



Department of Homeland Security Office of Inspector General

Independent Auditors' Report on U.S. Immigration and Customs Enforcement's FY 2009 Consolidated Balance Sheet





Homeland Security

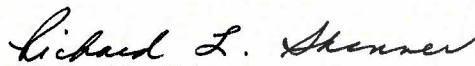
MAR 22 2010

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. Immigration and Customs Enforcement's balance sheet audit for fiscal year (FY) 2009. We contracted with the independent public accounting firm KPMG LLP (KPMG) to perform the audits. The contract required that KPMG perform its audits according to generally accepted government auditing standards and guidance from the Office of Management and Budget and the Government Accountability Office. KPMG concluded that ICE's 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 four material weaknesses, and six 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 ICE's 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. Immigration and Customs Enforcement, and Inspector General,
U.S. Department of Homeland Security:

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

Summary

As stated in our opinion on the balance sheet, the accompanying 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. Duplicate Payments
- C. Office of Detention and Removal Budget Allocations
- D. General Property, Plant, and Equipment
- E. Accounts Payable
- F. Undelivered Orders
- G. Untimely Recording of Obligations
- H. IPAC Transactions
- I. Financial Reporting
- J. Pending/Threatened Litigation Accrual

We consider significant deficiencies A, B, C and D 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 ICE's balance sheet; our consideration of ICE's internal controls over financial reporting; our tests of the ICE's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements; and management's and our responsibilities.



Opinion on the Balance Sheet

We have audited the accompanying balance sheet of the U.S. Immigration and Customs Enforcement as of September 30, 2009.

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

As discussed in Note 1 to the balance sheet, ICE has not presented the balance sheet and notes thereto in full compliance with OMB Circular A-136. The information in the *Introduction* section is not a required part of the 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 the entity'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 the entity's balance sheet that is more than inconsequential will not be prevented or detected by ICE'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 balance sheet will not be prevented or detected by the entity'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 balance sheet; establishing and maintaining effective internal control; and complying with laws, regulations, contracts, and grant agreements applicable to ICE.

Auditors' Responsibilities. Our responsibility is to express an opinion on ICE's 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 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 ICE'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 balance sheet;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall balance sheet presentation.

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

In planning and performing our audit of ICE's balance sheet as of September 30, 2009, we considered ICE's internal control over financial reporting by obtaining an understanding of ICE'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 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 ICE's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of ICE's internal control over financial reporting.

As part of obtaining reasonable assurance about whether ICE's balance sheet as of September 30, 2009 is free of material misstatement, we performed tests of ICE'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 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 ICE. 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.

ICE 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 ICE's responses, and accordingly, we express no opinion on them.



This report is intended solely for the information and use of ICE'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

December 18, 2009

Independent Auditors' Report

Exhibit I - *Material Weaknesses*

I-A Information Technology General and Application Controls

Background: The U.S. Department of Commerce (DOC) hosts key financial accounting applications, which are owned and managed by the U.S. Immigration and Customs Enforcement (ICE) agency. Our audit procedures over information technology (IT) general controls for ICE included testing of the ICE's General Support System, Active Directory Exchange (ADEX) and Federal Financial Management System (FFMS).

Conditions: We identified 14 new IT findings during our audit. 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 ICE'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 Financial 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 over \$13 million being issued during FY 2009.
- Ineffective/non-compliant account lockout counter settings.
- Ineffective password settings in FFMS.
- Failure to enforce IT Security Training Awareness requirements.
- Ineffective controls to manage recertification over system administrator access to manage security software.
- Excessive access for authorized users of FFMS and segregation of duty violations within FFMS.
- 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.
- Incomplete policies and procedures over equipment and media sanitization.

Cause/Effect: The growth in ICE demands on system resources and the inability of FFMS to meet the current demands have attributed to the IT material weakness. Other causes consist of the lack of effective controls over the availability, integrity and confidentiality of FFMS as well as the lack of system resources and adequate training. Collectively, the IT control deficiencies limited ICE's ability to assert that critical financial and operational data used by management and reported in the ICE financial statements is maintained in such a manner to ensure confidentiality, integrity, and availability. These deficiencies negatively impacted the internal controls over financial reporting and its operations, and we consider them to collectively represent a material weakness.

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' Sensitive Systems Policy

Independent Auditors' Report

Exhibit I - *Material Weaknesses*

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 ICE:

1. 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 ICE, 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 ICE.

