

Department of Homeland Security **Office of Inspector General**

U.S. Citizenship and Immigration Services' Management Letter for FY 2011 DHS Consolidated Financial Statements Audit





Homeland
Security

MAR 14 2012

Preface

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

This report presents the *United States Citizenship and Immigration Services'* Management Letter for FY 2011 DHS Consolidated Financial Statements Audit. It contains observations related to internal controls that were not required to be reported in the financial statements audit report. The independent public accounting firm KPMG LLP (KPMG) performed the integrated audit of DHS' FY 2011 financial statements and internal control over financial reporting and prepared this management letter. KPMG is responsible for the attached management letter dated February 03, 2012 and the conclusions expressed in it. We do not express opinions on DHS' financial statements or internal control or provide conclusions on compliance with laws and regulations.

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

A handwritten signature in cursive script that reads "Anne L. Richards".

Anne L. Richards
Assistant Inspector General for Audits



KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

February 3, 2012

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

Ladies and Gentlemen:

We have audited the balance sheet of the U.S. Department of Homeland Security (DHS or Department) as of September 30, 2011 and the related statement of custodial activity for the year then ended (referred to herein as the “fiscal year (FY) 2011 financial statements”). The objective of our audit was to express an opinion on the fair presentation of these financial statements. We were also engaged to examine the Department’s internal control over financial reporting of the balance sheet as of September 30, 2011, and statement of custodial activity for the year then ended, based on the criteria established in Office of Management and Budget, Circular No. A-123, *Management’s Responsibility for Internal Control*, Appendix A.

Our *Independent Auditors’ Report* issued on November 11, 2011, describes a limitation on the scope of our audit that prevented us from performing all procedures necessary to express an unqualified opinion on DHS’ FY 2011 financial statements and internal control over financial reporting. In addition, the FY 2011 DHS *Secretary’s Assurance Statement* states that the Department was unable to provide assurance that internal control over financial reporting was operating effectively at September 30, 2011. We have not considered internal control since the date of our *Independent Auditors’ Report*.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. In accordance with *Government Auditing Standards*, our *Independent Auditors’ Report*, referred to in the paragraph above, included internal control deficiencies identified during our audit, that individually, or in aggregate, represented a material weakness or a significant deficiency.

The U.S. Citizenship and Immigration Services (USCIS) is a component of DHS. We noted certain matters, related to USCIS that are summarized in the Table of Financial Management Comments on the following pages, involving internal control and other operational matters that are less severe than a material weakness or a significant deficiency, and consequently are reported separately to the Office of Inspector General (OIG) and USCIS management in this letter. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies. The disposition of each internal control deficiency identified during our FY 2011 audit – as either reported in our *Independent Auditors’ Report*, or herein – is presented in Appendix A. The



status of internal control deficiencies identified during our FY 2010 audit is presented in Appendix B. Our findings related to information technology systems security have been presented in a separate letter to the OIG and the USCIS Chief Financial Officer and Chief Information Officer.

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

Very truly yours,

KPMG LLP

U.S. Citizenship and Immigration Services
Table of Financial Management Comments
September 30, 2011

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FMC 11-01 – Deficiencies in the Timely Recording of Capital Property Plant & Equipment (PP&E) (NFR No. USCIS 11-02)

During our testwork for the period October 1, 2010 through June 30, 2011, we reviewed the property roll-forward files and identified prior period adjustments. In addition, we selected a statistical sample of PP&E transactions related to asset additions and noted the following:

- Eight assets were recorded in the first and second quarters of fiscal year (FY) 2011 that were purchased and received in the prior fiscal year. These assets all related to equipment (United States Standard General Ledger (USSGL) 1750) and were from the Office of Information and Technology (OIT) and Office of Intake and Document Production.
- Four assets were recorded in the third quarter of FY 2011 that were purchased and received in the prior fiscal year. These assets all related to equipment (USSGL 1750) and were from the OIT.

