

DEPARTMENT OF HOMELAND SECURITY
Office of Inspector General

Management Letter
for the FY 2005 DHS
Financial Statement Audit



Office of Audits

OIG-06-51

July 2006

Office of Inspector General

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



**Homeland
Security**

July 24, 2006

Preface

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

This report presents the management letter for DHS' FY 2005 financial statement audit. It contains observations and recommendations related to internal control that were not required to be reported in the financial statement audit report. The independent public accounting firm KPMG LLP (KPMG) performed the audit of DHS' FY 2005 financial statements and prepared this management letter. Material weaknesses and other reportable conditions were reported, as required, in KPMG's Independent Auditor's Report, dated November 14, 2005, that was included in the FY 2005 DHS Performance and Accountability Report. KPMG is responsible for the attached management letter dated December 15, 2005, and the conclusions expressed in it. We do not express opinions on DHS' financial statements or internal control or conclusion on compliance with laws and regulations.

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

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

Richard L. Skinner
Inspector General



KPMG LLP
2001 M Street, NW
Washington, DC 20036

December 15,2005

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

Ladies and Gentlemen:

We were engaged to audit the consolidated balance sheet of the U.S. Department of Homeland Security (DHS) as of September 30,2005. We were not engaged to audit the consolidated statements of net cost, changes in net position, and financing, combined statement of budgetary resources, and statement of custodial activity for the year ended September 30,2005. Because of matters discussed in our Independent *Auditors' Report*, dated November 14,2005, the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the consolidated balance sheet for the year ended September 30,2005.

In connection with our fiscal year 2005 engagement, we were also engaged to consider DHS' internal control over financial reporting and to test DHS' compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on the consolidated balance sheet. Our procedures may not include examining the effectiveness of internal control and do not provide assurance on internal control. We have not considered internal control since the date of our report.

We noted certain matters involving internal control and other operational matters that are summarized in the Table of Financial Management Comments on the next page, and presented for your consideration in Sections I – IX of this letter. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies. These comments are in addition to the reportable conditions presented in our Independent *Auditors' Report*, dated November 14,2005, included in the FY 2005 DHS Performance and Accountability Report. A description of each internal control finding, and its disposition, as either a reportable condition or a financial management comment is provided in Appendix A. Our findings related to information technology systems security have been presented in a separate letter to the Office of Inspector General and the DHS Chief Information Officer dated December 15,2005.

As described above, the scope of our work was not sufficient to express an opinion on the consolidated balance sheet of DHS as of September 30, 2005, and we were not engaged to audit the consolidated statements of net cost, changes in net position, and financing, combined statement of budgetary resources, and statement of custodial activity for the year ended September 30,2005. Accordingly, other internal control matters and other instances of non-compliance may have been identified and reported had we been able to perform all procedures necessary to express an opinion on the September 30,2005 consolidated balance sheet, and had we been engaged to audit the other fiscal year 2005 consolidated financial statements. We aim, however, to use our knowledge of DHS' organization gained during our work to make comments and suggestions that we hope will be useful to you.

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

Very truly yours,

KPMG LLP

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I. CONSOLIDATED (CONS)

CONS – FMC 05-01 – Monitoring of laws and regulations (NFR No. CONS 05-06)

The DHS Office of Financial Management (OFM) has not implemented a process to ensure that instances of noncompliance with laws and regulations at the bureaus, related to financial reporting, are promptly reported to it.

Recommendation:

We recommend that the DHS OFM develop and implement procedures to ensure instances of noncompliance with laws and regulations at the bureaus are promptly reported, and that the DHS OFM monitor bureau compliance with applicable laws and regulations considered direct and material to the DHS consolidated financial statements.

CONS – FMC 05-02 – Debt Collection Improvement Act (DCIA) (NFR No. CONS 05-15)

The DHS OFM created the DCIA Report Requirement Template to assist in the compilation of DHS' DCIA Annual Report, and to meet new reporting requirements from the Office of Management and Budget (OMB). We noted several deficiencies related to the DCIA Reporting Requirement Template and DHS' DCIA Annual Report. The DHS OFM did not:

- Sufficiently review the bureau templates and make inquiries to confirm their completeness and accuracy. For example, the U.S. Coast Guard erroneously reported a deficiency in its template because it did not understand the instructions. This erroneous response was then incorporated in DHS' DCIA Annual Report;
- Ensure that bureaus provided adequate descriptions of reported noncompliance;
- Provide supporting documentation for the DCIA Annual Report disclosures related to the U.S. Secret Service; and
- Provide support to validate SLGCP's compliance status and no information was disclosed in the DCIA Annual Report related to SLGCP.

Recommendation:

We recommend that the DHS OFM:

- Establish a formal documented review and approval process over each bureau's template submission and the DCIA Annual Report that is submitted to OMB, to ensure accuracy and completeness; and
- Provide more detailed instruction and guidance to DHS bureaus on the accurate preparation of the DCIA Reporting Requirement Template.

CONS – FMC 05-03 – Federal Law Enforcement Training Center leases (NFR No. CONS 05-17)

The Federal Law Enforcement Training Center (FLETC) has requested that OMB review three 20-year non-cancelable leases for dormitory buildings, and assist with the determination of their appropriate classification as either operating or capital, and determine if FLETC had the authority to enter into these agreements. Until the OMB investigation is complete, FLETC is reporting a liability related to these leases in the amount of approximately \$54 million as an unfunded contingent liability in a multi-year appropriation account, which is in accordance with generally accepted accounting principles.

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Recommendation:

We recommend that FLETC, with the assistance of the DHS OFM, work with OMB to resolve the status of the leases in FY 2006, record the adjusting journal entry if necessary, and document their conclusion for auditor review and permanent recordation.

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II. CUSTOMS AND BORDER PROTECTION (CBP)

CBP – FMC 05-01 – Automated Commercial System (ACS) deficiencies over account receivables and CBP's ability to effectively monitor collection actions (NFR No. *CBP 05-01*)

ACS does not generate periodic management information on outstanding receivables, the age of receivables or other data necessary for managers to effectively monitor collection actions. CBP must also use ad hoc reports and manual procedures to ascertain and adjust certain year-end accounts receivable balances because ACS is not currently integrated with CBP's general ledger system.

Recommendation:

We recommend that CBP management ensure that all new system initiatives include a "customer-based" accounts receivable subsidiary ledger that interfaces with the general ledger system. CBP should also continue to implement the integration of the Automated Commercial Environment (ACE) financial system and the general ledger of the new SAP accounting system.

CBP – FMC 05-02 - Verification of CPL and certification of payments (NFR No. *CBP 05-02*)

CBP policy requires a drawback chief to review and certify, with automated signature, the Check Proof Listing (CPL) of accelerated drawback payments, to ensure that a technician has reviewed the payee and other payment information related to a drawback claim package. In the event that the Chief/Supervisor does not certify a payment, the ACS default setting is activated, which indicates that the Port Director certified a given payment even when the payment was not certified.

Recommendation:

CBP plans to correct the issue by implementing an automated system that ensures all necessary verifications are completed prior to issuance of a payment; however, this will not be completed until FY 2007. In the meantime, CBP should implement a manual control to ensure verification of payments and avoid activation of the ACS default.

CBP – FMC 05-03 – ACS deficiency over the accumulation of claims against a drawback bond (NFR No. *CBP 05-07*)

The automated control that prevents a drawback claimant from exceeding the bond amount on file is not operating effectively. As a result, CBP does not have appropriate surety against a drawback claimant who "over" claims. Specifically, we noted a drawback claim in the amount of \$107,790.55 but the ACS screen print function that displays the estimated accumulated claim amounts by bond, showed \$60,058.27. The ACS screen should have displayed total claims of \$223,752.58, a total of the \$107,790.55 claim and a previous claim of \$115,962.03 against this bond.

Recommendation:

CBP has stated on previous occasions that improving the design of ACS is not feasible or financially viable. However, CBP is taking necessary steps in building the ACE to ensure that the drawback module will properly account for bond sufficiency. Therefore, we recommend that CBP continue with its design and implementation of ACE.

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While ACE is in development, we recommend that CBP management implement a manual check by the drawback specialist and technicians to query the bond on file related to the claim and verify that there is a sufficient amount on the bond for the claimant to be paid.

CBP – FMC 05-04 – Various drawback findings (NFR No. CBP 05-08)

We noted the following cases where drawback guidelines were not followed:

- Of the 78 drawback claims tested, four claims that were subject to the full desk review process were paid without obtaining the required valid proof of export, and one claim was paid even though the claimant filed their drawback after the filing deadline.
- Of the four drawback offices tested, one office did not have supervisory review in place for first and statistically sampled claims exceeding \$50,000.

Recommendation:

CBP should enforce their drawback guidelines more strictly.

CBP – FMC 05-05 – Drawback record keeping deficiency (NFR No. CBP 05-09)

From a sample of third quarter drawbacks, three of the 26 sample items could not be located. All missing sample items were the responsibility of one drawback office.

Recommendation:

CBP should maintain its entry documentation in accordance with the Records Control Handbook and emphasize accountability for location of claims. This can be achieved through the use of a log book to track who is responsible for each claim.

CBP – FMC 05-06 – Unable to obtain underlying consumption entries (UCEs) for drawback (NFR No. CBP 05-10)

From a sample of third quarter drawbacks, we noted one drawback claim had 39 underlying consumption entries selected for review. The drawback office only obtained and reviewed one of the 39 entries from the entry ports. This claim was then liquidated and paid out to the drawback claimant. The Drawback Chief did not follow CBP policy as stated in the Drawback Handbook to obtain the remaining 38 consumption entries.

Recommendation:

CBP should comply with their own guidelines to enforce a strict internal control environment.

CBP – FMC 05-07 – In-bond process deficiencies (NFR No. CBP 05-11)

We noted the following conditions related to the In-bond process:

- *Inaccurate closing of open in-bonds:* Reports for in-bonds that are generated from the National In-Bond System, TINMAN, are incomplete or have inaccurate data due to system limitations; therefore, CBP cannot rely on the information for review purposes and to accurately monitor and close in-bonds. We noted CBP has taken action to correct this condition through the electronic posting of in-bond manifests as well as programming

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changes that were put into place mid-September of 2005. CBP should be able to evaluate if the system changes corrected this condition in FY2006.

- *Compilation of data:* Reports generated from TINMAN, based on inspections and port audits, cannot be compiled into one overall report. This makes it difficult and labor intensive to determine whether overall compliance issues exist. As noted above, system changes were put into place in mid-September, which will be evaluated in FY 2006.
- *Recording of inspection results:* Results of TINMAN inspections and port audits cannot be entered for "archived" in-bonds. Once an in-bond moves to "archived" status, ACS does not allow any comments or changes to be made. In certain cases this leads to an inability to document reviews and their results. As of mid-September 2005 the system has been changed so that "archived" records can have findings posted to them. In FY 2006 CBP should be able to evaluate the effectiveness of the programming change.
- *Handbook:* The In-Bond Handbook, drafted in 1998 was never finalized and published. The 1998 handbook and the 2003 Directive 3240-036A provide guidance for in-bond procedures and preparation of CBP form 7512, *Transportation Entry and Manifest of Goods Subject to CBP Inspection and Permit*.

