internal Property Action* form (CF-33) was completed and approved prior to the transfer. The other two aircraft were excess property for CBP; however, the *Report of Excess Personal Property* form (SF-120) was not completed.

*Recommendation:*

We recommend that CBP implement procedures to ensure that the proper documentation is completed when retiring assets.

**CBP – FMC 07-03 – Untimely capitalization of assets from internal use software in development to internal use software** (NFR No. CBP 07-22)

We noted three assets classified as "in-development" by the Office of Information and Technology (OIT) as of September 30, 2007 were actually placed in-service during FY 2007. The three assets identified, with a total value of \$33.8 million, should have been classified as Internal Use Software as of September 30, 2007 instead of internal use software in development. In addition, we noted that \$1.3 million of depreciation expense and accumulated depreciation should have been recorded for these assets during FY 2007.

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*Recommendation:*

We recommend that CBP ensure that OIT and all project managers are aware of what qualifies as a “completed asset” to ensure that completed projects are reclassified from in-development to in-use assets in a timely manner so as to properly classify the assets within PP&E and to begin depreciation during the current period.



## **II. FEDERAL EMERGENCY MANAGEMENT AGENCY (FEMA) (including the former Office of Grants and Training)**

### **FEMA – FMC 07-01 – Unavailability of supporting documentation for reporting of internal use software and internal use software in development (NFR No. FEMA 07-12)**

FEMA does not maintain records of the actual costs for its internal use software or internal use software in development. FEMA is currently estimating the capitalizable cost of these assets. In addition, FEMA does not have procedures in place to periodically assess the reliability of its estimates, such as comparisons of estimates to actual costs.

Furthermore, FEMA recorded costs for software in development in standard general ledger (SGL) account 1830, *Internal Use Software*, rather than SGL account 1832, *Internal Use Software in Development*.

#### *Recommendations:*

We recommend that FEMA:

- Develop and implement a formal tracking system for the costs related to the development and implementation of internal use software;
- Use the information from the tracking system either to record actual costs of internal use software in the general ledger or to validate estimated costs on a periodic basis (at least annually);
- Amend its procedures to ensure that the costs of software in development are recorded in SGL account 1832, and the full cost of the software is transferred to SGL account 1830 after final acceptance testing is completed;
- Reclassify costs of software in development that are currently recorded in SGL account 1830 to SGL account 1832; and
- Properly record the amortization expense recorded to date for the costs of software in development.

### **FEMA – FMC 07-02 – Non-compliance with 5 CFR Part 2638 related to ethics training (NFR No. FEMA 07-13)**

FEMA was unable to provide adequate documentation to support attendance by existing financial disclosure filers and new hire employees at the respective required ethics training.

#### *Recommendation:*

As in FY2006, we recommend that FEMA develop procedures and dedicate resources to tracking compliance with, and monitoring of, the annual and new-hire ethics training requirements.

### **FEMA – FMC 07-03 – NEMIS auto-determination process needs improvement (NFR No. 07-16)**

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 the *Stafford Act*, which precludes duplication of benefits.

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*Recommendation:*

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

**FEMA – FMC 07-04 – Incomplete year-end accounts payable accrual related to fire grants  
(NFR No. FEMA 07-18)**

FEMA did not estimate an amount to be accrued for Assistance to Firefighters Grants (AFG) expenses incurred by grantees but not paid to them as of September 30, 2007. Further, FEMA was unable to identify the period work was completed related to the disbursements made subsequent to September 30, 2007.

*Recommendation:*

We recommend that FEMA develop and implement procedures to estimate and record the grants payable liability related to the AFG quarterly.

**FEMA – FMC 07-05 – Legal liabilities (NFR No. FEMA 07-23)**

FEMA's legal letter templates are the only documentation provided to management for financial statement legal 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 and prepare related note disclosures for DHS' consolidated financial statements.

*Recommendation:*

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

**FEMA – FMC 07-06 – Ineffective internal controls over FEMA grants (NFR No. FEMA 07-26)**

We tested the internal controls related to 78 grants issued by FEMA and the related undelivered order balances as of March 31, 2007, and noted the following control deficiencies:

- For ten of the 78 grants tested, the reconciliations of the *Financial Status Reports* to NEMIS, Integrated Financial Management Information System (IFMIS), and Automated Disaster Assistance Management System (ADAMS) were not performed properly or timely. These exceptions were identified in region VIII, Denver.
- For ten of the 78 grants tested, the quarterly *Financial Status Report* tracking logs were not maintained. These exceptions were identified in region VIII, Denver.
- For two of the 78 grants tested, the *Financial Status Report* was not received timely, and there was no evidence of any action taken by FEMA to correct the delinquencies. These exceptions were identified in region II, New York.

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*Recommendations:*

We recommend that FEMA:

- Enforce procedures requiring the timely reconciliation of the *Financial Status Reports* (SF-269s or FEMA 20-10) submitted by grantees to NEMIS, IFMIS, and ADAMS quarterly;
- Ensure the establishment of a centralized mechanism to collect FSRs and Project Status Reports (PSR) regularly and maintain tracking logs to document the receipt of these reports; and
- Ensure that staff takes action timely on delinquent grantee reports and document the action taken.

**FEMA – FMC 07-07 – Temporary adjustments of Fund Balance with Treasury reconciling differences (NFR No. FEMA 07-28)**

During our year-end Fund Balance with Treasury reconciliation and journal voucher review testwork, we noted that both the Reports Consolidation Branch (RCB) and the Disaster Finance Branch (DFB) posted temporary adjusting entries totaling a net of \$24.3 million for differences that needed additional research in order to adjust cash to the balances reported by Treasury.

*Recommendation:*

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

**FEMA – FMC 07-08 – Review for property, plant, and equipment acquired at year-end (NFR No. FEMA 07-29)**

For 18 of 30 purchases in excess of \$50,000 selected from the second and fourth quarters of FY 2007, we noted that while a review was made by DFB personnel, the support received did not provide sufficient documentation to support a determination as to the capitalization classification of the items.

*Recommendation:*

We recommend that FEMA management emphasize the coordination of necessary accounting information agency-wide in its plan to address control deficiencies identified related to financial management and entity level controls. The plan should stress the importance of the maintenance of proper documentation in divisions and offices other than the Office of the Chief Financial Officer and the necessity of providing this documentation to the DFB timely upon request, thereby enabling the DFB to maintain adequate supporting documentation of asset capitalization determinations.

**FEMA – FMC 07-09 – Ineffective controls over journal vouchers (NFR No. FEMA 07-30)**

We noted in 24 of the 98 journal vouchers (JVs) reviewed during our financial reporting process testwork that the individual who approved the hard copy of the *IFMIS General Ledger – Journal Voucher 2007* was not the same individual who approved the journal voucher within IFMIS via the Journal Voucher entry window. We also noted in 28 of the 98 JVs tested that the approver’s signature was applied using a rubber stamp.

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*Recommendation:*

We recommend that FEMA management ensure that staff are properly trained on the internal controls surrounding JVs and that the requirements in the *Office of the Chief Financial Officer Journal Voucher (JV) Process* manual are enforced. In addition, FEMA management should prohibit the use of a signature stamp to denote approval of JVs unless the approver also initials next to the stamped signature.

**FEMA – FMC 07-10 – Recording of transactions in Fund 36 (NFR No. FEMA 07-31)**

FEMA processes transactions in a non-Treasury recognized suspense account identified as Fund 36. The fund, which is used as a suspense account, acts as a contra account to the Disaster Relief Fund (Fund 6-TFS 70X0702). We noted during our testwork that the transactions recorded in Fund 36 are not being resolved and posted correctly in a timely manner, and the material suspense amounts are not being properly reported to Treasury in an appropriate suspense account.

*Recommendations:*

We recommend that:

- FEMA adhere to its existing policies and procedures when processing mission assignment payments and credits, specifically its SOP *Processing Mission Assignment and Interagency Payments for Fund Code 06*. These procedures include posting suspense transactions to appropriate clearing accounts and charging back unsupported bills within the documented time frames if timely resolution attempts fail.
- FEMA's Federal Payment team continue to develop and implement policies that will ensure the timely processing of suspense transactions within stated time frames. The procedures should include standardized Intra-Governmental Payment and Collection (IPAC) support templates with appropriately identified required fields to ensure prompt posting.
- The FEMA Chief Financial Officer require DFB to properly account for IPAC suspense transactions in a Treasury recognized suspense account.

**FEMA – FMC 07-11 – Inherited problems in G&T's Integrated Financial Management Information System (NFR No. FEMA 07-32)**

During fiscal year 2007, FEMA inherited the Grants & Training (G&T) IFMIS when G&T was merged with FEMA. FEMA's internal analysis of the system determined that Federal / non-Federal attributes needed for FACTS II and TIER submissions were not properly included in the inherited version of G&T's IFMIS.

*Recommendation:*

We recommend that FEMA complete its analysis and 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 November or December 2008).

