

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

**Management Letter  
for the FY 2003 DHS  
Financial Statement Audit**



**Office of Audits**

**OIG-04-042**

**September 2004**





2001 M Street, NW  
Washington, DC 20036

April 1, 2004

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

Ladies and Gentlemen:

We have audited the consolidated balance sheet of the U.S. Department of Homeland Security (DHS) as of September 30, 2003, and the related statement of custodial activity for the seven months then ended and have issued our report thereon dated January 30, 2004. Further, we were engaged to audit the related consolidated statements of net cost and changes in net position, combined statement of budgetary resources, and consolidated statement of financing for the seven months ended September 30, 2003. In planning and performing our audit, we considered DHS's internal controls over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated balance sheet and the related statement of custodial activity. Audit procedures may not include examining the effectiveness of internal controls and an audit does not provide assurance on internal control. We have not considered internal control since the date of our report.

During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration in Sections I – IX. 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 and are summarized in the Table of Financial Management Comments on the next page. These comments are in addition to those reportable conditions presented in our *Independent Auditors' Report*, included in the FY 2003 DHS *Performance and Accountability Report*, dated February 13, 2004. A description of each internal control finding, and its disposition, as either a reportable condition or a financial management comment is provided in Appendix A. Our findings related to information technology systems have been presented in a separate letter to the Office of Inspector General and the DHS Chief Information Officer dated April 1, 2004.

Our audit procedures were designed primarily to enable us to form an opinion on the consolidated balance sheet and the related statement of custodial activity described above and therefore may not bring to light all weaknesses in policies and procedures that may exist. We aim, however, to use our knowledge of DHS's 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's 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. OFFICE OF THE CHIEF FINANCIAL OFFICER (OCFO) - CONSOLIDATED**

**OCFO – FMC 03-01 – Reconciliations of Intra-DHS Eliminations** *(NFR No. 03-08)*

During the seven month period ended September 30, 2003, some DHS bureaus did not comply with the intra-DHS elimination reconciliation requirements issued by the DHS Office of the Chief Financial Officer (OCFO) in a timely manner.

*Recommendation:*

We recommend that the DHS OCFO develop, implement and monitor procedures that require the bureaus to reconcile intra-DHS eliminations at least quarterly beginning in fiscal year 2004.

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## **II. CUSTOMS AND BORDER PROTECTION (CBP)**

### **CBP – FMC 03-01 – Integration of PIMS with AIMS (NFR No. 03-01)**

CBP's Property Information Management System (PIMS) is not fully integrated with CBP's general ledger system. As a result, PIMS is not automatically updated for transactions affecting property, e.g., depreciation expense, accumulated depreciation, or valuation changes; and cannot track construction in process for personal property such as aircraft and equipment. CBP must make numerous year-end adjustments to reconcile the two systems causing inefficiencies and increasing the likelihood of error. We noted that CBP planned to implement a new system subsequent to the reporting period that would address these weaknesses.

*Recommendation:*

We recommend that CBP develop and deploy a fully integrated asset tracking system.

### **CBP – FMC 03-02 – CARMAC/CAMITS Integration and Outsourcing (NFR No. 03-02)**

CBP contracts with third parties to provide inventory management services. These contractors use their own inventory tracking systems (CAMITS and CARMAC); however, these systems do not automatically interface with CBP's general ledger system. CBP must perform manual reconciliations of the systems to obtain accurate information on inventory, causing inefficiencies in tracking inventory activity and increasing the likelihood of error in financial statement balances.

*Recommendation:*

CBP is planning to transfer the inventory tracking systems to ICE effective October 2003. We recommend that ICE integrate inventory tracking systems with its general ledger to ensure that transactions affecting inventory quantities and balances are timely and accurately recognized in the general ledger.

### **CBP – FMC 03-03 – Programming/Configuration of AIMS (NFR No. 03-03)**

CBP's general ledger system, the Asset Information Management System (AIMS), does not properly record certain transactions, and it does not record certain other transactions when they occur, for example:

- AIMS is programmed to record all transactions as appropriated transactions, even when they are not; e.g., reimbursable transactions.
- CBP is unable to record liabilities and liquidate obligations upon receipt of goods or services due to limitations of AIMS.

These and other conditions require that numerous adjusting journal entries be made in AIMS during the financial statement closing process.

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*Recommendation:*

We recommend that CBP develop systems and processes that ensure transactions are recorded timely and with fewer manual processes, thereby improving the controls and reliability of financial information. CBP should also comply with applicable sections of OMB Circular A-127 and JFMIP by properly accounting for all transactions in the general ledger as they occur.

**CBP – FMC 03-04 – Prohibited Seized Property** (*NFR No. 03-11*)

CBP conducts an annual inventory of seized and forfeited property. At some sites, the seized property tracking system (SEACATS) was not updated in a timely manner, to reflect inventory results, e.g., adjustments to shelf weights. A lack of communications between the port locations and the Seizures and Penalties Division (SPD) appeared to contribute to this situation. In addition, SPD performed only limited follow-up procedures to ensure that inventory adjustments were made.

*Recommendation:*

We recommend that SPD develop and deploy standard operating procedures to ensure that the results of seized property inventory procedures are accurately and timely reflected in SEACATS. Procedures should include standardized reporting mechanisms to improve communications between ports and SPD. Once SEACATS is updated, SPD should perform a review to assess the accuracy of the updates. This should be a collaborative effort to ensure that the ending 9/30 balances are completely and accurately presented in the notes to the financial statements.

**CBP – FMC 03-05 – Codified Policy and Procedures for Injured Domestic Industries** (*NFR No. 03-07*)

CBP has not formally codified their policies and procedures over the processing and recording of Injured Domestic Industry transaction claims.

*Recommendation:*

We recommend that CBP management codify the policy and procedures in effect for Injured Domestic Industries.