Recommendation:

We recommend that CBP management improve the in-bond control environment by:

- Evaluating the systems changes that were implemented as of mid-September 2005; and
- Finalizing the In-Bond Handbook.

CBP – FMC 05-08 – Insufficient evaluation criteria for Account Managers (NFR No. CBP 05-14)

One formal, standard set of measurement criteria does not exist for evaluating the effectiveness of the Account Manager Program. Weaknesses exist in the communication of criteria to the Account Managers at the various ports of entry. In addition, the Account Management Handbook has not been updated since FY 2001.

Recommendation:

We recommend that CBP:

- Develop measurement criteria that will accurately track the effectiveness of the Account Manager program;
- Establish quantitative measurement criteria by which to assess account compliance; and,
- Update the Account Management Handbook to properly reflect the newly established criteria.

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CBP – FMC 05-09 – Various entry findings (NFR No. CBP 05-15)

We noted the following weaknesses related to the manual entry review process at various ports of entry:

- At the port of Miami, the CBP form CF-7501, *Entry Summary*, for an entry was filed and paid on December 14, 2004, more than ten days after the form CF-3461, *Entry/Immediate Delivery*, was filed on September 28, 2004. By law, the CF-7501 was due on October 13, 2004, and CBP should have implemented a liquidated damage case against the importer at that time, which it did not.
- At the port of Los Angeles, the CF-7501 for an entry listed the wrong case number for an anti-dumping duty. Specifically, the case number cited was pending against manufacturer "A", but the correct case number should be for manufacturer "B", the manufacturer listed on the CF-7501.
- An anti-dumping case number cited for an entry number referenced an incorrect manufacturer.

Recommendation:

We recommend that CBP notify the appropriate personnel to reinforce the importance of accuracy in the manual entry review process and implement more thorough review procedures at the supervisory level in order to ensure compliance.

CBP – FMC 05-10 – Entry bond sufficiency (NFR No. CBP 05-17)

Based on the information maintained in the CBP's Automated Commercial System (ACS), out of a sample of 75 bonds, 21 were below (i.e. did not meet) the required bond limit of liability amount as defined by USCS Directive 900 3510-004. The total dollar amount of insufficiency for the 21 bonds was estimated at \$10.6 million. In addition, a bond was filed at the New York port office; however, the port was unable to locate the bond for our review.

Recommendation:

We recommend that CBP establish detailed, formal standard operating procedures for performing and documenting the annual sufficiency review, and ensuring that deficiencies are corrected.

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III. EMERGENCY PREPAREDNESS AND RESPONSE (EPR)

EPR – FMC 05-01 – Region IX financial management of grants (NFR No. EPR 05-01)

We noted that Region IX could not prepare an accurate cost-share analysis, because one state did not report any "Recipient Share of Outlays" on Line 10b of the Financial Status Report (FSR) for both of the active disaster grants tested (Disasters 1267 and 1046).

Recommendation:

We recommend that EP&R Headquarters and the region ensure that grant recipients are properly trained on the completion of Financial Status Reports. In addition, grants management specialists should contact grant recipients in a timely manner if the Financial Status Reports show financial information that does not appear complete.

EPR – FMC 05-02 – Region V financial management of grants (NFR No. EPR 05-02)

We noted the following during the site visit to Region V related to disaster grants:

- One state submitted its second quarter hazard mitigation progress reports late, and its first quarter reports were considered incomplete by regional and KPMG personnel;
- One state's quarterly hazard mitigation progress reports were submitted late and its first quarter progress reports were not submitted;
- Regional personnel did not maintain a log tracking receipt of quarterly hazard mitigation progress reports until May 2005; and
- The region was not closing hazard mitigation grants on a timely basis. We noted that one state had 6 open grants, where the period of performance had expired over one year ago.

Recommendation:

We recommend that the region develop and implement procedures to ensure that, regardless of employee turnover:

- Grant recipients are periodically reminded of the requirements regarding the timely submission of quarterly progress reports; and
- Grants are closed on a timely basis.

EPR – FMC 05-03 – Lack of segregation of duties related to preparation and approval of journal vouchers (NFR No. EPR 05-04)

We noted that 15 individuals had both preparation and approval authority of their own journal vouchers within IFMIS. In FY2004, we reported that 16 people held this authority.

Recommendation:

The system access configuration in IFMIS should be reviewed and modified to prohibit individuals from preparing and approving their own journal vouchers. In addition, the list of individuals with the ability to approve journal vouchers should be reviewed by the Financial and Acquisition Management Division (FAMD) to ensure that the number of approvers is appropriate given the needs of the organization and the nature of the transactions processed by journal vouchers.

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EPR – FMC 05-04 – Delay in clearing items from the suspense account (NFR No. EPR 05-06)

The suspense fund totaled \$39 million at June 30,2005. We noted that approximately 54 percent of the suspense fund balance at that time was over 90 days old.

Recommendation:

We recommend that EP&R ensure that items in the suspense account are cleared in a timely manner.

EPR – FMC 05-05 – Capitalization criteria in NEMIS was not updated (NFR No. EPR 05-09)

During our review of the FEMA form 40-1, Requisition and Commitment for *Services and Supplies*, issued for manufactured housing units related to Hurricane Katrina, we noted that some of the commitments were assigned to budget object class (BOC) 3199 (capitalized) even though the cost of individual units did not meet the capitalization threshold of \$50,000 or more. The procurements were assigned to BOC 3199 because the description of the BOC in the National Emergency Management Information System (NEMIS) erroneously indicates that the BOC should be used for capitalized items costing \$15,000 or more.

Recommendation:

We recommend that the NEMIS data table be updated to reflect current capitalization threshold.

EPR – FMC 05-06 – Timeliness in reconciling FMS 6653 differences (NFR No. EPR 05-10)

The June 30,2005, FMS 6653 (*Undisbursed Appropriation Account Ledger*) for Treasury fund symbol 70X0700 reported differences totaling approximately \$174 thousand. This amount was outstanding at September 30,2004 and remained unreconciled at September 30,2005.

Recommendation:

We recommend that EP&R reconcile prior month's differences in a timely manner, permitting no (or only insignificant) differences to remain outstanding more than 3 months. In addition, any differences more than 3 months old should be disclosed separately and explained on the FMS 6653 worksheet.

EPR – FMC 05-07 – Temporary adjustments of fund balance with Treasury reconciliation differences (NFR No. EPR 05-11)

We noted that FAMD was posting temporary unsupported adjustments to fund balance with Treasury to reconcile the amount reported by the agency to the amount reported by the U.S. Treasury. Consequently, EP&R's fund balance with Treasury reported on the year-end financial statements was not supported by the agency's records.

Recommendation:

We recommend that EP&R improve the timeliness of its correction of unreconciled differences to eliminate the need for temporary unsupported adjustments.

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EPR – FMC 05-08 – Improvements needed in the TIER validation process (NFR No. EPR 05-13)

During FY 2004, we noted that EP&R did not have formal policies and procedures in place to manage the warning and fatal errors encountered during the monthly TIER submission process. Instead, the errors were handled on an as-received basis by the lead TIER systems accountant at EP&R. EP&R issued formal procedures in February 2005 addressing the TIER submission process. However, the process did not leave an adequate audit trail to determine if the procedures were properly implemented, were adequate, or were effective. When fatal errors were cleared during the submission process, there was no documentation to indicate how the fatal errors were cleared in order to determine whether the treatment was appropriate. We also noted that EP&R did not perform a formal review of the CFO Vision financial statements and related footnote disclosures each month to ensure that the data submitted is properly processed and presented by the Department's Office of Financial Management (OFM).

Recommendation:

We recommend that EP&R:

- Amend procedures issued in February 2005 to require maintenance of adequate documentation to support how each warning and fatal error was addressed, and
- Work with DHS OFM to obtain the information needed and then formalize and document a review each month of the CFO Vision financial statements that includes analytical reviews and reviews of the footnote disclosures.

EPR – FMC 05-09 – Recording of accruals related to fire grants (NFR No. EPR 05-18)

EP&R disburses Assistance to Firefighters grants (AFG) on behalf of SLGCP. EP&R records an increase to fund balance with Treasury and an advance from others upon receipt of the advance from SLGCP. As disbursements are made to grantees, EP&R reduces fund balance with Treasury and the advance from others, and records a reimbursable revenue and expense. However, EP&R did not accrue a grants payable liability for the AFG, for expenses incurred by grantees, but not paid to them as of year-end.

Recommendation:

EP&R should develop and implement procedures to estimate and record the grants payable liability related to the AFG at June 30, and September 30, and should communicate these procedures to SLGCP.

EPR – FMC 05-10 – Recording of costs for software in development (NFR No. EPR 05-19)

EP&R is recording costs for software in development in U.S. Government Standard General Ledger (SGL) account 1830, *Internal Use Software*, rather than SGL account 1832, *Internal Use Software in Development*. Consequently, EP&R is inappropriately amortizing software that has not undergone final acceptance testing, and is not in full compliance with Statement of Federal Financial Accounting Standards (SFFAS) No. 10, *Accounting for Internal Use Software*.

Recommendation:

EP&R should:

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- Amend its procedures to ensure that the costs of software in development are recorded in SGL account 1832, and the full cost of the software is transferred to SGL account 1830 after final acceptance testing is completed;
- Reclassify costs of software in development that are currently recorded in SGL account 1830 to SGL account 1832; and
- Reverse the amortization expense recorded to date for the costs of software in development.

EPR – FMC 05-11 – Recognition of National Flood Insurance Program (NFIP) flood claim obligations (NFR No. EPR 05-20)

During FY 2005, EP&R changed the timing of the recognition of obligations related to flood insurance claims and began recording an obligation when a claim was approved for payment. The DHS OFM considered this situation a correction of an error and restated DHS statement of budgetary resources balances as of September 30, 2004 in its FY 2005 *Performance and Accountability Report*. However, no budgetary accounting guidance specifically addresses the unique nature of flood insurance claims, and describes the appropriate accounting treatment over reporting.

Recommendation:

We recommend that EP&R request OMB to provide written guidance regarding the timing of the recognition of budgetary obligations related to flood insurance claims.

EPK – FMC 05-12 – Personal property acquired under mission assignments (NFR No. EPR 05-21)

Personal property acquired under mission assignments is not entered into EP&R's property management system, the Logistics Information Management System (LIMS), until EP&R takes physical possession of the property, although EP&R may obtain title to it earlier. Further, no distinction or data field exists within LIMS to identify personal property acquired under mission assignments. Thus EP&R personnel cannot easily determine whether property acquired under a mission assignment is properly entered into LIMS or whether EP&R has received or properly disposed of all property purchased through mission assignments. Additionally, EP&R does not perform periodic reviews to ensure the completeness and existence of personal property recorded in LIMS related to mission assignments.

Recommendation:

We recommend that EP&R Logistics Division, in conjunction with other EP&R divisions, as appropriate, develop and implement policies and procedures to:

- Identify personal property acquired under mission assignments and properly record such property in LIMS when EP&R obtains title to it;
- Facilitate identification within LIMS of personal property acquired under mission assignments; and
- Perform periodic completeness and existence reviews to ensure that all personal property purchased with mission assignment funds has been properly recorded in LIMS and is eventually received by EP&R, or is disposed of in accordance with the National Response Plan.