I-B Duplicate Payments

Background: Invoices are received at the Burlington Finance Center (BFC) and are stamped with the date received. BFC enters the information from the invoice into FileonQ, the invoice tracking database, and subsequently distributes the invoice to the Contracting Officer Technical Representative (COTR) for approval or rejection. The invoices are scanned and sent to the Dallas Finance Center (DFC) to process. 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. The program offices have 7 days to receive and accept goods. After 7 days constructive acceptance occurs. 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. Receiving tickets are required for the acceptance of goods. Funds are set aside in FFMS when a receiving ticket is created. If the invoice was manually certified, a payment shell (Payment Request Transaction Screen) is created within FFMS.

Conditions: During our interim test work over procurement and subsequent discussions with ICE management, we observed that FFMS did not have adequate controls to prevent processing of duplicate payments. Specifically, on June 16, 2009, FFMS processed 808 duplicate payments to individuals and vendors for ICE and United States Citizenship and Immigration Services (USCIS) totaling approximately \$13.3 million. ICE subsequently instituted procedures to collect the erroneous disbursements from the affected individuals and vendors as of June 30, 2009, and substantially all of the duplicate payments were recovered as of September 30, 2009.

Cause/Effect: Individuals with responsibility for processing payments did not follow established policies and procedures for processing or canceling payments. Further, it appears that these individuals did not obtain adequate training to fully understand system capabilities. The processing of duplicate payments in FFMS may cause misstatement of related balances in the financial statements, including fund balance with Treasury, accounts payable, expenses, and undelivered and delivered obligations.

Criteria: 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."

Independent Auditors' Report

Exhibit I - *Material Weaknesses*

GAO's *Standards for Internal Control in the Federal Government* defines internal control as "an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations." Furthermore, *Standards for Internal Controls in the Federal Government* lists examples of control activities that include (1) top-level reviews of actual performance, (2) reviews by management at the functional or activity level, (3) management of human capital, (4) controls over information processing (5) physical control over vulnerable assets, (6) Establishment and review of performance measures and indicators, (7) segregation of duties, (8) proper execution of transactions and events, (9) accurate and timely recording of transactions and events, (10) access restrictions to and accountability for resources and records, and (11) appropriate documentation of transactions and internal control.

Recommendations: We recommend that ICE management monitor its implementation of the new management controls to prevent the processing of duplicate payments. In addition, individuals with the responsibility to process payments should continue to receive training around system capabilities and should adhere to existing policies and procedures to ensure that all disbursements are processed correctly or cancelled timely.

I-C Office of Detention and Removal Budget Allocations

Background: The Office of Detention and Removal (DRO) is a division of ICE. DRO is the primary enforcement arm within ICE for the identification, apprehension and removal of illegal aliens from the United States. During FY2009, ICE DRO determined that its Custody Operations program had a potential budget shortfall. In researching the reasons for the potential shortfall, DRO determined the following root causes: (1) inaccurate estimates for Custody Operations bed costs; (2) misclassification of funds where payments were processed using incorrect program or organization codes; (3) insufficient funds control at the lower level units within the organization, resulting in missed opportunities to identify overspending at the program level of Custody Operations; and (4) lack of standardized budgetary resource management oversight processes.

ICE management subsequently instituted corrective actions by reclassifying the related costs to appropriate funding sources, as well as reprogramming other funding authority after obtaining the requisite Congressional approval, for the remaining shortfall.

Conditions: During our testing procedures over obligations and disbursements, and related discussions with ICE management as of September 30, 2009, we confirmed that certain costs and related disbursements pertaining to DRO activities were not allocated to the proper funding sources, resulting in potential overspending in the affected programs.

In subsequent testing specifically performed over DRO disbursements at year-end, we determined that certain reclassification entries recorded by DRO resulting from its research into the potential funding shortfall did not have evidence of proper approvals by any authorizing management personnel. We further determined that:

- 9 out of 20 disbursements selected for testing, totaling approximately \$23.1 million, did not have obligations recorded in FFMS before the period of service began, and
- 1 out of 6 reclassification entries recorded by DRO, totaling approximately \$3.2 million, from Custody Operations Program (COP) to the Transportation and Removal Program (TRP) was recorded in error.

Independent Auditors' Report

Exhibit I - *Material Weaknesses*

Cause/Effect: There is a (a) lack of adequate supervisory review and monitoring of DRO obligations and related costs, to ensure increases in anticipated costs for the year are detected and corrected in a timely manner, and (b) lack of policies and procedures requiring properly documented approval by authorizing personnel for program fund reclassifications. The lack of review and monitoring controls over funds status may result in Anti-deficiency Act violations and/or misstatements of the obligations and accounts payable balances on the financial statements.