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### III. UNITED STATES CITIZENSHIP AND IMMIGRATION SERVICES (USCIS)

#### CIS – FMC 07-01 – Need for refinement of the deferred revenue quality assurance analysis methodology (NFR No. CIS 07-01)

We noted the following conditions related to the deferred revenue quality assurance (QA) process:

- The deferred revenue QA procedures are carried out according to a rotation whereby 11 District Offices and two Service Centers (or the National Benefits Center (NBC)) undergo QA testing each month. The rotation is such that each District is selected for QA once every three months, and each Service Center (or the NBC) is selected every two-three months. This method of sampling means the amount of QA testing at a site is not proportional to the number and value of pending applications, therefore the errors identified during the QA process are not evenly weighted and errors rates are not easily projected back against the reported value of deferred revenue.
- The deferred revenue QA procedures are insufficient in relation to procedures to be performed when a particular file cannot be located by the office performing the QA procedures. Current deferred revenue QA procedures instruct offices to select a replacement file from an overdraw listing whenever a file cannot be readily located. According to the Quality Management Branch (QMB), these files are not lost, but are most likely at another location. The instructions given to the QA participants do not call for follow-up procedures to locate these files nor has QMB taken action and conducted procedures to validate its assumption that these files are not lost.
- Although QMB computes a range of error, the USCIS' Financial Management Division (FMD) does not use this data to adjust the estimate of deferred revenue.
- Monthly, all USCIS offices processing applications report the number of applications received, processed, and pending through the Performance Analysis System (PAS). The number of pending cases reported through PAS is reconciled against the results from the queries of CLAIMS 3, CLAIMS 4 and RNACS to determine the count of applications not captured in the system queries. This information on non-system applications is included in the computation of deferred revenue provided to USCIS FMD. During FY 2007, the QMB began including information on one non-system application (I-751) from Marriage Fraud Application System (MFAS) in the QA process to determine if the MFAS data was sufficiently reliable for deferred revenue reporting. However, the non-system applications are not subjected to the QA procedures implemented to validate the reliability of USCIS' basis for the computation of deferred revenue, because the data is not captured at the application level.

#### *Recommendations:*

We recommend that the USCIS FMD in conjunction with the Performance Management Division:

- Revise the QA sampling methodology so that the testing is proportional to reported value of the deferred revenue and better addresses the risk of material misstatement in reported value;
- Evaluate the results of QA procedures performed and refine the query process to provide a more accurate estimate of deferred revenue for reporting on the financial statements;
- Revise QA policies and procedures to require all files to be located. If a file is unable to be located, it should be considered an error for purposes of QA;

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- Track all pending applications within one system or in a series of systems that are integrated; and
- While new case management system is in development, institute operational changes to minimize the number of pending applications that are not tracked in a system.

**CIS – FMC 07-02 – Fee receipts are not being deposited in a timely manner per Treasury guidance at USCIS Service Centers (NFR No. CIS 07-02)**

An estimated \$245 million of fee receipts pertaining to the front-log of immigration and naturalization applications were not deposited in accordance with Treasury's guidance.

*Recommendations:*

We recommend that the Service Center Operations:

- Continue efforts to move the receipt of all Service Center applications and petitions with fees to lockbox operations by the end of FY 2008; and
- Develop contingency plans to cover potential workload surges that exceed 120% of normal workload.

**CIS – FMC 07-03 – RNACS improperly reflects completed naturalization applications as pending (NFR No. CIS 07-03)**

Reengineered Naturalization Application Casework System (RNACS) improperly reflects completed naturalization applications as pending. During our testwork, we noted 12 of the 31 selected were inappropriately reported in RNACS as pending based on the QA queries for six district offices, as they were in fact completed. Extrapolation of the error to the total amount of deferred revenue as of June 30, 2007 per RNACS yielded an overstatement of approximately \$7.6 million.

*Recommendations:*

We recommend that the Office of Field Operations:

- Adjust management's estimate of deferred revenue to take into account the error rate of RNACS applications found by QA testing;
- Identify an alternate system, new or existing, for tracking naturalization applications;
- Review existing RNACS data, identify valid pending cases, and transfer them to a different tracking system; and
- Cease entering all new applications into RNACS.

**CIS – FMC 07-04 – Completeness of deferred revenue (NFR No. CIS 07-04)**

Pending immigration and naturalization applications were not entered into the CLAIMS 3 and CLAIMS 4 systems in a timely manner (i.e. within three business days) for 83 of 363 applications tested. The adjudication decision was not updated in CLAIMS 3 in a timely manner for three of 78 immigration applications tested. The untimely updating of CLAIMS 3 and CLAIMS 4 increases the possibility that the number of pending applications at the end of any given reporting period may be incomplete, thus resulting in the misstatement of deferred revenue.

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*Recommendation:*

We recommend that USCIS place an increased emphasis on the operating effectiveness of preventative internal control procedures, which act to ensure the timely update of application status in both CLAIMS 3 and CLAIMS 4 is achieved.

**CIS – FMC 07-05 – Applications included in deferred revenue at incorrect fee amounts  
(NFR No. CIS 07-05)**

During our review of pending immigration and naturalization applications that were selected by QMB for the monthly deferred revenue QA process, we noted 11 of 363 applications had the incorrect fee amount associated with the application within the query.

*Recommendation:*

We recommend that USCIS management formally identify the business system owner of the deferred revenue query applications and the owner is assigned the responsibility for ensuring the accuracy of the deferred revenue fee information.

**CIS – FMC 07-06 – Obligations are not being recorded in FFMS in a timely manner  
(NFR No. CIS 07-06)**

During our testwork over FY 2007 disbursements and obligations, we noted the following indicating certain obligations were not recorded timely:

- The period of performance for one disbursement was prior to the obligation being recorded in Federal Financial Management System (FFMS).
- The invoice for two disbursements 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.
- Four obligations were not recorded in FFMS in a timely manner after the contracting officer approved the obligating document.

*Recommendations:*

We recommend that until the interface between FFMS and Purchase Request Information System (PRISM) is implemented the USCIS FMD:

- Reinforce controls to monitor timely recording of obligations within FFMS; ensuring that obligations are being recorded in FFMS upon execution of an obligating document; and
- 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.

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

We noted several instances where the annual leave and sick leave hours reported by the National Finance Center (NFC) did not agree to the annual and sick leave hours recorded in System Time

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and Attendance Reporting (STAR WEB) system. These errors remained outstanding for well over five pay periods subsequent to being identified.

*Recommendations:*

We recommend that:

- 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 develop and implement controls to monitor the execution of its policies and procedures outlined in the *Leave Audit Procedures*, and identification and resolution of differences to ensure that they are being followed.

**CIS – FMC 07-08 – Untimely resolution of issues identified during the reconciliation of the SF-132 and SF-133 (NFR No. CIS 07-08)**

The issues identified during USCIS' reconciliation of the *Apportionment and Reapportionment Schedule* (SF-132) and *Report on Budget Execution and Budgetary Resources* (SF-133) were not resolved in a timely manner in FY 2007. Failure to resolve differences between the SF-132 and SF-133 may result in error or misstatements in the financial statements.

*Recommendations:*

We recommend that the USCIS Budget Office:

- Prepare policies and procedures for taking the appropriate corrective action to timely resolve any differences identified during the SF-132/SF-133 reconciliation, within 30 days of notification; and
- Indicate within the policies and procedures the responsibilities of the USCIS Budget Office to include, at a minimum, the threshold for which the submission of a revised SF-132 is deemed warranted, who is responsible for reviewing the reconciliation, and how to document review of the reconciliation.

**CIS – FMC 07-09 – Errors in performance of the deferred revenue quality assurance procedures at the Washington District Office (NFR No. CIS 07-09)**

Our review of a sample of 23 immigration and naturalization applications at the Washington District Office consisted of verification of the status (i.e. pending or closed) of each through inspection of the hard-copy application file. These results were then compared to the Washington District Office's own QA results that were submitted to the QMB. This re-performance of the Washington District Office's June 2007 deferred revenue QA procedures resulted in five exceptions, a 21.7% error rate, where the applications' status per inspection of the hard-copy file differed from the status that was reported to QMB.

*Recommendation:*

We recommend that the USCIS FMD in conjunction with the QMB require a supervisory review at the Service Centers, NBC, and the Districts to help ensure that errors in the performance of the monthly deferred revenue QA procedures do not occur.



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**CIS – FMC 07-10 – Inadequate internal controls over the inventory of applications awaiting processing at the service centers (NFR No. CIS 07-10)**

We noted the following conditions related to internal controls over the front-log of immigration and naturalization applications:

- The Texas Service Center (TSC) did not have an auditable tracking sheet for the naturalization applications showing the breakdown by day of the application inventory.
- The I-485 Supplement A applications (each with a \$1,000 fee) were not being taken into account in the 'front-log' inventory estimation.
- We were unable to successfully recalculate the total 'Envelope Count' reported on the 'I-485 Counts' inventory tracking worksheet for all five days selected.

*Recommendation:*

These conditions were identified and communicated to USCIS early in our testwork. USCIS implemented corrective action prior to September 30, 2007 and we determined that these actions were properly implemented and operating effectively. As such, we have no further recommendation.