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EPR – FMC 05-13 – Review for property, plant, and equipment (PP&E) acquired at fiscal year-end (NFR No. EPR 05-22)

Some manufactured housing units that exceeded the capitalization threshold were not recorded in the financial records as capitalized assets as of September 30, 2005. Our comparison of the property listing of manufactured housing units per LIMS and PP&E subsidiary records which support IFMIS disclosed 69 manufactured housing units, totaling \$12.6 million, which exceeded the capitalization threshold and were not included in the IFMIS PP&E total as of September 30, 2005. Each of the 69 property items was reflected in LIMS as having been received between September 21, 2005 and September 30, 2005.

Recommendation:

We recommend that the Disaster Finance Center develop and implement a policy to conduct an analysis of the property records per LIMS and the expenditure transactions per IFMIS during the year-end closing process, to determine if capitalizable property items were received after the initial analysis and reconciliation, but prior to the fiscal year-end. If the analysis reveals material unrecorded capitalizable property, then an adjusting journal entry should be posted prior to the second (i.e. mid-October) submission of trial balance data for the fiscal year.

EPR – FMC 05-14 – Availability of supporting documentation for financial transactions (NFR No. EPR 05-23)

Procurement files, which included obligating documents, were not available to review for two manufactured housing sample items. Further, documentation to support the initial disaster housing obligations recorded and the status of unliquidated obligations at year-end by the Joint Field Offices in Texas, Alabama, and Louisiana, and the National Processing Service Center were not provided to the auditors.

Recommendation:

We recommend that:

- EP&R ensure that a proper contingency plan is in place so that general administrative functions continue, even when significant resources have been deployed to disaster sites; and
- The Office of Procurement develop and implement policies and procedures to track the physical location of all procurement-related files.

EPR – FMC 05-15 – Timely recording of manufactured housing property in LIMS (NFR No. EPR 05-24)

EP&R did not timely record the purchase of manufactured housing units in the property management system, and supporting documentation was not readily available. From a sample of invoices paid prior to September 30, 2005 for the purchase of 86 manufactured housing units, documentation supporting 57 of the units could not be located in the LIMS files prior to the end of fieldwork in October. Of the remaining units, 20 were included in the September LIMS file and nine were included in the October LIMS file.

Recommendation:

We recommend that EP&R's Logistics Division:

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- Assess the reason(s) for the delay in recording the receipt of manufactured housing units related to Hurricanes Katrina and Rita (e.g., untimely data entry by contracted personnel or untimely communication of receipt data from the field);
- Implement the appropriate measures to ensure that personal property is entered into LIMS timely and supporting documentation is maintained; and
- Perform a completeness review to ensure that all manufactured housing units received related to Hurricanes Katrina and Rita, have been entered into LIMS.

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IV. UNITED STATES CITIZENSHIP AND IMMIGRATION SERVICES (USCIS)

CIS – FMC 05-01 – CLAIMS 3 and 4 are not being updated in a timely manner upon adjudication (NFR No. CIS 05-07)

The adjudication decision was not updated in CLAIMS 4 in a timely manner for four of 74 naturalization applications tested. These results were extrapolated indicating an estimated error (i.e., untimely update) rate of 5.4 percent of the population. In addition, the adjudication decision was not updated in CLAIMS 3 in a timely manner for 8 of 188 immigration applications tested. These results were extrapolated indicating an estimated error rate of 4.3 percent of the population. The untimely updating of CLAIMS 3 and CLAIMS 4 increases the possibility that the number of pending applications at the end of the reporting period may be overstated, thus resulting in the overstatement of deferred revenue. We noted that workload demands may be the cause of this condition.

Recommendation:

We recommend that the USCIS Office of Domestic Operations:

- Develop and implement a written policy requiring each adjudication officer to update the CLAIMS system within three days of adjudication in order to minimize the potential overstatement of deferred revenue at the end of a reporting period; and
- Reassess the number of applicants to be processed in a day by one adjudication officer.

CIS – FMC 05-02 – Insufficient QA procedures related to the search for missing files (NFR No. CIS 05-08)

USCIS performs quality assurance (QA) procedures over pending immigration and naturalization applications to determine deferred revenue. During our review of the QA procedures, we noted 14 application files were reported as not found, i.e., not available (N/A). Specifically, the sites were unable to physically locate the file within their office and believed them to be at another office so no further effort was expended to determine the application status. This course of action is consistent with the written QA procedures which instructs the sites to report back cases that are not located at the site as N/A as opposed to determining the status of the application with the assistance of the office where the application is believed to be located. Files reported back as N/A are not being included in the calculation of the QA error rate, and the actual results of these applications could affect the calculated error rate as the files could be closed.

Recommendation:

We recommend that the USCIS Office of Financial Management, in conjunction with the Performance Management Division:

- Develop and implement additional written QA procedures to account for all applications included in the QA queries and require that the status of the application be determined regardless of its physical location; and
- Recompute the error rates previously computed during FY 2005 by including missing files previously reported as N/A as errors.

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CIS – FMC 05-03 – Incorrect fee amounts used in RNACS queries (NFR No. CIS 05-09)

We noted that for 28 of 36 pending naturalization applications tested, queries of the Reengineered Naturalization Application Casework System (RNACS) returned incorrect fee amounts. Incorrect fee amounts in RNACS queries may result in the over or understatement of deferred revenue.

Recommendation:

We recommend that the USCIS Office of Financial Management and the Performance Management Division:

- Correct the fee table in RNACS so that queries provide the correct fee amounts for applications; and
- Perform period checks or reconciliations to ensure that the RNACS fee table remains correct.

CIS – FMC 05-04 – Applications not subject to quality assurance procedures (NFR No. CIS 05-10)

Not all pending applications are tracked within one system or systems that are integrated. Pending naturalization applications are tracked in CLAIMS 4. Pending immigration applications that are physically located at the service centers or directly mailed to the National Benefits Center (NBC), via Lockbox facility, are tracked in CLAIMS 3 LANs. All other pending immigration applications are tracked in 'ad hoc' (e.g., manual or electronic spreadsheets) systems. As a result, gathering accurate and complete information on pending applications is more difficult.

For applications that are tracked in the 'ad hoc' systems, districts report monthly workload data through the Performance Analysis System. The summary totals from this system are used by the Performance Management Division to determine pending cases and estimate deferred revenue. This information is provided to USCIS' Office of Financial Management for inclusion in the computation of deferred revenue. Applications reported through the Performance Analysis System are not subjected to the quality assurance procedures that test data reliability and that were implemented by the USCIS Office of Financial Management, because the relevant data is not captured in the 'ad hoc' systems.

Recommendation:

We recommend that the Office of Domestic Operations:

- Continue its efforts to implement the Case Management System, an integrated system to replace CLAIMS 3 and CLAIMS 4, to track the status of all types of immigration and naturalization applications; and
- Implement policies and procedures requiring district offices to perform periodic (i.e.; quarterly or semi-annually) cycle counts for all pending immigration and naturalization applications tracked in 'ad hoc' systems, to substitute for other quality assurance procedures not performed, and report the results of the cycle counts to the Office of Financial Management.

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CIS – FMC 05-05 – Fee receipts are not being deposited in a timely manner per Treasury guidance (NFR No. CIS 05-11)

We noted that the data entry date for fee receipts, which evidences the deposit date, exceeded Treasury guidelines by one business day for 68 of 159 naturalized and immigration applications tested during the audit.

Recommendation:

We recommend that the Office of Domestic Operations:

- Continue efforts to move the receipt of all Service Center applications and petitions with fees to lockbox operations by the end of FY 2006; and
- Continue monitoring contractor performance through Contractor Performance Analysis Units (CPAUs) and make use of the available remedies under the Federal Acquisition Regulations for noncompliance with contractor requirements.

CIS – FMC 05-06 – Accumulated leave balances reported by the National Finance Center (NFC) do not agree with the leave balances in STAR (NFR No. CIS 05-12)

For one sample item, we noted that the beginning and ending accumulated annual and sick leave hours reported for pay period 26 by NFC did not agree to the hours reported within the USCIS System Time and Attendance Report (STAR) database.

Recommendation:

We recommend that the Human Capital Management Office re-emphasize to all timekeepers the importance of researching and resolving discrepancies with respect to employee leave balances.

CIS – FMC 05-07 – Actuarial FECA liability for USCIS appears to be misstated (NFR No. CIS 05-18)

During several reorganizations within the Department during FY 2003 and FY 2004, employees were transferred to and from ICE, USCIS, and CBP, but the information reported to the Department of Labor (DOL) was not fully updated. Consequently, some portion of each bureau's staff was reported to DOL under the wrong component. As a result, the FECA liability for each of these bureaus was calculated using faulty personnel data.

Recommendation:

We recommend that USCIS, with the assistance of CBP, ICE, and the Department's OCFO:

- Determine the accuracy of employee bureau classifications;
- Communicate correct personnel information by bureau to DOL early in FY 2006; and
- Develop and implement controls to ensure that the FECA liability allocated to USCIS is reasonable and relates only to USCIS employees.

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V. IMMIGRATION AND CUSTOMS ENFORCEMENT (ICE)

ICE – PMC 05-01 – Documentation to support T&A and leave data was not provided (NFR No. ICE 05-10)

ICE did not provide adequate supporting documentation for one sample item selected for testing the time and attendance (T&A) control process. Documentation requested but not received included: a signed and approved STAR report; an approved SF-71; Request for Leave or Approved Absence; and the related NFC report for annual and sick leave.

Recommendation:

We recommend that ICE establish policies to ensure that supporting documentation is properly maintained, and the T&A worksheets, STAR reports, and SF-71s are available for audit.

ICE – FMC 05-02 – Payroll interface errors and reclassifications for ICE, USCIS, and the component units (NFR No. ICE 05-18)

Significant payroll reclassifications (e.g., charge code corrections) were made during FY 2005 because employees were coded to the wrong bureaus as a result of prior Departmental restructurings. Timekeepers also miscoded timesheets. According to statistics from the Payroll Accounting and Reporting (PAR) section, 11,988 records consisting of 566,081 line items were reclassified during the year. The total dollar value of these reclassifications was \$311 million. We note that reclassifications since September 2004 have decreased significantly; however, the volume and amount of the reclassifications remains high.

Recommendation:

We recommend that the ICE Offices of Financial Management (OFM), Budget, and Resource Management (ORM) identify additional resources for ORM's Position and Payroll Management section. Additional resources are needed to assist in the clearing and processing of errors and corrections, to act as a liaison with CBP personnel offices, and to act as a liaison with timekeepers to proactively eliminate payroll coding errors.

ICE – FMC 05-03 – Insufficient supporting documentation to determine whether annual training was provided to all Senior Executive Service (SES) employees (NFR No. ICE 05-36)

The ICE Ethics Office was unable to provide adequate documentation to support the completion of the annual ethics training for all 29 SES employees at ICE. Due to limited budgetary resources, the Ethics Office only completed one training session during the annual directors meeting, and the sign-in sheet for this meeting was discarded by personnel of the facility being used.