Criteria: 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."

OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*, states in Section 145.2 —*Requirements for Reporting Anti-deficiency Act Violations*, that if you authorize or make an obligation exceeding an amount in an allotment or a suballotment (a type of administrative subdivision of funds), then you must report a violation of the Anti-deficiency Act per 31 U.S.C. 1517(a)(2).

Recommendations: We recommend that ICE management continue to implement and follow the remediation activities developed in FY 2009. Specifically, management should also:

- Develop templates and a process for an integrated DRO-wide spending plan monitoring process, including the field office specific spending plans that Field Offices can use to track spending.
- Develop and implement standardized key commitment/obligation structure to support the efficient and effective management of costs at a detailed level.

Furthermore, ICE management should implement policies and procedures requiring properly documented approvals by authorizing personnel for all fund reclassifications.

I-D General Property Plant and Equipment (PP&E)

Background: ICE's mission is to protect the security of the American people and homeland by vigilantly enforcing the nation's immigration and customs laws. To enforce these laws, ICE has invested heavily in software development to analyze data to allow it to achieve its mission.

Conditions: ICE had not previously implemented comprehensive policies and procedures to properly account for internal use software, and software under development, in accordance with the applicable accounting standards. As a result, ICE recorded an adjustment totaling \$41 million to restate its FY 2008 financial statements during FY 2009 to correct this error.

Cause/Effect: In FY 2009, ICE obtained a "stand-alone" audit of its September 30, 2009 balance sheet. In previous years it was asked to prepare financial statements as part of the DHS consolidated financial statement audit. In preparing for the stand-alone audit, ICE performed a more rigorous review of its significant financial reporting policies and procedures surrounding PP&E. Through this review, ICE identified errors in previously reported financial statement PP&E balances. Corrective actions were executed and key internal controls established to properly state the account balances for financial statement reporting purposes, and updated

Independent Auditors' Report
Exhibit I - *Material Weaknesses*

policies and procedures were issued. ICE recorded a restatement for software under development for approximately \$41 million effective October 1, 2008.

Criteria: SFFAS No. 10, *Accounting for Internal Use Software*, provides requirements for the capitalization and reporting of internal use software development costs. Per paragraph 16, the capitalizable cost “should include the full cost (direct and indirect) incurred during the software development stage.” Per SFFAS No. 10, paragraphs 18-20, “For COTS [Commercial off-the-shelf] software, capitalized cost should include the amount paid to the vendor for the software. For contractor-developed software, capitalized cost should include the amount paid to a contractor to design, program, install, and implement the software. Material internal cost incurred by the federal entity to implement the COTS or contractor-developed software and otherwise make it ready for use should be capitalized...Costs incurred after final acceptance testing has been successfully completed should be expensed.”

Recommendations: ICE should continue to adhere to its newly developed policies and procedures to properly account for and report internal use software balances consistent with applicable accounting standards.

Independent Auditors' Report

Exhibit II - *Significant Deficiencies*

II-E Accounts Payable

Background: Accounts payable (A/P) 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, the trigger to record an accrual, at the transaction level in FFMS, is a receiving ticket; however, receiving tickets are only required for the receipt of goods, and FFMS users are not required to create a receiving ticket for services, although ICE programs do execute receiving tickets (like FPS and DRO). However, when payment transactions are posted to FFMS without benefit of a receiving ticket, an A/P record is also created.

Invoices are received at ICE OFM and are stamped with the date received. OFM enters the information from the invoice into FileonQ, the invoice tracking database and subsequently makes the record available to the COTR for approval or rejection. Upon approval, the invoice record is then available for payment processing by OFM. In order for OFM to make a payment, the invoice must be certified for payment; i.e. goods have been received and accepted and services have been received. The program offices have 7 days to receive and accept the goods. After 7 days, constructive acceptance occurs. Certification for payment can consist of either manual certification or by the creation of a receiving ticket within FFMS. Receiving tickets are required for the acceptance of goods. Although not required for services, many ICE programs use FFMS receiving function for this purpose (for example, FPS and DRO). Funds are accrued in FFMS when a receiving ticket is created or payment action is processed. If the invoice was manually certified, an A/P record (Payment Request Transaction Screen) is created within FFMS.

Conditions: During our testing procedures over accounts payable transactions for the fiscal year which ended September 30, 2009, we observed the following instances where costs incurred were not recorded timely into FFMS:

- 1 out of 54 accounts payable transactions, totaling approximately \$2.6 thousand, for the April 30, 2009 testing period,
- 63 out of 237 accounts payable transactions, totaling approximately \$20.3 million, for the July 31, 2009 testing period, and
- 17 out of 94 accounts payable transactions, totaling approximately \$8.6 million, for the September 30, 2009 testing period.

