Department of Homeland Security
Office of Inspector General

Independent Auditors' Report on U.S. Citizenship and Immigration Services' FY 2009 Consolidated Balance Sheet

OIG-10-59

February 2010

Office of Inspector General

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

February 25, 2010

Preface

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

The attached report presents the results of the U.S. Citizenship and Immigration Services' consolidated balance sheet audit for fiscal year (FY) 2009. We contracted with the independent public accounting firm KPMG LLP (KPMG) to perform the audit. The contract required that KPMG perform its audit according to generally accepted government auditing standards and guidance from the Office of Management and Budget and the Government Accountability Office. KPMG concluded that USCIS' consolidated balance sheet as of September 30, 2009, is presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. The FY 2009 auditors' report discusses two material weaknesses, and two significant deficiencies in internal control. KPMG is responsible for the attached auditors' report, and the conclusions expressed in the report. We do not express opinions on USCIS' consolidated balance sheet or provide conclusions on compliance with laws and regulations.

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

Richard L. Skinner
Inspector General

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

Director of the U.S. Department of Homeland Security
U.S. Citizenship and Immigration Services, and Inspector General,
U.S. Department of Homeland Security:

We have audited the accompanying consolidated balance sheet of the U.S. Department of Homeland Security (DHS) U.S. Citizenship and Immigration Services (USCIS) as of September 30, 2009. The objective of our audit was to express an opinion on the fair presentation of this consolidated balance sheet. In connection with our fiscal year 2009 audit, we also considered USCIS's internal controls over financial reporting, and tested USCIS's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on the consolidated balance sheet.

Summary

As stated in our opinion on the consolidated balance sheet, the accompanying consolidated balance sheet as of September 30, 2009, is presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

Our consideration of internal control over financial reporting resulted in the following conditions being identified as significant deficiencies:

A. Information Technology General and Application Controls
B. General Property, Plant, and Equipment
C. Deferred Revenue
D. Accounts Payable

We consider significant deficiencies A and B, above, to be material weaknesses.

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*.

The following sections discuss our opinion on USCIS's consolidated balance sheet; our consideration of USCIS's internal controls over financial reporting; our tests of the USCIS's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements; and management's and our responsibilities.

Opinion on the Consolidated Balance Sheet

We have audited the accompanying consolidated balance sheet of the U.S. Citizenship and Immigration Services as of September 30, 2009.

In our opinion, the consolidated balance sheet referred to above presents fairly, in all material respects, the financial position of USCIS as of September 30, 2009, in conformity with U.S. generally accepted accounting principles.

The information in the Overview section is not a required part of the consolidated balance sheet, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Internal Control over Financial Reporting

Our consideration of the internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects USCIS's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of USCIS's consolidated balance sheet that is more than inconsequential will not be prevented or detected by USCIS's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the consolidated balance sheet will not be prevented or detected by USCIS's internal control.

In our fiscal year 2009 audit, we consider the deficiencies, described in Exhibits I and II, to be significant deficiencies in internal control over financial reporting. However, of the significant deficiencies described in Exhibits I and II, we believe that the significant deficiencies presented in Exhibit I are material weaknesses.

Compliance and Other Matters

The results of our tests of compliance as described in the Responsibilities section of this report, disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

Responsibilities

Management's Responsibilities. Management is responsible for the consolidated balance sheet; establishing and maintaining effective internal control; and complying with laws, regulations, contracts, and grant agreements applicable to USCIS.

Auditors' Responsibilities. Our responsibility is to express an opinion on USCIS's consolidated balance sheet as of September 30, 2009, based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated balance sheet is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of USCIS's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

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

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

In planning and performing our audit of USCIS's consolidated balance sheet as of September 30, 2009, we considered USCIS's internal control over financial reporting by obtaining an understanding of USCIS's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated balance sheet. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to express an opinion on the effectiveness of USCIS's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of USCIS's internal control over financial reporting.

As part of obtaining reasonable assurance about whether USCIS's consolidated balance sheet as of September 30, 2009 is free of material misstatement, we performed tests of USCIS's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the consolidated balance sheet amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to USCIS. However, providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

USCIS management has indicated in a separate letter immediately following this report that it concurs with the findings presented in Exhibits I and II. We did not audit USCIS's response, and accordingly, we express no opinion on it.