Recommendation:

We recommend that ICE implement policies to ensure that all SES employees receive ethics training on an annual basis. Additionally, we recommend that ICE management take appropriate action to secure and maintain the necessary evidence to document the completion of ethics training for SES employees, and ensure that this documentation is readily for audit.

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ICE – FMC 05-04 – Accumulated leave balances reported by NFC do not agree with the leave balances recorded in STAR (NFR No. ICE 05-42)

We noted eight instances where the annual and sick leave hours reported by NFC and the STAR database did not agree. Our testwork indicated that adjustments were necessary in STAR; however, they were not made. Further, ICE did not provide documentation to support the correction of leave errors and was unable to validate whether or not reconciliations of the leave balances between the two systems was performed.

Recommendation:

We recommend that:

- Timekeepers and/or supervisory personnel perform reconciliations of employees' annual and sick leave balances each pay period, and make appropriate adjustments to the systems (i.e.; STAR or NFC) in a timely manner;
- Documentation supporting the reconciliations and subsequent adjustments be maintained and available for audit; and
- Policies and procedures be implemented to conduct leave audits, on a periodic basis, to validate a sample of the recorded balances.

ICE – FMC 05-05 – Actuarial FECA liability for ICE appears to be misstated (NFR No. ICE 05-43)

During several reorganizations within the Department during FY 2003 and FY 2004, employees were transferred to and from ICE, USCIS, and CBP, but the information reported to DOL was not fully updated. Consequently, some portion of each bureau's staff was reported to DOL under the wrong component. As a result, the FECA liability for each of these bureaus was calculated using faulty personnel data.

Recommendation:

We recommend that ICE, with the assistance of CBP, USCIS, and the Department's OCFO:

- Determine the accuracy of employee bureau classifications;
- Communicate the correct personnel information by bureau for these individuals to DOL early in FY 2006; and
- Develop and implement controls to ensure that the FECA liability allocated to ICE is reasonable and relates only to ICE employees.

ICE – FMC 05-06 – Inability to complete audit procedures related to Thrift Savings Plan (TSP) compliance due to lack of supporting documentation (NFR No. ICE 05-44)

No hard-copy evidence existed to support the employee's authorization of a change to their Thrift Savings Plan (TSP) election for two of 32 items selected for testwork. In addition, no supporting documentation was provided from either the Employee Express or Employee Personal Page databases to support the date of the changes in the TSP elections.

Recommendation:

We recommend that ICE review its human resources policies and their implementation with respect to TSP documentation to ensure it is properly maintained and available for audit.

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Additionally, ICE should explore methods to obtain verification for benefit changes by electronic means.

ICE – FMC 05-07 – FFMS does not adequately support certain obligation information (NFR No. ICE 05-46)

The transaction date reported on the Obligation Transaction History (FM140) report is inaccurate, and the obligation amount reported on the Obligation screen (FM040) produced from FFMS is incomplete, as follows:

- **Transaction Dates:** The obligation transaction date per the FM140 is inaccurate for transactions that contain modifications or adjustments. Modifications are reported in FFMS as of the date when the original obligation was recorded, not when the modification was made. Consequently, the obligation dates in FFMS for modifications or adjustments are earlier than the date of their approval by the contracting officer (per the obligating document). This gives the appearance that the transaction was entered into the system prior to the transaction being authorized.
- **Obligation Amounts:** The FM040 reports an obligation amount as the original obligation and any upward or downward adjustments to the obligation, but does not reflect disbursements made against the obligation. Thus, the remaining (i.e., unliquidated) obligation balance is not readily discernible.

Recommendation:

We recommend that the ICE Office of Financial Management:

- Make recommendations to the system programmers to edit the system parameters so that the FM140 reflects the actual date of each transaction as opposed to defaulting to the original date that the obligation was created within the system; and
- Make recommendations to the system programmers to change the system parameters so that the FM040 reflects the unliquidated balance remaining on the obligation.

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VI. OFFICE OF STATE AND LOCAL GOVERNMENT COORDINATION AND PREPAREDNESS (SLGCP)

SLGCP – FMC 05-01 – Lack of an executed reimbursable agreement (NFR No. SLGCP 05-01)

SLGCP had an executed reimbursable agreement of approximately \$6 million for FY 2004 with the Department of Justice's Office of Justice Programs (OJP) for performing certain administrative and accounting functions for SLGCP. However, no agreement was completed for FY 2005 upon expiration of the FY 2004 agreement.

Recommendation:

We recommend that SLGCP timely execute a reimbursable agreement with OJP in order to clearly define the scope of services and the responsibilities of both parties, and to avoid a potential disruption of accounting services.

SLGCP - FMC 05-02 – Financial Monitoring of Grants Awarded by SLGCP (NFR No. SLGCP 05-02)

Financial monitoring for SLGCP grants is conducted by OJP. In order to develop a sample of grants for the fiscal year monitoring plan, OJP applies risk-based criteria to the universe of all active grants for which it accounts as of June 30 of the current fiscal year. The universe consists of both grants awarded by OJP and grants awarded by other entities for which OJP provides grant-related financial processing and reporting services, including SLGCP.

Since the population of grants is not segregated by entity, the possibility exists that SLGCP's grants may not receive adequate consideration. Only 4 percent of SLGCP's grants were monitored from a financial perspective in FY 2005.

Recommendation:

We recommend that SLGCP complete efforts to implement its own grants office and coordinate the receipt of relevant financial information with OJP in order to assume responsibility for financial monitoring of grants that it awards.

SLGCP – FMC 05-03 – Lack of segregation of duties in the preparation and approval of journal vouchers (NFR No. SLGCP 05-04)

Two individuals have both preparation and approval authority over journal vouchers in IFMIS.

Recommendation:

SLGCP, in coordination with OJP, should work to ensure that the system access configuration in IFMIS is reviewed and modified to prohibit individuals from preparing and approving their own journal vouchers. In addition, the list of individuals with the ability to prepare and/or approve journal vouchers should be reviewed periodically by SLGCP management to ensure that the number of preparers and approvers is appropriate given the needs of the organization and the nature and volume of the transactions processed by journal voucher.

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SLGCP - FMC 05-04 – Grants Monitoring and File Maintenance (NFR No. SLGCP 05-05)

The required documentation related to monitoring grants was not consistently maintained in the grant files located at either OJP or SLGCP. This required documentation includes office-based programmatic monitoring memorandums, monitoring visit reports, and semi-annual discretionary assistance progress reports.

In addition, we noted (1) inconsistent evidence of proper review, by both the Preparedness Officer and the responsible Branch Chief, of programmatic monitoring memorandums and monitoring visit reports, (2) untimely completion of monitoring visit reports, and (3) no evidence of follow-up on the missing semi-annual discretionary assistance progress reports.

Recommendation:

We recommend that SLGCP consistently follow established policies and procedures and obtain adequate resources to ensure that adequate documentation is maintained in each grantee's official file.

SLGCP – FMC 05-05 – Statement of net cost allocation methodology (NFR No. SLGCP 05-09)

OJP does not have a system that properly assigns actual SLGCP costs to DHS strategic goals in accordance with SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*. As such, SLGCP uses the percentage allocation of costs presented in the President's Budget to allocate its FY 2005 costs across various DHS strategic goals for purposes of financial reporting. However, SLGCP does not have sufficient detail or support in OJP's accounting information systems or in its manual records to validate that the allocations made to each strategic goal are materially representative of actual FY 2005 expenditures.

Recommendation:

Until SLGCP is able to utilize a managerial cost accounting system that assigns actual costs to DHS strategic goals in accordance with SFFAS No. 4, we recommend that SLGCP develop and implement procedures, either manual or automated, that allow its strategic goal cost allocations to be accumulated, compiled, and validated based on actual data on a regular basis. The allocated costs should properly represent actual costs incurred to support each applicable DHS strategic goal. Grantee reporting requirements could be modified to assist in this process, if necessary.

SLGCP – FMC 05-06 – Improvements needed in the TIER validation process (NFR No. SLGCP 05-10)

OJP does not have formal policies and procedures in place to manage the warning and fatal errors encountered during the monthly TIER submission process. Instead, the Reports Branch Accountant at OJP handles the errors on an as-received basis. Also, although OJP personnel perform an informal review of the monthly CFO Vision financial statements and related footnote disclosures, no formal procedures are in place to ensure that the review process is adequately performed and documented. In addition, we noted that SLGCP does not effectively monitor the administrative and accounting services performed by OJP on its behalf.

Recommendation:

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We recommend that SLGCP management require OJP, as part of the financial services reimbursable agreement, to:

- Formalize its TIER submission review procedures to ensure that all errors, both warning and fatal, are managed quickly and effectively; and
- Formalize, perform, and document monthly reviews of the CFO Vision financial statements that include analytical reviews, reconciliations to IFMIS, and reviews of the note disclosures.

We also recommend that SLGCP increase its oversight of the administrative and accounting services performed by OJP to ensure that the above recommendations are implemented.

SLGCP – FMC 05-07 – Improvement needed over journal voucher review procedures (NFR No. SLGCP 05-11)

Adequate documentation was not readily available to support certain journal vouchers tested. In addition, SLGCP has limited resources to perform monitoring and review over the process of authorization and recording of its journal vouchers.

Recommendation:

We recommend that SLGCP work with OJP to ensure that adequate documentation is obtained, reviewed, and filed for each journal voucher. This should include SLGCP establishing monitoring policies and procedures over OJP's process of authorizing and recording SLGCP's journal vouchers.

SLGCP – FMC 05-08 – Timeliness of grant closeouts (NFR No. SLGCP 05-14)

As of September 30, 2005, 21 of the 206 grants selected for testwork were not programmatically closed within the timeframe prescribed by OJP guidelines (i.e., 180 days after the end date of the grant). These grants had a remaining total award balance of \$100,474. In addition, the official grant file did not contain any documentation to justify a delay in the closeout process.

Recommendation:

We recommend that SLGCP management:

- Strictly enforce OJP's policy for closing grants and hold accountable parties responsible for delays or lack of documentation to justify delays;
- Establish performance goals for SLGCP grant program managers that focus on the timely closing of grants;
- Establish formal lines of communication whereby grantees are timely notified of the documents necessary for the programmatic and fiscal grant closeout package; and
- Monitor the Office of the Controller (OC) Control Desk's adherence to the timetable established for the timely closeout of grants whereby the OC Control Desk fiscally closes all grants once the grants enter Status 91 (the grant has been programmatically closed but not fiscally closed).

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VII. TRANSPORTATION SECURITY ADMINISTRATION (TSA)

TSA – FMC 05-01 – Human resources document retention (NFR No. TSA 05-05)

For the period October 1, 2004 through March 31, 2005, six of 23 sample items tested did not have the proper offer letters in the Official Personnel Files. No offer letters were available for five items and in one case the letter was available but the total salary was incorrect and did not match the employee's initial SF-50, *Notification of Personnel Action*.

Recommendation:

We recommend that TSA develop and implement policies and procedures to ensure that salaries are correctly stated on offer letters and that employees personnel files are complete.

TSA - FMC 05-02 – Revenue and Accounts Receivable (NFR No. 05-07)

Our review of the June Revenue Reconciliation and the Accounts Receivable Accrual Schedule identified an error of approximately \$180 million. This error resulted from an incorrect carry-forward amount and inclusion of an amount that should have been reversed.