Cause/Effect: Individuals with responsibility for recording A/P in FFMS are not adhering to policies and procedures related to the timely recording of A/P in FFMS upon the receipt of an invoice and the acknowledgement of the receipt of goods. The inability to timely record liabilities increases the risk of a material misstatement of related balances in the financial statements, including accounts payable, expenses, undelivered and delivered obligations.

Criteria: 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."

Independent Auditors' Report

Exhibit II - *Significant Deficiencies*

Recommendations: We recommend that ICE program offices and the Office of Financial Management implement additional controls to ensure that all AP transactions are entered into FFMS timely based on the receipt of invoices for goods and services by the agency.

II-F Undelivered Orders

Background: Undelivered Orders (UDOs) - Unpaid are defined as obligations for goods and services ordered but not yet delivered. Aged UDOs are defined as obligations having no activity, such as modifications, deliveries or payments against an obligation for a grant, agreement, contract/purchase order, et cetera for a period of one year or more.

The Burlington Finance Center (BFC) certifies the UDO balance each quarter as part of the Validation and Verification (V&V) reviewing process. The V&V review process over UDOs assists in substantiating the ICE UDO balance through a detailed transactional review of supporting documentation. V&V also provides support for management's assurance as to the overall adequacy and effectiveness of internal controls over UDO balances in accordance with the Federal Managers' Financial Integrity Act (FMFIA) and Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*.

Conditions: During our testing procedures over aged undelivered order balances as of April 30, 2009, we noted the following:

- 12 out of 20 UDOs sampled, totaling approximately \$24.4 million with no activity within the previous 12 months, should have been de-obligated as of April 30, 2009, and
- 3 out of 20 UDOs sampled, totaling approximately \$0.9 million, had abnormal debit balances as of April 30, 2009.

Cause/Effect: ICE field personnel are not adequately following the V&V policies and procedures for detecting and correcting inactive UDO balances in a timely manner. In addition, ICE is not adequately enforcing policies and procedures currently in place to timely review and correct abnormal UDO balances recorded in FFMS. The inability to timely de-obligate inactive UDO balances will overstate UDO balances, and simultaneously make them unavailable for other purposes.

Criteria: 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 ICE (a) ensure field personnel are adequately following the V&V review policies and procedures, including procedures to ensure invalid UDOs are de-obligated in a timely manner, and (b) monitor and enforce the policies and procedures in place to timely review and correct abnormal UDO balances recorded in FFMS.

Independent Auditors' Report

Exhibit II - *Significant Deficiencies*

II-G Untimely Recording of Obligations

Background: Office of Acquisition Management – When an office acquires a good or purchases a service through the Federal acquisition process governed by the Federal Acquisition Regulation (FAR), it must follow a series of procurement actions before the agency obligates funds for that purpose. An approving official and a budget official in the program office must approve all requests. Once the budget official certifies the funds and the approving official approves the request, he/she forwards the request to Office of Acquisition Management (OAQ). In the case of Federal Protective Service (FPS) contracts, the request is sent to the servicing Consolidated Contracting Group (CCG). The contracting official confirms the signatures of the approving officials, completes the acquisition process, and awards a procurement action using the Purchase Request Information System (PRISM), ICE's procurement management system. The warranted contracting officer signs the hardcopy award document from PRISM.

Upon the execution of the contract, as evidenced by the contracting officer's approval on the award document obligating the agency in an agreement with another government agency or commercial vendor, the obligating document is forwarded to OAQ to record the obligation in FFMS. Currently, PRISM does not interface with FFMS. Thus, the contracting officers must send an electronic copy (via email) and hand deliver the original obligating documents to the Obligations Team within OAQ. Upon receiving the obligating documents, the Obligations Team is required to ensure the award document in PRISM matches the financial obligation in FFMS and manually record the obligating document into FFMS in a timely matter. If the documentation does not match, the OAQ Obligations Team returns the award document to the contracting officer who works with the program office staff to resolve the issue and ensure the financial obligation documentation matches the award document in PRISM.

Federal Protective Service, Consolidated Contracting Groups – Upon the execution of a FPS contract, as evidenced by the contracting officer's approval on the award document obligating the agency in an agreement with another government agency or commercial vendor, the obligating document is forwarded by the servicing FPS CCG to the Budget Officer or Analyst at the requesting FPS Region to record the obligation in FFMS.