#### IV. IMMIGRATION AND CUSTOMS ENFORCEMENT (ICE)

##### **ICE – FMC 07-01 – Untimely execution of reimbursable agreements with other governmental entities when ICE is performing the services (NFR No. ICE 07-01)**

In our review of a sample of ten reimbursable agreements and 25 security work agreements, we noted three of the reimbursable agreements and six of the security work agreements were not signed in a timely manner (>five days). Even though services may be recurring, they still need to be signed by all parties in a timely manner prior to the start date of the services. In addition, the Office of Detention and Removal had not fully executed a reimbursable agreement with the U.S. Marshals Service.

*Recommendation:*

We recommend that ICE implement policies and procedures to ensure each reimbursable agreement or security work agreement is signed within five business days of the other contracting party, and these policies and procedures require an escalation plan of approval for continuation of services under expired reimbursable agreements. Furthermore, ICE should formally document its policy requiring the timely signature of all reimbursable agreements and security work agreements within a set timeframe.

##### **ICE – FMC 07-02 – Untimely resolution of issues identified during the reconciliation of the SF-132 and SF-133 (NFR No. ICE 07-02)**

Differences identified during ICE's reconciliation of the SF-132 and SF-133 were not resolved timely in FY 2007. Reconciling differences were noted for two Treasury Account Fund Symbols in the reconciliation performed for the month of March 2007, and then continued to exist, and in one case increased, during the reconciliations performed for the month of June 2007.

*Recommendations:*

We recommend that ICE:

- Adhere to the existing procedures by taking the appropriate corrective action to timely resolve differences identified as a result of the SF-132/SF-133 reconciliation;
- Consider expanding upon its responsibilities outlined in the existing policy and procedures to include within the text of the policy, at a minimum, the threshold for which the submission of a revised SF-132 is deemed warranted and the person responsible for reviewing the reconciliations; and
- Adhere to the existing procedures by notifying the Chief Financial Officer if necessary actions to correct or resolve discrepancies are not completed within 30 days of issuance of the spreadsheet.

##### **ICE – FMC 07-03 – Untimely disbursement of payments to vendors and incorrect calculation of interest due pursuant to the Prompt Payment Act (NFR No. ICE 07-03)**

Certain disbursements to ICE's vendors and its customers' vendors were not made in a timely manner (note that ICE's customers include USCIS, Preparedness, MGT, and US-VISIT). Specifically, we noted that 52 invoices out of a sample of 326 disbursements subject to the Prompt Payment Act were not paid within 30 days after receipt of a proper invoice. We noted

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that four interest payments were not made timely, occurring three to eight months after the payment of the invoice. In addition, we noted one instance in which a data entry error resulted in an overpayment of *Prompt Payment Act* interest to a vendor. The overpayment was \$47,275, which ICE deducted from the subsequent month's payment.

*Recommendations:*

We recommend that the Dallas Finance Center (DFC), in coordination with the ICE Office of Financial Management (ICE-OFM) at Headquarters:

- Continue to instruct ICE's program offices on the requirements to submit invoices to DFC in a timely manner so that the payments can be made in compliance with the *Prompt Payment Act*;
- Issue formal policies and procedures to ICE's customers instructing them on the requirements to submit invoices to DFC in a timely manner;
- Continue to review and modify, as appropriate, the vendor maintenance tables in FFMS on a routine basis to ensure that attributes related to the *Prompt Payment Act* are accurate, thus allowing vendors who are due prompt payment interest to receive this interest; and

**ICE – FMC 07-04 – Obligations are not being recorded in FFMS in a timely manner  
(NFR No. ICE 07-04)**

In our review of 123 disbursements and 125 obligations made in FY 2007, we noted certain obligations were not recorded timely. Specifically:

- Two instances where the period of performance per the invoice fell outside the period of performance per the obligating document;
- 21 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;
- 11 instances 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; and
- 20 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 the period of performance or the receipt of any goods and/or services by the agency; and
- Consider the feasibility of using the PRISM for all procurement needs of the entity.

We also recommend that the 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; and

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- 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 corrective action.

**ICE – FMC 07-05 – Inconsistent classification within FFMS for purchases of goods and the use of receiving tickets (NFR No. ICE 07-05)**

We noted that the requisitioning of goods are inconsistently classified within FFMS. Out of a total combined sample of 326, there were 22 transactions that were inappropriately classified as services or miscellaneous, instead of the proper classification of “goods.”

*Recommendations:*

We recommend that the ICE FMD:

- Continue to implement controls to monitor the proper classification of obligations within FFMS;
- Encourage the use of multiple distribution line item transactions to ensure that the classification is appropriate for the purchase type; and
- Perform a detailed analysis of FY 2006 and prior open obligations to ensure that future activity (i.e. disbursements, modifications) are properly classified as a good or service in FFMS.

**ICE – FMC 07-06 – Discrepancies with the leave balances between the NFC records and STAR reports are not being researched and resolved timely (NFR No. ICE 07-06)**

We identified several instances in which annual leave and sick leave hours reported by the NFC did not agree to the annual and sick leave hours recorded in the STAR database. For those differences identified, we requested evidence (i.e., leave audits) of measures taken to correct the balance. Differences in the leave balances between the NFC records and STAR reports are not being researched and resolved timely. We noted that these errors remained outstanding over five pay periods subsequent to being identified.

*Recommendations:*

We recommend that:

- Timekeepers adhere to existing policy and procedures by performing leave audits when discrepancies are reported by NFC and timely research and resolve the differences; and
- The Office of Human Resources develop and implement controls to monitor the execution of its policies and procedures outlined in the *Summary of Leave Audit Procedures*, and identification and resolution of differences to ensure that they are being followed.

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

ICE does not have procedures to verify the receipt and acceptance of goods or services when disbursements are processed through the IPAC system. This condition is applicable to ICE transactions and transactions of each of the DHS components for which ICE provides accounting services: USCIS, S&T, Preparedness, US-VISIT, and MGT.

*Recommendations:*

We recommend that:

- The Dallas Finance Center adhere to its existing standard operating procedures for IPAC transactions;
- The ICE-OFM examine current policies and procedures and enhance as necessary for post validation when disbursements are processed through the IPAC system. The procedures should clearly delineate the responsibilities of the Dallas Finance Center and ICE's program offices; and
- The ICE-OFM develop and implement controls to monitor the execution of its policies and procedures, particularly related to IPAC transactions, to ensure that they are being followed.

**ICE – FMC 07-08 – Inadequate and/or inconsistent supervisory review of payroll transactions (NFR No. ICE 07-08)**

During our review of 45 ICE payroll transactions, we noted five instances where employees' STAR report was either not signed by the supervisor, did not properly reconcile to the employee timesheet, or was not adequately supported. Specifically, the following cases were noted:

- The STAR report for three out of 45 employees was not properly authorized by the timekeeper and supervisor, as the STAR report was missing the required signatures.
- The data reported on the timesheet for two out of 45 employees 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 out of 45 employees was not provided to support the employees' STAR report.

*Recommendation:*

As the design of the newly implemented webTA will partially remediate the former control deficiencies, KPMG recommends that timekeepers and supervisors adhere to existing policies and procedures related to the comprehensive review and authorization of payroll transactions.

**ICE – FMC 07-09 – Inadequate policies and/or procedures within the Ethics Office related to Senior Executive Service (SES) employees (NFR No. ICE 07-09)**

ICE does not have documented policies and procedures to ensure annual disclosure of certain financial investments reported on the *Public Financial Disclosure Report* (SF-278s) are reviewed and certified in a timely manner prior to the annual dead-line. ICE currently utilizes a database to track SF-278s, however no policies and procedures are documented to identify and resolve aged SF-278s in the database. In addition, we noted that four out of five SF-278s we selected for

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testwork were not reviewed in a timely manner (>60 days). We note that the review time for SF-278s may vary significantly based on the complexity of the information contained within them; however, the lack of policies and procedures leads to potential untimely reviews on “non-complex” SF-278s as well.

*Recommendation:*

We recommend that the Office of Ethics document their policies and procedures to ensure that SF-278s are reviewed and certified in a timely manner. Although we note ICE has added new personnel to this process, the review process is not yet operating effectively.

**ICE – FMC 07-10 – Unauthorized approvals of free-form general journal entries**  
*(NFR No. ICE 07-10)*

During our testwork over free-form general journal entries, we noted that eight out of a sample of 85 selected were not approved by an authorized employee per the listing of the Designated General Journal Voucher Approvers located in the ICE-OFM *General Journal Entry Policy*.

*Recommendations:*

We recommend that the Office of Financial Reporting:

- Reiterate to all supervisors the existence of the procedures outlined in the General Journal Entry Procedures and re-emphasize the importance of adhering to policies and procedures;
- Develop and implement controls to monitor the execution of its policies and procedures, particularly related to the authorization of general journal transactions, to ensure that they are being adhered to; and
- Ensure that only Designated General Journal Voucher Approvers have the authority to approve free-form general journal entries.