**CBP – FMC 03-06 – Verification of Check Proof Listing** (*NFR No. 03-13*)

For accelerated drawback payments, a Drawback Chief is required to review the Check Proof Listing (CPL) to ensure that a technician has reviewed the payee and other payment information related to the related drawback claim package. After the review, the Drawback Chief certifies the payments in the Automated Commercial System (ACS). However, ACS automatically identifies accelerated payments as being certified by the Customs Port Director regardless of whether any review actually occurred. In addition, the Drawback Chief's "review" of the CPL is only performed to verify that the technician initialed it, not to verify the accuracy of the system information.



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*Recommendation:*

We recommend that CBP management improve the overall design of the ACS by eliminating the automatic default certification and ensuring the CPL module within ACS only processes accelerated drawback claims with proper management approval.

**CBP – FMC 03-07 – Consolidated Omnibus Reconciliation Act (COBRA) User Fees** (NFR No. 03-16)

Under COBRA, retailers of passenger tickets for travel into the United States must collect certain fees and remit them to CBP on a quarterly basis. CBP identifies retailers, records collections in a database, and follows up on delinquencies. However, CBP has difficulty identifying all retailers who owe these fees and the amount it should be collecting. As a result, CBP may not be collecting all fees owed it. To monitor compliance, CBP collects passenger information from flight/ship manifests that carriers are required to provide. Information is entered into tracking systems; however, “country of origin” which is used to determine fees, is not included, thus limiting the value of the information for COBRA purposes. CBP’s Advanced Passenger Information System (APIS) does collect “country of origin” information, but the information is not routinely shared with the Collections Department, for matching with amounts due.

*Recommendation:*

We recommend that the Collections Department use passenger arrival information (i.e., number of passengers arriving and country of origin) from APIS to help determine the potential revenue gap between what is collected and what should be collected.

Also, legacy INS performed carrier audits for COBRA compliance. The audit function now resides with CBP’s Regulatory Audit Division, according to CBP management. We recommend that CBP ensure that these audits continue and results are provided to the Collections Department.

**CBP – FMC 03-08 – Monitoring Collection Actions** (NFR No. 03-09)

The ACS system does not provide summary information of the total unpaid assessments for duties, taxes, and fees by individual importer. Also, ACS does not generate periodic management information on outstanding receivables, the age of receivables or other data necessary for managers to effectively monitor collection actions. CBP also must utilize ad hoc reports and manual procedures to ascertain and adjust certain year-end accounts receivable balances.

*Recommendation:*

We recommend that CBP management ensure that any new systems initiatives include a “customer-based” accounts receivable subsidiary ledger that interfaces with the general ledger system.

**CBP – FMC 03-09 – Entry Process Deficiencies** (NFR NO. 03-18)

CBP management has a clear vision of what they would like to accomplish in terms of establishing a system of controls in order to fulfill their trade compliance mission. The

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system of controls, as envisioned by management, is elaborate and complex and has been developed over a number of years. However, we identified deficiencies surrounding policies and procedures currently in place.

Specifically, CBP policies and procedures issued periodically in various memorandums are not codified in such a way that users have a clear picture of the overall control environment, strategic objectives, and the detailed approaches to control. In certain instances, well-defined policies and procedures were lacking or did not exist. Additionally, policies and procedures were not always followed, such as lack of data quality reviews and monitoring of key controls by appropriate levels of management. Roles and responsibilities of departments and individual positions were sometimes vague and unclear. Lastly, technology tools were under-utilized or inconsistently deployed.

*Recommendations:*

We recommend that CPB management:

- a. Organize CBP policies and procedures into a formal codified manual. Where policy does not exist, is lacking, or needs to be reinstated, CBP should expeditiously finalize such policy so that it can be included in the new codified manual.
- b. Establish a process to maintain the new codified manual to keep it current as policy is superceded or modified over time. A formalized procedure for communicating changes to the manual should be adopted. Once completed, we suggest that management use it as the basis for formalized training at many different levels. Management should consider using this manual to establish an internal quality review checklist whereby independent internal teams would assess how CBP is complying with its own policies and procedures. CBP may want to consider using the results of such internal quality reviews as part of employee performance appraisals.
- c. Evaluate the various technology tools currently employed by different CBP locations to ascertain whether tools used only in certain locations should be expanded nationally, or whether tools are duplicative and/or should cease to be used. The ultimate objective would be to provide technology support and training for only the most effective technology tools.

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### **III. EMERGENCY PREPAREDNESS AND RESPONSE (EPR)**

#### **EPR – FMC 03-01 – Subsidy Re-estimate for Credit Reform Loans** (NFR No. 03-18)

The subsidy re-estimate, or an analysis demonstrating that it was not necessary, for the credit reform portions of the Federal Emergency Management Agency's (FEMAs') loan portfolio was not finalized and therefore not submitted to the Office of Management and Budget (OMB). Federal accounting standards require that the subsidy cost allowance for Credit Reform direct loans and loan guarantees be re-estimated each year as of the date of the financial statements.

*Recommendation:*

We recommend that FEMA develop and implement policies and procedures to ensure that Credit Reform loan subsidy re-estimates are prepared, reviewed, and submitted to OMB in a timely manner.

#### **EPR – FMC 03-02 – Reconciliations of Reimbursable Agreements** (NFR No. 03-19)

FEMA did not maintain adequate documentation to support the reconciliations of the Reimbursable Agreement Tracking Log and Budget Log for several reimbursable agreements. Additionally, we noted inconsistencies between the reconciliations and the applicable reimbursable agreement detail file.

*Recommendation:*

We recommend that FEMA ensure that the reimbursable agreement files adequately support the Reimbursable Accountant's reconciliations of the Reimbursable Agreement Tracking Log and Budget Log.