Program Offices – There are also “non-procurement” transactions, which do not require the authorization of a contracting officer with warrant authority (e.g., Federal purchase card obligations and travel authorizations). These “non-procurement” transactions are created in field and/or program offices, where they are funded and approved by funding officials and approval officials within their respective offices. Therefore, once these “non-procurement” transactions are approved and ready to be obligated for payment, the program offices are responsible for recording any related obligations within FFMS.

Generally, an authorized obligating document should be recorded in the general ledger prior to the period of performance per the obligating document. This serves to facilitate timely payments against that obligation (e.g., contract, purchase order, travel authorization), which can help limit interest for late payments. Further, an authorized obligating document should be recorded in the general ledger in its entirety. The complete recording of an obligation in FFMS ensures that the entity does not obligate more funds than appropriated and timely payment is made to vendors upon receipt of invoices.

The Burlington and Dallas Finance Centers (BFC and DFC) serve as the disbursement offices for ICE; therefore, all invoices are forwarded to the finance centers for payment. In order for BFC

Independent Auditors' Report

Exhibit II - *Significant Deficiencies*

and DFC to make a payment, there must be an obligation recorded in the FFMS with sufficient funding remaining on the obligation.

Conditions: During our FY 2009 testing of obligations, we determined that the following obligations were not recorded timely in FFMS after being properly approved:

- 1 out of 41 instances of FPS obligations totaling approximately \$40.8 thousand, for the April 30, 2009 testing period
- 6 out of 234 instances of FPS obligations totaling approximately \$3.5 million, for the July 31, 2009 testing period
- 2 out of 234 instances of non-FPS obligations totaling approximately \$2.5 million, for the July 31, 2009 testing period
- 1 out of 149 instances of FPS obligations totaling approximately \$10 thousand, for the September 30, 2009 testing period, and
- 1 out of 149 instances of non-FPS obligations totaling approximately \$60 thousand, for the September 30, 2009 testing period.

We also noted 1 out of 149 instances where a non-FPS obligation totaling approximately \$1.1 million was recorded into FFMS prior to proper approval, for the September 30, 2009 testing period.

Cause/Effect: The untimely recording of obligations in FFMS were caused by (a) individuals with responsibility for recording obligations in FFMS not adhering to existing policies and procedures related to the recording of obligations in FFMS upon execution of an obligating document; (b) the ICE Office of Acquisition Management (OAQ) not providing Interagency Agreements (IAAs) and contract documents to the obligations team in a timely manner; and (c) the unauthorized obligations being recorded into FFMS prior to being properly authorized was caused by inadequate supervisory review of obligations, including controls over the recording of obligations into FFMS. These may result in misstatements to the related obligation balances.

Criteria: 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 ICE reiterate the need for program offices and the Office of Acquisition Management to adhere to the existing policies and procedures, including the need for OCM to start providing IAAs and/or contract documents to the obligations team in a timely manner, to ensure that obligations are entered into FFMS timely. Furthermore, obligations should not be recorded into FFMS before properly authorized supporting documentation. We also recommend that ICE implement policies and procedures to ensure that existing policies and procedures are being followed.

II-H IPAC Transactions

Background: The Intra-Governmental Payment and Collection (IPAC) System is a major component of the Government On-Line Accounting Link System II (GOALS II). The IPAC application's primary purpose is to provide an automated, standardized, interagency funds expenditure transfer mechanism for Federal agencies. It facilitates intragovernmental Federal e-commerce by transferring funds, with related descriptive data, from one Federal agency to

Independent Auditors' Report

Exhibit II - *Significant Deficiencies*

another on a real-time basis. The IPAC System enables Federal agencies to exchange accounting information and to transfer funds between Federal agencies involved in buyer-seller relationships. It establishes standardized interagency payment, collection, and adjustment procedures through an Internet-based application.

When the transaction is processed through the IPAC System, immediate collection or payment is accomplished. For payment transactions, the IPAC System credits the originating agency's Agency Location Code (ALC) and charges the customer agency's ALC. For collection transactions, the IPAC System charges the originating agency's ALC and credits the customer agency's ALC. The transaction includes all IPAC required fields, as well as all agency-specific required data, as stipulated by the customer agency or the trading partner agreement (TPA).