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

KPMG LLP

January 15, 2010

I-A Information Technology General and Application Controls

Background: The United States Department of Commerce (DOC) hosts key financial accounting applications, which are owned and managed by the bureau of Immigration and Customs Enforcement (ICE). USCIS is a customer of ICE and utilizes the financial applications hosted by ICE for its financial management. Our audit procedures over information technology (IT) general controls for USCIS included testing of the ICE's General Support System, Active Directory Exchange (ADEX) and Federal Financial Management System (FFMS) and USCIS's Headquarters IT policies, procedures, and practices over Computer Licensed Alien Information Management System Local Area Network (CLAIMS 3 LAN) and CLAIMS 4.

During FY 2009, USCIS did not fully implement corrective actions to address certain prior year IT control deficiencies identified in the FY 2008 Department of Homeland Security financial statement audit. As a result, these weaknesses were reissued, and certain new FY 2009 weaknesses were identified at both USCIS and ICE.

Conditions: We identified 18 IT findings during our audit; however, seven are repeat findings, either partially or in whole from the prior year. In addition, two findings were identified at ICE; however, the impact to the USCIS environment is significant. The findings stem from four of the five Federal Information System Controls Audit Manual (FISCAM) key control areas and Entity Level controls. The FISCAM IT general control deficiencies that present a risk to USCIS's financial system processes and data integrity are summarized below:

- Security configuration weaknesses exist over the ICE ADEX network of high and medium risk as defined by the ICE Office of the Chief Information Officer. Detailed vulnerability results were provided to ICE management.
- Lack of effective controls of the availability, integrity, and confidentiality of the FFMS. These weaknesses have caused system resources degradation, which resulted in an instance of duplicate invoice and other payments of approximately $13 million being issued during FY 2009. Approximately $1.8 million of the $13 million in payments related to USCIS.
- Weak account management over CLAIMS 3 LAN, including the insufficient definition of access roles, lack of user access reviews, generic accounts, weak passwords, and active terminated user accounts.
- Weak account management over CLAIMS 4, including password configuration controls and segregation of duties, and the lack of documented and approved user access.
- Lack of effective controls to manage recertification over system administrator access to manage security software.
- Excessive access for authorized users of FFMS.
- Lack of audit logging policies and procedures for application and server logs for CLAIMS 3 LAN and CLAIMS 4.
- Entity level control weaknesses over IT security training, background investigations for new hires, and exit processing for terminated\transferred employees.
- Ineffective safeguards over physical access to sensitive facilities and resources at the Vermont Service Center (VSC) and the Manassas Data Center.
- Incomplete policies and procedures over equipment and media sanitization.

Cause/Effect: Collectively, the IT control deficiencies at USCIS and ICE limit USCIS's ability to assert that critical financial and operational data used by management and reported in the DHS financial statements are maintained in such a manner to ensure confidentiality, integrity, and availability. These deficiencies negatively impact the internal controls over financial reporting and its operations, and we consider them to collectively represent a material weakness for USCIS.

Criteria: OMB Circular A-130, *Management of Federal Information Resources,* and various NIST guidelines describe specific criteria for maintaining effective general IT controls. OMB Circular A-127 prescribes standards for Federal agencies to follow in developing, operating, evaluating, and reporting on financial management systems. DHS's *Sensitive Systems Policy Directive, 4300A* documents policies and procedures adopted by DHS intended to improve the security and operation of all DHS IT systems.

Recommendations: We recommend that USCIS:

1. Work with the DHS Office of the Chief Information Officer to ensure that ICE complete the agreed-upon corrective actions for its IT findings in FY 2010;
2. Implement the recommendations in our Limited Official Use (LOU) letter provided to DHS, to effectively address the deficiencies identified above and described in greater detail in the LOU report; and
3. Design and implement appropriate corrective action plans that address the root cause of the IT control deficiencies at USCIS.