#### **EPR – FMC 03-03 – Region II Financial Management of Grants** (NFR No. 03-15)

During our site visit to Region II, one unliquidated obligation (ULO) amounting to \$981 thousand in our sample was not de-obligated in a timely manner; another amounting to \$982 thousand lacked documentation to fully support the reported amounts. In addition, audit findings and questioned costs that were identified during five grantee Single Audits remained unresolved for over one year as of September 30, 2003. Approximately \$21 million of these questioned costs related to expenditures associated with the U.S. Virgin Islands.

*Recommendations:*

We recommend that FEMA Region II personnel:

- a. Document and maintain all supporting information related to ULO amounts.
- b. Regularly review all disaster grants to ensure that funds are de-obligated in a timely manner.
- c. Examine the progress reports provided by State grant recipients and encourage them to provide additional financial and programmatic information.

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- d. Coordinate with FEMA Headquarters to address and close the U.S. Virgin Islands questioned costs and other Single Audit findings.

**EPR – FMC 03-04 – Region VI Financial Management of Grants** (*NFR No. 03-16*)

Region VI lacks a formal mechanism to track the receipt and review of quarterly financial status reports (FSRs) as required by the FEMA Grants Standard Operating Procedures (SOP). The quarterly reconciliation does not reflect the reconciliation between National Emergency Management Information System (NEMIS) (or its predecessor system, the Automated Disaster Assistance Management System (ADAMS)) and Integrated Financial Management Information System (IFMIS). The ULOs in our sample lack documentation to support their reported amounts. In addition, reconciliation procedures over non-disaster grants could be improved. For example, for the two non-disaster grants tested, the reconciliations were prepared using incorrect source documentation, and in one case reconciling differences of \$22,091 were not identified and resolved until reported by the auditors.

*Recommendations:*

We recommend that FEMA Region VI personnel:

- a. Develop a mechanism to track and document the dates of receipt and review of quarterly FSRs.
- b. Document reconciliations and analyses performed in accordance with SOPs.
- c. Maintain the appropriate supporting information for ULOs in the grant files.
- d. Ensure reconciling differences are resolved in a timely manner.
- e. Ensure grants management specialists receive training, guidance, and oversight to ensure reconciliation procedures are performed in accordance with applicable SOP's.

**EPR – FMC 03-05 – Region IX Financial Management of Grants** (*NFR No. 03-17*)

During our visit to Region IX, we noted the following related to disaster grants:

- For one grant in our sample, the final financial reconciliation of IFMIS, NEMIS/ADAMS, and the State FSR was not performed correctly, which resulted in a seven month delay in the close-out of this grant;
- Findings or questioned costs amounting to \$1 million identified during two Single Audits remained unresolved beyond one year;
- For three grants tested, FSRs had not been received, which prevented the completion of financial reconciliations;
- For one grant tested, the reconciliation for the period ended March 31, 2003 was not performed until requested by the auditors;
- For one grant tested, discrepancies amounting to \$1 million existed between Smartlink amounts shown on the supporting documentation and the amounts representing Smartlink obligations and drawdowns found in the reconciliations;

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- The Region's internal policy did not enforce timely FSR submission by the States/grantees, causing significant delays in the completion of the reconciliations; and
- For one grant tested, an incorrect Catalog of Federal Domestic Assistance (CFDA) number was used by the grant recipient on its SF-424 (Request for Federal Assistance) form.

We noted the following related to non-disaster grants tested:

- For one grant, there was no documentation showing that a cost-share analysis was performed on a grant eligible for State cost-share;
- For the two grants tested, there was no documentation to prove that the reconciliations between the FSR and IFMIS were performed; and
- For two grants tested, there was no documentation of the cause and resolution of the variances identified in the summary reconciliations.

*Recommendations:*

We recommend that:

- a. Headquarters ensure that Region IX and Area Office grants management specialists receive the training, guidance, and oversight to ensure that reconciliation procedures are performed in accordance with applicable SOPs.
- b. The Region take steps to ensure that required reconciliations are performed and that all supporting documentation is maintained in the grant file.
- c. The Region review its procedures to ensure the timely submission of FSRs.
- d. Headquarters examine the current processes and oversight established at the Region to ensure that Single Audit findings and questioned costs are reviewed and resolved in a timely manner. Also, the open findings and questioned costs noted during our visit should be resolved.
- e. Headquarters and the Region should provide training to grant recipients on the completion of FSRs.
- f. Grants management specialists document their cost-share analyses.
- g. Headquarters and Regional personnel clearly communicate all grant identifying information and modifications, including CFDA number, to the grant recipient and retain this information in the grant file.

**EPR – FMC 03-06 – De-obligation of Disaster-Related Obligations** (*NFR No. 03-21*)

We noted instances in which an unliquidated obligation had not been de-obligated although all work under the related agreements or grant had been performed.

*Recommendation:*

We recommend that FEMA routinely monitor (e.g., on a quarterly basis) all ULO amounts, especially those related to Mission Assignments, Interagency Agreements, and

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other cooperative agreements, per the FEMA Mission Assignment and Grants Management handbooks, for correct and timely de-obligation of ULO amounts.

**EPR – FMC 03-07 – ADAMS Funding Estimate Report** (*NFR No. 03-25*)

Region IX could improve reconciliation procedures on amounts remaining in the ADAMS Funding Estimate Report compared with the amount shown as the ULO in IFMIS for Disaster 979.

*Recommendations:*

We recommend that Region IX personnel:

- a. For Disaster 979, complete a detailed reconciliation between IFMIS, ADAMS, and State records to ensure that all funds have been properly reported.
- b. Perform a review of the remaining disaster funds currently operated out of ADAMS and investigate and correct any remaining un-reconciled amounts.

**EPR – FMC 03-08 – SF 133 Reporting** (*NFR No. 03-28*)

The amount reported in FEMAs' Report on Budget Execution (SF 133s) for the fourth quarter did not agree to the amounts reported within the FEMA general ledger and the TFS 2108.