Recommendation:

TSA Office of Financial Management should:

- Ensure the Revenue Reconciliations and Accounts Receivable Accrual Schedules are reviewed (both the amounts and mathematical accuracy) by the appropriate level of management and contain evidence of the review (e.g., signature).
- Formalize policies and procedures for reviewing documentation supporting all on-top adjustments to the financial statements and manual journal vouchers posted to the general ledger.

TSA - FMC 05-03 – Imputed Financing (NFR No. TSA 05-08)

TSA does not have procedures in place to capture, record, and report imputed intra-departmental costs and the related imputed financing sources (i.e., those bureaus within the Department where the cost of providing goods or services to TSA exceeds the amount charged to TSA).

Recommendation:

TSA, with Departmental guidance, should develop and implement policies and procedures to properly recognize the amount of imputed intra-departmental costs in financial reports submitted to the Department on a quarterly basis.

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VIII. UNITED STATES COAST GUARD (Coast Guard)

USCG – FMC 05-01 – Confidential financial disclosure reports (CFDRs) (NFR No. USCG 05-05)

Controls over the filing and review of CFDRs were not fully effective. Of the 15 CFDRs selected for review:

- Two of the CFDRs were not timely filed by the due date of October 31,2004;
- For one CDFR, the review occurred before the employee signed the CDFR; and
- One CFDR was not timely certified within 60 days after the filing as required by Commandant Instructions (COMDTINS 5370.9B).

Recommendation:

We recommend that the Coast Guard review and revise its procedures to ensure the timely filing and review of CFDRs.

USCG – FMC 05-02 – Legal liability reporting (NFR No. USCG 05-39)

The contingent legal liability amount of approximately \$174 million sent to the Finance Center (FINCEN) to be reported on the Coast Guard balance sheet as of September 30,2005 was not correct. Coast Guard personnel recorded approximately \$3 million in excess of the correct amount in the general ledger. This excess represented an amount that was required to be disclosed in the footnotes, but not recorded on the balance sheet. In addition, Coast Guard personnel did not identify the error during the review of the trial balance and journal entry.

Recommendation:

We recommend that the Coast Guard establish or revise its policies, procedures, and controls to ensure that the contingent legal liability is properly estimated and recorded in the Coast Guard financial statements.

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IX. UNITED STATES SECRET SERVICE (Secret Service)

USSS – FMC 05-01 – Seized counterfeit currency inventory (NFR No. USSS 05-01)

We noted the following findings related to the physical inventory observation at certain field offices visited:

- One custodian performing his/her first physical inventory observation did not appear to have proper training. During the first portion of the inventory, the custodian did not properly identify the inventory counts as required by Secret Service inventory instructions. Additionally, we noted that the custodian was unaware of which 1544's (counterfeit notes) were being inventoried;
- One custodian temporarily could not find a Supernote that was to be counted due to an inadequate paper trail. In addition, the vault security was deficient;
- One field office did not require two people in the vaults at all times due to employee constraints; and
- The inventory count sheets for one location, sent by Headquarters, did not agree to the vault listing. Therefore, the custodian used count sheets from the site records to perform the inventory.

Recommendation:

We recommend that:

- The Forensic Services Division (FSD) and the Financial Management Division (FMD) continue working with the field offices to ensure that they understand the inventory instructions and new reporting requirements;
- Secret Service management require new custodians to have adequate training for performing a physical inventory;
- Secret Service management ensure all field offices are trained on how to properly maintain and track inventory, and if another area reviews the counterfeit currency, it is returned in a reasonable timeframe; and
- Secret Service management ensure that each vault meets security standards.

USSS – FMC 05-02 – Fund balance with Treasury (NFR No. USSS 05-02)

Due to the new system implementation of Travel Oracle Prism Sunflower (TOPS), the Secret Service has not been able to timely and effectively reconcile the fund balance with Treasury account with Treasury during the fiscal year.

Recommendation:

We recommend that the Secret Service management improve the control environment by:

- Developing and implementing policies and procedures to adequately reconcile the fund balance with Treasury account balance; and
- Providing employees specific fund balance with Treasury reconciliation training to include obtaining detailed information from the accounting system to identify specific reconciling items with Treasury.

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USSS – FMC 05-03 – Seized property process (NER No. USSS 05-03)

The Counterfeit Currency System (CSS) does not conform with Joint Financial Management Improvement Program (JFMIP) requirements. Specifically, CSS does not allow for accurate and timely reconciliations between the records and the system as CSS is a real-time system and archived information is not maintained. To compensate for this, the USSS started a reconciliation spreadsheet to track the transfers, changes, seizures, and destruction of counterfeit currency. Due to timing, we were only able to review the July and August spreadsheets. Further, the Secret Service used the system reported net change amount for the month of September in its calculation for the year-end footnote disclosure. We were unable to apply detailed substantive procedures to the changes by location for September and could not conclude on the accuracy and completeness of the September 30, 2005, counterfeit seized currency footnote balance.

Recommendation:

We recommend that:

- FSD and FMD continue working with the field offices to ensure they are aware of the new reconciliation spreadsheet and the time frame for submitting information;
- FSD continue to strengthen the seized property reporting process, so that monthly reconciliations are completed timely; and
- Implement a compliant Counterfeit Currency System if cost-beneficial.

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CONS	05-02	June financial statement review	A, B			
CONS	05-03	TIER analytics	B			
CONS	05-04	Government Performance and Results Act		S		
CONS	05-05	Audit requirements		R		
CONS	05-06	Monitoring of laws and regulations			3	05-01
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CONS	05-08	OMB Circular A-50		P		
CONS	05-09	Statement of Net Cost	B			
CONS	05-10	Financial Accountability Act – CFO		R		
CONS	05-11	Restatements	A			
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CONS	05-13	Improper Payment Act compliance		Q		
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CONS	05-18	Controls over the intra-governmental and intra-DHS eliminations process	B	J		
CBP	05-01	Automated Commercial System (ACS) deficiencies over account receivables and CBP's ability to effectively monitor collection actions			5	05-01
CBP	05-02	Verification of CPL and certification of payments			5	05-02
CBP	05-03	Detection of excessive drawback claims		L		
CBP	05-04	Insufficient retention period for documents that support drawback claims		L		
CBP	05-05	Review of prior related drawback claims		L		
CBP	05-06	ACS selectivity for underlying consumption entries		L		
CBP	05-07	ACS deficiency over the accumulation of claims against a drawback bond			5	05-03
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CBP	05-10	Unable to obtain UCE's for Drawback			6	05-06
CBP	05-11	In-bond process deficiencies			6	05-07
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CBP	05-13	Weakness in the Compliance Measurement Program		L		
CBP	05-14	Insufficient evaluation criteria for Account Managers			7	05-08
CBP	05-15	Various entry findings			8	05-09
CBP	05-16	Compliance with FFMIA		N		
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			PAR		FMC	
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CBP	05-19	Compliance with Federal Managers' Financial Integrity Act		M		
EPR	05-01	Region IX financial management of grants			9	05-01
EPR	05-02	Region V financial management of grants			9	05-02
EPR	05-03	Number not used				
EPR	05-04	Lack of segregation of duties related to preparation and approval of journal vouchers			9	05-03
EPR	05-05	Number not used				
EPR	05-06	Delay in clearing items from the suspense account			10	05-04
EPR	05-07	Number not used				
EPR	05-08	Number not used				
EPR	05-09	Capitalization Criteria in NEMIS was not updated			10	05-05
EPR	05-10	Timeliness in reconciling FMS 6653 differences			10	05-06
EPR	05-11	Temporary adjustments of fund balance with Treasury reconciliation differences			10	05-07
EPR	05-12	Monitoring of audit findings with accordance with A-133 and A-50	G	P		
EPR	05-13	Improvements needed in the TIER validation process			11	05-08
EPR	05-14	Statement of Net Cost allocation methodology	B			
EPR	05-15	Improving flood insurance process related to accelerated financial reporting deadlines	B			
EPR	05-16	FMFIA Section 2 non-compliance		M		
EPR	05-17	FMFIA Section 4 non-compliance		M		
EPR	05-18	Recording of accruals related to fire grants			11	05-09
EPR	05-19	Recording costs for software in development			11	05-10
EPR	05-20	Recognition of National Flood Insurance Program (NFIP) flood claim obligations			12	05-11
EPR	05-21	Personal property acquired under mission assignments			12	05-12
EPR	05-22	Review for property, plant, and equipment acquired at fiscal year-end			13	05-13
EPR	05-23	Availability of supporting documentation for financial transactions			13	05-14
EPR	05-24	Timely recording of manufactured housing property in LIMS.			13	05-15
BTS	05-01	Controls over internal use software and software-in-development need improvement	E			
BTS	05-02	Number not used				
BTS	05-03	Obligations are not being keyed into FFMS in a timely manner	I			
BTS	05-04	Number not used				
BTS	05-05	Number not used				
CIS	05-01	Obligations and modifications thereto are not reviewed to ensure accuracy of data entry in FFMS	I			
CIS	05-02	See Information Technology Management Letter				
CIS	05-03	See Information Technology Management Letter				
CIS	05-04	See Information Technology Management Letter				
CIS	05-05	See Information Technology Management Letter				
CIS	05-06	See Information Technology Management Letter				

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CIS	05-07	CLAIMS 3 and 4 are not being updated in a timely manner upon adjudication			15	05-01
CIS	05-08	Lack of QA procedures related to missing application files			15	05-02
CIS	05-09	Incorrect fee amounts used in RNACS queries.			16	05-03
CIS	05-10	Applications not subject to quality assurance procedures			16	05-04
CIS	05-11	Fee receipts are not being deposited in a timely manner per Treasury guidance			17	05-05
CIS	05-12	Accumulated leave balances reported by the NFC do not agree with the leave balances in STAR			17	05-06
CIS	05-13	Documentation to support procurement transactions were not readily available	G			
CIS	05-14	Obligations related to border patrol activities are in USCIS General Ledger	I			
CIS	05-15	Obligations are not being keyed in FFMS in a timely manner	I			
CIS	05-16	Number not used				
CIS	05-17	Approval of obligation documents by contracting officer and budget prior to obligating within FFMS needs improvement	I			
CIS	05-18	Actuarial FECA liability for USCIS appears to be misstated			17	05-07
CIS	05-19	Improper use of project codes	B			
CIS	05-20	Authorized obligation amounts are not being recorded in their entirety	I			
IAIP	05-01	Number not used				
IAIP	05-02	Obligations are not being keyed into FFMS in a timely manner.	I			
ICE	05-01	Lack of FPS obligations recorded in FFMS	I			
ICE	05-02	Inability to pay invoices due to lack of obligations recorded in FFMS	I			
ICE	05-03	Inadequate review of "free form" general journal entries	B			
ICE	05-04	Untimely clearing of suspense account transactions	D			
ICE	05-05	Untimely clearing of non-22 disbursements made by legacy agencies on behalf of IAIP and S&T	D, G			
ICE	05-06	Improper classification of purchases that would require a receiving ticket	G			
ICE	05-07	See Information Technology Management Letter				
ICE	05-08	Approval if invoices needs improvement for payables made related to ICE and BTS	G			
ICE	05-09	Incomplete reconciliation procedures of the open document file	G			
ICE	05-10	Documentation to support T&A and leave data was not provided			18	05-01
ICE	05-11	Untimely clearing of reconciling items from the Backlog List by the agency locations	D			
ICE	05-12	Verification and Validation (V&V) procedures were not performed over Undelivered Order balances during FY 2005	G			
ICE	05-13	Development of shared services agreements	A			
ICE	05-14	Policies and procedures governing financial accounting and reporting operations for DHS components needs to be implemented by ICE OFM	B, I			
ICE	05-15	The process for posting Non-224 transactions in FFMS needs improvements	D, G			
ICE	05-16	Lack of completeness in recording and maintaining fixed assets	E			
ICE	05-17	Presence of abnormal balances and analytic differences	A			
ICE	05-18	Payroll interface errors and reclassifications for ICE, USCIS, and			18	05-02