I-B General Property, Plant and Equipment

Background: The major capital asset categories in general property, plant and equipment (PP&E) are equipment, leasehold improvements, and internal use software. Capital assets are recorded on the Balance Sheet and are depreciated over the economic useful life (based on the category of the asset). All activity relating to equipment, including additions, disposals, transfers, adjustments, and depreciation is maintained within the Sunflower Asset Management System (SAMS). SAMS is manually reconciled to the USCIS general ledger monthly by the Accounting and Reporting Branch. At September 30, 2009, the gross PP&E balance is approximately $445 million and the PP&E balance net of accumulated depreciation is approximately $106 million. Capitalized equipment comprised approximately $18 million gross and consisted of information technology equipment, office equipment, security equipment, and vehicles.

All equipment is recorded in SAMS. Equipment that meets the threshold for capitalization is depreciated over the remaining useful life; equipment that does not meet the threshold for capitalization is expensed as incurred. For FY 2009, equipment assets greater than, or equal to, $50,000 are capitalized. Prior to FY 2009, the capitalization threshold was $200,000. The modifications to the capitalization threshold were accounted for by USCIS as a change in accounting estimate, and accounted for on a prospective basis. During FY 2009, management added equipment to the listing that was between the $50,000 and $200,000 thresholds.

Conditions: During the FY 2009 audit, we noted the following conditions related to PP&E:

1. Equipment items shown on the capitalized asset listing were found to have previously been disposed, and, therefore, erroneously included on the capital equipment listing;

2. Equipment items located at USCIS facilities that appeared to meet the FY 2009 criteria for capitalization were not included on the capitalized equipment listing;

3. The dollar value associated with capitalized equipment items on the general ledger did not agree to the underlying supporting documentation;

4. Lack of documentation (invoices, receiving reports, purchase orders, etc.) supporting the purchase of capitalized equipment;

5. Equipment recorded in SAMS without accurately capturing the appropriate equipment costs including start-up, rigging, delivery, shipping and installation costs;

6. Leasehold improvements were recorded based on the dollar amount obligated for the project instead of the actual costs incurred;

7. Inconsistent tagging of equipment items led to confusion over ownership of certain assets and who bears the risk of loss;

8. Capitalized equipment items were not coded to the proper geographic location; and

9. Insufficient monitoring and review of capitalized equipment transactions and annual inventory observations.

Cause/Effect: The conditions identified can be attributed to the lack of sufficient internal control policies and procedures surrounding capitalized PP&E transactions and/or the ineffective operation of such control procedures. The identified conditions noted above had an effect of misstating the capitalized PP&E balance. USCIS recorded prior period restatement adjusting journal entries of approximately $10.5 million (net) or $60 million (gross) that were recorded in FY 2009 as a result of the conditions identified.

Criteria: Statement of Federal Financial Accounting Standard (SFFAS) No. 6, *Accounting for Property, Plant and Equipment*, establishes the guidance for recognition of PP&E. Per SFFAS 6, paragraph 26, "All general PP&E shall be recorded at cost. Cost shall include all costs incurred to bring the PP&E to a form and location suitable for its intended use." Further, paragraph 35 states, "Depreciation expense is calculated through the systematic and rational allocation of the cost of general PP&E, less its estimated salvage/residual value, over the estimated useful life of the general PP&E. Depreciation expense shall be recognized on all general PP&E, except land and land rights of unlimited duration."

SFFAS No. 35, *Estimating the Historical Cost of General Property, Plant, and Equipment Amending Statements of Federal Financial Accounting Standards 6 and 23*, provides further clarification regarding the use of estimates in the valuation of PP&E. Per SFFAS 35, paragraph 12 (which amends SFFAS 23 paragraph 40):

> "Although the measurement basis for valuing G-PP&E remains historical cost, reasonable estimates may be used to establish the historical cost of G-PP&E, in accordance with the asset recognition and measurement provisions herein. Estimates may be based on:
> - cost of similar assets at the time of acquisition,
> - current cost of similar assets discounted for inflation since the time of acquisition (i.e.,

deflating current costs to costs at the time of acquisition by general price index), or
• other reasonable methods."