*Recommendations:*

We recommend that FEMA:

- a. Submit a revised SF 133 to properly reflect the activity reported within their general ledger.
- b. Implement policies and procedures to ensure future SF 133s are reported correctly and timely.

**EPR – FMC 03-09 – Federal Managers' Financial Integrity Act (FMFIA) of 1982** (*NFR No. 03-29*)

Four of five assurance statements provided to the Director of FEMA did not fully comply with FMFIA criteria because they lacked management's assessment of controls based on their own internal reviews. Instead, the assessment of controls was based on the work of external auditors, which may not directly address the requirements of FMFIA and should not replace managers' own comprehensive reviews.

*Recommendation:*

We recommend that FEMA program managers develop procedures to improve assessment of their programs' internal controls.

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**IV. IMMIGRATION AND CUSTOMS ENFORCEMENT (ICE)****ICE – FMC 03-01 – Reconciliation of the Statement of Differences (NFR No. 03-05)**

ICE's reconciliation procedures that address the differences noted on the Treasury FMS-6652 should be improved.

*Recommendation:*

We recommend that ICE headquarters perform reconciliations of the FMS-6652 for all its Agency Location Codes (ALCs) on a monthly basis and investigate differences in a timely manner.

**ICE – FMC 03-02 – Vermont Service Center Deposit Overages and Shortages (NFR No. 03-06)**

Overage or shortages noted during a deposit reconciliation process at the Vermont Service Center are not always documented in an overage/shortage memorandum, as required by ICE policy.

*Recommendation:*

We recommend that the Vermont Service Center adhere to the ICE policy established by the Debt Management Center regarding the preparation and submission of the overage/shortage memorandum.

**ICE – FMC 03-03 – Nebraska Service Center Deposits (NFR No. 03-07)**

The deposit process at the Nebraska Service Center should be improved, to fully comply with policies set forth by the Treasury Financial Manual and the Debt Management Center. Currently deposits are not made until discrepancies are resolved, which can delay deposits and the preparation of an overage/shortage memorandum, if necessary.

*Recommendations:*

We recommend that ICE:

- a. Implement a policy to ensure compliance with the Treasury Financial Manual policy that requires receipts totaling \$5,000 or more be deposited on the same day received prior to depository cutoff time or the next business day if received after the depository cutoff time.
- b. Adhere to the policy established by the Debt Management Center regarding the preparation and submission of the overage/shortage memorandum.

**ICE – FMC 03-04 – Immigration Application Adjudication Process (NFR No. 03-08)**

Immigration applications processed by the Vermont Service Center are, occasionally, stamped as 'approved' before a required Integrated Background Information System (IBIS) check has been performed. In addition, the Computer-Linked Application Information Management 3 System (CLAIMS 3) was not always updated to reflect completed applications in a timely manner and on a consistent basis.

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*Recommendations:*

We recommend that the Vermont Service Center:

- a. Adhere to the *Adjudicator's Field Manual*, Section 10.3 whereby adjudication officers do not stamp immigration applications as "approved" until all required IBIS checks have been completed.
- b. Implement a policy requiring that all completed applications be input into CLAIMS 3 by the end of the reporting period.

**ICE – FMC 03-05 – Monitoring of Backlog Listing and Reconciliation** (*NFR No. 03-09*)

Monitoring of the backlog list of reconciling items (related to the Fund Balance with Treasury reconciliation) could be improved at the Payroll, Accounting, and Reconciliation Center (PARC) and Headquarters to ensure that differences are cleared on timely basis. The majority of reconciling items aged greater than 30 days as of September 30, 2003, were related to the G-264 (a report used in the reconciliation process) at Headquarters for ALC 7070011515. We noted that several reconciling items have been on the backlog list for a prolonged period of time.

*Recommendation:*

We recommend that the OFM at PARC adhere to its policy of monitoring and follow-up on the consolidated backlog list to ensure timely clearing of reconciling items, including the review of the G-264 related backlog list, to ensure the timely clearing of reconciling items.

**ICE – FMC 03-06 – Accounting for Leases** (*NFR No. 03-17*)

Policies and procedures to review and determine the proper accounting treatment for leased equipment could be improved. We noted that some equipment was classified and recorded in the general ledger as a "capital" lease when the leases should have been accounted for as operating leases.

*Recommendation:*

We recommend that the Logistics Department review the accounting treatment of existing leases (e.g., their classification as capital or operating), and establish procedures to review new leases for proper accounting treatment and reporting. The policy should be communicated to Property Coordinators at each of the field locations.

**ICE – FMC 03-07 – Recording Personal Property Disposals** (*NFR No. 03-18*)

The timeliness of reporting property disposal dates could be improved. Property disposal dates reported in the fixed asset system, AMIS, were significantly later than the actual disposal date.



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*Recommendation:*

We recommend that the Logistics Department management communicate to Property Coordinators at each of the field locations the importance of recording personal property transactions in AMIS timely, including the need to record all disposals from the date of inventory through year-end.

**ICE – FMC 03-08 – Monitoring and Review of Suspense Account Transactions** (NFR No. 03-19)

Transactions posted to the Suspense Fund are not being cleared in a timely manner. The majority of reconciling items aged greater than 30 days as of September 30, 2003, was related to suspense items for which the Headquarters accounting office was responsible (ALC 707011515).

*Recommendation:*

We recommend that the Office of Financial Management monitor, research, and resolve pending transactions in the suspense accounts in a timely manner. Generally all suspended transactions should be cleared and posted to the correct account within 30 - 45 days.

**ICE – FMC 03-09 – Chicago District Application Fees** (NFR No. 03-20)

At the Chicago District Office, checks and money orders received for application fees are not routinely restrictively endorsed upon receipt; applications awaiting pre-screening and the associated remitted fees are not kept in a secure area; and application fees are not being deposited in accordance with Treasury regulations due to a backlog of applications awaiting pre-screening.