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**V. MANAGEMENT DIRECTORATE (MGT)**

**MGT – FMC 07-01 – Obligations are not being keyed into FFMS in a timely manner  
(NFR No. MGT 07-01)**

In our review of 52 disbursements and 57 obligations in FY 2007, we noted that obligations were not being recorded timely. Specifically:

- Two instances where the period of performance on the invoice was outside of the period of performance specified by the obligation; thus, it appears that services were rendered before the obligation was recorded in FFMS
- One instance 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
- 15 instances where the obligations were not recorded in FFMS timely after being awarded by the Contracting Officer.

*Recommendations:*

We recommend that the Departmental Operations Branch:

- 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.

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**VI. PREPAREDNESS DIRECTORATE (PRE)**

**PRE – FMC 07-01 – Obligations are not being keyed into FFMS in a timely manner  
(NFR No. PRE 07-02)**

We selected 52 obligations in FY 2007 for review, of which 15 were not recorded in a timely manner after being signed by the contracting officer.

*Recommendations:*

We recommend that the Finance Branch perform the following, until the interface between FFMS and PRISM is implemented:

- Adhere to 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 adhered to; and
- 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.



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**VII. SCIENCE AND TECHNOLOGY DIRECTORATE (S&T)****S&T – FMC 07-01 – Obligations are not recorded in FFMS timely (*NFR No. S&T 07-01*)**

We selected 47 obligations in FY 2007 for review, of which 13 were not recorded in a timely manner after the contracting officer approved the obligating document.

*Recommendations:*

We recommend that the Budget Execution and Finance Team continue 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 adhered to;
- Perform weekly reconciliations of 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; and
- Coordinate with DHS Office of Procurement Operations, program and field offices to obtain approved documents in a more timely and efficient manner.

**S&T – FMC 07-02 – Untimely resolution of issues identified during the reconciliation of the SF-132 and SF-133 (*NFR No. S&T 07-02*)**

Differences identified during S&T's reconciliation of the SF-132 and SF-133 were not resolved timely in FY 2007. A reconciling difference was noted for one Treasury Account Fund Symbol in the reconciliation performed for the month of March 2007, and then continued to exist during the reconciliations performed for the month of June 2007.

*Recommendations:*

We recommend that the Strategy, Policy, and Budget: S&T Financial Operations:

- Prepare policies and procedures for taking the appropriate corrective action to timely resolve any differences identified by ICE-OFM during the SF-132/SF-133 reconciliation, within 30 days of notification and
- Indicate within the policies and procedures the responsibilities of the Strategy, Policy, and Budget: S&T Financial Operations to include, at a minimum, the threshold for which the submission of a revised SF-132 is deemed warranted, who is responsible for reviewing the reconciliation, and how to document review of the reconciliation.

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**VIII. US-VISIT DIRECTORATE (USV)****USV – FMC 07-01 – Obligations are not being keyed in FFMS in a timely manner  
(NFR No. USV 07-01)**

In our review of 33 disbursements and 45 obligations in FY 2007, we noted that obligations were not being recorded timely. Specifically:

- 11 obligations were not recorded in FFMS timely after being signed by the contracting officer; and
- One instance 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.

*Recommendations:*

We recommend that the Finance Branch perform the following, until the interface between FFMS and PRISM is implemented:

- Adhere to 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 adhered to; and
- 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

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**IX. TRANSPORTATION SECURITY ADMINISTRATION (TSA)**

**TSA – FMC 07-01 – Letters of intent accrual for June 30, 2007 (NFR No. TSA 07-01)**

TSA accrued \$46,984,738 for seven of the eight letters of intent (LOIs) at June 30, 2007. We noted the following differences, resulting in an under-accrual of \$24,750,522:

- TSA did not accrue for the Hartsfield-Jackson International Airport LOI and received a confirmation on July 17, 2007 that indicated \$22,495,499 should have been accrued.
- TSA accrued \$1,193,806 for the Seattle-Tacoma International Airport LOI when the total amount of the confirmation received June 28, 2007 indicated that \$3,656,341 should have been accrued.
- TSA accrued \$1,148,209 for the Phoenix Sky Harbor International Airport LOI when the amount of the confirmation received July 16, 2007 indicated \$940,697.

These errors occurred because TSA does not have a sufficient methodology in place to estimate accruals when a timely confirmation is not received. Furthermore, the accrual for the Seattle-Tacoma International Airport LOI was not recorded as indicated on the confirmation due to human error

*Recommendations:*

We recommend that TSA:

- Implement a process to ensure that the accrual amounts recorded based on confirmations received are reviewed for accuracy; and
- In cases where a confirmation is not received, implement formal, documented policies and procedures for LOI estimates to ensure a complete and accurate TIER file is submitted each quarter.

**TSA – FMC 07-02 – Required Supplementary Stewardship Information (NFR No. TSA 07-10)**

We noted TSA's draft FY 2007 Required Supplementary Stewardship Information (RSSI), specifically investments in human capital and research and development, did not report outcomes and outputs as required by OMB Circular A-136.

*Recommendation:*

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

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**X. UNITED STATES SECRET SERVICE (USSS)**

**USSS – FMC 07-01 – Seized counterfeit currency reporting (*NFR No. USSS 07-01*)**

We noted the Counterfeit Currency System (CCS) does not conform to Joint Financial Management Improvement Program standards. Specifically, CCS does not provide accurate and timely reconciliations between the physical records maintained at field offices and the system. To compensate for the system limitations, USSS prepares a reconciliation spreadsheet to track the transfers, changes, seizures, and destructions of counterfeit currency. However, due to the timing of the receipt of these spreadsheets, we could not complete our procedures over the reconciliation prior to the department's reporting deadlines.

*Recommendations:*

We recommend that the:

- Forensic Services Division (FSD) and the Financial Management Division continue working with the field offices to provide training and ensure the offices are aware of the reconciliation process and the timeframe for submitting information; and
- FSD continue to strengthen the seized property reporting process so that the monthly reconciliations are completed in a timely manner, and supporting evidence is made available for amounts reported.

**USSS – FMC 07-02 – Pension liability reporting (*NFR No. USSS 07-02*)**

During our pension test work over the data related to active employees, we noted certain errors in the salary information submitted to USSS' actuary for the pension liability calculation. Specifically, for 12 of the 45 active pension employees tested, we noted the salary information submitted to the actuary did not agree with the salary information contained in their Official Personnel Folders.

*Recommendation:*

We recommend that USSS develop and implement policies and procedures to review the pension data for accuracy prior to submitting it to the actuary.

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**XI. CONSOLIDATED (CONS)****CONS – FMC 07-01 – Tracking system for ethics training, public financial disclosures, and confidential reports (NFR No. CONS 07-02)**

DHS does not have department-wide procedural guidance for financial disclosure reporting and tracking. The lack of published procedural guidance contributes to the Designated Agency Ethics Officer's (DAEO) inability to assert that all DHS employees, who are required to complete ethics training and comply with Office of Government Ethics filing requirements, are properly tracked and monitored for compliance.

*Recommendations:*

We recommend that the DAEO, in conjunction with the Chief Human Capital Officer and the Office of 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; and
- 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 07-02 – Completeness of DHS reported Treasury Account Fund Symbols (NFR No. CONS 07-10)**

During our review of the Treasury Account Fund Symbol (TAFS) included in the DHS TIER system, we noted OFM did not perform a fully effective review of the TAFS reported in TIER, as its control procedures did not include a comparison between TIER and the Government Wide Accounting and Reporting (GWA) system. Specifically, we noted a trial balance was not generated for TSA's TAFS 70F3880.20 as it is currently reported as "defunct" in TIER. However, per review of the GWA system, this TAFS had an ending balance in SGL account 1010 – Fund Balance with Treasury as of June 30, 2007 and should have been reflected as active within TIER.

*Recommendations:*

We recommend that OFM:

- Periodically compare the GWA system to TIER to ensure the completeness and existence of TAFS reported in TIER. OFM should especially review the GWA system prior to changing TAFS to defunct to ensure that no balances exist. In addition, management approval for changes to the TAFS included in TIER should be documented and available for review; and
- Determine if other defunct funds have a balance in the GWA system. For the fund identified above and any other funds identified, work with the related DHS component personnel to ensure that balances are properly reported and/or GWA is appropriately updated and all considerations are adequately documented.

**CONS – FMC 07-03 – Preparation of the departmental legal letter (NFR No. CONS 07-15)**

The case briefs provided by the Office of General Counsel (OGC) detailing litigation and claims against the Department, in support of the 'interim' Legal Representation Letter, dated August 8, 2007, did not initially provide sufficient detail to conclude on OGC's assessment or support the Department's legal liability and related disclosures in the financial statements.

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The Internal Control over Financial Reporting (ICoFR) Program Management Office (PMO) contacted the component Counsel, and requested additional information. We noted the following related to this additional information:

- 14 of the 61 updated case briefs received from the component Counsel did not address the comments/questions raised by ICoFR PMO.
- Six cases were updated on the Management Schedule based upon additional information obtained from the component Counsel; however, neither ICoFR PMO nor OGC provided documented support for these changes (e.g. updated case template, historical claims analysis, etc...).
- Instances existed where the responses from the component Counsel did not fully address ICoFR PMO's comments/questions; however, ICoFR PMO indicated, "No additional work considered necessary."