Recommendations:

We recommend that United States Citizenship and Immigration Services (USCIS) Office of the Chief Financial Officer (OCFO), Office of Administration (OA), OIT, and the Office of Contracting coordinate to develop policies and procedures that ensure PP&E acquisitions are processed in a standardized method and include the following:

- Roles and responsibilities for ordering, purchasing, delivery, receiving, and establishing accountability.
- Require that accurate documentation is provided to the appropriate personnel to ensure timely and accurate data entry into the Sunflower Asset Management System (SAMS) and Federal Financial Management System (FFMS).

FMC 11-02 – Lack of Policies and Procedures over Non-Itemized Invoices for PP&E (NFR No. USCIS 11-03)

During our testwork for the period October 1, 2010 through March 31, 2011, we reviewed the property roll-forward files. Per review of the March property roll-forward, we noted that USCIS recorded an entry into FFMS to account for a \$25.7 million invoice for OIT assets to be used at various data centers. The invoice provided to USCIS was not itemized to accurately identify the assets purchased and the cost for each item. As a result, we noted that USCIS recorded the total invoice amount in the general ledger prior to the individual assets being identified and recorded in SAMS.

Recommendation:

We recommend that the USCIS OCFO, OA, OIT, and USCIS Contracting coordinate to develop policies and procedures that ensure PP&E acquisitions are processed in a standardized method. These processes and procedures should ensure standardized delivery instructions, delivery verification and accurate documentation that ensure accurate data entry into SAMS and FFMS.

FMC 11-03 – Inadequate and/or Inconsistent Supervisory Review of Personnel Actions (NFR No. USCIS 11-04)

We noted during interim controls testwork that USCIS did not properly approve several personnel actions.

We examined 35 USCIS SF-52s from the period October 1, 2010 to June 30, 2011, and noted that:

- 13 of the 35 samples were new hire, extension of appointment or promotion actions that require approval by a Funding Official. We noted five instances in which a Funding Official did not approve the SF-52.
- 23 of the 35 samples were requested and approved by the same individual in the field.

Recommendation:

We recommend that USCIS finalize and implement the *Electronic System for Personnel Administrative Guide*.

FMC 11-04 – Inadequate Supervisory Review of the Intra-Departmental Eliminations Reconciliation (NFR No. USCIS 11-05)

We reperfomed the March 2011 Intra-Departmental Reconciliation and identified a trading partner difference over the Department's materiality threshold of \$3,357,824 for pairing #20 (non-match liability) with Immigration and Customs Enforcement on the Adjusted DHS Bureau Intra-Departmental Transactions by Elimination Pairs Report. The total component difference of \$4,091,591 was not corrected prior to the final Treasury Information Executive Repository II submission, and was not included on the Chief Financial Officer (CFO) Certification for March 2011.

Recommendation:

We recommend that USCIS enhance the reviews of the Intra-Departmental Elimination Reconciliation to ensure all differences are identified and either resolved or disclosed on the CFO Certification Memo.

FMC 11-05 – Inadequate Documentation and Untimely Capitalization of Internal Use Software (IUS) (NFR No. USCIS 11-08)

We performed testwork over PP&E additions as of June 30, 2011 and September 30, 2011, and noted USCIS did not capitalize Software in Development costs in a timely manner. We examined supporting documentation for the third and fourth quarter addition to Electronic Immigration System (ELIS)-Release A contract line item number 002AC and noted the following:

- USCIS recorded a third quarter addition to ELIS-Release A of \$8.0 million. USCIS included in this amount \$1.3 million of prior year and \$2.0 million of costs from previous quarters within the fiscal year. USCIS did not identify the costs in previous quarterly reviews. The remaining \$4.7 million was correctly capitalized in the third quarter.
- USCIS recorded a fourth quarter addition to ELIS-Release A of \$17.7 million. USCIS included in this amount \$2.5 million of prior year and \$4.2 million of costs from previous

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quarters within the fiscal year. USCIS did not identify the costs in previous quarterly reviews. The remaining \$11.0 million was correctly capitalized in the fourth quarter.