*Recommendations:*

We recommend that the Chicago District Office:

- a. Implement policies and procedures to ensure that checks and money orders are restrictively endorsed upon receipt.
- b. Implement policies and procedures to adequately safeguard checks and money orders that have not been deposited.
- c. Reduce the backlog of applications that have not been pre-screened so application fees are deposited as prescribed by Treasury.

**ICE – FMC 03-10 – Texas Service Center Application Fees** (NFR No. 03-21)

Controls over the physical access to application fee receipts while in the possession of the data entry clerks at the Texas Service Center could be improved. Specifically, application fees received are not always maintained in a secure location while data entry clerks are away from their desks.

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*Recommendation:*

We recommend that the Texas Service Center implement procedures to safeguard application receipts at all times until processing and deposit is complete.

**ICE – FMC 03-11 – Maintenance of Service Wide Inventory Plan (SWIP) Labels** (*NFR No. 03-22*)

Some applications did not have the appropriate SWIP barcode or label physically affixed to the application file folder. Policies and procedures regarding the maintenance of the SWIP barcodes have not been updated since the issuance of the fiscal year 2001 SWIP instructions. The policies and procedures also lack guidance on the maintenance of the SWIP barcodes after they are placed on the file folder; e.g., removal of the SWIP barcode when the application is completed, and the placement of a “none” barcode on the file folder when there are no pending applications remaining in the file.

*Recommendations:*

We recommend that CIS management:

- a. Implement procedures to ensure that CIS policy of placement of barcodes on all applications is consistently followed, and provide CIS employees and contractors with the appropriate training to ensure that these procedures are performed properly.
- b. Develop improved policies and procedures to ensure maintenance of SWIP barcodes throughout the application process.

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**V. LIMITED SCOPE BUREAUS (LTD)**

**FLETC – FMC 03-01 – Lease Classification** (*NFR No. 03-05*)

Based on FY 2002 audit findings, the Federal Law Enforcement Training Center (FLETC) requested that OMB review three 20-year non-cancelable leases for dormitory buildings, determine the classification of the leases as operating or capital, and determine if FLETC had the authority to enter into these agreements. Until the OMB investigation is complete, FLETC is reporting a liability related to these leases in the amount of approximately \$65 million as an unfunded contingent liability in a multi-year appropriation/Treasury Fund Symbol.

*Recommendation:*

We recommend that FLETC, with the assistance of DHS management, work with OMB to obtain resolution of this issue and then record the appropriate accounting entries based on the resolution.

**ST – FMC 03-02 – Environmental Liability** (*NFR No. 03-09*)

The Plum Island Animal Disease Center (PIADC) did not record an environmental liability for 2003, even though remediation costs have been budgeted for future years and the payment of such costs appears likely. In addition, no environmental liability assessment process independent of the budget process exists.

*Recommendation:*

We recommend that the PIADC evaluate, at least annually at fiscal year-end, the probable environmental liability for inclusion in the DHS consolidated financial statements. We also recommend that the PIADC develop and implement an environmental liability assessment process that would assist in understanding, managing, and monitoring all its environmental liabilities.

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**VI. OFFICE FOR DOMESTIC PREPAREDNESS (ODP)**

**ODP – FMC 03-01 – Grant Closeout Process** (*NFR No. 03-02*)

ODP should improve the timeliness of its grant closeout process. In addition, grant files did not contain documentation to justify a delay in the grant closeout process.

*Recommendation:*

We recommend that ODP management fully comply with its adopted policy for closing grants, including identifying individual program managers as responsible parties and establishing performance goals that focus on the timely closing of grants.

**ODP – FMC 03-02 – Financial Reporting Process** (*NFR No. 03-03*)

ODP's financial statement preparation and analysis process could be improved. Specifically, ODP did not establish a closing accounting period (i.e., period 13 and 14) and did not perform a comprehensive general account relationship analysis to ensure agreement of budgetary and proprietary accounts. In addition, ODP's data submitted via TIER file to DHS for financial statement preparation was incomplete.

*Recommendations:*

We recommend that ODP management work with its accounting provider, i.e., OJP to:

- a. Utilize current IFMIS capability by posting all post-September 30 adjustments as period 13 and as necessary period 14 adjustments.
- b. Develop procedures and perform analysis of IFMIS financial data prior to submission of TIER data to DHS, including the comparison and performance of account relationship testing for proprietary and budgetary general ledger account balances, as applicable, and confirming that the submission information is complete.

**ODP – FMC 03-03 – Financial Management and Oversight** (*NFR No. 03-04*)

ODP's management should be more involved in financial reporting activities to mitigate reliance on its accounting service provider, OJP. ODP management did not review its open obligation report on a quarterly basis and provide feedback to OJP, on the accuracy of the listing or obligations that need to be deobligated, as requested by OJP. ODP management did not review its FY 2003 financial statements for reasonableness, taking into consideration its normal business operations.

*Recommendation:*

We recommend that ODP designate an official to perform an oversight role and take responsibility for its financial activities and perform necessary reviews of its quarterly obligation reports and perform a periodic review of its financial statements to determine if anomalies exist given its business operations.

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## **VII. TRANSPORTATION SECURITY ADMINISTRATION (TSA)**

### **TSA – FMC 03-01 – Financial Reporting** (NFR No. 03-06)

TSA did not have an adequate process in place to track and determine the proper accounting for leasing arrangements and related financial information for financial statement disclosures.

*Recommendation:*

We recommend that TSA implement policies and procedures to ensure that all leases are identified and future minimum lease payments are properly calculated and disclosed.

### **TSA – FMC 03-02 – Records Retention Management** (NFR Nos. 03-04 and 03-07)

TSA could improve its records retention management:

- Several personnel files we requested were incomplete (e.g., health benefit or life insurance election forms were missing), and several files were missing.
- Property records were not adequately maintained; i.e., source documentation could not be provided on a timely basis.
- Invoices and other supporting documentation related to expenses, undelivered orders, and accounts payable could not be provided on a timely basis.