Additionally, we reviewed the 'interim' Management Schedule prepared by ICoFR PMO in support of the 'interim' Legal Representation Letter and noted that the schedule contained numerous errors and omissions. The identified errors were the result of both clerical inaccuracies and misapplications of generally accepted accounting principles. The overall effect of these discrepancies was a potential overstatement of approximately \$88 million, or 40% of DHS' \$218 million balance for contingent legal liabilities.

*Recommendations:*

We recommend that:

- ICoFR PMO and OGC work to establish formal policies and procedures emphasizing the need for thorough, complete, and understandable responses in the legal letter. Additionally, ICoFR PMO should define the type and extent of information necessary to ensure that information in the management schedule and financial statements and related disclosures for contingent liabilities is complete and accurate; and
- ICoFR PMO gather/update this information on a periodic basis.

**CONS – FMC 07-04 – Restatement of FY 2006 balances (NFR No. CONS 07-20)**

DHS did not have effective controls in place to timely identify and correct misstatements recorded in its FY 2006 financial statements. The FY 2007 DHS *Agency Financial Report (AFR)* contains restatements of prior year balances, which were made throughout the FY in varying degrees of amounts and frequency to correct misstatements not identified until FY 2007. This condition is communicated at the consolidated level as the majority of DHS components restated their prior year balances.

*Recommendation:*

We recommend that DHS continue to document the financial reporting process, identify the source and cause of the misstatements, if not already identified, and establish adequate corrective procedures within the financial reporting process.

**CONS – FMC 07-05 – Policies and procedures related to imputed costs (NFR No. CONS 07-21)**

Throughout the first eight months of FY 2007, DHS lacked department-wide guidance on how to account for imputed intra-departmental costs in accordance with the requirements Federal

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Accounting Standards Advisory Board (FASAB) Interpretation No. 6, *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4*. We noted DHS issued guidance during the third and fourth quarters; however, due to the timing of these issuances, components may not have had sufficient time to fully evaluate and identify imputed costs that should be recognized prior to the end of FY 2007.

*Recommendation:*

We recommend DHS continue to work with components to completely and accurately implement existing guidance related to FASAB Interpretation No. 6.

**CONS – FMC 07-06 – Earmarked funds (implementation of SFFAS No. 27) (NFR No. CONS 07-22)**

Based on our review of the supporting documentation across the various components, we noted the following:

- Coast Guard management did not sufficiently document its process to evaluate and identify its earmarked funds as required by DHS OFM. In addition, the Coast Guard did not maintain source documentation to support its analysis and rationale for determining each fund's classification as required by OFM.
- ICE management misclassified funds 70X8597 and 70X8598, *Violent Crime Reduction* funds, as earmarked funds at the time of testwork.

*Recommendations:*

We recommend that OFM:

- Perform a review of earmarked funds on an annual basis; and
- Incorporate the component management assessment of its earmarked funds into the Chief Financial Officer certification process, including compliance with the relevant standard operating procedures.

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Component	NFR No.	Description	Disposition			
			AFR		FMC	
			MW	SD	Page	No.
CONS	07-01	Performance Results Act of 1993 (GPRA) non-compliance		N		
CONS	07-02	Tracking system for ethics training, public financial disclosures, and confidential reports			25	07-01
CONS	07-03	Audited financial statements		M		
CONS	07-04	FY 2007 beginning balance reconciliation and prior year restatements	B			
CONS	07-05	Budget and Finance Policies and Management Directives	B			
CONS	07-06	June 30, 2007 consolidated financial statement and supporting documentation review	B			
CONS	07-07	Topside adjustments	B			
CONS	07-08	Review of component financial information	B			
CONS	07-09	Review of consolidated financial information	B			
CONS	07-10	Completeness of DHS reported Treasury Account Fund Symbols			25	07-02
CONS	07-11	Lack of compliance with Debt Collection Improvement Act (DCIA) of 1996		O		
CONS	07-12	Oversight of parent/child reporting	B			
CONS	07-13	Statement of Net Cost (SNC) methodologies and IT systems functionality	B			
CONS	07-14	Improper Payment Improvement Act (IPIA) compliance		L		
CONS	07-15	Preparation of the Departmental legal letter			25	07-03
CONS	07-16	Controls over the intragovernmental confirmation and reconciliation process	B			
CONS	07-17	Configuration of the Transaction Elimination Pairs report	B	J		
CONS	07-18	Lack of compliance with Federal Financial Management Improvement Act (FFMIA)	B	J		
CONS	07-19	Lack of compliance with OMB Circular A-50, <i>Audit Follow-up</i> and the Inspector Generals Act		K		
CONS	07-20	Restatement of FY 2006 balances			26	07-04
CONS	07-21	Policies and procedures related to imputed costs			26	07-05
CONS	07-22	Earmarked funds (Implementation of SFFAS No. 27)			27	07-06
CBP	07-01	Verification of CPL and certification of payments		H		
CBP	07-02	Detection of excessive drawback claims		H		
CBP	07-03	Insufficient retention period for documents that support drawback claims		H		
CBP	07-04	ACS deficiency over the accumulation of claims against a drawback bond		H		
CBP	07-05	Customs and Border Protection is unable to effectively monitor and close in-bond entries on a consistent basis		H		
CBP	07-06	System integration and compliance with the USSGL at the transaction level		H		
CBP	07-07	ACS deficiencies over non-entity account receivable and CBP's ability to effectively monitor collection actions		H		
CBP	07-08	ACS limitations - review of prior related drawback claims and selectivity for underlying consumption entries		H		



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Component	NFR No.	Description	Disposition			
			AFR		FMC	
			MW	SD	Page	No.
CBP	07-09	Number not used	Not applicable			
CBP	07-10	Weaknesses in the management of environmental liabilities			3	07-01
CBP	07-11	Overpayment of drawback claims		H		
CBP	07-12	Failure to perform a full desk review		H		
CBP	07-13	Insufficient guidance related to the D28 Alert Report		H		
CBP	07-14	National Account Manager Program		H		
CBP	07-15	Weaknesses identified in the bonded warehouses foreign trade zone process and procedures		H		
CBP	07-16	Weaknesses in the requirements related to the monitoring, review, and oversight relating to the efficiency of completion of FP&F cases		H		
CBP	07-17	Weakness in the Compliance Measurement Program		H		
CBP	07-18	Weakness in the review of weekly/monthly entry edit reports		H		
CBP	07-19	Lack of formal procedures for Strategic Trade Centers (STC)		H		
CBP	07-20	Review of Byrd disbursement claims (overpayment of Byrd claims)		H		
CBP	07-21	Weaknesses in CBP's controls related to asset retirements			3	07-02
CBP	07-22	Untimely capitalization of assets from internal use software in development to internal use software			3	07-03
FEMA	07-01	Lack of sufficient grants accrual methodology	A, F			
FEMA	07-02	Financial monitoring of grants awarded by the former Office of Grants and Training (G&T)	F	K		
FEMA	07-03	Inadequate inventory procedures at FEMA's Fort Worth Logistics Center	A,E			
FEMA	07-04	Non-grant unliquidated obligations (ULOs) within the former G&T not de-obligated timely	G			
FEMA	07-05	Untimely clearing of items from the suspense account 70F3876	A			
FEMA	07-06	Lack of segregation of duties related to preparation and approval of journal vouchers	A			
FEMA	07-07	Lack of current Anti-deficiency Act policies and procedures	A			
FEMA	07-08	Ineffective controls over processing mission assignment payments	A			
FEMA	07-09	Untimely de-obligation of mission assignments	A, G			
FEMA	07-10	Unavailability of supporting documentation for undelivered orders	G			
FEMA	07-11	Grants not closed and deobligated timely	A, G			
FEMA	07-12	Unavailability of supporting documentation for the reporting of internal use software and internal use software in development			5	07-01
FEMA	07-13	Non-compliance with 5 CFR Part 2638 related to ethics training			5	07-02
FEMA	07-14	Lack of segregation of duties within the financial reporting process	A			
FEMA	07-15	Lack of re-evaluation procedures over the allowance for	A			