Recommendation:

We recommend that USCIS improve the process for identifying and reporting software in development costs and standardize the procedures for identifying costs to reduce the risk that costs will not be identified timely during the quarterly cost allocations and reporting.

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Crosswalk - Financial Management Comments to Active NFRs
 September 30, 2011

NFR No.	Description	Disposition ¹			
		MW	SD	NC	FMC No.
11-01	Lack of Controls over List-to-Floor Manual Processes	A			
11-02	Deficiencies in the Timely Recording of Capital Property Plant & Equipment (PP&E)				11-01
11-03	Lack of Policies and Procedures over Non-Itemized Invoices for PP&E				11-02
11-04	Inadequate and/or Inconsistent Supervisory Review of Personnel Actions				11-03
11-05	Inadequate Supervisory Review of the Intra-Departmental Eliminations Reconciliation				11-04
11-06	Untimely Change in Accounting Policies and Practices	A			
11-07	Inadequate Data in the Claims 3, Claims 4, and Marriage Fraud Amendment Systems	A			
11-08	Inadequate Documentation and Untimely Capitalization of Internal Use Software				11-05

¹Disposition Legend:

IAR	Independent Auditors' Report dated November 11, 2011
FMC	Financial Management Comment
MW	Contributed to a Material Weakness at the Department level when combined with the results of all other components
SD	Contributed to a Significant Deficiency at the Department level when combined with the results of all other components
NC	Contributed to Non-Compliance with laws, regulations, contracts, and grant agreements at the Department level when combined with the results of all other components
NFR	Notice of Finding and Recommendation

Cross-reference to the applicable sections of the IAR:

A	Financial Reporting
B	Information Technology Controls and System Functionality
C	Property, Plant, and Equipment
D	Environmental and Other Liabilities
E	Budgetary Accounting
F	Entity-Level Controls
G	Fund Balance with Treasury
H	Grants Management
I	Custodial Revenue and Drawback
J	<i>Federal Managers' Financial Integrity Act of 1982 (FMFIA)</i>
K	<i>Federal Financial Management Improvement Act of 1996 (FFMIA)</i>
L	<i>Single Audit Act Amendments of 1996</i>
M	<i>Chief Financial Officers Act of 1990 (CFO Act)</i>
N	<i>Antideficiency Act, as amended (ADA)</i>
O	<i>Government Performance and Results Act of 1993 (GPRA)</i>

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Status of Prior Year NFRs
 September 30, 2011

NFR No.	Description	Disposition ¹	
		Closed ²	Repeat (2011 NFR No.)
10-01	Inadequate and/or Inconsistent Supervisor Review of Payroll Transactions	X	
10-02	Inadequate and/or Inconsistent Supervisor Review of General Journal Entries	X	
10-03	Improper Expensing of Capitalized Equipment	X	
10-04	Deficiencies in the Deferred Revenue Quality Assurance Process and the Internal Control Environment		USCIS-11-07
10-05	Inadequate Supervisory Review of the Intra-Departmental Eliminations Reconciliation		USCIS-11-05
10-06	Leasehold Improvement Costs Were Not Capitalized Timely		USCIS-11-02
10-07	Inadequate and/or Inconsistent Supervisor Review of Personnel Actions		USCIS-11-04

¹ KPMG was engaged to perform an audit over the DHS balance sheet and statement of custodial activity as of and for the year ended September 30, 2011, and was not engaged to perform an audit over the statement of net cost, statement of changes in net position, and statement of budgetary resources for the year ended September 30, 2011. In addition, we were engaged to follow-up on the status of all active NFRs that supported significant deficiencies reported in our FY 2010 *Independent Auditors' Report*.

² The scope of our audit was limited to follow-up on NFRs that supported a material weakness or significant deficiency as reported in our *Independent Auditors' Report*. All other NFRs, e.g., that described insignificant findings, and therefore presented to DHS management as observations for consideration, were considered closed.

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