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			PAR		FMC	
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		the component units.				
ICE	05-19	ICE OFM has not met the submission deadlines set forth within the FY 2005 Par Guidance issued by the DHS Office of the Chief Financial Officer	B			
ICE	05-20	Reconciliation of the FMS-6652 is not being performed for HQ ALC	D			
ICE	05-21	Controls over the accuracy of the budgetary data in the General Ledger is not current to ensure that the SF-132 is correct with FMS	B			
ICE	05-22	Number not used				
ICE	05-23	Untimely disbursement of payments to vendors	G			
ICE	05-24	Number not used				
ICE	05-25	Approval of obligating documents by contracting officer prior to obligating within FFMS needs improvement.	I			
ICE	05-26	Obligations related to Border Patrol activities are recorded within ICE's General Ledger.	I			
ICE	05-27	Improper posting of reconciling differences from the FMS 6652 to the Suspense Account	D			
ICE	05-28	Possible violations of the Antideficiency Act	I			
ICE	05-29	Number not used				
ICE	05-30	Financial management and oversight at Immigration and Customs Enforcement	A			
ICE	05-31	Non-compliance with DHS guidance on reconciling and reporting DHS governmental transactions	J			
ICE	05-32	Number not used				
ICE	05-33	Reconciliation of the FMS-6652, Statement of Differences, is not being performed for the Headquarters' Agency Location Code	D			
ICE	05-34	Inefficient use of resources from manual preparation SF-224 from general ledger data	D			
ICE	05-35	Suspense subsidiary ledger is not reconciled to the general ledger	D			
ICE	05-36	Insufficient supporting documentation to determine whether annual training was provided to all Senior Executive Service (SES) employees			18	05-03
ICE	05-37	Reconciliation items identified by the reconciliation of the FMS 6652 Statement of Differences are not being cleared by the Dallas Finance Center timely manner	D			
ICE	05-38	Cash adjustments made to adjust fund balance with Treasury balance in general ledger to the treasury balance do not equal differences identified on cash reconciliations	D, G			
ICE	05-39	Improper transfer of account balances over \$50 million between budget clearing accounts	D			
ICE	05-40	Consolidated cash reconciliations are not performed in a timely manner	D			
ICE	05-41	Lack of segregation of duties within FFMS for processing management level reclassification transactions	D			
ICE	05-42	Accumulated leave balances reported by NFC do not agree with the leave balances recorded in STAR			19	05-04
ICE	05-43	Actuarial FECA liability for ICE appears to be misstated			19	05-05
ICE	05-44	Inability to complete audit procedures related to Thrift Savings Plan (TSP) compliance due to lack of supporting documentation			19	05-06
ICE	05-45	Reconciliations should be performed on a monthly basis between all procurement systems and the automated general ledger (FFMS)	G			

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ICE	05-46	FFMS does not adequately support certain obligation information			20	05-07
ICE	05-47	Obligations are not being recorded into FFMS in a timely manner	I			
ICE	05-48	Authorized obligations amounts are not being recorded in its entirety	I			
ICE	05-49	Number not used				
ICE	05-50	Transition issues related to FPS	B			
ICE	05-51	Lack of additional procedures to support the receipt of goods and services and/or payment and/or collection was posted against the appropriate obligation for intra-government (IPAC) transactions	G			
ICE	05-52	Documentation to support procurement transactions was not readily available.	G			
ICE	05-53	Improper testing of subsequent disbursements	G			
ICE	05-54	Number not used				
ICE	05-55	Lack of sufficient process and procedures related to FMFIA reporting		M		
MGT	05-01	Documentation to support procurement transactions were not readily available	G			
MGT	05-02	Number not used				
MGT	05-03	Obligations are not being keyed into FFMS in a timely manner.	I			
S&T	05-01	Evaluation of the environmental liabilities within the Science & Technology Directorate		K		
S&T	05-02	Number not used				
S&T	05-03	Obligations are not being keyed into FFMS in a timely manner.	I			
SLGCP	05-01	Lack of an executed reimbursable agreement			21	05-01
SLGCP	05-02	Financial monitoring of grants awarded by the Office of State and Local Government Coordination and Preparedness			21	05-02
SLGCP	05-03	Management should provide additional oversight and guidance for its financial reporting process	B			
SLGCP	05-04	Lack of segregation of duties in the preparation and approval of journal vouchers			21	05-03
SLGCP	05-05	Grants monitoring and File maintenance			22	05-04
SLGCP	05-06	See Information Technology Management Letter				
SLGCP	05-07	Improvement needed over the review of grant accrual calculation	G			
SLGCP	05-08	Monitoring of findings in accordance with Office of Management and Budget Circular No. A-133 (OMB A-133) "Audits of States, Local Governments, and Non-Profit Organizations"		P		
SLGCP	05-09	Statement of net cost allocation methodology			22	05-05
SLGCP	05-10	Improvements needed in the TIER validation process			22	05-06
SLGCP	05-11	Improvement needed over journal voucher review procedures			23	05-07
SLGCP	05-12	See Information Technology Management Letter				
SLGCP	05-13	See Information Technology Management Letter				
SLGCP	05-14	Timeliness of grant closeouts			23	05-08
SLGCP	05-15	Improvements needed over the grants payable estimation process	G			
TSA	05-01	General accounts payable	G			
TSA	05-02	Issues identified in the June 30th TIER file and financial statements	B			

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TSA	05-03	Grant monitoring and compliance with OMB Circular No. A-133		P		
TSA	05-04	Grant accrual validation	G			
TSA	05-05	Human resources document retention			24	05-01
TSA	05-06	Recoveries of prior year obligation	I			
TSA	05-07	Revenue and accounts receivable as of 6/30/05			24	05-02
TSA	05-08	Implementation of SSFAS No. 4, Interpretation No. 6			24	05-03
TSA	05-09	Statement of Net Cost methodology	B			
TSA	05-10	September 30 TIER files and financial statements	B			
USCG	05-01	Coast Guard - Operating Materials & Supplies	F			
USCG	05-02	PP& E repairable	E			
USCG	05-03	Pay changes laws and regulations	H			
USCG	05-04	Environmental remediation - lighthouse/light station & small arms firing range		K		
USCG	05-05	Confidential financial disclosure reports			25	05-01
USCG	05-06	Controls over Post Employment Travel Liability underlying data	H			
USCG	05-07	Review of payroll data	H			
USCG	05-08	Payroll data system internal controls	H			
USCG	05-09	Department of Defense medical invoices	H			
USCG	05-10	Environmental Liabilities - Vessel Review		K		
USCG	05-11	Environmental Liabilities - Shore Facilities		K		
USCG	05-12	Obligations for permanent changes of station travel orders	I			
USCG	05-13	Disbursements population	B, G			
USCG	05-14	Adjustments to Account 4902-Delivered Orders, Paid	B, G			
USCG	05-15	Shore facilities environmental liability		K		
USCG	05-16	Statement of Net Cost	B			
USCG	05-17	Purchase requisition numbers	G			
USCG	05-18	Contracting Officer warrant authority	I			
USCG	05-19	Financial Procurement Desktop system controls	I			
USCG	05-20	Commitments	I			
USCG	05-21	Facts and figures	G			
USCG	05-22	Management effective assessments	G			
USCG	05-23	Deepwater obligations	G			
USCG	05-24	Undelivered Orders	G			
USCG	05-25	Year-end obligations	G, I			
USCG	05-26	Recording budget authority	I			
USCG	05-27	Review of prior year medical obligations/expenditures	H			
USCG	05-28	Post-employment travel - supporting documentation	H			
USCG	05-29	Access controls - travel claim disbursements	D			
USCG	05-30	HU 25 improvements	E			
USCG	05-31	PP&E project management	E			
USCG	05-32	Recording of AFC 43 funds in Oracle Projects	E			
USCG	05-33	Personnel data records	H			
USCG	05-34	Adjustments to general ledger account balances	B			
USCG	05-35	Aircraft depreciation asset records	E			
USCG	05-36	PP&E construction in progress	E			
USCG	05-37	PP&E small boats	E			
USCG	05-38	PP&E buildings & structure	E			
USCG	05-39	Legal liability reporting			25	05-02
USCG	05-40	Topside adjustments to CG TIER account balances	B			
USCG	05-41	Coast Guard Yard Assets	E			

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USCG	05-42	PP&E improvements - buildings & structure	E			
USCG	05-43	UDO validation process	G			
USCG	05-44	Oil Spill liability Trust Fund (OSLTF)	A			
USCG	05-45	PP&E additions and deletions	E			
USCG	05-46	Support for financial statements balances	B			
USCG	05-47	Cumulative Results of Operations analysis	B			
USCG	05-48	Impairment of assets	E			
USCG	05-49	Useful lives of small boats	E			
USCG	05-50	Useful lives of vessels	E			
USCG	05-51	Assets identification	E			
USCG	05-52	PP&E existence	E			
USCG	05-53	UDO validation results analysis	G			
USCG	05-54	Existence testing	E			
USCG	05-55	FY05 PP&E summary	E			
USCG	05-56	Abnormal general ledger account balances	B			
USCG	05-57	Post payment review of travel claims	H			
USCG	05-58	Federal Financial Management Improvement Act (FFMIA)		N		
USCG	05-59	Federal Managers' Financial Integrity Act		M		
USCG	05-60	Completeness/accuracy of suspense clearing transactions population	D			
USCG	05-61	Financial management and oversight	A			
USCG	05-62	Accurate clearing of suspense balances	D			
USCG	05-63	Suspense clearing of transaction support	D			
USCG	05-64	Oracle fixed asset records	E			
USCG	05-65	Advances to Others	G			
USCG	05-66	Year-end pipeline adjustment	G			
USCG	05-67	Estimation of Accounts Payable accrual	G			
USCG	05-68	Intra-governmental transactions	J			
USCG	05-69	Aging of open suspense items	D			
USCG	05-70	Financial reporting process	B			
USCG	05-71	GAO disclosure checklist	B			
USSS	05-01	Seized counterfeit currency inventory			26	05-01
USSS	05-02	Fund balance with Treasury			26	05-02
USSS	05-03	Seized property process			27	05-03