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Component	NFR No.	Description	Disposition			
			AFR		FMC	
			MW	SD	Page	No.
		doubtful accounts				
FEMA	07-16	NEMIS auto-determination process needs improvement			5	07-03
FEMA	07-17	Unavailability of supporting documentation for certain entity level controls	A			
FEMA	07-18	Incomplete year-end accounts payable accruals related to fire grants			6	07-04
FEMA	07-19	Lack of formal policies and procedures for entity level controls, financial reporting, and funds management	A, E			
FEMA	07-20	Monitoring of audit findings in accordance with OMB Circular Nos. A-133 and A-50, and related compliance matters	A	K		
FEMA	07-21	FMFIA non-compliance		I		
FEMA	07-22	Non-compliance with the Improper Payment Improvement Act of 2002		L		
FEMA	07-23	Legal liabilities			6	07-05
FEMA	07-24	Lack of segregation of duties in accounting for the direct loan program and direct loan subsidy rate calculation	A			
FEMA	07-25	Significant errors identified in year-end flood insurance journal entries	A			
FEMA	07-26	Ineffective internal controls over FEMA grants			6	07-06
FEMA	07-27	Incorrect application of the consumption method related to stockpile inventory	E			
FEMA	07-28	Temporary adjustments of Fund Balance with Treasury reconciling differences			7	07-07
FEMA	07-29	Review for property, plant, and equipment acquired at year-end			7	07-08
FEMA	07-30	Ineffective controls over journal vouchers			7	07-09
FEMA	07-31	Recording of transactions in Fund 36			8	07-10
FEMA	07-32	Inherited problems in G&T's Integrated Financial Management Information System (IFMIS)			8	07-11
CIS	07-01	Need for refinement of the deferred revenue quality assurance analysis methodology			9	07-01
CIS	07-02	Fee receipts are not being deposited in a timely manner per Treasury guidance at USCIS service centers			10	07-02
CIS	07-03	RNACS improperly reflects completed naturalization applications as pending			10	07-03
CIS	07-04	Completeness of deferred revenue			10	07-04
CIS	07-05	Applications included in deferred revenue at incorrect fee amounts			11	07-05
CIS	07-06	Obligations are not being recorded in FFMS in a timely manner			11	07-06
CIS	07-07	Discrepancies with the leave balances between the NFC records and STAR reports are not being researched and resolved timely			11	07-07
CIS	07-08	Untimely resolution of issues identified during the reconciliation of the SF-132 and SF-133			12	07-08
CIS	07-09	Errors in performance of the deferred revenue quality assurance procedures at the Washington District Office			12	07-09

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Component	NFR No.	Description	Disposition			
			AFR		FMC	
			MW	SD	Page	No.
CIS	07-10	Inadequate internal controls over the inventory of applications awaiting processing at the service centers			13	07-10
ICE	07-01	Untimely execution of reimbursable agreements with other governmental entities when ICE is performing the services			14	07-01
ICE	07-02	Untimely resolution of issues identified during the reconciliation of the SF-132 and SF-133			14	07-02
ICE	07-03	Untimely disbursement of payments to vendors and incorrect calculation of interest due pursuant to the Prompt Payment Act			14	07-03
ICE	07-04	Obligations are not being recorded in FFMS in a timely manner			15	07-04
ICE	07-05	Inconsistent classification within FFMS for purchases of goods and the use of receiving tickets			16	07-05
ICE	07-06	Discrepancies with the leave balances between the NFC records and STAR reports are not being researched and resolved timely			16	07-06
ICE	07-07	Lack of procedures to verify the receipt and acceptance of goods or services for IPAC transactions			17	07-07
ICE	07-08	Inadequate and/or inconsistent supervisory review of payroll transactions			17	07-08
ICE	07-09	Inadequate policies and/or procedures within the Ethics Office related to Senior Executive Service (SES) employees			17	07-09
ICE	07-10	Unauthorized approval of free-form general journal entries			18	07-10
MGT	07-01	Obligations are not being keyed into FFMS in a timely manner			19	07-01
PRE	07-01	Potential violation of the Anti-deficiency Act (ADA)		P		
PRE	07-02	Obligations are not being keyed into FFMS in a timely manner			20	07-01
S&T	07-01	Obligations are not recorded in FFMS timely			21	07-01
S&T	07-02	Untimely resolution of issues identified during the reconciliation of the SF-132 and SF-133			21	07-02
USV	07-01	Obligations are not being keyed in FFMS in a timely manner			22	07-01
USV	07-02	Controls over internal use software and software-in-development need improvement	E			
TSA	07-01	Letters of intent accrual for June 30, 2007			23	07-01
TSA	07-02	Accrued leave balances	F			
TSA	07-03	PP&E depreciation	E			
TSA	07-04	Incorrect trading partner codes	B			
TSA	07-05	Undelivered order balances	G			
TSA	07-06	Construction in Progress (CIP)	E			
TSA	07-07	Reconciliation of property, plant, and equipment	E			

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TSA	07-08	Use of USSGL account 1890	E			
TSA	07-09	Financial reporting deficiencies	B			
TSA	07-10	Required Supplementary Stewardship Information			23	07-02
TSA	07-11	Debt Collection Improvement Act (DCIA) compliance		O		
TSA	07-12	Allowance for Doubtful Accounts and Related Accounts Receivable Methodology	Issued after 12/21/2007			
TSA	07-13	Non-compliance with FFMIA		J		
TSA	07-14	Non-compliance with FFMIA		I		
TSA	07-15	Grant monitoring and compliance with OMB Circular No. A-133	Issued after 12/21/2007			
TSA	07-16	Non-Compliance with Human Resources Related Laws	Issued after 12/21/2007			
TSA	07-17	Core Accounting System (CAS) Generated Accounts Payable	Issued after 12/21/2007			
USCG	07-01	Statement of Net Cost	B			
USCG	07-02	Contracting officer warrant authority	G			
USCG	07-03	Accounts payable accrual	F			
USCG	07-04	Purchase requests/commitments	G			
USCG	07-05	Facts and figures quick report tool	B			
USCG	07-06	Operating materials & supplies	E			
USCG	07-07	Payroll accrual and unfunded leave accrual	F			
USCG	07-08	PP&E construction in process (CIP)	E			
USCG	07-09	Actuarial post-employment travel liability	F			
USCG	07-10	PP&E Repairables	E			
USCG	07-11	Deepwater obligations process	G			
USCG	07-12	Actuarial medical liability	F			
USCG	07-13	Intragovernmental transactions and balances	B			
USCG	07-14	Confidential financial disclosure reports (CFDRs)	A			
USCG	07-15	Environmental liability	F			
USCG	07-16	Actuarial pension liability	F			
USCG	07-17	Accounts receivable	B			
USCG	07-18	PP&E asset records	E			
USCG	07-19	Undelivered orders	G			
USCG	07-20	Cumulative results of operations (CRO) analysis	B			
USCG	07-21	Federal Financial Management Improvement Act (FFMIA)	B			
USCG	07-22	FBwT – reconciliation / military & civilian payroll processes	D			
USCG	07-23	PP&E non-construction in process (CIP) assets	E			
USCG	07-24	Federal Manager Financial Integrity Act		I		
USCG	07-25	Suspense accounts	D			

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Component	NFR No.	Description	Disposition			
			AFR		FMC	
			MW	SD	Page	No.
USCG	07-26	Vessels and small boats useful lives	E			
USCG	07-27	Year-end pipeline adjustment	F			
USCG	07-28	Legal liability reporting	F			
USCG	07-29	Financial management oversight	A			
USCG	07-30	Financial statement disclosures	B			
USCG	07-31	Financial reporting process	B			
USSS	07-01	Seized counterfeit currency reporting			24	07-01
USSS	07-02	Pension liability reporting			24	07-02

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Component	NFR No.	Description	Disposition	
			Closed	Repeat (07 NFR No.)
CONS	06-01	Performance and Accountability Report guidance	X	
CONS	06-02	Statement of net cost allocations		CONS 07-13
CONS	06-03	Prepared by client submissions	X	
CONS	06-04	Earmarked funds (SFFAS No. 27 implementation)		CONS 07-22 (partial)
CONS	06-05	March 2006 financial statement review		CONS 07-06
CONS	06-06	FY2006 beginning balances reconciliation		CONS 07-04
CONS	06-07	Audit requirements		CONS 07-03
CONS	06-08	Restatements		CONS 07-20
CONS	06-09	Ethics tracking		CONS 07-02
CONS	06-10	Desk officer monitoring		CONS 07-08
CONS	06-11	Legal letter		CONS 07-15 (partial)
CONS	06-12	Imputed financing sources		CONS 07-21 (partial)
CONS	06-13	Financial Statement Checklist		CONS 07-09
CONS	06-14	Presentation of earmarked funds		CONS 07-22 (partial)
CONS	06-15	June PAR		CONS 07-06
CONS	06-16	Roles and responsibilities	X	
CONS	06-17	Fund symbols review		CONS 07-10
CONS	06-18	Management directives		CONS 07-05
CONS	06-19	Financial Statement and Supporting documentation review		CONS 07-06
CONS	06-20	Debt Collection Improvement Act (DCIA)		CONS 07-11
CONS	06-21	Preparation of the department legal letter and mgt schedule		CONS 07-15
CONS	06-22	Management representation letter	X	
CONS	06-23	Controls over the intra-governmental eliminations process		CONS 07-16
CONS	06-24	Top-side adjustments		CONS 07-07
CONS	06-25	OMB Circular A-50, entity level controls, financial reporting		CONS 07-19
CONS	06-26	Entity level controls	X	
CONS	06-27	Improper Payment Act compliance		CONS 07-14
CONS	06-28	Configuration of Transaction by Elimination Pairs (TEP) report		CONS 07-17
CONS	06-29	Monitoring of laws and regulations	X	
CONS	06-30	Government Performance and Results Act (GPRA)	X	
CBP	06-01	Verification of CPL and certification of payments		CBP 07-01
CBP	06-02	Detection of excessive drawback claims		CBP 07-02
CBP	06-03	Insufficient retention period for documents that support drawback claims		CBP 07-03
CBP	06-04	ACS deficiency over the accumulation of claims against a drawback bond		CBP 07-04
CBP	06-05	ACS deficiencies over non-entity account receivable and CBP's ability to effectively monitor collection actions		CBP 07-07