*Recommendation:*

We recommend that TSA improve its standard operating procedures and practices over records retention.

### **TSA – FMC 03-03 – Internal Control Monitoring and Evaluation** (NFR Nos. 03-08 and 03-09)

TSA does not have a fully implemented FMFIA process in place, for example the process does not cover all significant processes.

*Recommendation:*

We recommend that TSA implement a process to monitor and evaluate its internal controls to meet the requirements for FMFIA reporting and improve its overall control structure.

### **TSA – FMC 03-04 – Grant Accounting** (NFR No. 03-02)

The U.S. Maritime Administration (MARAD) disburses funds on behalf of TSA under the Port Security Grant program. The schedule of expenditures provided by MARAD was prepared on a cash basis rather than on an accrual basis. TSA used this information to record grant activity, which resulted in misstated financial statements until the figures were converted to an accrual basis.

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*Recommendation:*

We recommend that the TSA implement policies and procedures to ensure that all grant activity is properly accounted for on an accrual basis.

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**VIII. UNITED STATES COAST GUARD (USCG)****USCG – FMC 03-01 – Suspense Accounts** (NFR No. 03-043)

Finance Center personnel did not review and analyze transactions posted to clearing/suspense accounts in a timely manner during the seven-month period ended September 30, 2003.

*Recommendation:*

We recommend that the USCG establish procedures to ensure that clearing/suspense accounts are reviewed and cleared (e.g., pending transactions are investigated and posted to the appropriate accounts) on a timely basis after each month-end.

**USCG – FMC 03-02 – Reconciliation of Sub-Ledger** (NFR No. 03-011)

We noted some instances where USCG personnel do not routinely compare and reconcile balances recorded in subsidiary ledgers with the balances recorded in the general ledger.

*Recommendation:*

We recommend that the USCG establish procedures to ensure that subsidiary ledgers are reconciled to the general ledger on a monthly basis and appropriate adjustments are made to ensure the accuracy of its financial information.

**USCG – FMC 03-03 – OSLTF Investments** (NFR No. 03-040)

The USCG relies on an outside service provider to process receipts, disbursement, and transfers related to the Oil Spill Liability Trust Fund (OSLTF), for which it has administrative responsibility. However, USCG had not ascertained if internal controls at the service provider over OSLTF transactions were properly designed or operating effectively.

*Recommendation:*

We recommend that the USSG obtain and review the Independent Auditors' Report on the audit of the service organization's internal controls. The report should be reviewed to determine if controls over USCG transactions are designed and operating effectively and for the proper period of time (i.e., the current fiscal year). The USCG should notify its service organization with any questions or concerns related to the reliability of controls over its transactions.

**USCG – FMC 03-04 – Investments Receivable** (NFR No. 03-030)

We noted that the USCG lacks routine processes to independently verify the accuracy of its investment balances held by the Bureau of Public Debt.

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*Recommendation:*

We recommend that the USCG establish a process to routinely and independently verify investment balances held with other agencies (e.g., the Bureau of Public Debt and the Fish and Wildlife Service).

**USCG – FMC 03-05 – Allowance for Doubtful Accounts** (NFR No. 03-009)

The USCG has not implemented procedures to review outstanding accounts receivable nor established an allowance for doubtful accounts for public receivables other than those associated with the OSLTF.

*Recommendations:*

We recommend that the USCG:

- a. Periodically review significant outstanding accounts receivable from the public to assess collectibility and establish an appropriate allowance for doubtful accounts receivable.
- b. Individually analyze the significant accounts receivable and consider the (1) the debtor's ability to pay, (2) the debtor's payment record and willingness to pay, and (3) the probable recovery of amounts from secondary sources, including liens, garnishments, cross collections and other applicable collection tools.
- c. Calculate an estimated allowance for doubtful accounts receivable for the aggregate of non-significant outstanding balances due from the public.
- d. Record an appropriate allowance for doubtful accounts receivable in the general ledger.

**USCG – FMC 03-06 – Retiree and Annuitant Payroll Internal Controls** (NFR No. 03-007)

Reconciliation control procedures related to monthly retiree and annuitant payroll should be documented. Also, the review of a monthly exception report, which identifies members who are receiving both active duty and retired pay, was not properly performed.

*Recommendations:*

We recommend that the USCG:

- a. Document the reconciliation procedures currently performed by the accounting technician in the Retiree and Annuitant Services branch.
- b. Establish procedures to ensure that all monthly exceptions are reviewed and investigated and corrective action taken when necessary and resulting actions are properly documented.

**USCG – FMC 03-07 – Pension Data** (NFR No. 03-038)

We noted two instances where the USCG did not have adequate documentation to support key data elements for active duty/reserve service members (e.g., birth date and pay base date).



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*Recommendation:*

We recommend that the USCG establish procedures to ensure the accuracy of archived personnel data elements, including the information provided to its actuarial firm.

**USCG – FMC 03-08 – Medical Cost Information** (NFR No. 03-024)

USCG personnel did not provide accurate retiree medical cost information to its actuarial firm, which uses the data to estimate a liability for future medical costs.

*Recommendation:*

We recommend that the USCG develop procedures and appropriate controls to ensure that medical cost information provided to the actuarial firm is accurate, complete, and fully supported.

**USCG – FMC 03-09 – Imputed Financing** (NFR No. 03-037)

During the seven months ended September 30, 2003, the USCG financial management personnel did not recognize imputed financing costs related to health care benefits for Medicare-eligible retirees, family members and surviving spouses.

*Recommendation:*

We recommend that the USCG establish procedures to obtain and record imputed financing costs associated with Medicare-eligible retiree health care costs.

**USCG – FMC 03-10 – Environmental Liabilities** (NFR Nos. 03-027 and 03-28)

The USCG's process for calculating its environmental liabilities associated with vessels and shore facilities may not result in accurate estimates for financial statement purposes.