As the financial service provider, ICE processes the disbursement transactions, including IPAC payments, for all of their customers, including Science and Technology (S&T), Departmental Management Operations (MGT) and National Preparedness and Protection Directorate (NPPD). These disbursements are processed by BFC and DFC. On a daily basis, the IPAC transactions are downloaded from GOALS and loaded into an Access database known as the IPAC Management System (IMS). The IPAC Management System is used to track and monitor the status of IPACs. These transactions are maintained in IMS until each can be sufficiently researched and properly posted in FFMS by a payment technician at the BFC or DFC. Currently S&T is the only component that requires a receipt and acceptance of all its IPAC transactions, prior to posting to the general ledger. For all other components, including ICE, MGT, and NPPD, IPAC transactions are posted to an obligation in FFMS when the payment technician identifies a valid obligation with adequate funding.

Conditions: Procedures to verify the receipt and acceptance of goods or services for disbursements processed through the IPAC system do not exist for all components serviced by BFC and DFC.

Additionally, during test work over disbursement transaction in FY 2009, we determined that many IPAC documents (across all components) did not contain adequate background information to determine if the related disbursement was completely and accurately posted against the appropriate obligation. Specifically, the IPAC documents were not consistently disclosing relevant general ledger posting information such as: 1) the obligation number, 2) the billing period of service, and 3) the purpose/description of the services. This condition is applicable not only to ICE transactions, but also the transactions of bureaus for which ICE provides accounting services: S&T, NPPD, and MGT.

In subsequent testing performed specifically over IPAC disbursements at fiscal year-end, we determined that 3 out of 65 "Direct Pay" IPAC disbursements, totaling approximately \$5.5 million, lacked obligating documents to support the transactions. These IPAC disbursements were processed prior to an obligation being set up in FFMS. The disbursements were later reversed and posted to the correct obligations after the obligations were created; however, the obligations were not created timely.

Cause/Effect: Policies and procedures have not been fully developed and implemented for 'pre' or 'post' validation of IPAC transactions for ICE-servicing components, other than USCIS and S&T. The inability to obtain relevant documentation or pertinent information underlying IPAC transactions, presents an increased risk of recording disbursements against incorrect obligations.

Independent Auditors' Report

Exhibit II - *Significant Deficiencies*

If disbursements are not recorded against the correct obligation, that increases the risk of misclassification of program funds.

Criteria: 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 Dallas Finance Center adhere to its existing Standard Operating Procedures for IPAC transactions. We also recommend that the Office of Financial Management (a) examine current policies and procedures and enhance them to include timely 'post' validation when disbursements are processed through the IPAC system. The procedures should clearly delineate the responsibilities of the BFC, DFC, and ICE's program offices; (b) develop and implement controls to monitor the execution of policies and procedures related to IPAC transactions, to ensure that they are being followed, and (c) develop standards, in addition to the basic data field requirements for IPAC documents, that require customer agencies to include pertinent transaction information (e.g., obligation number, service period, point(s) of contact, and description of services) necessary for timely, accurate posting of disbursements against obligations and proper transaction validation.

II-I Financial Reporting

Background: DHS - Treasury Information Executive Repository (DHSTIER) was developed by the Department of Treasury to be United States Standard General Ledger (USSGL) compliant and is located within TreasNet, a Treasury-wide firewall protected computer network. DHSTIER is part of the CFO Financial Reporting System for DHS. The CFO Financial Reporting System captures, validates, analyzes, and reports financial and budgetary data. In addition, it is the central repository for the DHS key financial management information. It stores financial data, generates performance reports, and tracks Department and Bureau level responses to audit recommendations.

DHS TIER Reports

During the TIER submission process, a number of reports are generated to identify, analyze and resolve financial reporting discrepancies to enhance the integrity of the financial reporting process and data. These standard reports are generated after each TIER submission. They include: the Abnormal Balance Report, Analytical Report and the Eliminations (intra-DHS) Report.

Analytical Reports

The report is generated during the submission of the TIER data and is reviewed monthly by an ICE OFM Accounting Specialist. The report identifies certain account relationships that violate the USSGL test. These relationships affect both budgetary and proprietary accounts that should net to zero in order to pass the USSGL test. For instance, proprietary account *Accounts Payable* should net against the budgetary account *Delivered orders Obligations Unpaid*. This relationship suggests that the goods were delivered, but have not been paid for; thus, validating the payable. A difference between these two accounts could be indicative of a data entry error. The error could be caused by an improper T-Code or an improper manual entry. The complexity of the relationship determines the amount of time it may take to resolve. These analytical differences do not interfere with the TIER submission process. The differences are identified as warnings, as opposed to errors. Although the differences are considered warnings, all differences over the

Independent Auditors' Report

Exhibit II - *Significant Deficiencies*

materiality threshold established by the Department for ICE should be cleared prior to the monthly final TIER submission. If differences over the materiality threshold can not be properly cleared prior to final submission, they must be explained and reported as an exception on the CFO Certification.