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			Closed	Repeat (07 NFR No.)
CBP	06-06	Compliance with FFMIA		CBP 07-06
CBP	06-07	Implementation of SFAS No. 4, Interpretation No. 6	X	
CBP	06-08	Drawback record keeping deficiency	X	
CBP	06-09	Various findings during FY2006 drawback control testwork	X	
CBP	06-10	Failure to complete full desk reviews and supervisory reviews before deem liquidation		CBP 07-12
CBP	06-11	Review of prior related drawback claims		CBP 07-08
CBP	06-12	Unable to obtain UCE's for drawback	X	
CBP	06-13	Duplicate payment of the same drawback claim	X	
CBP	06-14	Lack of formal procedures for Strategic Trade Centers (STC)		CBP 07-19
CBP	06-15	Absence of a full desk review (FDR) for protested drawback claims	X	
CBP	06-16	ACS selectivity for underlying consumption entries		CBP 07-09
CBP	06-17	Insufficient evaluation criteria for account managers		CBP 07-14
CBP	06-18	Weaknesses in review of weekly and monthly entry edit reports		CBP 07-18
CBP	06-19	Overpayment of drawback claim due to ACS/deem liquidation		CBP 07-11
CBP	06-20	In-bond compliance review process		CBP 07-05
CBP	06-21	Financial statement presentation	X	
CBP	06-22	Customs bonded warehouses foreign trade zone process deficiencies		CBP 07-15
CBP	06-23	Weakness in the Compliance Measurement Program		CBP 07-17
CBP	06-24	Property, plant, and equipment FY2005 misstatement	X	
CBP	06-25	Weaknesses in the management of environmental liabilities		CBP 07-10
CBP	06-26	Improper Payment Act compliance	X	
FEMA	06-01	Lack of segregation of duties related to preparation and approval of journal vouchers		FEMA 07-06
FEMA	06-02	Ineffective controls over processing mission assignment payments		FEMA 07-08
FEMA	06-03	Non-compliance with DHS Management Directive 0480.1 - <i>Ethics/Standards of Conduct</i>		FEMA 07-13 (partial)
FEMA	06-04	Mission assignment obligations in excess of the agreement	X	
FEMA	06-05	Statement of Net Cost (SNC) allocation methodology	X	
FEMA	06-06	Untimely clearing of items from the suspense account		FEMA 07-05
FEMA	06-07	Lack of current Anti-deficiency Act policies and procedures		FEMA 07-07 (partial)
FEMA	06-08	Unavailability of supporting documentation for certain financial transactions		FEMA 07-17 (partial)
FEMA	06-09	Untimely de-obligation of mission assignments		FEMA 07-09 (partial)
FEMA	06-10	Recording of transactions in Fund 36		FEMA 07-31
FEMA	06-11	Unavailability of supporting documentation for undelivered orders		FEMA 07-10
FEMA	06-12	Unavailability of supporting documentation for the reporting		FEMA 07-12 (partial)

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Component	NFR No.	Description	Disposition	
			Closed	Repeat (07 NFR No.)
		of internal use software and internal use software in development		
FEMA	06-13	Lack of segregation of duties in accounting for the loan program and inadequate support for the subsidy rate calculation		FEMA 07-24 (partial)
FEMA	06-14	Various findings related to testwork over OMB A-133 and A-50		FEMA 07-20
FEMA	06-15	Compliance with the Debt Collection Improvement Act of 1996	X	
FEMA	06-16	Incomplete Year-end Accounts Payable Accrual Related to Mission Assignments	X	
FEMA	06-17	Recognition of National Flood Insurance Program (NFIP) flood claim obligations	X	
FEMA	06-18	Impact of the Department of Health & Human Services (HHS) SAS 70 report	X	
FEMA	06-19	FMFIA - Section 2		FEMA 07-21 (partial)
FEMA	06-20	Non-compliance with the Improper Payment Improvement Act		FEMA 07-22
FEMA	06-21	FMFIA - Section 4		FEMA 07-21 (partial)
FEMA	06-22	Review for property, plant, and equipment acquired at fiscal year-end		FEMA 07-29
FEMA	06-23	Timely and accurate recording of manufactured housing property in LIMS	X	
FEMA	06-24	Legal letter		FEMA 07-23 (partial)
FEMA	06-25	Incomplete year-end accounts payable accruals related to fire grants		FEMA 07-18
FEMA	06-26	Untimely processing of IPAC transactions in Treasury account fund symbol (TAFS) 7050711	X	
FEMA	06-27	Improving certain processes related to the National Flood Insurance Program at FEMA	X	
FEMA	06-28	Improving Flood Insurance Processes Related to Accelerated Financial Reporting Deadlines	X	
FEMA	06-29	Lack of formal policies and procedures for entity level controls, financial reporting, and funds management		FEMA 07-19 (partial)
FEMA	06-30	Lack of validation procedures over accounts payable accruals	X	
FEMA	06-31	Temporary adjustments to Fund Balance with Treasury reconciling differences		FEMA 07-28
G&T	06-01	See Information Technology Management Letter	Not applicable	
G&T	06-02	See Information Technology Management Letter	Not applicable	
G&T	06-03	See Information Technology Management Letter	Not applicable	
G&T	06-04	See Information Technology Management Letter	Not applicable	
G&T	06-05	See Information Technology Management Letter	Not applicable	
G&T	06-06	See Information Technology Management Letter	Not applicable	
G&T	06-07	See Information Technology Management Letter	Not applicable	
G&T	06-08	Grants not closed timely		FEMA 07-11
G&T	06-09	Financial monitoring of grants awarded by the Office of State and Local Government Coordination and Preparedness		FEMA 07-02



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			Closed	Repeat (07 NFR No.)
G&T	06-10	Number not used	Not applicable	
G&T	06-11	Number not used	Not applicable	
G&T	06-12	See Information Technology Management Letter	Not applicable	
G&T	06-13	Improvements needed in controls over grants payable estimation process		FEMA 07-01
G&T	06-14	Withdrawn	Not applicable	
G&T	06-15	FedShare error rate analysis is not performed	X	
G&T	06-16	Number not used	Not applicable	
G&T	06-17	Untimely deobligation of non-grant UDOs		FEMA 07-04
CIS	06-01	Quality assurance analysis requirement		CIS 07-01
CIS	06-02	Insufficient QA procedures related to the search for missing files		CIS 07-01
CIS	06-03	Fee receipts are not being deposited in a timely manner per Treasury guidance		CIS 07-02
CIS	06-04	RNACS improperly reflects completed N-400 applications as pending		CIS 07-03
CIS	06-05	Washington District Office does not enter N-565 and N-600 applications into RNACS until completed	X	
CIS	06-06	CLAIMS 3 and CLAIMS 4 are not being updated in a timely manner upon adjudication		CIS 07-04
CIS	06-07	Incorrect fee amounts used in the query for CLAIMS 4 and RNACS		CIS 07-05
CIS	06-08	Inconsistent classification within FFMS for purchases of goods and the use of receiving tickets	X	
CIS	06-09	Obligations are not being recorded in FFMS in a timely manner		CIS 07-06
CIS	06-10	Applications not subjected to the QA procedures		CIS 07-01
ICE	06-01	Inconsistent classification within FFMS for purchases of goods and the use of receiving tickets		ICE 07-05
ICE	06-02	Lack of consistency in recording the receipt date on invoices	X	
ICE	06-03	Inadequate policies and/or procedures within the Ethics Office related to Senior Executive Service employees		ICE 07-09
ICE	06-04	Documentation to support obligation and disbursement transactions were not readily available	X	
ICE	06-05	Untimely execution of reimbursable agreements with other governmental entities when ICE is performing the services	X	
ICE	06-06	Approval of obligating documents by a contracting officer prior to obligating within FFMS needs improvement.	X	
ICE	06-07	Untimely disbursement of payments to vendors and incorrect calculation of interest due pursuant to the Prompt Payment Act		ICE 07-03
ICE	06-08	Lack of procedures to verify the receipt and acceptance of goods or services for IPAC transactions		ICE 07-07
ICE	06-09	Obligations are not being recorded in FFMS in a timely manner		ICE 07-04
ICE	06-10	Discrepancies with the leave balances between the NFC records and STAR reports are not being researched and resolved timely		ICE 07-06