Recommendations: We recommend that USCIS Financial Management Division:

1. Include all assets that meet the capitalization criteria on the listing of capitalized property;

2. Ensure that disposed equipment is removed from SAMS timely;

3. Ensure that proper, adequate supporting documentation exists and is maintained for all purchases, transfers, and disposals of capitalized property;

4. Ensure that annual property inventory observation procedures are consistently applied and that adjustments identified from the inventory observations are then recorded and the SAMS is updated accordingly;

5. Ensure consistent use of asset tags on all USCIS equipment, and clearly distinguish non-USCIS equipment that may be located at USCIS facilities;

6. Institute management review procedures over the recording of capitalized property transactions and internal control procedures to ensure recommendations #1 through 5 are carried out; and

7. Continue to execute the process to review leasehold improvements implemented during Q4 2009. In FY 2009, management implemented SFFAS No. 35, *Estimating the Historical Cost of General Property, Plant, and Equipment*. In addition, leasehold improvements are now supported by the GSA Assigned Space Action Summary Sheet (also known as "Side-by-Side" Reports) which details the estimated charges for tenant improvements, cabling and security.

II-C Deferred Revenue

Background: Throughout the year, USCIS receives millions of applications and petitions for various immigration and naturalization benefits. Applications are received and processed at four service centers, the National Benefits Center (NBC), over thirty district offices, and numerous field and asylum offices. An application fee is associated with most applications received. USCIS recognizes these fees as revenue upon adjudication of the application. The fees, associated with applications received but still pending adjudication at the end of a period, are accounted for as deferred revenue.

USCIS has developed and implemented quality assurance (QA) procedures as a means of ensuring that all offices process applications in accordance with protocol. The USCIS Quality Management Branch (QMB) facilitates the QA process. These procedures are performed on a quarterly basis at all USCIS District Offices, Service Centers and the National Benefits Center (NBC). These QA procedures are comprised of both floor-to-list and list-to-floor testing of the proper status of the application.

To determine the amount of deferred revenue corresponding to these pending applications, USCIS runs queries of the various systems used to track individual immigration and naturalization applications. The sum of pending application fees minus any adjustments, equals total deferred revenue. The system queries are run quarterly (e.g. November, February, May, and August).

District offices and service center locations also perform their 'floor-to-list' sample selections on or around these quarterly dates. The district offices and service centers send the listing of selected applications to QMB for comparison with what is recorded on the system. Each district office is instructed to judgmentally pull a sample of 10 pending applications from its location; each service center judgmentally selects 27 pending applications from its location resulting in a total count of 495 across all locations.

For the 'list-to-floor' QA testing, QMB statistically selects a stratified sample of applications from each system from the query dates specified above. This statistical testing methodology was first employed during the third quarter of 2009. QMB then sends the list of applications selected to the respective locations. QMB instructs the location to locate and examine each file to determine whether the application is pending or closed. The locations then send back their results to QMB for analysis in the deferred revenue estimation.

Deferred revenue is recorded as a liability on USCIS's Balance Sheet. At September 30, 2009, the deferred revenue balance was approximately $781 million.

Conditions: We conducted site visits to various District Offices, Service Centers and the National Benefits Center (NBC) in May 2009 (floor-to-list testing) and July 2009 (list-to-floor testing). These site visits were also observed by personnel from USCIS Headquarters and the DHS OIG – Office of Audits. The conditions below were identified during those visits.

We re-performed management's floor-to-list and list-to-floor testing for the third quarter of FY 2009 by testing a statistically derived sub-sample of management's sample of list-to-floor applications. KPMG obtained and inspected the applications while on the site visits. The conditions noted below pertain to the performance of this test work:

1. While performing testing at the Texas Service Center, it was discovered that the I-485 records for the Executive Office for Immigration Review (EOIR) 'relief from deportation' applications were incorrectly included as part of the universe of pending cases used to calculate deferred revenue.

2. While performing the test to verify the accuracy of application fees, we noted 13 instances (all were I-751 application types) where the $80 biometric fee was included in deferred revenue.