Conditions: During test work performed over the Budgetary to Proprietary relationships as of September 30, 2009, we identified abnormal balances for USSGL account 6100 in Fund symbol 70X0545. After further investigation, it was determined that the agency modified its process for recording and tracking property, plant and equipment. Based on the changes in policy, the agency now captures all capitalization activity in 70X0545. As a result, the current year capitalization costs recorded in 70X0545 are attributed to expenses incurred in other federal account symbols. This results in higher offset amounts than what was originally recorded as expenses in 70X0545. The capitalization amounts are posted on a summary level to 70X0545 and can not be tracked back to individual transactions.

Cause/Effect: ICE has modified their process for recording and tracking property, plant and equipment to ensure that capitalization cost is properly recorded in FFMS amongst other objectives. However, ICE does not currently have the resources to track capitalization cost on a transaction level. Failure to track capitalization cost on a transaction level could cause ICE to be non-compliant with Section 803(a) of FFMIA and OMB Circular number A-127. In addition the current policy for tracking property, plant and equipment impacts the true presentation of financial data.

Criteria: Section 803(a) of FFMIA requires that Federal financial management systems comply with (1) Federal accounting standards, (2) Federal system requirements, and (3) the United States Government Standard General Ledger at the transaction level. FFMIA emphasizes the need for agencies to have systems that can generate timely, reliable, and useful information with which to make informed decisions to ensure ongoing accountability.

In addition, OMB Circular number A-127 *Policies and Standards for Financial Management Systems*, and OMB Circular number A-130, Appendix III, *Security of Federal Automated Information Resources* require application of the U.S. Government Standard General Ledger at the transaction level. It states that financial events shall be recorded by agencies throughout the financial management system by applying the requirements of the USSGL at the transaction level. Application of the USSGL at the transaction level means that the financial management systems will process transactions following the definitions and defined uses of the general ledger accounts as described for the USSGL. Also, compliance with the standard requires that supporting transaction details for USSGL accounts be readily available. That is, transaction detail supporting USSGL accounts shall be available in the financial management systems and directly traceable to specific USSGL account codes. Section 7 of OMB Circular No. A-127 further states the design of the financial management systems shall reflect an agency-wide financial information classification structure that is consistent with the U. S. Government Standard General Ledger, provides for tracking of specific program expenditures, and covers financial and financially related information. This structure will minimize data redundancy, ensure that consistent information is collected for similar transactions throughout the agency, encourage consistent formats for entering data directly into the financial management systems, and ensure that consistent information is readily available and provided to internal managers at all levels within the organization. Financial management system designs shall support agency budget, accounting and financial management reporting processes by providing consistent information for

Independent Auditors' Report

Exhibit II - *Significant Deficiencies*

budget formulation, budget execution, programmatic and financial management, performance measurement and financial statement preparation.

Recommendations: We recommend that ICE updates its policies and procedures over the tracking of property, plant and equipment to allow tracking on a transaction level either with the use of USSGL Account 5720 (*Financing Sources Transferred In Without Reimbursement*) and USSGL Account 5730 (*Financing Sources Transferred Out Without Reimbursement*) or another method that is compliant with the USSGL.

II-J Pending/Threatened Litigation Accrual

Background: The DHS Office of the Chief Financial Officer (OCFO) and the Office of General Counsel (OGC) have used a centralized approach to evaluating DHS's contingent legal liabilities for purposes of recording an accrued liability at September 30, 2009 and drafting appropriate note disclosures. Component information is provided to the OCFO and compiled from the respective entities' OGC representatives.

To perform our evaluation of internal controls over the process, and assess the reasonableness of management's estimated legal liabilities and disclosures in the September 30, 2009 financial statements, KPMG requested an interim legal letter from the DHS-OGC, representing the status of unasserted and asserted legal claims as of June 30, 2009, and a final update as of September 30, 2009. Those claims pending against DHS are presented on a *management schedule* detailing the claims by component, and showing the claim amount, likelihood of loss, and range of potential loss.

Condition: Comparison of the June 30, 2009 interim legal management schedule to the September 30, 2009 final legal management schedule shows that ICE added 22 cases. We inquired of the OGC whether each of these 22 cases represents new claims against ICE, or if they were not new cases and should have been included on the June 30, 2009 interim management schedule. The OGC confirmed that 6 cases were inadvertently left off of the June 30, 2009 Management Schedule.