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			Closed	Repeat (07 NFR No.)
ICE	06-11	Valuation of FPS obligations recorded in FFMS	X	
ICE	06-12	Untimely resolution of issues identified during the reconciliation of the SF-132 and SF-133		ICE 07-02
ICE	06-13	Payroll interface errors	X	
ICE	06-14	Presence of abnormal balances and analytic differences	X	
ICE	06-15	Elimination differences resolved by recording transactions to either another Federal entity (i.e. GSA) or as non-Federal	X	
ICE	06-16	Insufficient review of financial data prior to submission to the Department	X	
MGT	06-01	Inconsistent classification within FFMS for purchases of goods and the use of receiving tickets	X	
MGT	06-02	Documentation to support procurement transactions were not readily available	X	
MGT	06-03	Obligations are not being keyed into FFMS in a timely manner		MGT 07-01
MGT	06-04	Obligations entered into by potentially unauthorized contracting officer	X	
MGT	06-05	Recording and recognizing capitalized purchases for the Working Capital Fund (70X4640)	X	
MGT	06-06	Control procedures to verify and validate undelivered order balances were not performed	X	
PRE	06-01	Obligations not recorded in FFMS timely		PRE 07-02
S&T	06-01	Policy for assessment, management and reporting of environmental liabilities	X	
S&T	06-02	Improvement of the approval process of obligating documents by the contracting officer prior to obligating within FFMS	X	
S&T	06-03	Obligations are not recorded in FFMS timely		S&T 07-01
S&T	06-04	Control procedures to verify and validate undelivered orders balances were not preformed.	X	
USV	06-01	Inconsistent classification within FFMS for purchases of goods and the use of receiving tickets	X	
USV	06-02	Documentation to support procurement transactions were not readily available	X	
USV	06-03	Control procedures to verify and validate undelivered orders balances were not preformed	X	
USV	06-04	Controls over internal use software and software-in-development need improvement		USV 07-02
TSA	06-01	Prepared by client (PBC) submissions	X	
TSA	06-02	Grant accrual methodology	X	
TSA	06-03	Untimely analysis of beginning balance impact of aviation security fee treatment	X	
TSA	06-04	Human resources document retention	X	
TSA	06-05	Inadequate closing procedures for June 30, 2006	X	

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			Closed	Repeat (07 NFR No.)
TSA	06-06	Property and equipment reconciliations and misstatements	X	
TSA	06-07	Recoveries of prior year obligation	X	
TSA	06-08	Annual Leave File		TSA 07-02
TSA	06-09	Implementation of SSFAS No. 4, Interpretation No. 6 - Imputed Financing	X	
TSA	06-10	Grant monitoring and compliance with OMB Circular No. A-133		TSA 07-15
TSA	06-11	Journal voucher preparation and approval		TSA 07-09
TSA	06-12	Interim undelivered orders (UDO) testing		TSA 07-05
TSA	06-13	Improper Payment Act compliance	X	
TSA	06-14	Debt Collection Improvement Act (DCIA) compliance		TSA 07-11
TSA	06-15	FEGLI compliance		TSA 07-16
TSA	06-16	Year end close	X	
TSA	06-17	Required Supplementary Stewardship Information (RSSI)		TSA 07-10
TSA	06-18	FFMIA non-compliance		TSA 07-13
USCG	06-01	Coast Guard - actuarial post-employment travel liability		CG 07-09
USCG	06-02	PP&E repairables		CG 07-10
USCG	06-03	Oil Spill Liability Trust Fund - closed as of 9/30/06	Not applicable	
USCG	06-04	Coast Guard operating materials & supplies		CG 07-06
USCG	06-05	Statement of net cost		CG 07-01
USCG	06-06	PP&E small boats		CG 07-18
USCG	06-07	Reconciliation of actuarial file to payroll file		CG 07-16
USCG	06-08	Environmental liabilities - vessel review		CG 07-15 (partial)
USCG	06-09	Contracting officer warrant authority		CG 07-02
USCG	06-10	Cumulative results of operations analysis		CG 07-20
USCG	06-11	FFMIA non-compliance - cancelled appropriations		CG 07-21
USCG	06-12	Accounts payable accrual - methodology		CG 07-03
USCG	06-13	UDO validation & verification process		CG 07-19
USCG	06-14	Review of prior year medical obligations/expenditure		CG 07-12
USCG	06-15	Environmental liabilities - shore facilities		CG 07-15
USCG	06-16	Aircraft depreciation asset records		CG 07-18
USCG	06-17	PP&E non-construction in process (CIP) assets		CG 07-23
USCG	06-18	Environmental liability - lighthouses		CG 07-15
USCG	06-19	PP&E building & structures	X	
USCG	06-20	Actuarial pension - laws, regulations and assumptions		CG 07-16
USCG	06-21	Authorization & recording of budget authority	X	
USCG	06-22	Management review of Financial statement disclosures		CG 07-30
USCG	06-23	Accounts payable accrual validation		CG 07-03
USCG	06-24	PP&E construction in process (CIP)		CG 07-08

Department of Homeland Security  
*Status of Prior Year NFR's*  
 September 30, 2007

Component	NFR No.	Description	Disposition	
			Closed	Repeat (07 NFR No.)
USCG	06-25	Support for military and civilian payroll – FBWT		CG 07-22
USCG	06-26	Opening general ledger account balances		CG 07-31
USCG	06-27	Environmental liability – small arms firing ranges		CG 07-15
USCG	06-28	FFMIA non-compliance: ALMIS chart of accounts		CG 07-21 (partial)
USCG	06-29	Oracle fixed assets records		CG 07-18 (partial)
USCG	06-30	DoD medical invoices		CG 07-12
USCG	06-31	Actuarial medical and IBNR Liability - unsupported medical data		CG 07-12
USCG	06-32	Actuarial pension - experience study		CG 07-16
USCG	06-33	US Navy reclassification		CG 07-12
USCG	06-34	DoD medical invoices		CG 07-12
USCG	06-35	Accounts receivable		CG 07-17
USCG	06-36	Asset identification		CG 07-18
USCG	06-37	Abnormal general ledger account balances		CG 07-21
USCG	06-38	Commitments		CG 07-04
USCG	06-39	Environmental liability – summary		CG 07-15 (partial)
USCG	06-40	Suspense accounts		CG 07-25
USCG	06-41	Actuarial pension - personnel data records		CG 07-16
USCG	06-42	Yard assets		CG 07-18 (partial)
USCG	06-43	FFMIA non-compliance – NESSS chart of accounts		CG 07-21 (partial)
USCG	06-44	Purchase request numbers		CG 07-04
USCG	06-45	FFMIA non-compliance – ALMIS posting logic		CG 07-21 (partial)
USCG	06-46	FPD system controls		CG 07-04
USCG	06-47	Legal liability reporting		CG 07-28
USCG	06-48	Recording budget authority	X	
USCG	06-49	Payroll and payroll accrual		CG 07-07
USCG	06-50	Unfunded leave		CG 07-07
USCG	06-51	Facts and Figures Quick report		CG 07-05
USCG	06-52	On-top adjustments		CG 07-31
USCG	06-53	Intra-governmental transactions		CG 07-13
USCG	06-54	FFMIA non-compliance – CAS chart of accounts		CG 07-21
USCG	06-55	PP&E additions & deletions		CG 07-18
USCG	06-56	FFMIA non-compliance – NESSS posting logic		CG 07-21 (partial)
USCG	06-57	PP&E existence		CG 07-18 (partial)
USCG	06-58	FFMIA non-compliance – general ledger analytics		CG 07-21
USCG	06-59	Deepwater obligations		CG 07-11
USCG	06-60	Federal Managers Financial Integrity Act		CG 07-24
USCG	06-61	Year-end pipeline adjustment		CG 07-27
USCG	06-62	UDO validation results		CG 07-19

Department of Homeland Security  
*Status of Prior Year NFR's*  
 September 30, 2007

Component	NFR No.	Description	Disposition	
			Closed	Repeat (07 NFR No.)
USCG	06-63	FFMIA non-compliance: CAS posting logic		CG 07-21
USCG	06-64	PP&E useful lives		CG 07-26
USCG	06-65	PP&E improvements - buildings & structures		CG 07-18
USCG	06-66	FY06 PP&E summary		CG 07-18
USCG	06-67	Financial management and oversight		CG 07-29
USCG	06-68	FBwT reconciliation		CG 07-22
USCG	06-69	GAO disclosure checklist		CG 07-30
USCG	06-70	Financial reporting process		CG 07-31
USSS	06-01	Seized counterfeit currency inventory	X	
USSS	06-02	Seized counterfeit currency reporting		USSS 07-01

<sup>1</sup> KPMG was engaged to perform an audit over the FY 2007 Department of Homeland Security balance sheet and statement of custodial activity, 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, 2007. In addition, we were engaged to perform follow-up on the status of all active Notice of Findings and Recommendations (NFRs) that supported reportable conditions reported in KPMG's Independent Auditors' Report dated November 15, 2006 and which were not closed during FY 2007. All other NFRs issued in previous years, which do not relate to the consolidated balance sheet, statement of custodial activity, or were not reported in the November 15, 2006 Independent Auditors' Report are considered out-of-scope and no further procedures were performed.

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

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



**Homeland  
Security**

February 22, 2008

MEMORANDUM FOR: Anne L. Richards  
Assistant Inspector General for Audits

FROM: Peggy Sherry, Director DHS Office of Financial Management

SUBJECT: Draft Management Letter for the FY 2007 DHS Financial  
Statement Audit

Thank you for the opportunity to comment on the Draft Management Letter for the FY 2007 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*.

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