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Bureau	NFR No.	Description	Disposition	
			Closed	Repeat 04 NFR No.
CONS	04-01	Improper Payment Act Compliance		CONS 05-13
CONS	04-02	Statement of Net Cost Methodologies		CONS 05-09
CONS	04-03	Instructions for TIER Analytical Tools		CONS 05-03
CONS	04-04	Controls over the Quarterly Closing Process		CONS 05-02
CONS	04-05	Improvements Needed Regarding the Timely Issuance of Performance and Accountability Report Preparation and Year-End Close Instructions		CONS 05-01
CONS	04-06	Identification of Laws and Regulations that are Direct and Material to the DHS Consolidated Financial Statements		CONS 05-06
CONS	04-07	Consistent Application of the United States General Ledger by DHS Bureaus	X	
CONS	04-08	Controls over the Intra-DHS Elimination Process		CONS 05-18
CONS	04-09	Financial Management Structure		05-01, 05-02
CONS	04-10	Federal Protective Service's Financial Data	X	
CONS	04-11	Certain Federal Law Enforcement Training Center Leases		CONS 05-17
CONS	04-12	Compliance with the Federal Manager's Financial Integrity Act (FMFIA) of 1982		Issued in IAR.
CONS	04-13	Controls over the Intra-Governmental Elimination Process		CONS 05-18
CBP	04-01	Programming and Configuration of AIMS	X	
CBP	04-02	Reconciliation of Capitalized Assets	X	
CBP	04-03	Lack of Segregation of Duties and Management Review in Processing Personnel Action Forms	X	
CBP	04-04	Verification of Check Proof Listing and Certification of Payments		CBP 05-02
CBP	04-05	Deficiencies in the Internal Controls over the Drawback Process at the New York / Newark Drawback Office	X	
CBP	04-06	Quality control over In-Bond Warehousing		CBP 05-11
CBP	04-07	Bonded Warehouse and Foreign Trade Zones		CBP 05-12
CBP	04-08	Deficiencies of the Importers Self Assessment Program	X	
CBP	04-09	Unable to Support Amounts Due CBP from Supplemental Duty Bill	X	
CBP	04-10	Internal Controls over Supplemental Duty Bills in New York was Negatively affected by the Events of September 11, 2001	X	
CBP	04-11	Automated Commercial System Deficiencies over Accounts Receivable and CBP's Ability to Effectively Monitor Collection Actions.		CBP 05-01
CBP	04-12	Detection of Excessive Drawback Claims		CBP 05-03
CBP	04-13	Prohibited Seized Property	X	
CBP	04-14	Insufficient Retention Period for Documents that Support Drawback Claims		CBP 05-04
CBP	04-15	Review of Prior Related Drawback Claims		CBP 05-05
CBP	04-16	ACS Selectivity for Underlying Consumption Entries		CBP 05-06
CBP	04-17	Codified Policy and Procedures for Injured Domestic Industries	X	
EPR	04-01	Disconnect between General Ledger accounting and day-to-day	X	

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			Closed	Repeat 04 NFR No.
		Strategic National Stockpile (SNS) operations		
EPR	04-02	Financial management of grants – findings related to the Region IX		EPR 05-01
EPR	04-03	Financial management of grants – findings related to the Region IV site visit	X	
EPR	04-04	Financial management of grants – findings related to the Region III site visit	X	
EPR	04-05	Financial management of grants – findings related to the Region VII site visit	X	
EPR	04-06	Findings related to the suspense fund		EPR 05-06
EPR	04-07	Statement of net costs allocation methodology		EPR 05-14
EPR	04-08	Lack of proper TIER validation process		EPR 05-13
EPR	04-09	Omission of offsetting receipts from the June 30, 2004 CFO Vision financial statements	X	
EPR	04-10	Number not Used		
EPR	04-11	See Information Technology Management Letter		
EPR	04-12 to 04-15	Numbers not Used		
EPR	04-16	See Information Technology Management Letter		
EPR	04-17	See Information Technology Management Letter		
EPR	04-18	See Information Technology Management Letter		
EPR	04-19	See Information Technology Management Letter		
EPR	04-20	See Information Technology Management Letter		
EPR	04-21	See Information Technology Management Letter		
EPR	04-22	See Information Technology Management Letter		
EPR	04-23	See Information Technology Management Letter		
EPR	04-24	See Information Technology Management Letter		
EPR	04-25	See Information Technology Management Letter		
EPR	04-26	Controls over the quarterly closing process present a significant internal control weakness	X	
EPR	04-27	Lack of monthly reconciliation of fund balance with Treasury (FBWT) amounts to the Undisbursed Appropriation Account Trial Balance (FMS 6654)	X	
EPR	04-28	See Information Technology Management Letter		
EPR	04-29	Number not used		
EPR	04-30	Lack of timely preparation of the GAO CFO Checklist and June TIER certification	X	
EPR	04-3 ₁	Timeliness in resolution of differences related to FBWT reconciliations for certain funds		EPR 05-10
EPR	04-32	See Information Technology Management Letter		
EPR	04-33	Improper temporary accruals used for FBWT reconciliations		EPR 05-11
EPR	04-34	FMFIA Section 4 non-compliance		EPR 05-17
EPR	04-35	See Information Technology Management Letter		
EPR	04-36	Various findings related to compliance with OMB Circulars A-133 and A-50		EPR 05-12
EPR	04-37	FMFIA Section 2 non-compliance		EPR 05-16
EPR	04-38	Lack of Segregation of duties related to preparation and approval of journal vouchers		EPR 05-04
EPR	04-39	See Information Technology Management Letter		

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			Closed	Repeat 04 NFR No.
EPR	04-40	Improper budgetary entries related to investments in Treasury securities	X	
EPR	04-41	Intra-departmental eliminations	X	
EPR	04-42	Mission assignments/interagency agreements and flood insurance		EPR 05-15
EPR	04-43	Various findings related to the Strategic National Stockpile	X	
ICE	04-01	Improvement is needed in the process ICE has in place over disbursements made for the DHS Components		ICE 05-05
ICE	04-02	Development of Tri-bureau Shared Services		ICE 05-13
ICE	04-03	Review and Analysis of T-Codes		ICE 05-17
ICE	04-04	Process for verifying and validating obligations and recording Undelivered Orders needs improvement		ICE 05-12
ICE	04-05	Methodology for estimating accounts payable for component units needs improvement	X	
ICE	04-06	Policies and procedures governing financial accounting and reporting operations for the DHS Components need to be implemented by ICE OFM		ICE 05-14, ICE 05-15
ICE	04-07	Transfers of fixed assets between CBP, CIS and ICE as of 10/1/03 need to be completed and appropriately recorded		ICE 05-16
ICE	04-08	Analysis of financial results needs improvement		ICE 05-17
CIS	04-09	See Information Technology Management Letter		CIS 05-04
CIS	04-10	See Information Technology Management Letter	X	
ICE	04-11	Level of interface errors needs improvement		ICE 05-18
ICE	04-12	Untimely performance of the fund balance with Treasury reconciliation related to payroll	X	
ICE	04-13	Improvements are needed to ensure follow-up procedures are undertaken and reconciling items for fund balance with Treasury are cleared timely		ICE 05-11
ICE	04-14	Untimely submission by ICE of financial data for the June 30 hard close		ICE 05-19
ICE	04-15	Reconciliation of the FMS-6652, Statement of Differences, is not being performed for the Headquarters' Agency Location Code		ICE 05-20, ICE 05-33
ICE	04-16	Recordation of FY 04 obligations of S&T that were entered in the legacy accounting agency	X	
ICE	04-17	FFMS access control weakness	X	
ICE	04-18	See Information Technology Management Letter		ICE 05-07
CIS	04-18	Review of STAR user access list	X	
CIS	04-19	See Information Technology Management Letter		
CIS	04-20	Controls over access to immigration application fees could be improved at the Los Angeles District Office	X	
CIS	04-21	Interface controls over the data reported by the lockbox operations compared to the data uploaded into NBC's CLAIMS 3 LAN needs improvement	X	
ICE	04-22	Lack of segregation of duties in the approval of General Journal Entries	X	
ICE	04-23	Review of "warning" errors and more timely clearing of fatal errors from TIER Error Submission Reports Needed		ICE 05-19
ICE	04-24	Ineffectiveness of the review function within the general journal approval process		ICE 05-03
ICE	04-25	Approval of invoices needs improvement for payments made to related IAIP and S&T		ICE 05-08

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Bureau	NFR No.	Description	Disposition	
			Closed	Repeat 04 NFR No.
ICE	04-26	Untimely Clearing of Suspense Account Transactions		ICE 05-04
CIS	04-27	See Information Technology Management Letter		CIS 05-02
ICE	04-28	Disbursement of Payments to Vendors		ICE 05-23
CIS	04-29	Lack of sufficient process and procedures related to FMFIA reporting	X	
CIS	04-30	Incomplete procedures to ensure that immigration and naturalization applications which are pending are not being shipped to a storage facility in error	X	
CIS	04-31	Lack of procedures to verify the accuracy and reliability of the query of CLAIMS 4	X	
ICE	04-32	Lack of segregation of duties and management review in the processing Request for Personnel Action		
CIS	04-32	Lack of segregation of duties and management review in the processing Request for Personnel Action	X	
ICE	04-33	Untimely receipt of FPS financial data	X	
ICE	04-34	Reconciliation of FMS 6655 is not performed	X	
ICE	04-35	Approval of obligating documents by contracting officer and budget official prior to obligating within FFMS needs improvement		ICE 05-25
CIS	04-35	Approval of obligating documents by contracting officer and budget official prior to obligating within FFMS needs improvement		CIS 05-17
CIS	04-36	Obligations related to Border Patrol activities are in ICE's and USCIS' General Ledgers		CIS 05-14
ICE	04-37	Improper posting of Reconciling Differences from the FMS 6652 to the Suspense Account		ICE 05-27
CIS	04-38	Fee receipts are not being deposited in a timely manner per Treasury Guidance		CIS 05-11
ICE	04-39	Possible violations of the Anti-deficiency Act		ICE 05-28
ICE	04-40	ICE OFM has not met the submission deadlines set forth within the FY 2004 Instructional Memoranda issued by the DHS Office of the Chief Financial Officer		ICE 05-19
ICE	04-41	Controls over the accuracy of the budgetary data in the General Ledger is not current to ensure that the SF-132 is correct with FMS		ICE 05-21
ICE	04-42	Financial Management and Oversight at Immigration and Customs Enforcement		ICE 05-30
ICE	04-43	Lack of sufficient process and procedures related to FMFIA reporting		ICE 05-55
S&T	04-44	Evaluation of the Environmental Liabilities within the Science & Technology Directorate		S&T 05-01
CIS	04-45	Procedures to verify the accuracy and reliability of CLAIMS 3 and the CLAIMS 3 query	X	
ICE	04-46	Reconciliation of intra-DHS activity and balances		ICE 05-31
ICE	04-47	Lack of reconciliation between the Open Document File and the General Ledger on a monthly basis		ICE 05-09
CIS	04-48	Immigration and Naturalization applications not tracked in CLAIMS 3 or CLAIMS 4		CIS 05-10
BTS	04-49	Controls over internal use software and software-in-development need improvement		BTS 05-01
SLGCP	04-01	Communication between ODP and OJP accounting staff needs improvement	X	
SLGCP	04-02	Statement of Net Costs allocation methodology		SLGCP 05-09