Cause/Effect: Errors in the preparation of the interim legal management schedule and related legal templates were caused by a lack of effective internal controls over the legal liability assessment and compilation process. Failure to include the 6 claims on the June 30, 2009 interim legal management schedule resulted in an incomplete assessment of the nature and amount of pending / threatened litigation against ICE, and DHS as a whole, in the interim financial statement as of June 30, 2009.

Criteria: Statement of Federal Financial Accounting Standard (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*, as amended, states that a contingent liability should be recognized when all of these three conditions are met:

- 1) A past event or exchange transaction has occurred.
- 2) A future outflow or other sacrifice of resources is probable.
- 3) The future outflow or sacrifice of resources is measurable.

The estimated liability may be a specific amount or range of amounts...If no amount within a range is a better estimate than any other amount, the minimum amount in the range is recognized and the range and a description of the nature of the contingency should be disclosed.

Independent Auditors' Report
Exhibit II - *Significant Deficiencies*

Further, SFFAS No. 5, paragraph 33, defines "probable" as future confirming event/events being more likely than not to occur.

The Government Accountability Office's *Standards for Internal Control in the Federal Government* states that management is responsible for developing control activities, which are the policies, procedures, techniques and mechanisms that enforce management's directives. Control activities occur at all levels and functions of an entity and include a wide range of activities, such as verifications and maintenance of related records which provide evidence of execution of these activities, as well as appropriate documentation.

Recommendations: We recommend that the ICE Office of Financial Management in conjunction with the Office of the General Counsel:

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

See attached ICE Management's response to the report on the following page.

Office of the Chief Financial Officer


U.S. Department of Homeland Security
500 12th Street, SW
Washington, DC 20024



U.S. Immigration
and Customs
Enforcement

FEB 19 2010

MEMORANDUM FOR: Inspector General
Departmental of Homeland Security

FROM: Radha C. Sekar 
Chief Financial Officer
U.S. Immigration and Customs Enforcement

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

On behalf of U.S. Immigration and Customs Enforcement (ICE), I am responding to the Independent Auditor's Report on ICE's Fiscal Year (FY) 2009 Consolidated Balance Sheet.

I accept the independent public accounting firm, KPMG LLP's, *unqualified* opinion on ICE's FY 2009 Consolidated Balance Sheet, which concluded that ICE's consolidated balance sheet is fairly presented in all material respects in conformity with accounting principles.

ICE has reviewed and concurs with the four material weaknesses as well as the six significant deficiencies. Mission Action Plans (MAPs) outlining ICE strategy to correct these conditions will be prepared and provided to the DHS Office of Financial Management. ICE will continue to work to resolve all auditor identified weakness.

ICE appreciates the opportunity to review this year's audit report and looks forward to continuing our professional auditing relationship with your office. If you have any questions or would like additional information, please contact me at (202) 732-3075, or a member of your staff may contact Kathy A. Hill, Director, Office of Assurance and Compliance at (202) 732-6356.

Radha C. Sekar

Attachment

www.ice.gov

Appendix A
Report Distribution

Department of Homeland Security

Secretary
Deputy Secretary
Chief of Staff for Operations
Chief of Staff for Policy
Deputy Chiefs of Staff
General Counsel
Executive Secretariat
Director, GAO/OIG Liaison Office
Assistant Secretary for Office of Policy
Assistant Secretary for Office of Public Affairs
Assistant Secretary for Office of Legislative Affairs
Chief Financial Officer
Chief Information Officer

Immigration and Customs Enforcement

Assistant Secretary
Chief Financial Officer
Chief Information Officer

Office of Management and Budget

Chief, Homeland Security Branch
DHS OIG Budget Examiner

Congress

Congressional Oversight and Appropriations Committees, as appropriate



ADDITIONAL INFORMATION AND COPIES

To obtain additional copies of this report, please call the Office of Inspector General (OIG) at (202) 254-4100, fax your request to (202) 254-4305, or visit the OIG web site at www.dhs.gov/oig.

OIG HOTLINE

To report alleged fraud, waste, abuse or mismanagement, or any other kind of criminal or noncriminal misconduct relative to department programs or operations:

- Call our Hotline at 1-800-323-8603;
- Fax the complaint directly to us at (202) 254-4292;
- Email us at DHSOIGHOTLINE@dhs.gov; or
- Write to us at:
DHS Office of Inspector General/MAIL STOP 2600,
Attention: Office of Investigations - Hotline,
245 Murray Drive, SW, Building 410,
Washington, DC 20528.

The OIG seeks to protect the identity of each writer and caller.