3. Error rates indicative of a deficiency in internal control in the application adjudication process are identified through the USCIS QA process and exist on USCIS's largest application tracking systems as evidenced in the 22% error rate of CLAIMS 3, CLAIMS 4, RNACS and MFAS applications tested out of a sample of 294 applications. We note that subsequent to the second quarter 2009, RNACS applications were no longer used in the deferred revenue estimation process.

4. Errors in the pending application status identified through the QA process are not corrected in the system of record (CLAIMS 3 and 4).

5. USCIS continues to utilize multiple, non-integrated systems for processing immigration and naturalization applications.

KPMG obtained a listing of immigration and naturalization applications that were adjudicated during FY 2009. While our testing did not identify any sample items that were incorrectly classified as completed (i.e. no sample items were listed in the system as pending but our inspection of the application indicated it had not been adjudicated), our testing of the sample of applications adjudicated in FY 2009 indicated that:

6. Adjudication status is not always updated on the various application tracking systems in a timely manner (i.e., within three business days).

Cause/Effect: The conditions above result from weaknesses in the current IT and manual application data tracking systems. According to USCIS personnel, the deferred revenue QA process and development of management's estimate of deferred revenue is a time consuming process and a large use of resources, both at the field locations and at USCIS Headquarters. Although the estimation methodology continues to be refined by management, further enhancements to the manual controls over the application processing process will generally not be made until new application tracking computer systems are implemented.

The errors in application fee amounts noted above were due to a failure to monitor and review the fee table. This allowed the error to go undetected until identified during the financial statement audit.

The identified conditions noted above could result in a misstatement of data used in the estimation methodology for the deferred revenue balance. Further, systemic problems may not be identified and resolved, leading to a potential misstatement of deferred revenue.

Criteria: OMB Circular A-123, *Management Accountability and Control,* specifies "Management controls are the organization, policies, and procedures used to reasonably assure that…reliable and timely information is obtained, maintained, reported and used for decision making… Developing a written strategy for internal agency use may help ensure that appropriate action is taken throughout the year to meet objectives…"

According to the QMB Quality Assurance procedures guidance, and client discussion, QMB performs an analysis on all results received from the District Offices, Service Centers and the NBC. The analysis corroborates the results reported from the field. If any discrepancies are noted, QMB is to follow up and resolve the issue.

Recommendations: We recommend that the USCIS Financial Management Division in conjunction with the Quality Management Branch:

1. Implement internal controls over the CLAIMS 3 LAN-to-CISCORS interface to validate the completeness of the population of immigration applications not yet adjudicated that are included in deferred revenue;

2. Enhance the design of the deferred revenue QA process to include a risk-based over-sampling of previous quarters' results, either by location or application type, to help identify and resolve the root cause of the errors identified in prior QA procedures;

3. Correct the errors in application status when identified through the QA process to improve the integrity of system data relied on for financial reporting and operating purposes;

4. Track all pending applications within one system or in a series of systems that are integrated; and

5. Evaluate the overall data quality within the various systems to plan for pre-conversion validation of data.

We further recommend that USCIS:

6. Continue to follow policies and procedures for future applications that warrant EOIR review that does not create Form I-485 applications in the system so that this overstatement of deferred revenue does not occur.

7. Identify the business system owner of the deferred revenue query applications and the owner will be responsible for ensuring the accuracy of the deferred revenue fee information and approving changes to the database fee table.

II-D Accounts Payable

Background: Accounts payable (AP) represents amounts owed to others for goods and services received, but not yet paid. All transactions (both obligations and disbursements) are recorded in the Federal Financial Management System (FFMS). Currently, there are two processes to record accounts payable. One trigger to record an accrual in FFMS is a receiving ticket. Receiving tickets are only required for the receipt of goods provided by commercial vendors and for goods and services provided by government vendors. FFMS users are not required to create a receiving ticket for services provided by commercial vendors because the accounts payable for this activity is estimated on a monthly basis utilizing a historical percentage of the undelivered order balances.