*Recommendation:*

We recommend that the USCG develop and implement policies and procedures to improve the accuracy of estimated environmental liabilities for vessels and shore facilities. The procedures should consider the total projected costs for remediation, regardless of the source of funding.

**USCG – FMC 03-11 – Legal Representation Letter** (NFR No. 03-029)

The USCG's process for preparing its legal representation letter could be improved. Specifically, the annual letter received from the USCG legal counsel for financial statement purposes did not fully comply with OMB Bulletin No. 01-02. In addition, a large percentage of contingent liability estimates used ranges of potential loss in lieu of a single "most likely" loss estimate.

*Recommendations:*

We recommend that the USCG:

- a. Establish controls to ensure that the language contained in the letter from legal counsel complies with recommended language provided in OMB Bulletin No. 01-02.

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- b. With legal counsel, improve the process of assessing the contingent legal liability to improve the accuracy of balances presented in the financial statements and accompanying notes; e.g., use a “most likely” balance instead of ranges when possible.

**USCG – FMC 03-12 – Segregation of Duties – Personnel Service Center** (*NFR No. 03-010*)

Controls related to access rights and segregation of duties for personnel and travel transactions could be improved.

- Access privileges for individuals at the Cape May Training Center and the Personnel Service Center (PSC), who process personnel transactions, do not provide for appropriate segregation of duties.
- One Coast Guard service member at the PSC had access rights without a current authorization form on file.
- Responsibilities for reviewing travel claims, including making additions and deletions and approving claims, are not appropriately segregated.

*Recommendations:*

We recommend that the USCG:

- a. Review access rights and privileges and make appropriate change to ensure proper segregation of duties.
- b. Implement compensating controls where necessary to mitigate the risks related to the lack of segregation of duties.
- c. Establish a process to periodically review access rights and privileges.
- d. Ensure submission of an access authorization form prior to granting a service member system access and perform periodic reviews for compliance.
- e. Develop policy and procedures that ensure proper segregation of duties for travel transactions processing. Establish compensating controls, if appropriate, to ensure proper segregation of duties. Periodically monitor the roles and responsibilities of Travel Branch personnel to ensure proper segregation of duties.

**USCG – FMC 03-13 – Financial Disclosure Reports** (*NFR No. 03-033*)

The process for managing the submission, review, and retention of confidential financial disclosure reports (CFDRs) was not fully effective. Responsible personnel, referred to as reviewing officials, were not able to produce CFDR’s for four of fifteen personnel sampled. In addition, Commandant Instruction 5370.9A, Financial Disclosure Reports, had not been revised to reflect the USCG’s transfer from the Department of Transportation to DHS.

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*Recommendations:*

We recommend that the USCG:

- a. Establish and implement controls to ensure that Reviewing Officials are effectively managing the CFDR process.
- b. Update Commandant Instruction 5370.9A considering changes needed to reflect the transfer of operations from the legacy department to DHS.

**USCG – FMC 03-14 – Federal Financial Management Improvement Act (FFMIA) of 1996**  
*(NFR No. 03-001)*

The USCG did not fully comply with three requirements of FFMIA, specifically:

- USCG did not properly account for its Operating Material and Supplies in accordance with Statement of Federal Financial Accounting Standard Number 3, *Accounting for Inventory and Related Property*.
- USCG did not comply with Federal system requirements because it did not have a fully integrated financial system, as there were three separate, stand-alone general ledger systems, and a non-integrated payroll system.
- During FY 2003 the USCG used the Department of Transportation's Departmental Accounting and Financial Information System and Coast Guard Oracle Financial system as their primary general ledger accounting systems. Both of these systems were not fully compliant with the U.S. Standard General Ledger (USSGL).

*Recommendations:*

We recommend that the USCG coordinate with the DHS Office of the CFO to determine the corrective actions needed for USCG to become fully compliant with federal systems requirements and the USSGL at the transaction level.

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

**USSS – FMC 03-01 – Personnel Files** *(NFR No. 03-02)*

The process used by the U.S. Secret Service (USSS) to maintain employee personnel records could be improved. Specifically, we noted instances where Notice of Personnel Actions (SF-50), Health Care Coverage (SF-2809) and subsequent updated coverage forms were not included in employee files.

*Recommendation:*

We recommend that the USSS establish a process to ensure that personnel files contain all documentation supporting personnel actions. This process should include creating and periodically reviewing a checklist of documentation and information required in each file.

**USSS – FMC 03-02 – Retroactive Salary Increase** *(NFR No. 03-01)*

We noted one instance where the USSS had not fully complied with an Executive Order requiring the retroactive pay increase of one employee.

*Recommendation:*

We recommend that the USSS adopt procedures to ensure that all Executive Orders, including those over personnel actions, are implemented in a timely manner.

**USSS – FMC 03-03 – Counterfeit Contraband System** *(NFR No. 03-05)*

The USSS Counterfeit Contraband System used to track “Not In Evidence” counterfeit items does not always provide consistent information.

*Recommendation:*

We recommend that the USSS continue steps to implement a new counterfeit custody system that meets the Joint Financial Management Improvement Program’s *Seized Property and Forfeited Asset System Requirements*.