Department of Homeland Security
Status of Prior Year NFR's
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Bureau	NFR No.	Description	Disposition	
			Closed	Repeat 04 NFR No.
SLGCP	04-03	ODP's June 30, 2004 TIER submission was untimely	X	
SLGCP	04-04	Grants in Status 90 not closed timely		SLGCP 05-14
SLGCP	04-05	See Information Technology Management Letter	X	
SLGCP	04-06	See Information Technology Management Letter	X	
SLGCP	04-07	See Information Technology Management Letter	X	
SLGCP	04-08	See Information Technology Management Letter		SLGCP 05-12
SLGCP	04-09	See Information Technology Management Letter	X	
SLGCP	04-10	See Information Technology Management Letter		SLGCP 05-13
SLGCP	04-11	See Information Technology Management Letter	X	
SLGCP	04-12	Improvements needed in the TIER validation process		SLGCP 05-10
SLGCP	04-13	Monitoring of Findings in Accordance with Office of Management and Budget Circular No. A-133 (OMB A-133) "Audits of States, Local Governments, and Non-Profit Organizations"		SLGCP 05-08
SLGCP	04-14 to 04-21	Numbers not used		
SLGCP	04-22	See Information Technology Management Letter	X	
SLGCP	04-23	ODP's management should provide additional oversight and guidance for its financial reporting process		SLGCP 05-03
SLGCP	04-24	Number not Used		
SLGCP	04-25	See Information Technology Management Letter	X	
SLGCP	04-26	See Information Technology Management Letter	X	
TSA	04-01	Internal Affairs and Program Review Reporting	X	
TSA	04-02	Human Resources		TSA 05-05
TSA	04-03	Leases	X	
TSA	04-04	Grant Findings		TSA 05-03
TSA	04-05	FMFIA Compliance		Issued in TSA IAR
FAM	04-01	FEGLI, Offer Letter, and Control Findings	Beyond FY2005 Scope ¹	
USCG	04-01	PP&E Existence and Completeness		USCG 05-54
USCG	04-02	Budget Authority Recording – AC&I Appropriation	X	
USCG	04-03	Field-Held OM&S		USCG 05-01
USCG	04-04	Recording Budget Authority		USCG 05-26
USCG	04-05	Timely Recording of PP&E Transactions	X	
USCG	04-06	Statement of Net Costs – Linkage to Strategic Goals		USCG 05-16
USCG	04-07	Service Member Validation		USCG 05-09
USCG	04-08	Monitoring of Medical Care Costs		USCG 05-09
USCG	04-09	DOD Military Treatment Facility (MTF) Costs		USCG 05-09
USCG	04-10	Environmental Liabilities – Shore Facilities		USCG 05-15
USCG	04-11	Actuarial Pension Liability Source Data		USCG 05-07
USCG	04-12	Deepwater Systems Integrated Program Office (SIPO) Obligations		USCG 05-23
USCG	04-13	Accounts Payable Accrual Validation Process		USCG 05-67

Department of Homeland Security
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Bureau	NFR No.	Description	Disposition	
			Closed	Repeat 04 NFR No.
USCG	04-14	Oversight of Tri-Care Medical Costs	X	
USCG	04-15	Environmental Remediation - Small Arms Firing Range		USCG 05-04
USCG	04-16	Medical Care Payment Controls	X	
USCG	04-17	Processing Procedures for non-Federal Medical Invoices	Beyond FY2005 Scope ¹	
USCG	04-18	Verification of Medical Services Provided to Service Members		USCG 05-09
USCG	04-19	Environmental Liabilities – Vessels		USCG 05-10
USCG	04-20	Environmental Remediation – Lighthouse/Light Stations		USCG 05-04
USCG	04-21	Fourth Quarter Completeness and Existence Physical Inventory Draft Plan		USCG 05-02
USCG	04-22	Actuarial Oversight		USCG 05-06
USCG	04-23	Oil Spill Liability Trust Fund		USCG 05-44
USCG	04-24	Automated Requisition and Procurement Process		USCG 05-17
USCG	04-25	Medical and Dental Care Invoice Process Errors	Beyond FY2005 Scope ¹	
USCG	04-26	Reconciliation of Non-Federal Medical Invoices	Beyond FY2005 Scope ¹	
USCG	04-27	Contracting Officer Warrant Authority		USCG 05-18
USCG	04-28	FY 2003 Budget Authority -OSLTF	X	
USCG	04-29	Preparation of the Reapportionment Schedule	X	
USCG	04-30	CGOF/Financial Procurement Desktop System Controls		USCG 05-19
USCG	04-3 ₁	FY 2003 Acquisition, Construction, and Improvements Rescission	X	
USCG	04-32	Obligations for Post Employment Travel Order		USCG 05-12
USCG	04-33	Un-obligated Commitments		USCG 05-20
USCG	04-34	Posting of Disbursement Transactions		USCG 05-13
USCG	04-35	Advances to Others		USCG 05-16
USCG	04-36	Fact and Figures Report		USCG 05-21
USCG	04-37	ELC-System Inventory Locations		USCG 05-01
USCG	04-38	ICP Physical Inventory Policies and Procedures		USCG 05-01
USCG	04-39	ELC OM&S WAP Analysis		USCG 05-01
USCG	04-40	3 rd Quarter Physical Inventory Observation Completeness – Engineering Logistics Center		USCG 05-01
USCG	04-41	Coast Guard Analysis of Pre 1995 Real Property	X	
USCG	04-42	Existence – General PP&E		USCG 05-52
USCG	04-43	AR&SC WAP		USCG 05-01
USCG	04-44	Undelivered Orders – Transactions Processing Errors		USCG 05-24, USCG 05-43, USCG 05-53
USCG	04-45	Fund Balance with Treasury Reconciliations	X	
USCG	04-46	Budgetary Reporting	X	
USCG	04-47	Management Effectiveness Assessments		USCG 05-22
USCG	04-48	Reporting Obligations – Deepwater Systems Integrated Program		USCG 05-23

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Bureau	NFR No.	Description	Disposition	
			Closed	Repeat 04 NFR No.
		Office		
USCG	04-49	FFMIA		USCG 05-58
USCG	04-50	Imputed Financing – Medicare Eligible Retirees' Health Care Fund	X	
USCG	04-51	Pension Data Errors	X	
USCG	04-52	Financial Management and Oversight		USCG 05-61
USCG	04-53	Asset Identification – Oracle		USCG 05-51
USCG	04-54	AR&SC 3 rd Quarter Physical Inventory		USCG 05-01
USCG	04-55	Federal Managers Financial Integrity Act		USCG 05-59
USCG	04-56	DHS Statement of Net Cost Disclosure		USCG 05-16
USCG	04-57	Buildings, Structures and Small Boats		USCG 05-37
USCG	04-58	Disbursements –Erroneous Interest Payments	Beyond FY2005 Scope ¹	
USCG	04-59	Supporting Documentation for Disbursements	Beyond FY2005 Scope ¹	
USCG	04-60	Disbursements – Acceptance of Goods/Services	Beyond FY2005 Scope ¹	
USCG	04-61	UDOs – Premature Recording of Obligations		USCG 05-24, USCG 05-43, USCG 05-53
USCG	04-62	UDOs		USCG 05-24, USCG 05-43, USCG 05-53
USCG	04-63	UDOs - Transaction Codes		USCG 05-43
USCG	04-64	Recording Acceptance of Goods/Services		USCG 05-24, USCG 05-53
USCG	04-65	ELC 4 th Quarter PP& E Physical Inventory		USCG 05-02
USCG	04-66	Recording of PP&E Transactions	X	
USCG	04-67	Financial Disclosures		USCG 05-05
USCG	04-68	Post Payment Reviews of Travel Claims		USCG 05-28, USCG 05-57
USCG	04-69	Helicopter Interdiction Tactical Squadron Lease	Beyond FY2005 Scope ¹	
USCG	04-70	Impairment of – PP&E		USCG 05-48
USCG	04-71	GAO Financial Statement Disclosure Checklist		USCG 05-71
USCG	04-72	Improvements – Buildings & Structures		USCG 05-42
USCG	04-73	Travel Claim Disbursement Access Controls		USCG 05-29
USCG	04-74	Vessels Useful Lives		USCG 05-50
USCG	04-75	Aircraft Useful Lives	X	
USCG	04-76	Aircraft Improvements – HU25		USCG 05-30
USCG	04-77	Small Boats Useful Lives		USCG 05-49
USCG	04-78	Post Employment Travel- Supporting Documentation		USCG 05-28
USCG	04-79	Intra-governmental Transactions		USCG 05-68
USCG	04-80	Financial Reporting Process		USCG 05-70
USCG	04-81	Repairable Components		USCG 05-02
USCG	04-82	Judgment Fund Liabilities	X	
USCG	04-83	Year-end Obligations		USCG 05-25, USCG 05-66
USCG	04-84	Oracle Fixed Assets Module – September 2004		USCG 05-64
USCG	04-85	General Ledger Account Analysis	Beyond FY2005 Scope ¹	
USCG	04-86	Clearing/Suspense Accounts		USCG 05-60
USCG	04-87	Adjustments to General Ledger Account Balances		USCG 05-34

Department of Homeland Security
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Bureau	NFR No.	Description	Disposition	
			Closed	Repeat 04 NFR No.
USSS	04-01	Seized Currency Reporting		USSS 05-03

¹ KPMG was engaged to perform an audit over the FY 2005 Department of Homeland Security Consolidated Balance Sheet and was not engaged to perform an audit over the Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, Combined Statement of Budgetary Resources, and the Consolidated Statement of Custodial Activities during FY 2005. In addition, we were engaged to perform follow-up on the status of all active Notice of Findings and Recommendations (NFRs) that supported reportable conditions reported in KPMG's Independent Auditors' Report dated November 4, 2004. All other FY 2004 NFRs, which do not relate to the Consolidated Balance Sheet or were not reported in the November 4, 2004 Independent Auditors' Report are considered out-of-scope and no further procedures were performed.

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

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

MAY 30 2006



**Homeland
 Security**

MEMORANDUM FOR: Richard L. Skinner
 Inspector General *AS*

FROM: Eugene Schied *AS*
 Acting Chief Financial Officer

SUBJECT: *Draft Report: Management Letter for the FY 2005 DHS Financial
 Statement Audit*

The Office of the Chief Financial ~~Officer~~ has reviewed **your comments** and recommendations for the *Management Letter for the FY 2005 DHS Financial Statement Audit*. We have also discussed this letter and received comments ~~from~~ several CFO Council ~~members~~. Overall, we **agree** with these findings and recommendations and will be working closely with our component, **your** staff and the auditors to implement as many recommendations as we **can** in FY 2006.

Should you have any questions concerning our comments, please contact John **McNamara**, Director of **Financial** Management at (202) 205-5833 or **Rich Aaronson**, Assistant Director at (202) 358-1362.

*Rick -
 I appreciate the insight &
 cooperation spirit your team has provided.
 Resolving these matters remains a high priority
 for DHS. *Log**

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