Invoices are received at the USCIS Program Office and are stamped with the date received. The invoices are subsequently distributed to the Contracting Officer's Technical Representative (COTR) for approval or rejection if the contract is greater than $100,000. The COTR scans the invoice and sends it to the Contracting Officer (CO) for review and approval. Once approved, the CO forwards the invoice to USCIS's service provider, the ICE Dallas Finance Center (DFC), to process. DFC attaches the invoice into FileOnQ, the invoice tracking database. In order for DFC to make a payment, the invoice must be certified for payment (i.e., goods have been received and accepted and services have been received). Certification for payment can consist of either manual certification via a signature on the invoice or by the creation of a receiving ticket within FFMS. A payment shell in FFMS is created when a receiving ticket is created. If the invoice was manually certified, the DFC will enter the receipt of the invoice in the Payment Request Transaction Screen within FFMS.

Conditions: We noted the following conditions related to Accounts Payable:

1. During our FY 2009 test work over USCIS disbursements, we noted that 3 out of 210 sample items were posted against erroneous Sub-Object Class (SOC) codes in FFMS;
2. During our substantive testing over USCIS accounts payable transactions for the period ended September 30, 2009, KPMG noted the following accounts payable sample items were not recorded timely in FFMS:

   - 2 out of 32 sample items for the testing period October 1, 2008 through April 30, 2009.
   - 30 out of 175 sample items for the testing period May 1, 2009 through July 31, 2009.
   - 18 out of 80 sample items for the testing period August 1, 2009 through September 30, 2009.

Cause/Effect: A lack of adequate supervisory review to ensure usage of correct codes by personnel responsible for assigning SOC codes to obligations led to an incorrect recording of the transactions. The inability to accurately record SOCs for financial transactions could result in misstatements to general ledger amounts. The lack of effective financial reporting policies and procedures could result in the untimely recording of AP in FFMS. The inability to record liabilities in a timely manner increases the risk of a misstatement of related balances in the financial statements, including accounts payable, expenses, and undelivered orders.

Criteria: The Statement of Federal Financial Accounting Standards, (SFFAS) No. 1, paragraph 77, Accounting for Selected Assets and Liabilities, states that "when an entity accepts title to goods, whether the goods are delivered or in transit, the entity should recognize a liability for the unpaid amount of the goods. If invoices for those goods are not available when financial statements are prepared, the amounts owed should be estimated."

The *Standards for Internal Control in the Federal Government (Standards)* issued by the Government Accountability Office states that:

> "Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded."

Recommendations: We recommend that the USCIS Financial Management Division:

1. Implement effective internal controls to ensure personnel assign the proper SOC codes to obligations and record the proper SOC codes in FFMS; and

2. Implement effective financial reporting policies and procedures requiring AP to be entered into FFMS timely based on the receipt of goods and/or services by the bureau.

U.S. Department of Homeland Security
U.S. Citizenship and Immigration Services
Office of the Chief Financial Officer
Washington, DC 20529-2130

U.S. Citizenship
and Immigration
Services

January 21, 2010

Memorandum

TO: Anne L. Richard
Assistant Inspector General for Audits
U.S. Department of Homeland Security

FROM: Timothy A. Rosado
U.S. Citizenship and Immigration Services
Acting Chief Financial Officer

SUBJECT: Management Response to Independent Auditor's Report on U.S. Citizenship and Immigration Services' Fiscal Year 2009 Consolidated Balance Sheet

We would like to thank you for the opportunity to review the draft report on US Citizenship and Immigration Services' Fiscal Year 2009 Consolidated Balance Sheet. USCIS accepts the unqualified opinion on USCIS Consolidated Balance Sheet for the fiscal year period ending September 30, 2009. USCIS agrees with all findings, comments and conclusions that the auditors have expressed in the report. USCIS will work diligently to correct the material weaknesses and other significant deficiencies identified in the report.

USCIS has presented supplementary information in the Overview section of the report to provide contexts and explanations about USCIS operations and financial reporting. This information is presented unaudited and without opinion by the auditors.

USCIS is proud of the accomplishment that was achieved by its financial and operational staffs in supporting a first time audit opinion of USCIS financial statements. We appreciate the cooperation and respect that your staff provided during the course of the audit and look forward to continuing our strong working relationship with your office.

USCIS will continue its efforts to improve its and the Department of Homeland Security's financial reporting and internal control requirements.

Department of Homeland Security

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