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CONS	03-01	Transferred-in Balances from DHS Legacy and Related Accrual Issues	G			
CONS	03-02	Improvements Needed Regarding the Timely Issuance of Performance and Accountability Report Preparation Instructions	A, B			
CONS	03-03	Identification of Direct and Material Laws and Regulations that are Direct and Material to the DHS Consolidated Financial Statements	A			
CONS	03-04	Imputed Costs	A			
CONS	03-05	Compliance with FFMIA- Consistent Application of USSGL by DHS Bureaus.	A, B			
CONS	03-06	Accounting for the Transfer-in Balances from DHS Legacy Agencies	G			
CONS	03-07	Lack of Controls over Bureau-Level TIER Inputs/Outputs and CFO Vision Outputs	B			
CONS	03-08	Controls over the Intra-DHS Elimination Process			1	03-01
CONS	03-09	Classification of Certain Accounts in the DHS Financial Statements	A, B			
CONS	03-10	Statement of Net Cost Presentation and Reporting.	B			
CBP	03-01	Integration of PIMS with AIMS			2	03-01
CBP	03-02	CARMAC/CAMITS Integration and Outsourcing			2	03-02
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CBP	03-04	Review of Prior Related Drawback Claims		H		
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CBP	03-06	Internal Control over the Drawback Process in New York/Newark was Negatively affected by the events of September 11, 2001.		H		
CBP	03-07	Codified Policy and Procedures for Injured Domestic Industries			3	03-05
CBP	03-08	ACS Selectivity for Underlying Consumption Entries		H		
CBP	03-09	Automated Commercial System deficiencies over Accounts Receivable and CBP's ability to effectively monitor collection actions.			4	03-08
CBP	03-10	No Quality Control Over In-bond Warehousing and Movement		I		
CBP	03-11	Recording Post-Inventoried Shelf Weights			3	03-04
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CBP	03-14	Overpayment of Drawback Claims		H		
CBP	03-15	Retention Period for Documents that Support Drawback Claims		H		
CBP	03-16	Inability to Assess the Appropriate Amount of Consolidated Omnibus Reconciliation Act (COBRA) User Fees Due			4	03-07
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CBP	03-18	Entry Process Deficiencies			4	03-09

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EPR	03-01	Timeliness of preparing and closing opening period trial balances must be improved.	A			
EPR	03-02	Timeliness in reconciling Fund Balance with Treasury as of February 28, 2003 should be improved.	A			
EPR	03-03	Timeliness in clearing errors related to FEMAs’ DHS TIER transmission must be improved.	B			
EPR	03-15	Region II Financial Management of Grants			6	03-03
EPR	03-16	Region VI Financial Management Grants			7	03-04
EPR	03-17	Region IX Financial Management of Grants			7	03-05
EPR	03-18	Lack of Preparation of Subsidy Re-estimate for Credit Reform Loans			6	03-01
EPR	03-19	Reconciliation’s of Reimbursable Agreements are not Maintained and Properly Reviewed			6	03-02
EPR	03-21	Lack of Timely De-obligation of Disaster Related Obligations			8	03-06
EPR	03-25	ADAMS Inconsistency for Disaster 979-Pulic Assistance			9	03-07
EPR	03-27	Re-issuance of Prior Year Finding – Quarterly Intra-governmental balance reconciliation’s with Trading Partners		L		
EPR	03-28	Improper SF 133 Reporting			9	03-08
EPR	03-29	Federal Managers’ Financial Integrity Act of 1982			9	03-09
ICE	03-01	Timeliness in clearing errors related to DHS TIER transmission must be improved.	B			
ICE	03-05	Improvement Needed in Reconciliation of the FMS-6652, Statement of Differences (SOD), at Headquarters			10	03-01
ICE	03-06	Need to Improve the Use of the Deposit Overage/Shortage Memo at the Vermont Service Center.			10	03-02
ICE	03-07	Improve Use of the Deposit Overage/Shortage Memo and Make Timely Deposits at the Nebraska Service Center.			10	03-03
ICE	03-08	Improvements are Needed in the Immigration Application Adjudication Process at the Vermont Service Center			10	03-04
ICE	03-09	Monitoring and Review of the Backlog List and Subsequent Clearing of the Reconciling Items Need to be Improved			11	03-05
ICE	03-16	Non-compliance with OMB 01-09 regarding quarterly reconciliations of intragovernmental activity		L		
ICE	03-17	Operating leases were included as personal property			11	03-06
ICE	03-18	Controls over the recording of personal property disposals in AMIS need improvement			11	03-07
ICE	03-19	Monitoring and Review of the Suspense Account and Subsequent Clearing of the Transactions Needs to be Improved			12	03-08
ICE	03-20	Controls related to application fees need to be improved at the Chicago District Office			12	03-09
ICE	03-21	Physical Controls Related to Application Receipts Could Be Improved at the Texas Service Center			12	03-10
ICE	03-22	Maintenance of SWIP Labels Needs Improvement			13	03-11
ICE	03-23	Process for Verifying and Validating Obligations and Recording Undelivered Orders Needs Improvement		N		

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LTD	03-03	Disconnect between General Ledger Accounting and Day-to-Day Strategic National Stockpile (SNS) Operations		M		
LTD	03-04	Strategic National Stockpile Definition of Entity		M		
LTD	03-05	Certain Federal Law Enforcement Training Center (FLETC) Leases			14	03-01
LTD	03-06	Intragovernmental Reconciliations at FLETC and FPS		L		
LTD	03-07	Integration of the Inventory Management System (IMS)		M		
LTD	03-08	Control Testwork Findings at the Strategic National Stockpile		M		
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ODP	03-03	Year-end closing procedures can be improved			15	03-02
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TSA	03-06	Leases			16	03-01
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USCG	03-003	Field-Held OM&S	E			
USCG	03-004	Physical Inventories of Field-Held OM&S	E			
USCG	03-005	PP&E Improvements	D			
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USCG	03-015	Undelivered Orders - AR&SC		N		
USCG	03-016	Note Disclosure – Leases	B			
USCG	03-017	Note Disclosure – Fund Balance with Treasury (FBWT)	B			
USCG	03-018	Intragovernmental Accounts Payable		L		
USCG	03-019	Fund Balance with Treasury (FBWT) Reconciliations		K		
USCG	03-020	Pre FY 1995 Real Property Valuation	A			
USCG	03-021	Pre FY 1995 Aircraft and Vessels	A			
USCG	03-022	Inventory Control Point (ICP) Physical Inventory Policies and Procedures	D			
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